2016

ANNUAL REPORT

(Translation from the Italian original which remains the definitive version)

Gruppo Banca Popolare di Vicenza

Banca Popolare di Vicenza

Joint-stock company - Registered office: I - Vicenza - Via Btg. Framarin, 18 - Capital stock Euro 677,204,358.75 fully paid - Tax Code and number of Vicenza Registered Office 00204010243 - Business Register n. 1858 - Parent of the Banca Popolare di Vicenza Banking Group - Bank listing n. 1515 – Banking Group code 5728.1 - Member of the Italian bankers association an Italian interbank deposit protection fund.

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ANNUAL REPORT

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SEPARATE FINANCIAL STATEMENTS

CORPORATE OFFICES AND POSITIONS AT 31 DECEMBER 2016

BOARD OF DIRECTORS

Chairman	Gianni Mion
Vice Chairman	Salvatore Bragantini
Managing Director	Fabrizio Viola
Secretary	Mariano Sommella
Directors	Niccolò Abriani Luigi Arturo Bianchi Marco Bolgiani * Carlo Carraro Rosa Cipriotti Massimo Ferrari Francesco Micheli ** Alessandro Pansa

BOARD OF STATUTORY AUDITORS

Chairman	Rosalba Casiraghi
Statutory Auditors	Nadia Fontana Marco Giorgino
Alternate Auditors	Francesca Di Donato Massimo Gatto

INDEPENDENT AUDITORS PricewaterhouseCoopers S.p.A

* In charge up to 27 March 2017
** In charge up to 1 April 2017

LETTER TO SHAREHOLDERS

Banca Popolare di Vicenza has been struck by a series of events that have seriously compromised the goodwill built up over its 150 years of life and shaken the trust of its customers. The Board of Directors feels the grave responsibility of its duty to do everything possible to reconstruct this heritage. The primary purpose of this brief introductory note is to bring to your attention the most significant circumstances in relation to the events mentioned above.

The 2016 financial statements are the first submitted to you by the new Board of Directors, which took office on 13 July last year following the completion, at the beginning of May 2016, of the capital increase by Euro 1.5 billion. This capital increase was fully subscribed by the Atlante Fund, to whom the Bank owes its survival. The financial statements provide an accurate and comprehensive picture of the Bank's difficult financial and economic position and, not least, its reputational situation.

The Board of Directors has faced a number of serious problems since the beginning of its mandate, the most significant of which are:

- the large number of non performing loans, including due to weaknesses in the lending process;
- a dramatic loss of reputation, with negative impacts on trading operation, particularly serious in terms of outlook;
- penalty assessing proceedings, cases and legal risks related to the way in which shares issued by the Bank are placed or traded;
- an economic, financial and equity performance that is heavily deficient.

In order to tackle these issues in the short term and at the same time implement structural measures to resolve them permanently, the Board of Directors:

- identified, in the merger with Veneto Banca (also controlled by the Atlante Fund), the path to be taken in order to restore economic balance, as outlined in the 2017/2021 business plan, which defines a recovery plan, the administrative actions and structural measures required to reduce credit risk and relaunch the Bank and, lastly, the necessary capital strengthening to be carried out once the necessary authorisations have been obtained, presumably by the end of 2017;
- requested State support to improve the Bank's liquidity profile and strengthen its capital. With regard to improving liquidity, it obtained the State guarantee (set forth in recent legislation on the matter) on the issue of Euro 3 billion of bonds and has requested the same guarantee for a further Euro 2.2 billion of bonds. As regards the capital strengthening, it informed the Relevant Authorities of its intention to make use of temporary and exceptional financial support by the Italian State ("precautionary recapitalisation"), within the meaning of Legislative Decree 237/2016 as converted, with amendments, into Law no. 15 on 17 February 2017. The latter transaction is still subject to evaluation and authorisation by the European Commission and the European Central Bank;
- launched a Settlement Offer addressed to those who have invested in BPVi shares over the last ten years (approximately 94,000 people), to contribute to building a new relationship of trust

and collaboration with shareholders and to reduce legal risks, essential conditions for the journey towards sustainable recovery;

- initiated the liability action in respect of the previous Directors, Statutory Auditors and managers, to protect the Bank's interests and image which were damaged by reprehensible conduct; this is currently being assessed by the judiciary.

These initiatives unequivocally signal a fresh start in terms of business management methods and are necessary in order to restore the confidence of shareholders and customers. In this regard, it is encouraging that almost 67 thousand of our shareholders and customers have decided to participate in the recent Settlement Offer.

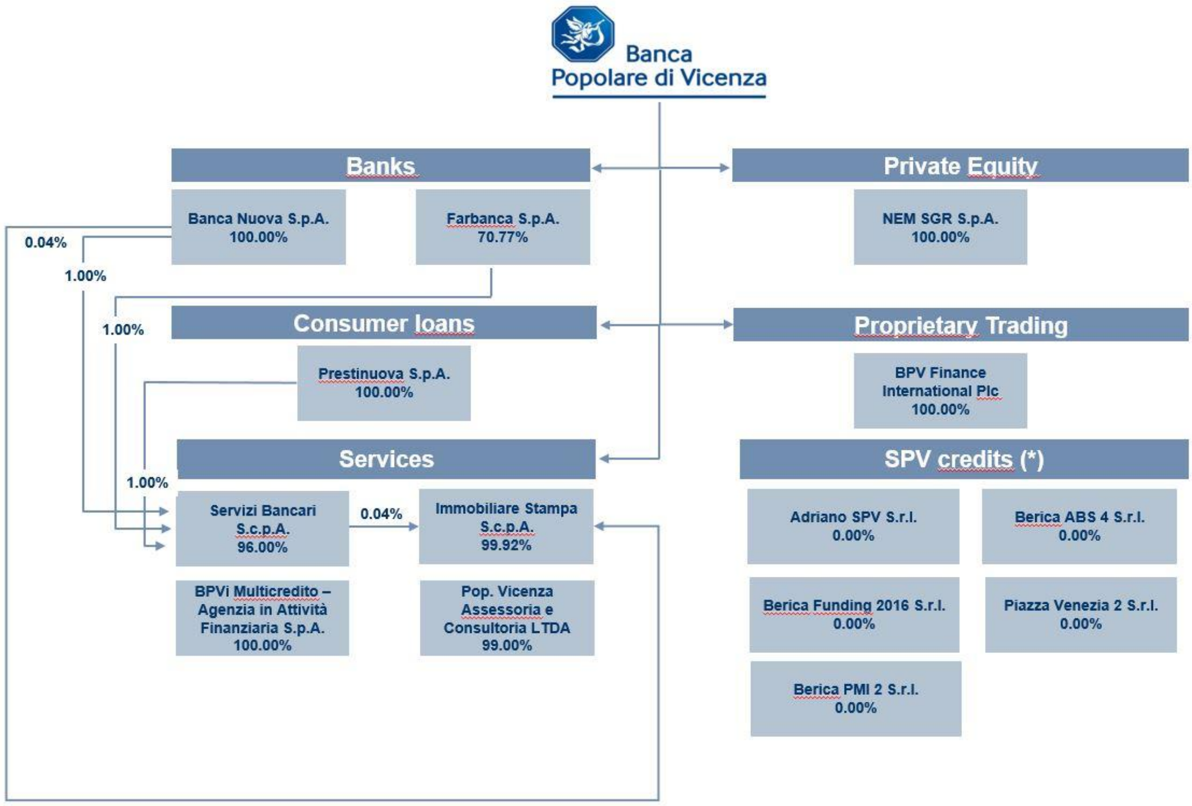
The notes to the financial statements and the Directors' Report contain a careful analysis of the reference framework, of the initiatives undertaken and in the course of implementation, and of the status of discussions under way for the purposes of obtaining the necessary recapitalisation. The combination of these factors leads us to conclude that despite the uncertainty due to the difficult circumstances referred to above, it would be appropriate, for the reasons specified below, to prepare the Banca Popolare di Vicenza financial statements on a going concern basis.

March 2017

Signed
Managing Director
F. Viola

BPVI GROUP STRUCTURE

The structure of the Banca Popolare di Vicenza Group at 31 December 2016 is analysed below by business area.



(*) Securitisation companies that are neither investees of the Group Parent nor of any of its subsidiaries; with the completion of the securitisations, Banca Popolare di Vicenza, in light of the current Supervisory Regulations for Banks (First Part, Title I, Chapter 2, Section II, Par. 3.1 of Circular no. 285), attained a **control situation in the form of the dominant influence** that entailed a change of the Banking Group. It is noted in this regard that in the first quarter of 2017, following the completion of two securitisation transactions by banks in the Group, two new special purpose entities were formed: Ambra SPV s.r.l. and Berica ABS 5 s.r.l..

PRINCIPAL DATA AND SUMMARY INDICATORS FOR THE BPVI GROUP

Statement of Financial Position and Regulatory figures (in millions of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Banking business	52,886	61,671	-8,785	-14.2%
- of which Direct funding	*18,794*	*21,943*	*-3,149*	*-14.4%*
- of which: Indirect funding (excluded BPVi shares)	*11,533*	*14,550*	*-3,017*	*-20.7%*
- of which Loans and advances to customers	*22,559*	*25,178*	*-2,619*	*-10.4%*
Banking business net of exposures with central counterparties	52,884	61,544	-8,660	-14.1%
- of which Direct funding	*18,794*	*21,943*	*-3,149*	*-14.4%*
- of which: Indirect funding (excluding BPVi shares)	*11,533*	*14,550*	*-3,017*	*-20.7%*
- of which Loans and advances to customers	*22,557*	*25,051*	*-2,494*	*-10.0%*
Net interbank position	-7,054	-7,823	770	-9.8%
Cash financial assets	5,486	5,872	-385	-6.6%
- of which Financial assets available for sale	*4,263*	*5,726*	*-1,463*	*-25.5%*
Property, plant and equipment and intangible assets	592	609	-17	-2.8%
- of which land and buildings	487	*498*	*-11*	*-2.2%*
- of which goodwill	6	*6*	*0*	*0.0%*
Total Assets	34,424	39,783	-5,359	-13.5%
Equity (excluding net income)	4,051	3,941	110	2.8%
Equity (including net income)	2,149	2,534	-385	-15.2%
Common Equity Tier 1	1,605	1,656	-50	-3.0%
Total Capital	1,907	2,023	-116	-5.7%
Risk-weighted assets	21,477	24,884	-3,407	-13.7%

Reclassified Income Statement figures [1] (in millions of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Net financial income	394.1	551.8	-157.7	-28.6%
Net Operating income	720.1	1,053.0	-332.9	-31.6%
Net Operating costs	-687.5	-696.0	8.6	-1.2%
Net profit from operating activities	32.6	356.9	-324.3	-90.9%
Net impairment adjustments	-1,718.8	-2,340.4	621.6	-26.6%
Net income for the period before income tax	-1,736.5	-1,892.5	156.0	-8.2%
Net income	-1,902.4	-1,407.0	-495.4	35.2%

Other information	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Number of employees at the end of the period	5,365	5,473	-108	-2.0%
Average number of employees [2]	5,147	5,273	-126	-2.4%
Outlets	541	627	-86	-13.7%
Bank branches	502	579	-77	-13.3%

(1) For the reconciliation of the reclassified income statement figures and the items prescribed by Bank of Italy Circular no. 262, reference is expressly made to the "key" provided in the paragraph "Comments on the income statement".

(2) The average number of employees is calculated in accordance with the indications contained in Bank of Italy Circular no. 262.

Key performance indicators	31/12/2016	31/12/2015	Changes
Structure ratios (%)			
Loans to customers / total assets	65.5%	63.3%	2.2 p.p.
Direct funding / total assets	54.6%	55.2%	-0.6 p.p.
Loans to customers / Direct funding	120.0%	114.7%	5.3 p.p.
Loans to customers / Direct funding (net of exposures with central counterparties)	120.0%	114.2%	5.9 p.p.
Asset management and retirement savings / Indirect funding	49.5%	48.4%	1.1 p.p.
Total Assets / Equity (leverage)	16 x	15.7 x	3,2 x
Efficiency ratios (%)			
Cost/Income [1]	95.5%	66.1%	29.4 p.p.
Productivity ratios (%) [2]			
Direct funding per employee (in millions of euro)	3.7	4.2	-0.5
Indirect funding per employee (in millions of euro)	2.2	2.8	-0.5
Loans to customers per employee (in millions of euro)	4.4	4.8	-0.4
Net interest income per employee (in millions of euro)	73.8	96.5	-22.7
Net Operating income per employee (in thousands of euro)	139.9	203.5	-63.6
Risk ratios (%)			
Risk-weighted assets / total Assets	62.39%	62.55%	-0.16 p.p.
Net non performing loans /net loans	22.87%	21.13%	1.74 p.p.
Net bad loans/net loans	8.97%	7.50%	1.47 p.p.
Non-performing loans coverage (%) [3]	48.54%	42.41%	6.13 p.p.
Bad loans coverage (%) [3]	62.16%	59.32%	2.84 p.p.
Performing loans coverage (%) [4]	0.84%	0.74%	0.10 p.p.
Credit cost [5]	4.74%	5.29%	-0.55 p.p.
Capital adequacy ratios (%)			
CET 1 ratio	7.47%	6.65%	0.82 p.p.
Tier 1 ratio	7.47%	6.65%	0.82 p.p.
Total Capital Ratio	8.88%	8.13%	0.75 p.p.

(1) The indicator is calculated as the ratio between "operating costs" and "operating income" in the reclassified income statement.

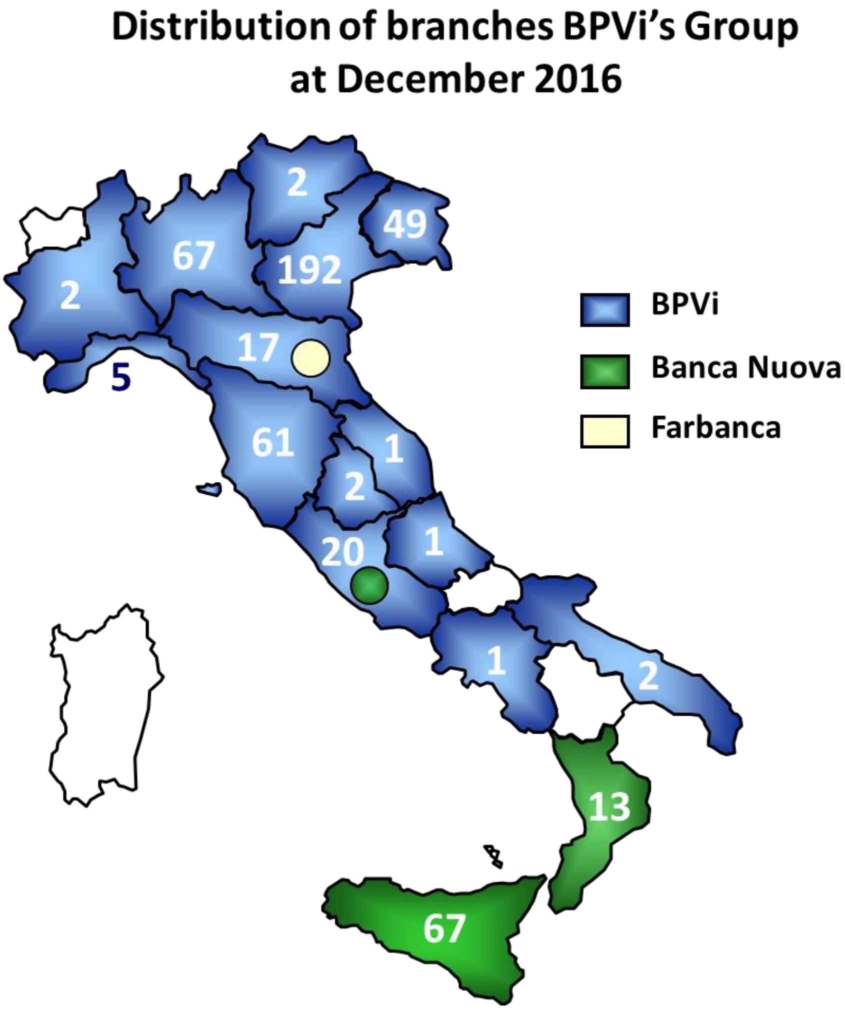
(2) Productivity indicators are calculated with reference to the average number of employees.

(3) The coverage is determined including write-offs on loans for which bankruptcy proceedings are still in progress at the reporting date.

(4) The coverage of performing loans is determined excluding repurchase agreements and guarantee margins.

(5) The indicator is calculated as the ratio between "Net impairment adjustments on loans and advances" and "Cash loans to customers".

TERRITORIAL PRESENCE OF THE BPVI GROUP AT 31 DECEMBER 2016



The sales network of the BPVi's Group	31/12/2016				
	Branches	Finance Shops	Private Customer Points	TOTAL	% Comp.
Banca Popolare di Vicenza	420	-	27	**447**	**82.6%**
Banca Nuova	81	6	5	**92**	**17.0%**
Farbanca	1	-	-	**1**	**0.2%**
BPVi Multicredito	-	1	-	**1**	**0.2%**
Total	**502**	**7**	**32**	**541**	**100.0%**

Geographical distribution of branches	31/12/2016	
	Number	% Comp.
Nord Italia	334	**66.5%**
Centro Italia	84	**16.7%**
Sud Italia	84	**16.7%**
Total	**502**	**100.0%**

DIRECTOR'S REPORT ON OPERATIONS

ECONOMIC, FINANCIAL AND CREDIT SCENARIO

In 2016, the **Eurozone economy maintained a moderate growth trend, with the expansion of economic activity** which, after a brilliant start to the year, gradually eased, maintaining a steady pace: according to the latest official statistics, **Eurozone GDP increased by +0.4% both in the third and the fourth quarters**, (following +0.2% in the second quarter and +0.5% in the first), thus bringing average annual growth to +1.7%, thanks mainly to a boost from domestic demand. According to the most recent economic indicators, the Eurozone's outlook is positive, with the Eurozone set to continue to recover at a moderate pace even in the months to come, despite the environment being highly uncertain mainly as a result of significant political events (such as the elections in France, Germany and the Netherlands).
There are still diverging trends across European countries: in 2016, growth was maintained in Spain (+3.2% year-on-year) and improved slightly in Germany (+1.9% year-on-year), while in France the rate of growth eased slightly (+1.1% year-on-year).

THE ITALIAN ECONOMY

Against this background, **the recovery of economic activity in Italy continued, albeit moderately**: in the fourth quarter of 2016, Italian GDP recorded quarterly growth of +0.2% following +0.3% in the third quarter, +0.1% in the second and +0.4% in the first. **The yearly change in 2016 therefore stood at +0.9%, an improvement compared to +0.6% in the previous year, but still lower than the results recorded by other major European countries**. Economic performance during the year was mainly stimulated by the restarting of fixed capital formation (+2.9% year-on-year) and the growth in household spending (+1.3% year-on-year). **The most recent economic indicators appear to agree with the continuation of a moderate upturn in the coming months, in a context still characterised by many uncertainties**, linked, in particular, both to developments in internal policy as a result of the negative outcome of the constitutional referendum, and to the ongoing difficulties in the Italian banking sector.
On the production side, there are signs of a recovery in industrial production, the annual average of which grew by +1.6% compared to the same period of 2015. **Even the qualitative surveys at manufacturing companies appear to be in agreement, outlining a positive trend in production activities over the coming months**: in January 2017, the Purchasing Managers' Index (a survey carried out among purchasing managers in businesses in the manufacturing sector) remained stable in terms of expansion for the fifth consecutive month, while in February business confidence improved further, driven by positive reviews on orders and production expectations.
Although **domestic demand** is the main contributor to the growth of the Italian economy, some of its components **have shown a slowdown in household consumption, which, following a sustained increase in early 2016 grew at a slower rate during the summer.** According to the latest indications, retail sales confirm this sluggishness with the 2016 average up by just +0.1% year-on-year. **Consumer confidence is showing some signs of uncertainty,** with a slight drop in February for the second consecutive month, continuing the reduction that began in the previous year, although still remaining rather high.
On the international trade front, **the emerging economies' weak demand negatively affected the performance of Italian exports, which only showed an improvement in the final part of the year**, helped in part also by the recent depreciation of the euro: after the moderately lively dynamic of 2015, the **growth** of Italian exports in 2016 was **+1.1% year-on-year**, driven primarily by trade with European partners (+3.0% year-on-year), while sales to non-EU countries continued to fall (-1.2% year-on-year). In terms of company assessments, a more favourable picture is expected for exports in the coming months.

Signs of stabilisation on the Italian labour market have continued to appear throughout 2016, although in the final part of the year there was a slight rise in the unemployment rate, which reached 11.9% in January 2017. As regards job prospects for young people**, following the significant worsening in December, youth unemployment dropped slightly in January 2017, remaining high, however, at 37.9%.**
Having been negative for most of the year, Italian **consumer inflation turned positive in the last two months of 2016, before accelerating to +1.0% year-on-year in January,** boosted by the rising prices of fresh food and the recovery of the energy component. Net of these more volatile components, however, **core inflation** grew at a more moderate pace, reaching +0.5% year-on-year in January.

CREDIT AND SAVINGS DYNAMICS

The lending activities of Italian banks remained at rather modest levels in 2016, reflecting both the persistent weakness of the economic recovery and the lack of willingness of banks to grant new funding due to the high amount of impaired loans**,** connected with the long recessionary phase the Italian economy is going through. However, signs of improvement continue to come from trends in new issues to households, whilst lending to businesses is still struggling to gather strength.
Consistent with the weakness in lending, the **funding activities of Italian banks continued to decline**, compensated however by the ample availability of funds assured by the European Central Bank to credit institutions. In particular, longer term, more expensive funding components, such as bonds, continued to contract, while the more liquid forms of funding, such as current accounts, confirmed their growth. Despite the increased volatility that characterised the financial markets in 2016, **asset management confirmed its positive trend**, which benefited from the commercial action of the banking channel and from investors' preferences.
On the **bank rates** front, the European Central Bank's continued expansionary monetary policy, and consequently banks' lower funding needs, encouraged **a decrease in the cost of funding**, whilst the drop in reference interest rates and the resumption of competitive dynamics among credit institutions translated into an **improvement of the conditions applied to loans to households and businesses**. The more marked decline in lending rates compared to borrowing rates, which in fact dropped to historical lows, led to **a further contraction in 2016 of the banking spread** (the difference between bank interest rates on loans and on deposits)**,** confirming the declining trend already seen in 2015.

Bank lending and credit risk indicators

According to the latest data published by the Bank of Italy, **in December 2016 the stock of gross loans to the private sector**[1] (net of transactions with central counterparties) was down slightly, recording an annual contraction of 0.8%. Specifically, the moderate increase in loans to **households** (+0.7% year-on-year) only partly offset **the reduction in Italian banks' operations** with **businesses** (-2.2% year-on-year), which continued to contract.
Positive signs with regard to lending activities continue to come from **new issues to households, the total amount of which in 2016 was 21.0% higher** than in the previous year. This positive trend was supported, in particular, by the increase in **loans for the purchase of homes** (+27.9% annual increase in 2016), which benefited from both the low level of interest rates, and the improved outlook on the property market, as indicated by the latest Bank Lending Survey in Italy carried out by the Bank of Italy in January 2017. On the businesses side, however, the trend was negative, albeit slightly improved, with new lending granted in 2016 down -3.2% compared to the previous year. According to the latest Bank Lending Survey conducted by the Bank of Italy, **in upcoming**

[1] The private sector includes loans to: Insurance companies and pension funds, Other financial institutions, Businesses and Households.

months, a further increase in the credit demand of households is expected, whereas **no significant changes are envisaged in the demand for loans by businesses.**
Despite some signs of improvement, **lending activities** in Italy **continue to be affected by the huge existing amount of impaired loans,** the reduction of which is now a priority for banks due to increasing pressure by the Supervisory Authorities and by financial markets. In December 2016, **the gross non-performing loans** of the Italian banking system **amounted to Euro 200.9 billion, up slightly by Euro 0.2 billion** over the last twelve months **(+0.1% year-on-year),** despite the **transfers of some non-performing loans** made by certain intermediaries in the first months of 2016. The **ratio of gross non-performing loans to total lending** worsened slightly in December, **reaching 10.6%** from 10.5% in the same month of the previous year.

Funding

In 2016, **the funding activities** of Italian banks remained **at low levels,** in line with the still **modest lending activity** of the banking system and **the ample supply of liquidity** assured by the **European Central Bank,** which in its meeting in December 2016 extended the duration of Quantitative Easing until the end of 2017 or even beyond if necessary.
Indeed, at the end of 2016 **direct funding**[2] (net of transactions with central counterparties) recorded a slight reduction **of 0.8% year-on-year,** continuing to be affected in particular by the sharp drop in the **bond sector** (-19.6% year-on-year), caused both by banks' lower liquidity requirements and by savers' increased aversion towards this type of investment instrument, given its inclusion within the scope of the bail-in. Among the forms of deposit, on the other hand, **current accounts confirmed their positive trend** (+10.9% year-on-year), benefiting both from the prolonged phase of uncertainty of the economic and financial environment, and the low remuneration offered by other savings instruments. **The stock of agreed-maturity deposits**, on the other hand, continued its negative trend (-12.2% year-on-year), reflecting the lower attractiveness in terms of returns offered with respect to the past, even though in the first part of the year the data relating to new deposits showed a slight recovery of operations with households compared to the previous year.
Thanks in part to the contribution of the banking channel, investors' **demand for savings products continued to grow over the course of the year**, albeit at slower rates compared to the recent past, in part due to increased uncertainty on financial markets. The provisional data published by Assogestioni, relating to the whole of 2016, show that **net inflows into funds and asset management products increased**, amounting to approximately **Euro 55.0 billion**. In December 2016, moreover, **total assets under management reached an all-time high of Euro 1,937.1 billion**, up by Euro 103.4 billion since the end of 2015, as a result in particular of new contributions from investors.

Bank interest rates

In 2016, **the rates applied on the stock of existing loans with households and businesses continued to slide down to records lows**, both as a result of the decline in the level of the official reference rates and the resumption of competitive policies among credit institutions, in particular with regard to the highest quality customers, as indicated also in the latest Bank Lending Survey for Italy published in January 2017.
In December 2016, **the rate on the stock of loans granted to households and businesses** was equal **to 2.85%, down by 40 basis points over the last twelve months.** Specifically, the rate on loans to **households** stood at **3.29%,** an annual reduction of 35 basis points, while the rate on loans with **businesses** dropped to **2.50%**, down 45 basis points from December 2015. This trend is also

[2] The aggregate does not include bank bonds held in the portfolio of the banks, which also comprise bank securities issued and concurrently bought back by the issuers.

reflected in the data concerning **new issues**, with the rate applied to new loans in December contracting to **2.88%** for **households** (-49 basis points year-on-year) and to **1.54%** (-38 basis points year-on-year) for **businesses**.

On the funding front, **the cost of funding continued to decline** for Italian Banks, by effect of the expansionary monetary policy initiatives of the ECB and the consequent lower liquidity requirements of credit institutions. In December 2016, **the average rate on deposits** (weighted average rate of deposits, repurchase agreements and bonds) **fell further to a record low of 0.98%, down by 21 basis points in the past 12 months**. In particular, the average rate on **current accounts** stood at **0.09%** (-7 basis points year-on-year), while the yield on **agreed-maturity deposits** and on **bonds** declined respectively to **1.23%** (-19 basis points year-on-year) and to **2.74%** (-20 basis points year-on-year).

Lastly, the **banking spread**, i.e. the difference between bank interest rates on loans and on deposits, **shrank further** by effect of the marked decrease in the average rate on loans, only partially offset by the slower decline of the cost of funding: in December 2016, the **banking spread dropped to 1.87%**, down by 19 basis points compared to the same month of the previous year.

ECONOMIC SITUATION IN AREAS SERVED BY THE GROUP

Veneto

The most recent available information on the economic situation in Veneto, relating to 2016, shows a strengthening of the signs of recovery that had already begun to emerge in 2015, as confirmed in particular by the now consolidated positive trend in production activities, the greater dynamism of the property market and the return of domestic consumption.

Having recorded slight growth in 2015 (+0.6% year-on-year), **in 2016 regional economic activity seemingly accelerated along the path to recovery,** recording **an increase in GDP of 1.2% year-on-year** (latest estimate published by Prometeia), compared to the more moderate increase seen nationally (+0.9% year-on-year). Regional economic activity is expected to consolidate its growth over the next three years, remaining consistently above the national average.

According to the latest survey published by Unioncamere del Veneto, **in the fourth quarter of 2016 regional industrial production recorded an increase of 2.6% year-on-year** (+2.0% year-on-year in the third quarter 2016), confirming the positive trend that has continued uninterrupted for over three years. The increase in production levels is also accompanied by a growth in **revenues** (+2.1% year-on-year) and in **orders** (+2.7% year-on-year), which have benefited both from the boost from foreign markets and the recovery of domestic demand.

On the construction front, construction company turnover stabilised, with a minimal increase in turnover (+0.1% year-on-year) recorded in the **third quarter 2016** (latest available data), following the marginal drop seen in the previous quarter (-0.1% year-on-year in the second quarter 2016).

According to the latest available data, **the property market performed outstandingly well** in the first six months of 2016, with a **significant increase in sales of residential properties,** equal to **+24.5%**, compared to the same period of 2015, a value higher, however, than the average national (+21.9%).

According to the latest data from Unioncamere del Veneto, **retail sales came to a standstill in the third quarter of 2016** (no percentage change), interrupting the positive trend that had continued for over a year (+1.1% growth of turnover year-on-year in the second quarter of 2016). Encouraging signs, however, are coming from the provisional data on **tourist movements in the region,** relating to the period January-August 2016, which show **an increase in both arrivals of tourists** (+1.3% year-on-year) **and overnight stays** (+2.6% year-on-year), with travellers even staying for a longer period of time (**average stay** +1.2% year-on-year).

On the foreign trade side, which is an important channel for the economy of **Veneto (second in Italy in terms of the value of exported goods,** behind only Lombardy), the latest figures released by Istat show an overall **slowdown in regional exports,** which still grew slightly. Indeed, **in the first nine months of 2016 Veneto exports increased by only 0.7% year-on-year** (+5.3% year-on-year for the whole of 2015), reflecting the drop in flows to **non-EU countries,** in particular **Switzerland** and **Hong Kong,** while sales to **EU countries** increased, albeit less markedly with respect to the recent past. From the sector point of view, the drop in sales abroad of ***metal products*** and ***electrical appliances*** is more than offset by the growth in exports of ***food and beverages, chemicals, rubber and plastic products, means of transport and equipment,*** while the ***textiles and clothing*** sector was substantially unchanged.

Lastly, **the regional labour market** is showing signs of improvement, as confirmed by the trends of the main employment indicators. **In the third quarter of 2016**, **the employment rate rose to 65.2%** (+1.2 percentage points year-on-year), remaining well above the Italian average (57.6%), while **the unemployment rate dropped slightly to 6.5%** (-0.4 percentage points year-on-year) and was **confirmed as one of the lowest in the country** (the Italian average was 10.9%).

Friuli Venezia Giulia

An analysis of the main economic indicators for Friuli Venezia Giulia shows, in 2016, the presence of a number of positive elements, confirmed in particular by the resumption of economic activity, the growth in production levels and the acceleration of exports from the region.
Having returned to a slightly positive value in 2015 (+0.1% year-on-year), **regional economic activity** appeared to shift gear **in 2016** with **GDP**, according to the latest available estimates, **appearing to show an annual growth of 1.2%,** compared with the more moderate increase seen in Italy (+0.9% year-on-year). **The expansion of economic activity is expected to be consolidated** over the next two years with **regional GDP** expected to increase by **around 1.0% per year in both 2017 and 2018,** with a slightly better performance than the national average.
According to the latest data issued by the regional Italian Manufacturers' Federation (*Confindustria*), **in the third quarter of 2016, industrial production** returned to growth following the unexpected setback in the previous quarter (-1.5% year-on-year), marking **an increase of 2.2% year-on-year**. There was also a slightly positive trend in the **revenues** of manufacturing companies (+0.8% year-on-year), mainly thanks to the recovery of domestic demand, while **new orders** contracted (-1.9% year-on-year), continuing the decline seen in recent months.
Positive signs are coming from the **property market,** even if the most recent available data relate only to the first half of 2016. Indeed, **in the first 6 months of 2016 sales of residential property grew significantly by +19.7% compared to the previous year**. The non-residential sector also performed well in the same period, with **an increase in sales of 15.5% year-on-year**.
The positive trend in the revenues of businesses in the **retail sector** continued, an expansion that has now continued for seven consecutive quarters. According to a survey by the regional Unioncamere, **in the third quarter of 2016 retail business revenues increased by 2.2% year-on-year,** following the +1.4% year-on-year increase reported in the second quarter, mainly thanks to the contribution of medium and large-scale retailers, while small shops still remain in difficulty.
On the **foreign trade** front, the latest figures released by Istat indicate **increased buoyancy in regional exports,** following the slowdown in the previous year: indeed, **in the first nine months of 2016, regional exports increased by 5.3% year-on-year** (+1.3% year-on-year for the whole of 2015), a performance significantly higher than the average of both the North East (+1.5% year-on-year) and Italy as a whole (+0.5% year-on-year), **positioning the Friuli region in seventh place in Italy in terms of the regions most oriented towards foreign markets.** This trend benefited in particular from the significant increase in the sales recorded by the *means of transport* sector (Trieste shipbuilding) and the positive contribution of other important manufacturing segments such as ***PCs and electronic appliances, food and beverages and machinery*.** The trend in exports of ***metals and metal products and electrical appliances*** was, on the other hand, negative.
Lastly, the **regional labour market** is showing **positive signs**, as evidenced by the improvement of the main employment indicators. Indeed, **in the third quarter 2016** the **employment rate rose to 64.7%** (+0.9 percentage points year-on-year) compared to 57.6% for Italy as a whole, while **the unemployment rate dropped to 7.2%** (-0.7 percentage points year-on-year), **putting it among the lowest of the Italian regions (5th place)** with **levels well below the national average (10.9%).**

Lombardy

In 2016, Lombardy's economy continued along the path to recovery, as it had already begun to do in 2015, as evidenced by the positive trend of most of the available economic indicators, despite certain difficulties, particularly in retail.
According to the latest available estimates issued by Prometeia, **regional economic activity** appeared to show **growth of 1.3% year-on-year in regional GDP for 2016,** better than national growth (+0.9% year-on-year for Italy). In the next three years, the GDP of Lombardy is expected to remain positive and higher than the national average.

According to the latest survey by the regional Unioncamere, **in the fourth quarter of 2016 industrial output showed growth of 1.2% year-on-year**, an acceleration compared to the more moderate growth in the previous quarter (+0.4% year-on-year). Positive trends were also seen in **revenues** (+2.4% year-on-year), **domestic orders** (+2.5% year-on-year) and **foreign orders** (+2.2% year-on-year), confirming the steady demand coming from both the domestic market and the international market.

Positive signs are also coming from the **property market**, even if the data available are limited to the first part of 2016: t**he first 6 months of the year saw a sustained increase in the number of sales both in the residential sector (+23.7% year-on-year),** thus improving on the already positive figure for the whole of 2015 (+9.0% year-on-year), **and in the non-residential sector (+13.3% year-on-year),** following the slight drop of the previous year (-0.4% year-on-year in 2015).

On the services front, in the fourth quarter of 2016 service companies began to show **turnover growth once again (+1.5% year-on-year),** following the slight slowdown recorded in the previous quarter (-0.5% year-on-year). Trends in **retail**, however, remained slightly negative in **the fourth quarter of 2016**, with a **slight decline in the volume of business (-0.4% year-on-year)**, confirming the slowdown already reported in previous quarters, following on from the good performance recorded in 2015.

As regards **trade with foreign countries**, **in the first nine months of 2016 Lombardy was by far the leading region in Italy in terms of the value of exported goods**, ahead of Veneto and Emilia Romagna. Overall, **Lombardy exports grew rather moderately in the first nine months of 2016 (+0.4% year-on-year)**, in line with the Italian average (+0.5% year-on-year). From the sector point of view, increasing sales abroad, particularly of ***pharmaceutical products, textile and clothing products, rubber and plastic products and chemicals,*** more than compensated for the decline in exports of ***means of transport, metals and metal products, PCs and electronic appliances*** **and** ***machinery and equipment.***

Lastly, **the situation on the regional labour market improved**, as confirmed by the trends of the main employment indicators. Indeed, **in the third quarter of 2016 the employment rate rose slightly to 66.0%** (+0.7 percentage points year-on-year), while **the unemployment rate remained stable at 6.7%, well below the national average** of 10.9%.

Tuscany

The latest available figures on the economic performance of Tuscany seem to confirm **the recovery already outlined at the end of 2015,** with signs of improvement across various economic sectors, despite the slowdown in exports, which still remain positive however.

According to the latest estimates issued by Prometeia, **regional economic activity** appeared to show **moderate growth in GDP for 2016 of +0.8% year-on-year**, largely in line with the national average (+0.9% year-on-year for Italy). In the next three years, Tuscany's GDP is expected to continue to grow, while remaining at rather moderate levels still.

According to the latest survey published by the regional Unioncamere, **in the first six months of 2016 production activities grew by 2.5% year-on-year**, continuing the recovery in production levels initiated in the second part of 2015. Also positive were the performances of **revenues** (+2.1% year-on-year) and **orders** (+2.0% year-on-year).

On the **property market** front, the latest available data **relating to the first six months of 2016,** show **a marked growth in the number of residential transactions** (+24.3% compared to the same period of 2015), while **the number of transactions in the non-residential sector** have seen a less marked increase (+2.5% year-on-year).

As regards **trade with foreign countries**, **in the first nine months of 2016 Tuscan exports increased slightly (+0.5% year-on-year)**, showing a **slowing trend** with respect to the more robust growth in recent years, in particular because of the decrease in trade with **non-EU** countries. Specifically, sales abroad increased for several manufacturing sectors, such as ***metallurgy*** (+9.8%),

pharmaceuticals (+9.6%), ***chemical products*** (+4.6%), ***food and beverages*** (+3.0%) and ***rubber and plastic*** (+1.8%), while exports slowed right down in certain significant areas such as ***electrical appliances*** (-7.3%), ***machinery*** (-4.6%), ***textiles and clothing*** (-1.0%)—a sector that contributes around 30% to regional exports—and ***means of transport*** (-0.5%).
Finally, certain difficulties continue to persist in **the regional labour market**, although the main employment indicators are better than the national average. Indeed, **in the third quarter of 2016 the number of employees** was down slightly (-0.2% year-on-year), with the **employment rate** falling slightly **to 66.0%** (-0.1 percentage points year-on-year), although values remained higher than the Italian average (57.6%). **The rate of unemployment,** however, **climbed slightly to 8.8%** (+0.3 percentage points year-on-year), but still remains **below the Italian average (10.9%).**

Sicily

Based on the latest available information, **the Sicilian economy,** despite the now known structural difficulties, is continuing to slowly break out of the negative spiral of recent years, with **some tentative signs of recovery** starting to show, particularly in the slightly positive GDP trend in the property market and in the good performance of exports in the agricultural food products sector, a sector which contributes to making Sicily known throughout the world.
According to the latest available estimates, published by Prometeia, **in 2016 Sicily's GDP** recorded a **slight growth of 0.6% year-on-year,** slightly below the national average (+0.9%). In the next three years, Sicilian GDP is expected to continue to grow, albeit moderately, at a lower level than Italy's.
According to the latest available data **relating to the first six months of 2016**, after the evident difficulties of recent years, **the property sector continued to recover**, showing **a good increase in the number of transactions both in the residential sector** (+14.4% compared to the corresponding period of 2015) **and in the non-residential sector** (+24.2%), while still remaining far from pre-crisis levels.
On the exports front, Sicilian exports were decidedly negative overall even in the first nine months of 2016 (-21.2% year-on-year), following the already extensive drops recorded in the last three years. This negative trend, as well as those of previous years, mainly reflects **the evident reduction in the value of sales abroad of refined petroleum products** (-30.7% year-on-year), a sector that alone generates more than half of regional exports and that continues to be affected by the collapse of crude oil prices. **Net of the oil sector**, however, **Sicily's export figures**, while still recording a decline (-7.9% year-on-year)**, show a more varied dynamic that reveals some interesting regional potential,** linked above all to **the agricultural food sector.** Indeed, in the first nine months of 2016, the growth of exports of ***food products and beverages*** (+9.2% year-on-year) and ***agricultural and fishery products*** (+8.5% year-on-year) was confirmed, coupled with higher sales abroad, in particular, of ***pharmaceutical products*** (+102.6%), ***metals and metal products*** (+16.5%) and ***machinery and equipment*** (+15.1%). Among the other sectors relevant to Sicily's foreign trade, there was a decrease in ***chemical products*** (-25.5%), ***PCs and electronic appliances*** (-40.7%) and ***rubber and plastic products*** (-2.1%).
Lastly, certain critical issues continue to persist in **the regional labour market**: **in the third quarter 2016**, the **employment rate dropped slightly to 40.1%** (-0.1 percentage points year-on-year), compared to 57.6% for Italy, while **the unemployment rate rose to 21.9%** (+2.1 percentage points year-on-year), making it **one of the worst nationally** (10.9% unemployment rate for Italy).

The other main regions where the Group operates

In 2016, Lazio's economy showed some signs of improvement, as confirmed by the recovery of economic activity, despite the slowing of the positive trend in exports.

According to the latest available estimates, published by Prometeia, **2016 saw a return to positive GDP for Lazio** following the slight drop in the previous year (-0.1% year-on-year), with **growth of 0.8% year-on-year,** in line with the national average (+0.9% year-on-year).
The property sector is showing positive signs; according to the latest available data relating **to the first six months of 2016** there was a **good increase in the number of sales** both in the **residential sector** (+15.0% compared to the same period of 2015) and in the **non-residential sector** (+20.1%), although figures still remain far from pre-crisis levels.
As regards **trade, in the first nine months of 2016 Lazio exports increased by 1.1% year-on-year**, a slowdown compared to the excellent performance in recent years (+9.2% year-on-year in 2015), but better than the national average (+0.5% year-on-year for Italy).
Lastly, **the regional labour market** is showing conflicting signs: i**n the third quarter of 2016**, **the employment rate** reached **60.1%** (+0.8 percentage points year-on-year), compared with 57.6% for Italy, while **the unemployment rate rose slightly to 10.9%** (+0.4 percentage points year-on-year), **positioning itself at levels largely in line with the national average** (10.5% unemployment rate for Italy).
As regards Emilia Romagna, the latest available information indicates **an improvement in the health of the regional economy** across various economic sectors, even if some problems still exist, particularly in retail.
Based on the latest estimates issued by Prometeia, **economic activity in 2016** appeared to show **a GDP growth of 1.4% year-on-year,** compared with the more moderate increase recorded for Italy (+0.9% year-on-year).
According to the survey issued by the regional Unioncamere, in the **third quarter of 2016 industrial production confirmed its positive performance**, with an **increase of 1.8% year-on-year**, following the good performance seen in the previous quarter (+2.1% year-on-year). The increase in the production levels of manufacturing companies was also accompanied by a **growth in revenues** (+1.4% year-on-year) and **orders** (+1.1% year-on-year), driven mainly by demand from **international markets** (+2.1% year-on-year for foreign revenues and +1.6% year-on-year for foreign orders).
Conflicting signals are coming from the **construction sector,** which in the third quarter 2016 recorded a **slight decline in revenues of 0.8% year-on-year,** thus interrupting the positive trend of the last six quarters (+1.2% year-on-year in the second quarter 2016). **Particularly impressive,** however, **are the indications** coming from **the property sector**—even if **limited to the first six months of 2016**—with the **number of transactions,** which shows strong growth both in the **residential sector** (+25.0% compared to the first six months of 2015) and the **non-residential sector** (+21.6%).
Retail is still struggling to get back on track, with **a reduction in revenues of 1.0% year-on-year** in the **third quarter 2016**, following the slight drop seen in the previous quarter (-0.3% year-on-year). The reduction in turnover concerns, in particular, establishments specialising in the **sale of foodstuffs** and **hypermarkets and department stores,** while establishments specialising in the **sale of non-food products** showed a less negative trend.
On the trade front, in the first nine months of 2016 Emilia-Romagna confirmed the strong orientation of regional businesses towards international markets, once again consolidating its position as one of the main exporting regions in Italy (**third in terms of the value of exported goods**), behind only Lombardy and Veneto. The latest figures released by Istat, **relating to the first nine months of 2016,** show **for Emilia-Romagna a growth in exports equal to 1.5% year-on-year, a performance that,** while less impressive than in the recent past mainly due to the slowdown in sales on non-EU markets, **is in any case better than that achieved by Italy (+0.5% year-on-year).**
Finally, **regional labour market conditions** improved, reaching considerably better levels than the national average. **In the third quarter 2016, the employment rate rose to 68.9%** (+1.7 percentage points year-on-year), compared to 57.6% for Italy, while **the unemployment rate** fell **to 6.1%** (-0.7

percentage points year-on-year), **considerably lower than the national average** (10.9%) making it the **second lowest of the Italian regions,** behind only Trentino Alto Adige.

CHANGES IN THE REGULATORY AND TAX FRAMEWORK

The main legal, regulatory and fiscal changes issued in 2016 are described below.

The main legal changes

Concerning the legal changes for the banking-financial industry, on 1 January 2016 the instrument for the resolution of banking crises, the so-called **"Bail-in"**, entered into force in Italy, after being established by **Directive 2014/59/EU, the "BRRD"** (Bank Recovery and Resolution Directive), which introduced, in all European countries, harmonised rules to prevent and manage crises in banks and investment entities.

It should be recalled that the BRRD was transposed in Italy with Legislative Decrees no. 180 and 181 of 16 November 2015, which, respectively, implemented the BRRD and amended the provisions contained in the "TUB" (Consolidated Law on Banking and Lending) and in the "TUF" (Consolidated Financial Markets Act) according to the changed regulatory environment.

In this regard, on 21 June 2016, **Commission Delegated Regulation (EU) 2016/860** of 4 February 2016 entered into force; with reference to Article 44, Paragraph 11 of the BRRD, it prescribed additional exceptional cases (with respect to those already prescribed by the aforementioned BRRD) upon occurrence of which, when the Bail-In instrument is applied, the Resolution Authority may exclude all or part of some liabilities from the application of write-down or conversion powers.

Subsequently, **Italian Law Decree no. 18 of 14 February 2016**, converted with amendments by Law no. 49 of 8 April 2016, **again amended**, with entry into force from 15 April 2016, **Article 120, Paragraph 2 of the TUB** which, in prohibiting the capitalisation of interest during the year, clarifies that periodicity in the computation of interest may be no shorter than one year (interest is computed on 31 December of each year and, in any case, at the end of the transaction for which they are due). This rule applies not only to current accounts, but also to the payment account (new letter a) of Paragraph 2, Article 120 of the TUB). In addition, the reformed Article 120 of the TUB sets out the rule whereby the accrued interest payable (instead of the current provision that inconsistently refers to "periodically capitalised" interest), including the interest pertaining to credit card loans, may not produce any additional interest, except late-payment interest.

Legislative Decree no. 25 of 15 February 2016, transposing Directive 2013/50/EU (amending Directive 2004/109/EC, the so-called "*Transparency Directive*"), **modified the rules contained in the TUF concerning the publication of periodic additional disclosures** with regard to annual financial reports and half-yearly reports, by listed issuers having Italy as the Member State of origin. By effect of the legislative amendment of article 154-*ter*, paragraphs 5 and 5-bis of the TUF, the obligation to publish quarterly financial reports (or interim management statements) by the issuers indicated above was repealed, with the power to request the publication of periodic additional disclosures being given to Consob.

On 4 March 2016, the **Commission Delegated Regulation (EU) no. 2016/301 of 30 November 2015 was published** in the Official Journal of the European Union; it supplements Directive 2003/71/EC ("*Prospectus Directive*") with regard to regulatory technical standards on the approval and publication of the prospectus and dissemination of advertisements, and it amends Commission Regulation (EC) no. 809/2004. The Regulation entered into force on 24 March 2016 and led to subsequent amendments to the Issuers' Regulation as well.

Subsequently, on 9 March 2016, **Italian Legislative Decree no. 30 of 15 February 2016 implementing Directive 2014/49/EU of the European Parliament and of the Council, on deposit guarantee schemes**, entered into force and, in confirming the maximum amount to be reimbursed at Euro 100,000 for each depositor, made several changes to the TUB. Among the main changes are the provisions that require that (i) deposits of banks under resolution are among the deposits eligible for reimbursement (up to Euro 100,000) in cases of bail-in application, (ii) when the guarantee schemes make the reimbursements, they take over the depositors' rights with respect to the bank within the limits of the reimbursements made; (iii) the financial provision of the guarantee scheme is an autonomous capital, distinct from the capital of the guarantee scheme and from that of each participant.

Lastly, different disclosure obligations have been prescribed for banks and in favour of depositors.

Legislative Decree no. 72 of 21 April 2016 transposed into Italian law the **Directive 2014/17/EU "Mortgage Credit Directive - MCD"**, which pertains to credit agreements for consumers relating to residential immovable property and which introduced for said purpose Articles 120-*quinquies* to 120-*noviesdecies* of the TUB as well as amendments and additions to Title VI-bis of the TUB, regulating financial agents and credit brokers.

Italian Law Decree no. 59 of 29 April 2016 *"Urgent provisions on enforcement and bankruptcy procedures, and in favour of investors in banks in liquidation"* was subsequently enacted, containing, *inter alia*, a series of measures directed at accelerating the collection of receivables. These measures, conceived as an instrument in support of the management and collection of NPLs, are distinguished in: (i) measures of a substantial nature, such as respectively, the notion of *"non-possessory pledge"* and the *"transfer of ownership to secure immovable property"*, both newly introduced in our laws, and (ii) measures of a procedural nature, directed in particular at streamlining and shortening the time required by collection procedures (i.e. bankruptcy and enforcement procedures).

On 20 May 2016, **Legislative Decree no. 71 of 18 April 2016, implementing Directive 2014/91/EU ("*UCITS V*")** concerning the coordination of the laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities ("*UCITS*"), as regards trustee functions, pay policies and sanctions and implementation, limited to certain disciplinary provisions of Directive 2014/65/EU ("*MiFID II*"), was published in the Official Journal. The Decree entered into force on 4 June 2016.

Also worth noting is the reform to the Privacy Code introduced with **Regulation (EU) 2016/679 "*General Data Protection Regulation*" of 27 April 2016**, published on 4 May 2016 in the Official Journal of the European Union, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data. The Regulation introduced significant changes, starting from the achievement of the goal to provide consistent, harmonised rules among all Member States, with more responsibility on businesses while providing significant simplifications on compliance. The Regulation entered into force on 25 May 2016 and it shall apply from 25 May 2018. Thus, Member States may harmonise their own internal regulations with the aforesaid Regulation within the next two years, otherwise it shall in any case be directly applicable in each of the Member States.

On 3 July 2016, the new European rules on market abuse set out in **Regulation (EU) no. 596/2014** ("*MAR*") entered into force, replacing the previous provisions contained in Directive 2003/6/EC of 28 January 2003 and its implementing acts. The rules set forth in the MAR are directly applicable in Member States, even in the absence of a measure to transpose it into national law, and it is therefore also directly applicable in the Italian legal system. This legislation introduces stricter obligations by Italian companies traded on a regulated market or an MTF to disclose privileged information. In particular, it provides a new, broader definition of privileged information subject to communication to the public, which includes intermediate stages for gradually developing events as well as specific guidelines regarding disclosure delays.

On 3 August 2016, the Ministry of Economy and Finance issued Decree no. 343 on the "Accrual of interest due and received in transactions carried out in the exercise of banking activities" for the purpose of implementing article 120, paragraph 2 of the TUB. The most significant of the newly introduced rules are reported below:

- the frequency with which payable and receivable interest is calculated must be the same for current account and payment account statements;
- interest may not be calculated less frequently than once per year;

- both payable and receivable interest must be calculated on 31 December of each year and, in any case, at the end of the transaction for which it is due;
- with reference to the granting of credit between intermediaries and customers (covered by Title VI of the TUB), including credit card loans, payable interest accrued may not produce any additional interest, except late-payment interest;
- for the opening of current account credit lines (on the basis of which the customer has the right to use and restore the available funds, even when the availability is generated by advance transactions on loans and documents), and for overdrafts (over or in the absence of an agreed limit): i) debit interest accrued is accounted for separately with respect to the capital; (ii) debit interest becomes payable by the Bank on 1 March of the year following that in which it was accrued;
- moreover, in the event that there are not sufficient funds in the account, in the absence of a credit line, as well as the event in which the customer has previously been granted a credit line that has not yet been fully used, the account holder may expressly authorise the bank, in written form and in advance, to charge debit interest to the current account when it becomes payable (1 March of each year), accepting that the amount charged is from that moment considered to be capital and accrues additional interest. Such authorisation may be revoked at any time provided it is before the charge has been made.

On 28 November 2016, **Legislative Decree no. 223 of 14 November 2016 amending national legislation in line with Regulation (EU) no. 1024/2013**, which assigns to the European Central Bank ("*ECB*") specific tasks concerning policies relating to the prudential supervision of credit institutions, was published in the Official Journal no. 278. It is recalled that Regulation no. 1024/2013 established the **centralised system of supervision** for banks in Member States adopting the euro; this constituted the **first pillar of the European banking union**, and assigned to the European Central Bank some of the most significant tasks with regard to the **prudential supervision** of banks in States participating in the Single Supervisory Mechanism ("*SSM*"). The decree, which entered into force on 13 December 2016, made changes to the TUB regarding, in particular: **article 14, on the authorisation of banking activities** (a task now assigned to the ECB—and shared with the Bank of Italy—in accordance with the complex process provided for by the regulation itself); **article 19, on the authorisation to purchase shareholdings in the capital of banks**; **art. 53-*ter*, regarding macroprudential measures** (which not only identifies the Bank of Italy as a designated national authority for the purpose of the adoption of such measures but also provides that the supervisory powers attributed to the Bank of Italy may be exercised "for macroprudential purposes also against significant parties"); **article 114-*septies***, which lays down rules for the application of penalties within the framework of the SSM in the case of violations committed by major banks or by their members, representatives or staff in matters concerning the exercise of the tasks attributed to the ECB by the provisions of the SSM.
On 23 December 2016, **Law Decree no. 237 of 23 December 2016 "Urgent provisions for the protection of savings in the credit sector", subsequently converted, with amendments, with Law no. 15 of 17 February 2017 (the "Law")**, was published in the Official Journal. The said Law covers two main issues: a) the State guarantee on newly issued bank liabilities; b) recapitalisation and strengthening of capital. As regards the first issue, the Law provides that "in order to prevent or remedy a serious disturbance in the economy and preserve financial stability, the Ministry of Economy and Finance is authorised, until 30 June 2017, to grant a State guarantee on the liabilities of Italian banks" in accordance with the provisions of the same Law and "in compliance with European rules on State aid". The Law provides detailed regulations on the characteristics of financial instruments in respect of which the guarantee may be granted (art. 2), the limits to the amount of the guarantee (art. 3), the conditions to which the granting of the guarantee is subject (art. 4), the characteristics of the State guarantee (art. 5) and its remuneration (art. 6) as well as the procedure for applying for and issuing a guarantee (art. 7).

As regards the strengthening of capital, article 13 of the Law provides that "in order to prevent or remedy a serious disturbance in the economy and preserve financial stability, the Ministry of Economy and Finance is authorised to subscribe or purchase, by 31 December 2017, including by way of derogation from State accounting rules, shares issued by Italian banks, whether belonging to a banking group or not, or by Italian companies that are parent companies of banking groups", in accordance with the procedures and conditions laid down by the same rules. At the date of this report, the Law had already been applied at national level with reference to the issuing of the state guarantee on bonds issued by Italian banks.

The main regulatory changes

Concerning banking and financial regulatory measures, Consob, with its **Resolution no. 19521** of 24 February 2016 made changes to the Regulation on the penalty assessing proceeding adopted on 19 December 2013. Among the changes made, of particular note are: (i) the introduction of the notion of revenues for the purposes of determining the maximum amounts of the penalties, (ii) the specification of the procedures for publicising the penalties, (iii) the introduction, for some of the less serious violations, of the possibility for Consob to order the removal of the irregularity as an alternative to monetary penalties. The changes entered into force on 8 March 2016 and were applicable for the penalty assessing proceedings initiated for violations committed after that date.
On 19 May 2016, Consob, with its **Resolution no. 19602** of 4 May 2016, established the **Arbitrator for financial controversies** (ACF) and the related Regulation which sets out the criteria for carrying out the procedures to settle disputes out of court and identifies the criteria for the composition of the related decision-making body. The Regulation entered into force on 3 June 2016. The goal of the ACF is to provide investors, the only parties who may file complaints, with more effective protection compared to the current model of the conciliation and arbitration Chamber. Disputes may be submitted to the ACF (up to a required amount of Euro 500,000) in relation to the breach of the disclosure, diligence, correctness and transparency requirements placed on intermediaries in their relations with investors in the provision of investment services and collective investment management services; disputes relating to equity portal managers may also be submitted.
Subsequently, on 26 May 2016 Consob published its **Resolution no. 19614**, making **amendments to the Issuers' Regulation** and introducing new provisions that led to a further increase in information transparency with respect to the market concerning the issuer's ownership structure, with particular reference to the use of derivative instruments. These amendments entered into force on 1 July 2016.
On 18 October 2016, Consob published on its website **Communication no. 0092492** laying down certain Authority recommendations to intermediaries regarding the use of regulated markets and multilateral trading facilities (collectively, "trading venues") for the purposes of distributing, from the primary market, the financial instruments issued. The recommendations contained in the Communication are mainly aimed at: (i) ensuring greater efficiency of activities relating to the distribution of financial instruments to retail customers , including through the reduction of costs that investors incur for the purchase of products on the primary market; (ii) ensuring greater liquidity of investments in financial instruments issued by intermediaries, through the introduction of a mechanism which ensures, from the moment of distribution on the primary market, marketability through trading venues. The Communication formally applies with regard to the distribution, in respect of retail customers, of financial instruments issued by undertakings qualifying as "licensed parties" within the meaning of article 1, paragraph 1 r) of the TUF, including, therefore, banks authorised to provide investment services and activities. Activities related to the issuance of shares of undertakings for collective investment in transferable securities that fall within the scope of Directive 2009/65/EC ("*UCITS*") are expressly excluded from the scope of the recommendations.

On 28 October 2016, Consob issued **Communication no. 0096857**, concerning a recommendation ("*Recommendation*") **laying down guidelines on the insertion and the drafting, within prospectuses for the public offer and/or admission to trading of financial instruments, of "Warnings to investors" ("Warnings")**.
This is to ensure that the attention of potential investors is suitably drawn to the risks relating to the economic, asset, financial and management position of the Issuer and the securities to which the prospectus relates or to the successful outcome of the overall public offer or admission to trading. The Recommendation fully replaces the indications provided in Communication no. 0010807 of 10 February 2014, with regard to the paragraph "Warnings to investors".
Concerning the regulatory intervention by the Bank of Italy, **Circular no. 285 of 17 December 2013 introducing Supervisory instructions for banks** ("*Circular no. 285*"), was subjected to numerous revisions in 2016. In particular, on 8 March 2016, the **15th revision to Circular no. 285** was published along with the **1st Revision to Circular no. 288** of 3 April 2015 ("*Circular no. 288*"), bearing Supervisory regulations for financial intermediaries. The two revisions incorporate rules on granting loans to parties other than natural persons and micro-businesses by special purpose vehicles for securitisation.
On 20 May 2016, the Bank of Italy published the **16th Revision to Circular no. 285** which amended Chapter 4 "IT Systems" of Title IV, First Part, introducing, *inter alia*, a specific section directed at regulating the obligations imposed on banks that provide internet payment services. In particular, this revision transposes into Italian law the "Guidelines on the security of internet payments" issued by the EBA and directed at raising the level of security of the sector, promoting the adoption of minimum requirements shared throughout the EU.
On 28 September 2016, the Bank of Italy published the **17th revision of Circular no. 285**, introducing certain amendments to Title IV, Chapter 3, "The internal control system". On the same date, the Supervisory Authority published the **2nd revision to Circular no. 288** containing the supervisory regulations for financial intermediaries, introducing certain amendments to Title III, Chapter 1, "Administrative and accounting procedures and internal controls". Both actions are aimed at implementing Articles 120-*undecies* and 120-*duodecies* of the TUB, (which as stated above were introduced with Legislative Decree no. 72 of 21 April 2016 which transposed into Italian law the **Mortgage Credit Directive** pertaining to the verification of consumer creditworthiness and the evaluation of residential property that must be carried out by banks and financial intermediaries granting property loans to consumers.
Finally, on 4 October 2016 the **18th revision to Circular no. 285** was published regarding the revision of the capital conservation reserve guidelines.

On 17 May 2016, the **Bank of Italy Measure of 3 May 2016 bearing provisions concerning penalties and administrative penalty assessment procedure** was published in the Official Journal, whereby the Supervisory Authority amended the provisions pertaining to penalties and administrative penalty assessment procedure adopted with the Measure of 18 December 2012. In particular, the measure amended the sanctioning procedure in line with the changes introduced as regards penalties by Directive 2013/36/EU ("*CRD IV*") and the new structure deriving from the launch of the Single Supervisory Mechanism, which has assigned certain sanctioning powers to the ECB.
On 29 July 2016, the Bank of Italy published on its website the new version of the "**Instructions for determining the overall average effective interest rates**" which will replace the previous instructions dating back to August 2009.
The new instructions were issued in order to transpose certain relevant legislative changes introduced in recent years in the credit sector.
Among the main changes introduced, of particular note are: (a) the **updating of the list of transactions excluded** from the reporting obligation; b) projections issued regarding the inclusion in the calculation of overall effective interest rates of the **Fast Loan Application Commission**

("*CIV*"), to be determined on an annual basis; (c) the reference to the fact that the **interests relevant** for the purposes of calculating the overall effective interest rates are derived from the **amounts accrued** in the reference quarter **irrespective** of **when** they become payable.

In order to implement the new Title VI, Chapter I-bis of the TUB with which the aforementioned Mortgage Credit Directive on property loans to consumers was transposed, the following have been issued: a) **the update of 30 September 2016 to the supervisory provisions regarding "Transparency of banking and financial transactions and services. Correctness of relations between intermediaries and customers"** of 29 July 2009 ("*Transparency Provisions*"); b) **the urgent decree of the Minister of Economy and Finance - Chairman of the Interministerial Committee for Credit and Savings (CICR) of 29 September 2016, no. 380** ("*CICR Resolution*"). The new Section VI-bis of the Transparency Provisions provides details on certain aspects of the rules on property credit for consumers, including the rules for calculating the APR for home loans/mortgages, European pre-contractual information obligations ("*European Standardised Information Sheet*" - *ESIS*) and obligations regarding disclosure and correctness in relations with customers experiencing payment difficulties, in order to reduce the information asymmetries between intermediaries and consumers and align as far as possible the implementing regulation with Community legislation, to specify the obligations of lenders concerning the content of advertisements, the procedures for their dissemination and the criteria for defining the representative example, and finally to regulate specific aspects relating to pre-contractual information obligations and loans in foreign currency.
With the Measure of 23 December 2016, the **Bank of Italy issued the new Regulation on collective investment management**, amending the previous regulation issued on 19 January 2015. This regulatory amendment was necessary in order to align the governing law of the Bank of Italy in the field of collective investment management with Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 concerning trustee functions, pay policies and the penalties of certain UCITS.
Finally, it should be noted that with **Measure no. 46 of 3 May 2016**, Ivass amended ISVAP Regulation no. 24 of 19 May 2008 concerning the procedure for the submission of claims and the management of claims by insurance companies by extending the regulations also to insurance intermediaries.

The main tax changes

With regard to **regulatory changes on tax-related matters**, some of the main changes introduced by Law no. 232 of 11 December 2016, relating to the "*State budget for financial year 2017 and multi-annual budget for the three-year period 2017-2019*" ("**2017 Budget Law**") are referenced below.

As regards income tax, starting from 2017 the new corporation income tax (IRI) comes into force, under which individual entrepreneurs, general partnerships and limited partnerships under an ordinary accounting regime may opt to tax corporate income separately, applying the same rate as provided for IRES purposes. The new tax, which replaces the progressive rates applied for personal income tax (IRPEF) purposes, is applied to profits retained within a company, with the aim of encouraging the reinvestment of profits within small and medium-sized enterprises and facilitating growth and developing productive activities.

The rules governing so-called "maxi-depreciation" have been extended and tightened. The rules were introduced with Law no. 208/2015, which provided for an increase of 40% of the tax deductible cost for depreciation or lease payment related to investments in new tangible capital assets, made from 15 October 2015 to 31 December 2016 by entities earning business income and by persons exercising arts and professions. The facility has been extended with reference to investments in new capital assets (excluding motor vehicles and other means of transport which are not exclusively instrumental to the performance of activities), carried out up to 31 December 2017, or until 30 June 2018 provided that such investments relate to orders accepted by the supplier up to 31 December 2017 and that, by the same date, the payment of an advance of no less than 20% has been paid. In addition, in relation to investments carried out in the same period in high-tech goods to be used to facilitate the process of technological change according to the "Industry 4.0" model, a new measure has been introduced whereby the tax deductible cost for depreciation or lease payments is increased by 150% (so-called "hyper-depreciation"). For those who benefit from hyper-depreciation, provision is also made for an increase of 40% in the tax depreciation of certain intangible assets that are instrumental to the technology investment.

As regards value added tax, the "VAT group" rules come into effect from 1 January 2018, thus exerting the faculty expressly granted to the Member States of the European Union by Directive 2006/112/EC of 28 November 2006. Taxable entities for VAT purposes established in Italy, that are legally independent but for which all the financial, economic and organisational constraints envisaged by the regulations exist (for example, companies belonging to a corporate group), exercising the option for the formation of a "VAT group" can become a single taxable entity for the purposes of value added tax. A specific decree of the Minister of Economy and Finance shall establish the provisions necessary for the implementation of the legislation in question.

It is recalled that Law no. 208 of 28 December 2015, the "**2016 Stability Law**", starting from the tax period following the one current at 31 December 2016 (i.e. starting from the 2017 tax period for entities whose year matches the calendar year), provided for the reduction of the IRES rate from 27.5% to 24%. Also with effect from 2017 onwards, for the Bank of Italy and the credit and financial institutions referred to in Legislative Decree no. 87/92 (excluding the management companies of mutual funds), a 3.5% surtax is added to the IRES rate. On the other hand, entities subject to the aforesaid additional IRES are allowed to fully deduct interest expense from corporate income both for IRES and for IRAP purposes (previously, only 96% of interest expense was deductible).

Lastly, it should be pointed out that Article 11 of Italian Law Decree no. 59 of 3 May 2016, converted with amendments by Law no. 119 of 30 June 2016 and subsequently amended by Law no. 15 of 17 February 2017, provided the option to pay an "annual guarantee fee" to maintain the transformability into tax receivables provided by Law no. 214/2011 for deferred tax assets relating to adjustments to loans, goodwill and other intangible assets ("*Deferred Tax Asset - Qualified DTA*").

As specified in the explanatory report to Italian Law Decree no. 59/2016, the optional scheme provided by Article 11 was introduced to overcome the critical issues raised by the European Commission with regard to the lawfulness in terms of compatibility with State aid regulations, of the convertibility into tax receivables, when certain conditions are met, of the deferred tax assets in accordance with Law no. 214/2011. Based on the indications provided by the European Commission, the transformability into tax receivables is lawful only in relation to qualified DTAs to which an actual early payment of taxes corresponds (so-called *type 1 DTAs*). The transformability into a tax receivable of the *qualified DTAs* to which no actual early payment of taxes corresponds (so-called *type 2 DTAs*) can instead be assured only if a fee is paid on said *DTAs*. Therefore, the rule subordinates the continuation of the transformability of *type 2 DTAs* to the payment of a fee equal to 1.5% of their amount and establishes that *type 2 DTAs* shall be calculated for each year of application of the law as the difference between the amount of the *qualified DTAs* created from 2008 to the reference year, including the *qualified DTAs* that were transformed into tax receivable, and the sum of the taxes paid with reference to the same years, as resulting from the closing date of the previous year. When the aforesaid difference is negative, payment of the fee is not due.

The option for payment of the "annual guarantee fee" is irrevocable and, once exercised, it will entail payment of the fee starting from the fiscal year current on 31 December 2016 until the fiscal year current on 31 December 2030.

The fee must be paid for each financial year within the deadline for paying the balance of the income tax related to preceding tax period and is deductible both for the purposes of income tax and regional business tax. The first payment of the annual fee, made in 2016, is considered to all effects equivalent to the exercise of the option provided for by article 11 of Legislative Decree no. 59/2016.

In this respect it should be noted that, in 2016, the BPVi Group opted to pay an "Annual Guarantee Fee", making the payment within the time limits provided for by law.

GROWTH OF THE BPVI GROUP: EVENTS AND ACTIVITIES WITH STRATEGIC IMPORTANCE

As part of the **complex and in-depth restructuring process** currently underway, in financial year 2016 initiatives were put in place aimed at strengthening the BPVi Group and rebuilding a new relationship of trust with shareholders and customers.

Of the main changes that have characterised 2016 we recall, firstly, **the transformation of Banca Popolare di Vicenza into a company limited by shares**. The aforesaid historic transformation, which was set forth in Law Decree no. 3 of 24 January 2015 (“Urgent measures for the banking system and investments”), was approved during the Shareholders’ meeting of 5 March 2016, which also approved the Articles of Association of the new company limited by shares (S.p.A.).

Of the capital strengthening initiatives, we recall, firstly, **the capital increase by Euro 1.5 billion** completed in early May through the subscription of the entire capital increase by the Atlante Fund, an alternative closed-end mutual fund managed by Quaestio Capital Management SGR S.p.A., which took over from Unicredit in guaranteeing the subscription of the shares that were not placed within the scope of the Global Offer. By effect of the aforesaid subscription, **the Atlante Fund holds a 99.33% share of the capital of Banca Popolare di Vicenza**. Subsequently, close to the end of the financial year, in order to strengthen capital adequacy ratios in view of the impacts arising from the complex end-of-year assessment processes and the launch of the Public Settlement Offer to BPVi shareholders, the Bank received further financial support from the Atlante Fund through **the payment of Euro 310 million in the form of a future capital increase payment**, which happened in two tranches: the first on 30 December 2016 for an amount of Euro 163.7 million and the second on 5 January 2017 for an amount of Euro 146.3 million. The aforesaid payment was charged to a specific capital reserve in the Bank’s financial statements and is to be understood as irreversible, even in the event that it is not possible, for whatever reason, to carry out the future increase in capital.

The significant actions taken by the Atlante Fund to strengthen the capital in the course of 2016 have allowed the Bank to close the year with a level of capital ratios greater than the regulatory minimums laid down by the supervisory regulations but lower than the target set by the European Central Bank within the scope of the process of assessing the Bank’s capital adequacy (SREP - Supervisory Review and evaluation process).

The year closes, in fact, with a loss of Euro 1.9 billion as a result of (i) the further significant reduction of volumes traded by the Group as a result of the extraordinary events that have affected the BPVi Group since the second half of 2015 as well as the media effect those events have had, and, especially, (ii) the evolution of impaired credit and the further raising of levels of coverage, including as a result of the detection of valuation differences following the inspections carried out by the ECB on credit risk in the course of 2016 and early 2017, (iii) the economic impacts on income related to Cattolica Assicurazioni’s decision of 4 August 2016 to withdraw from the partnership agreement, and (iv) further provisions for risks and charges mainly due to claims and litigation on BPVI shares and the cost of Settlement Offer to shareholders.

By effect of the aforementioned loss, taking into account the aforementioned second tranche of the capital account payment carried out by the Atlante Fund on 5 January 2017, the pro-forma CET1 ratio is 8.21% (Pro-forma Total Capital Ratio equal to 9.61%) compared to a minimum regulatory requirement of 6%3 and a CET1 target for 31 December 2016, fixed by the ECB as part of the annual capital adequacy assessment process (SREP), equal to 10.25%. It should be noted, however, that following the new SREP decision announced on 16 December 2016, with effect from 31 March 2017 the target in terms of CET1 ratio is 10.25%4, to which a target in terms of Total Capital Ratio of 12.25% is added.

There are several things to report as regards the **governance renewal**. In addition to the aforementioned approval of the new Articles of Association, **a new Board of Directors and a new Board of Statutory Auditors were appointed** during the Annual General Meeting of Shareholders held on 7 July 2016. On this same date, a **new audit firm** (*PricewaterhouseCoopers*) was appointed as independent auditor, following the early consensual termination of the existing independent audit engagement with KPMG SpA.

On 6 December 2016, the new Board of Directors, having taken note of the resignation on 4 December 2016 of the Managing Director Francesco Iorio, unanimously resolved, with the favourable opinion of the Board of Statutory Auditors, to co-opt **Fabrizio Viola** to the Board of Directors **giving him the role of Managing Director**. The co-optation of Fabrizio Viola to the Board of Directors of BPVi with the role of Managing Director, and his simultaneous appointment to the Board of Directors of Veneto Banca with the role of Chairman of the Strategic Committee substantiates the intention to strengthen the Group's restructuring process with a view to defining a plan for the merger with Veneto Banca.

In the light of changes in the Bank's specific situation, characterised by a progressive weakening of its financial and economic position connected, in particular, to the reputational crisis and consequent substantial reduction in volumes traded, the new Board of Directors, since its establishment, has begun activities to define a **new Business Plan** as part of which it has looked into various options, including aggregation with other banks. **In February 2017, the Board of Directors approved the new 2017-2021 Business Plan, which includes, in terms of restructuring conditions, the merger with the Veneto Banca Group (controlled by the Atlante Fund with a 97.6% share) and a further capital strengthening operation**. In this context, in the absence of a clear expression of willingness by the controlling shareholder to provide further capital support, on 17 March 2017 the Bank informed the Relevant Authorities of its intention to make use of "**precautionary recapitalisation**" (within the meaning of Legislative Decree 237/2016 as converted, with amendments, into Law no. 15 on 17 February 2017) and is working to ensure that this transaction can be carried out as quickly as possible.

As part of the restructuring process continued by the new Board of Directors, it is important to note the Shareholders Meeting of 13 December 2016 which resolved to bring **a liability action against former members of the General Management, the Board of Directors and the Board of Statutory Auditors** with the aim of compensating for damage incurred by the Bank with the previous management. It should be noted in this respect that in relation to the conclusion of the internal investigations concerning the liability action, in the session of 28 March 2017 the Board of Directors approved the proposed petition, which will be filed for notification in the coming days.

Furthermore, in order to restore a fruitful relationship of trust and collaboration with shareholders, and also **to limit legal risks in order to facilitate the inflow of new capital**, in January 2017 the Bank began a settlement initiative, launching **a Settlement Offer** for shareholders who have

[3] The minimum regulatory requirement is 4.5% for CET1 ratio and 6% for TIER1 ratio. Since Banca Popolare di Vicenza has not issued hybrid equity instruments (AT1 instruments), the minimum TIER1 ratio limit must be fully covered with CET1.
[4] The new minimum SREP requirements for CET1 ratio and Tier 1 ratio are respectively equal to 8.75% and 10.25%. Since Banca Popolare di Vicenza has not issued hybrid equity instruments (AT1 instruments), the minimum Tier 1 ratio limit must be fully covered with CET1.

invested in BPVi shares over the last ten years (approximately 94,000). This offer **includes a recognition of Euro 9 for every share** purchased through a BPVi Group bank from 1 January 2007 until 31 December 2016, net of any sales. Upon allocation of the recognition, the shareholder waives any claim in relation to the investment in (or the omitted disinvestment of) Banca Popolare di Vicenza equity shares, which shall however remain the property of the shareholder. It is also noted that on 7 March 2017 the Bank decided to set up a **fund for a total of Euro 30 million in support of shareholders facing adverse conditions**. The initiative, which is subject to the success of the Settlement Offer, is based on an awareness that certain BPVi investor shareholders are involved with situations of impoverishment and serious social unrest, as well as a strong desire to rebuild a relationship of trust between the Bank and its investor members.

In terms of commercial initiatives and improving the efficiency of the Group, **during the financial year the new Commercial Network Model was launched**. Since 1 January 2016, the new Commercial Network Model has entailed the establishment of two commercial chains focused on service to the Group's core customers: households and small businesses (**Community Banking**) and corporate, SME and private customers (**Corporate & Private Banking**). The purpose of specialising service models is to increase the overall profitability of the different customer segments, by better calibrating service levels to customers' actual needs. In terms of initiatives to focus and increase the efficiency of business activities, also of note is the continuation of the streamlining of the territorial presence of the BPVi Group, which in the course of 2016 entailed the **closing of 80 additional branches** (after the 75 closed in 2015) and **five or six Representative Offices** located abroad.

The main events and activities with strategic importance that marked the operations of the BPVi Group during 2016 are described in greater detail below.

INSPECTIONS CARRIED OUT BY THE SUPERVISORY AUTHORITIES

Inspections by the ECB

As was amply described in the Report on Operations of the 2015 Financial Statements and in the 2016 half-yearly financial report, **the European Central Bank carried out an inspection** at Banca Popolare di Vicenza pertaining to Risk Management – Market Risk (management of Proprietary Trading and Governance). The inspection **began on 26 February 2015 and ended on 1 July 2015**.

The audit involved, *inter alia*, the inspection of the procedures for the subscription of the 2013 and 2014 capital increases carried out by the Bank, and of the trading of treasury shares recorded as offsetting entries in the "Provisions for the purchase of treasury shares". In this regard, the results of the inspection were formalised in the "*Decision establishing requirements pursuant to Article 16(2) of Regulation (EU) No. 1024/2013 and Recommendation on certain remedial actions following an on-site inspection*", transmitted by the ECB to the Bank on 19 January 2016 in draft form and on 15 March 2016 in its final version. **The inspection report pointed out certain critical issues** pertaining, *inter alia*, to: i) purchasing and subscribing the Bank's treasury shares ("*Financing of treasury shares Governance and internal controls*" and "*Trading on trading shares – secondary market*"); ii) compliance with the MIFID regulations in the placement of the last capital increases ("*Trading on treasury shares: primary market MIFID compliance*").

In particular, with reference to the above aspects, the inspection brought to light the presence of cases in which some of the Bank's customers used, to subscribe the capital increases of 2013 and 2014, and to purchase shares of the Bank in the period between 1 January 2014 and 28 February 2015, amounts resulting from **loans issued by the Bank** itself which, according to criteria identified

by the ECB, **were deemed by the ECB to be "correlated" to the subscription or to the purchase of the shares**. It should be recalled that the inspection also revealed that in some cases **executives of the Bank signed letters** whereby, spending improperly on behalf of the Bank, they assumed obligations to "guarantee", "provide a return" and/or "buy back" the Bank shares that were purchased or subscribed by said customers.
With regard to the aforesaid critical issues, **starting from mid-2015 the Bank had already promptly formed a working Group**, supported by leading legal, financial, accounting and tax advisors and the Bank's new management, appointed to **survey the risks and potential impact on income and capital** deriving from the circumstances observed by the ECB inspection group (extending the scope of investigation also outside the 2013-2014 time interval of the Authority's inspections) while meeting the requests formulated by the ECB in the pre-closing meeting and repeated in the "Decision establishing requirements pursuant to Article 16(2) of Regulation (EU) No. 1024/2013 and Recommendation on certain remedial actions following an on-site inspection".

As described in detail in the Report on Operations of the 2015 Financial Statements, the results of the inspections and thorough analyses carried out for the purposes of preparing the 2015 Financial Statements indicated that the **total amount of loans disbursed by the Bank and identified as "correlated" with the purchase or subscription of Bank shares is Euro 1,086.9 million** (to which are added Euro 52.4 million related to the letters of commitment/guarantee that refer to shares not included among those purchased or subscribed by customers using "correlated" loans). It should be recalled that this phenomenon had caused an impact on the 2015 Consolidated Financial Statements, represented by **adjustments** for creditworthiness and **provisions for risks and charges**, which was recognised in consideration of the risks associated with these positions, and the **recognition of a restricted reserve** among equity items in accordance with Article 2358, Paragraph 6, of the Italian Civil Code. This phenomenon had also had a negative impact on the Bank's Own Funds, to which a "**prudential filter**" had been applied. In the 2015 Financial Statements, moreover, **allocations to the provisions for risks and charges were recognised also to address the legal risks relating to the dispute already initiated by customers and to the complaints received, pertaining to the operations involving Bank shares**, as well as those connected with the critical issues pertaining to compliance with MiFID and/or financial intermediation rules, which were the subjects of the inspection by the ECB.

In 2016, the Bank continued to carry out activities aimed at defining the processes and the procedures for measuring and continuously monitoring the evolution of financed capital, of letters of commitment/guarantee to buy-back and of complaints, as well as revising the risk assessment, also in light of the evolution of the credit rating and of interactions with customers. At 31 December 2016, the **amount of the loans "correlated"** with the purchase or subscription of Bank shares is **Euro 1,086.9 million**, to which are added Euro 52.4 million related to the letters of commitment/guarantee that refer to shares not included among those purchased or subscribed by customers using "correlated" loans, **for a total amount of Euro 1,139.2 million**. With reference to the phenomenon of the loans correlated with the purchase or subscription of shares, by effect of the adjustments recorded, the annual Financial Statements at 31 December 2016 contain adjustments to loans (adjusting provisions) amounting to Euro 617.5[5] million (versus Euro 465.9 million at 31 December 2015) and specific allocations to the provisions for risks and charges amounting to Euro 266.5 million (versus Euro 352.6 million at 31 December 2015), including also the allocations made in view of the aforementioned letters of commitment/guarantee, amounting to Euro 30.3 million. The higher allocations on correlated loans and on the letters of commitment/guarantee, amounting to Euro 151.6 million, entailed a **corresponding reduction of the "prudential filter"** deducted from Own Funds, which decreased from Euro 320.8 million at 31 December 2015 to Euro 255.3 million at 31 December 2016, and a **reduction of the provision for**

[5] Including Euro 21.1 million relating to losses recorded in view of write-offs on positions which are the subject of settlement agreements (of which Euro 3.1 million relate to letters of commitment and guarantee).

risks and charges from Euro 352.6 million to Euro 266.5 million. At 31 December 2016, the Bank's **restricted Equity reserve in accordance with Article 2358**, Paragraph 6, of the Italian Civil Code amounted to Euro 236.3 million, versus Euro 304.4 million at 31 December 2015[6]. For complete disclosure, it is specified that the **total credit exposure towards the customers to which loans correlated with the purchase or subscription of BPVi shares have been issued** amounted to **Euro 2,216 million** at 31 December 2016; this value is substantially unchanged compared to 31 December 2015, and Euro 1,305 million of it are classified as non-performing loans (Euro 882 million at 31 December 2015).

Within the **same inspection**, the ECB had also highlighted **certain observations relating to the Bank's governance and system of internal controls**. In the decision, transmitted to the Bank on 15 March 2016, the ECB asked the Bank to: (i) define and implement new internal policies directed at improving the processes with reference, for example, to the pricing policy, to financial investments, to the approval of the new products and to hedge accounting; (ii) provide a more effective assignment of responsibility and sharper definition and separation of the roles within the internal governance structure; (iii) strengthen the monitoring of operational risks and set limits to operations in line with best practices; (iv) improve the processes and the content of reports to the Bank's top management; (v) strengthen the control functions.

On this matter, the Bank defined a series of corrective actions directed at fulfilling the requests of the Supervisory Authority, summarised in a dedicated action plan transmitted to the ECB in early April 2016 and already largely implemented; a meeting with the ECB concerning the progress of these initiatives was held in October 2016.

In addition, **on 13 April 2015 the ECB had initiated an inspection on "Risk governance and risk appetite framework"** in accordance with Articles 10 and 11 of the Single Supervisory Mechanism (SSM) Regulation and with Article 142 of the SSM Framework Regulation, completed on 17 April 2015. In particular, an assessment was made of the (i) operation and effectiveness of the Board of Directors and of the Board of Statutory Auditors, as well as of (ii) the Risk Appetite Framework (RAF) of the Bank. The outcomes of this inspection were notified to the Bank on 19 January 2016 and they referenced the critical profiles already emerged from the inspection carried out between February and July 2015 with particular reference to the governance structure and to the risk management system in relation to which they highlighted areas for improvement. **The Bank replied to the ECB on 16 February 2016, pointing out the actions already taken**, in particular with reference to the Risk Appetite Framework (RAF), and those already started, indicating the date when they will be completed.

From 30 May 2016 the ECB started an inspection on the management and assessment processes and the internal controls system relating to the credit and counterparty risks, which ended on 9 September 2016. In this respect, the draft inspection results were revealed to the Parent in advance on the occasion of the pre-closing meeting that took place on 9 September 2016 and with a specific **draft communication carried out on 13 March 2017** with which the Supervisory Body lists **the results of the inspection** in detail and requires the bank to implement, within a specific timeframe (between June and September 2017), the actions necessary to remove the identified shortcomings. In particular the Supervisory Body revealed **shortcomings in the processes of classification and**

[6] The restricted reserve refers only to the loans correlated with the purchase or subscription of BPVi shares and with respect to the filter it does not include the letters of commitment/guarantee deducted from Own Funds for the part not covered by allocations to the provisions for risks and charges, amounting to Euro 19.1 million. In addition to the aforesaid amount of Euro 236 million, there is another restricted equity reserve pursuant to Art. 2358, paragraph 6 of the Italian Civil Code in the amount of Euro 40 million relating to the two capital increase transactions (duly notified to the Supervisory Authorities) to expand the stockholder base, which offered new Stockholders the possibility of subscribing BPVi shares with resources deriving from a loan granted by the Bank, in compliance with the provisions of Art. 2358 of the Italian Civil Code.

evaluation of credit and in the management of guarantees, inadequate internal controls, shortage of staff in credit recovery processes and in the internal governance mechanisms related to the prevention of conflicts of interest. It should be noted that already in the 2016 Half-Yearly Financial Report **the Bank**, as acknowledged by the ECB in the above-mentioned communication of 13 March 2017, **acknowledged the preliminary evidence relating to higher specific and general adjustments** that emerged from the discussion held with the inspection team in the course of investigations on a sample of the credit portfolio. However, in view of the recommendations of the ECB communicated in draft on 13 March 2017, **the Bank will review, with a more conservative outlook**, the policies, processes and procedures associated with credit and counterparty risks, **the application of which to the entire credit portfolio will presumably have further currently unquantifiable but potentially significant negative impacts on the financial and economic situation of the BPVi Group, as early as 2017.**

Finally, it should be noted that during **February 2017**, the Parent BPVi was the subject of a further on-site audit pertaining to the "**Credit and counterparty risk management and risk control system**" with specific reference to the scope of loans "correlated" with the purchase/subscription of BPVi shares. The audit began in early February 2017 and ended on 10 March. As at the date of this report, the audit pre-closing meeting had not been held and no document to the Bank had been formalised concerning the results of the audit itself. In relation to the aforesaid audit, **in the Financial Statements as at 31 December 2016 the Bank already acknowledged the valuation differences that emerged**, with the exception of certain justified positions, for which settlement agreements that do not involve additional costs for the Bank with respect to those that have already been set aside have, in the meantime, been concluded or are in the process of completion. Moreover, relative to the status change proposals put forward by the inspection team, in the Financial Statements as at 31 December 2016 the Bank **already accepted the reclassifications from "performing" to "non-performing",** except in the case of two positions affected by the signing of settlement agreements. Relative instead to the proposals put forward by the inspection team to **classify as "doubtful" previously non-performing loans** for which the evaluation differences have already been incorporated in these financial statements under the terms described above, these are **currently still being analysed** and therefore, where approved, the administrative process will be launched in the current financial year, with, among other things, advance notification being provided to the counterparties involved. Given the **significance of the total amount** referred to in the above analysis, a significant increase in doubtful loans in the first half of 2017 cannot be ruled out.

ECB penalty assessing proceeding

The allegations against the Bank emerged as a result of the inspections carried out by ECB relate to the following instances:

- **reporting and disclosure to the public** with regard to the correct amount of Own Funds (in particular, the disclosure at 31 December 2014 and the one contained in the quarterly report of 31 March 2015);
- **temporary exceeding of the maximum threshold of Significant Exposures** to a specific leading international counterparty operating in the financial sector.

The abstractly applicable penalty is monetary, in accordance with Article 17, Paragraph 1, of Council Regulation (EU) No. 1024/2013. The penalty must be "effective, proportionate and dissuasive" in accordance with Paragraph 3 of Article 17 of the Regulation, and the amount may reach "up to 10% of the total annual turnover" of the supervised party. In accordance with Article 128 of Regulation 428/2013, if the party belongs to a supervised group, the total annual turnover is the one determined on the basis of the most recent consolidated annual financial statements.

With the support of its own external legal counsel, the Bank submitted a defence brief to the ECB on 21 September 2016 and on 7 February 2017 received a penalty proposal from the JST for a sum equal to 4% of the annual turnover of the Bank. Again with the support of its external legal counsel, the Bank responded to this proposal with a second defence brief submitted to the ECB on 28 February 2017. The proposed penalty amount, updated on the basis of the Bank's 2016 turnover, was allocated entirely to the provisions for risks and charges.

Bank of Italy penalty assessing proceeding

On 8 July 2016, the Bank of Italy notified the Bank, in accordance with Article 145 of the TUB, of the start of an **administrative penalty assessing proceeding for violations of the prescriptions of the TUB and of the national regulatory provisions implementing the relevant European regulations**. Bank of Italy acted in compliance with the request contained in the note of 22 December 2015 and forwarded to it by the European Central Bank (ECB).

The European Supervisory Authority - in accordance with the assignment of penalty-assessing powers provided by Article 18 of Regulation (EU) no. 1024/2013 of 15 October 2013 (SSM Regulation), which assigns specific tasks to the European Central Bank concerning policies relating to the prudential supervision of credit institutions - requested the national Supervisory Authority, in accordance with Article 18.5 of the SSM Regulation, to:

- determine whether the facts uncovered in the course of the inspection carried out by the ECB at the Bank's premises from 26 February to 3 July 2015 constitute violations of Italian law;
- initiate penalty assessing proceedings against the parties deemed responsible, in accordance with Italian law.

The referenced inspections, extended to the entire BPVi banking Group, pertained to the market risk, with specific focus on:

- trading BPVi shares with the stockholders;
- reasons underlying the investments in two funds ("Athena Capital Balanced Fund" and "Optimum Evolution Fund");
- governance of the group's Finance;
- evolution and consistency of the strategies tied to the significant investments in Italian Government bonds and to their cash flow hedging.

Notice of the assessment of the violation was served to the Bank in its capacity as jointly and severally liable for payment of the penalties in accordance with Article 145 of the TUB, in addition to the notice of proceeding against the individual representatives/employees inasmuch as they are directly liable for the alleged facts.

In particular, the Bank of Italy alleged that a series of provisions were violated by representatives and executives in office at the time of the alleged events and since ceased. Very briefly, the allegations pertain to the TUB and the supervisory instructions pertaining to:

- organisation and corporate governance of banks;
- internal control system;
- risk management and control by the corporate Bodies and, more in general, containment of risks in its different configurations.

The Bank is jointly and severally obligated to pay any administrative penalties that should be assessed to the **liable parties**, although it is obligated to exercise the withdrawal right against them. It is possible that, if criminal proceedings are initiated against the involved parties in relation to the aforementioned behaviours, the Bank may be found to be liable in accordance with Italian Legislative Decree no. 231/2001.

By virtue of the penalties applicable *pro tempore* to the alleged violations, each such violation, in accordance with Article 144 of the TUB in force at the time, could entail the assessment of the monetary administrative penalty against the persons who serve in administration or management capacities, and of the employees, from a **minimum amount of Euro 2,580 to a maximum of Euro 129,110 each**.

The Bank submitted a defence brief to the Bank of Italy on 29 September 2016. **To date it has not been notified of any measure to impose sanctions. Considering the imposition of any sanction to be merely a possibility, and not a certainty, the Bank therefore made no provision.**

Consob Inspections and Penalty Assessing Proceedings

From 22 April 2015 to 24 February 2016, Consob carried out an inspection pursuant to Article 10, Paragraph 1, and the combined provisions of Articles 115, Paragraph 1, Letter c) and 116, Paragraph 1 of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Financial Markets Act, "TUF") to ascertain, *inter alia*, the controls directed at managing the conflict of interest inherent in the placement of own issue securities, the process for the definition of the proposal to revise the value of treasury shares resolved annually by the Board of Directors, the assessment of the adequacy of customers' investments, and the management of customers' orders pertaining to the sale of treasury shares.

The outcome of the inspection was notified to the Bank between 29 March and 1 April 2016 by serving **six penalty assessing proceedings**, **one of which was served to the Bank as a directly liable party and the remaining five were addressed to the Bank exclusively as jointly and severally liable** of the violations allegedly perpetrated by members of the corporate Bodies and by some executives and employees of the Bank, also after they relinquished their office and/or their functions.

In summary, Consob alleged the **violation of the following provisions** pertaining to:

- performance of the investments services and activities, with particular reference to the consequent duty to behave diligently and correctly;
- procedures, including internal control procedures, for the correct and transparent performance of the services;
- outsourcing of essential or important operating functions or services or activities;
- procedures for the adequacy and management of customers' orders;
- offer prospectuses - preparation and disclosure - and dissemination of information;
- communications to the public and information about relevant events and circumstances (only the Bank is alleged to have committed this violation).

The Bank is jointly and severally obligated to pay any administrative penalties that should be assessed to the parties deemed liable for the violations, although it is obligated to exercise the withdrawal right against them. It is possible that, if criminal proceedings are initiated against the involved parties in relation to the aforementioned behaviours, the Bank may be found to be liable in accordance with Italian Legislative Decree no. 231/2001.

By virtue of the penalties applicable *pro tempore* to the alleged violations, each such violation could entail the assessment - for each involved party - of monetary administrative penalties that vary, depending on the violated rules:

- from a minimum of two thousand five hundred Euro to a maximum of two hundred fifty thousand Euro (penalty prescribed for 1 proceeding);
- from a minimum of five thousand Euro to a maximum of five hundred thousand Euro (penalty prescribed for 4 proceedings, including the one notified only to the Bank.);
- from an amount no lower than one fourth of the value offered to a maximum amount of twice that value and, when said value cannot be determined, from a minimum amount of one hundred thousand Euro to a maximum amount of two million Euro (penalty prescribed for 1 proceeding).

At the end of June 2016, the defence briefs drawn up with the support of external legal counsel were sent to the Supervisory Authority; next, between 5 October 2016 and 2 January 2017, Consob notified the penalty proposals or, in certain limited cases, closure requests, formulated by the Administrative Penalties Office of the said Supervisory Authority and which the said Office will propose to the Commission for its deliberations. When making a decision on administrative penalties, the Commission will also take into account any additional briefs presented by the Bank, and the individual members/employees involved, within thirty days of receipt of each penalty proposal.

The penalty proposed by the Administrative Penalties Office in respect of the Bank as the **principal** (proc. 43399) is equal to Euro **470,000.00, fully accrued in the Financial Statements as at 31 December 2016.** The penalties proposed in proceedings in which the Bank is jointly and severally obligated with the obligation to withdraw are equal to a total of Euro 8,677,500.00.
Within the scope of the above-mentioned procedures, following the lodging of responses by the sanctioning parties, the Commission requested that the Administrative Penalties Office supply a supplementary report on the applicability of cumulative judgement to the violations found within the scope of the different processes initiated by Consob (to date cumulative judgement has been applied only to the various violations found within each process). The right was granted to reply to the Administrative Penalties Office's supplementary report, transmitted on 6 February 2017, within thirty days from its receipt and the Bank exercised this right, sending a reply to Consob, through its own legal counsel, on 8 March 2017.

An additional inspection was carried out by Consob from 19 January to 24 February 2016 with regard to **the capital, banking and financial dealings with Società Cattolica di Assicurazione Società Cooperativa and the assessment of the equity investment held by the Bank in Società Cattolica di Assicurazione** in the financial statements at 31 December 2014 and in the half-yearly report at 30 June 2015; to date, the outcome of the inspections carried out is not known.

Moreover, in the period between 26 April and 18 July 2016 Consob conducted an audit pertaining to the capital increase and stock exchange listing, the results of which have not yet been released.

Inspections and Penalty Assessing Proceeding by the Italian Antitrust Authority (AGCM)

On 8 March 2016, **the Italian Antitrust Authority** (hereafter, "**AGCM**" and "**Authority**") initiated proceeding PS/10363 against the Bank, pertaining to a possible violation, by the Bank, of the regulations for the protection of consumers.

In particular, according to the Authority, the Bank allegedly put in place **an improper commercial practice** in violation of Articles 20, Paragraph 2, 21, Paragraph 3-bis, 24 and 25 of Italian Legislative Decree no. 206/2005 (hereafter, "**Consumer Code**"). Said commercial practice was allegedly put in place in the period between January 2013 and April 2015 and allegedly consisted of the following conducts:

– the Bank allegedly unlawfully coerced its own customers, subordinating the issue of loans to the purchase of its own treasury shares or convertible bonds. With specific reference to "Shareholder Loans", non-shareholder consumers were allegedly coerced, in order to obtain the loans in question: (i) to purchase the minimum quantity of shares (i.e. 100) required to apply to become a shareholder and (ii) not to sell said minimum quantity of shares, under penalty of forfeiting the favourable economic conditions;
– the Bank allegedly obligated customers benefiting from a Shareholder Loan to open a shareholder current account, telling them that it was necessary to establish a new current account connected with the loan and that it was possible to benefit, in this account as well, from the advantages of the qualification as shareholder, i.e. omitting to indicate that there was in fact no obligation to open the account with the same bank that issued the loan.

In response to these findings, the Authority imposed an **administrative financial penalty**, which the **Bank has already paid and which is to be entered under other administrative expenses, equal to Euro 4.5 million**. The measure was, however, challenged before the regional administrative court of Lazio.

Ordinary inspections by the Bank of Italy

In the period between 18 and 29 July 2016, the **Bank of Italy** conducted a follow-up investigation on NEM SGR S.p.A., which concluded with a judgement of substantial adequacy and the invitation to improve certain procedural aspects and to define—without interference with the Group's scenario—the strategic plan.

Finally, audits were carried out by the **Bank of Italy** on Branches of the commercial network pertaining to anti-money laundering legislation (for eleven BPVi branches) and banking transparency rules (for five Banca Nuova branches), the results of which have not yet been issued.

UPDATE ON THE LIQUIDITY SITUATION

In 2016, the liquidity situation suffered as a result of the **reputational impacts** related to the specific situation of the BPVi Group as evidenced by the decline in direct funding (-14.4% compared to 31 December 2015), albeit at a slower pace than in 2015. The drop was concentrated in the first half of the year, especially on the deposits component, and was mainly connected to uncertainties as regards the actual implementation of the process to transform and recapitalise the Bank. After completion of the capital increase by Euro 1.5 billion in May 2016, the decline in deposits mainly concerned the institutional component.

To address the outflow of funds, in a market context that proved to be particularly volatile and that made senior unsecured medium-long term forms of funding from institutional investors inaccessible, in 2016 the BPVi Group implemented a funding strategy based mainly on **obtaining financial resources through the structuring of "collateralised" transactions** (including the extension of the loans that can be lodged with the European Central Bank with reference to Subsidiaries and to self-liquidating loans). In particular, the search for funding sources on the institutional front was carried out by structuring Repurchase Agreements (Repos) and secured financing transactions with primary market Counterparties and placing on the secondary market senior tranches of securitisations originally "retained" as collateral with the European Central Bank in view of refinancing operations with the ECB. The main funding operations and/or increases in the liquidity buffer completed in 2016 are as follows:

- completion of a **new securitisation of home mortgages** (**Berica Funding 2016** in a nominal amount of approximately Euro 1.3 billion) which allowed the conclusion of a multi-year Repo on the tranches of the new securitisation;
- extension to the Subsidiaries Banca Nuova and Farbanca of the **A.Ba.Co. procedure**, which allows the allocation of loans with the ECB. In the same period, the Bank completed the implementation of the A.Ba.Co. procedure for self-liquidating loans that allowed a marked increase in the liquidity buffers;
- **sale** of some **senior tranches of securitisations** on the secondary market, leveraging the widespread recognisability of the "Berica" Securitisation Programme among institutional investors;
- conclusion of a **securitisation** on a part of the salary-backed loans portfolio **of the Subsidiary Prestinuova**. It is a funding increase on an existing securitisation concluded in 2015;
- completion of a new private securitisation of loans to SMEs (**Piazza Venezia 2**) which, with a portfolio of a nominal value of Euro 358 million, made it possible to restructure an existing Repo transaction, with underlying junior tranches of SME securitisations. This restructuring enabled an extension of the due dates and the increase of the liquidity buffers;
- **finalisation of the tranching** of the securitisation of loans to SMEs called **Berica PMI 2** which, with an original portfolio of a nominal amount of approximately Euro 1.2 billion, made it possible to obtain a senior tranche eligible for lodging with the ECB, which increased the liquidity buffers. The junior tranche instead was refinanced through a Repo transaction with a primary market counterparty. This transaction made it possible to improve the overall liquidity position, replacing a pre-existing bridge financing transaction on the same underlying asset;
- structuring of a secured financing transaction on real estate assets on some own buildings.

With reference to the new **Targeted Longer Term Refinancing Operations (TLTRO)** announced by the Governing Council of the ECB on 5 June 2014, the Bank, consistently with its mission to support households and businesses and in line with the objectives of the European Central Bank in support of the process for the supply of banking credit to the real economy, had participated in the June 2015 auction for Euro 600 million, which were added to Euro 1.2 billion used in December 2014 (for a total amount of Euro 1.8 billion). At the end of June 2016, the BPVi Group fully repaid Euro 1.8 billion relating to the existing TLTRO, requesting the maximum usable amount of **TLTRO**

II (announced by the Governing Council of the ECB on 10 March 2016) **i.e. Euro 4.7 billion**. In addition, the BPVi Group favoured the use of the weekly Marginal Refinancing Operations with the ECB over refinancing Government Bonds on wholesale markets, to reduce execution risks and for a more efficient management of the Group's liquidity profile. At 31 December 2016, these operations amounted to a total of Euro 1.7 billion.

In line with the goal of strengthening and further increasing its buffers and improving the liquidity position of the Group, the bank structured **two new securitisations** involving Subsidiaries, with underlying non-performing loans and residential mortgage loans for individuals. It is also currently in the process of structuring a third securitisation with underlying performing loans granted to SMEs, **which will be completed within the first half of 2017.** These operations will allow additional liquidity to be attained throughout the course of 2017, both through disposals of the senior tranches on the market, and through refinancing transactions by means of Repos with market Counterparties and/or with the European Central Bank.
With reference to the securitisation of residential mortgage loans to individuals, in December 2016 BPVi and Banca Nuova sold loans to the special purpose entity Berica ABS 5 s.r.l. for a nominal value of Euro 618 million. The relative notes were issued on 1 March 2017 and fully subscribed by the Originator banks; we are currently awaiting ECB eligibility on the senior tranche (equal to approximately Euro 500 million).
As regards non-performing loans, as part of the Group's broader aim to identify a strategy to optimise the management and enhancement of the doubtful loans portfolio, it should be noted that with effect from 1 January 2017 a securitisation transaction was carried out that resulted in the transfer by BPVi, Banca Nuova and Farbanca of a total of **Euro 4.3 billion gross** in doubtful loans to a special purpose entity (**Amber SPV s.r.l**.). The notes issued by the SPV have been fully subscribed by the Originator banks and, as such, the loans shall continue to be posted to the respective individual financial statements of the Originator banks themselves and to the consolidated financial statements of the Group. This securitisation transaction **was instrumental in supporting the Group's liquidity profile through the obtaining of bridge financing**.

In addition to the above securitisation transactions, in order to improve efficiency in the use of collateral the Bank launched the set-up of the new **Covered Bond programme**.

Finally, on 23 December 2016, following the entry into force of Legislative Decree no. 237/2016 laying down urgent provisions for the protection of savings in the credit sector, **the Bank requested to be able to use the Italian State's guarantee on new bond issues**, as provided for by the above-mentioned Decree. **This guarantee was granted by the Ministry of Economy and Finance on 1 February 2017** following the opinion of the European Commission which assessed the application submitted by the Bank for access to liquidity support measures in line with the European rules on State aid.
On 3 February 2017 the Bank therefore issued a State-guaranteed bond with a nominal value of Euro 3 billion and a 0.5% coupon, maturing on 3 February 2020. This bond was then successfully placed with institutional investors for an amount equal to Euro 1.25 billion and for the remaining part (Euro 1.75 billion) used as collateral in loan transactions. The funds arising from these transactions helped to diversify the Group's funding sources.

The above-mentioned issuance guaranteed by the State enabled an improvement of the main liquidity indicators, including **the LCR-Liquidity coverage ratio indicator** which at 31 December 2016 was equal to 37.9%, down compared to the 113.3% at 30 June 2016.

In addition to the above-mentioned reduction in deposits, the end-2016 value was also affected by:

- the reduction in value of the liquidity buffer, which suffered from the depreciation of Italian Government bonds that occurred in the final part of the year;
- the expiry on 20 January 2017, of a Euro 500 million EMTN bond, which consequently increased net outflows;
- the need to postpone the above-mentioned collateralised funding initiatives planned for the end of the year in view of the uncertainty and volatility that appeared on the markets following the outcome of the referendum in Italy and the subsequent Government crisis.

By effect of the aforementioned bond issue guaranteed by the State, the LCR indicator rose to 112.8% (28 February 2017 figure) above the regulatory minimum for 2017 (equal to 90% as stipulated in the 2016 SREP decision). It should be noted, however, that in March 2017 the indicator deteriorated as a result of the significant outflow of commercial funding as a result of the bail-in fears related to uncertainties on the recapitalisation process. The decline has particularly affected the large corporate segment, which by its nature is a volatile in terms of funding, and, to a lesser extent, the private segment. Against this background, on 23 March 2017 the Board of Directors decided to proceed with the request to the Bank of Italy and the Ministry of Economy and Finance for a further issue of State-Guaranteed bonds pursuant to Legislative Decree 237/2016 up to a maximum of Euro 2.2 billion with a duration of 3 years.

BUSINESS PLAN AND FUTURE STRATEGIC DEVELOPMENTS

In 2016, the first half in particular, the following strategic actions were implemented:

- **transformation of the Bank into a company limited by shares and completion of the capital increase by Euro 1.5 billion**, in which the Atlante Fund was involved, taking over from Unicredit in guaranteeing the subscription of the shares that were not placed within the scope of the Global Offer. The subscription of the entire capital increase by the Atlante Fund took place following the acknowledgement, by Borsa Italiana, that the results of the Global Offer were not sufficient to allow the trading of the shares to start.
- **new customer service model**, with the launch, starting from 1 January 2016, of the new Commercial Network Model, which saw the establishment of two commercial chains, one dedicated to local communities (**Community Banking**), serving households and small businesses, and the other focused on corporate, SME and private customers (**Corporate & Private Banking**), organised to provide high quality services to enterprises and entrepreneurs;
- **streamlining of the territorial presence** of the BPVi Group with the closing of **80 branches** (in addition to the 75 closed in 2015) and five or six Representative Offices located abroad.
- **start of the process to strengthen the credit machine**, with the entry into force of the new organisational model of the Loan Division, aimed at ensuring a specific focus in terms of the granting of credit and of lending policies, through: (i) a new loan issue process, specialised by customer segment (Community Banking vs Private & Corporate), (ii) the "active" management of non-performing loans from the very first signs of anomaly, and (iii) the specialisation in the management of anomalous loans at different stages of impairment.

The programme to **strengthen the qualitative and quantitative Control Functions** also continued.

In the context of the restructuring process under way, and in the light of changes in the Bank's specific situation, characterised by a progressive weakening of its financial and economic position connected, in particular, to the reputational crisis and consequent substantial reduction in volumes traded, the new Board of Directors, since its establishment, has begun activities to define a new

Business Plan as part of which it has looked into various options, including aggregation with other banks. In February 2017, the Board of Directors approved **the new 2017-2021 Business Plan, which includes, in terms of restructuring conditions, the merger with the Veneto Banca Group (controlled by the Atlante Fund with a 97.6% share) and a further capital strengthening operation**.
The new Business Plan, which has already been submitted to the Supervisory Authorities, is based on three main pillars: (i) a reduction in the risk profile, with particular reference to credit risk and legal risk (mainly connected to litigation with shareholders), (ii) the recovery of operational efficiency and (iii) the development of commercial activities, to be achieved mainly through the recovery of customer/shareholder trust and the promotion of greater customer access to the Bank through a strengthening of multi-channel services.

With specific reference to capital strengthening actions in terms of how to raise the capital required to implement the above-mentioned recapitalisation, and **in the absence of a clear expression of willingness by the controlling shareholder to provide further capital support**, the Bank informed the Ministry of Economy and Finance, the Bank of Italy and the ECB of its intention to make use of temporary and exceptional financial support by the Italian State ("**precautionary recapitalisation**"), within the meaning of Legislative Decree 237/2016 as converted, with amendments, into Law no. 15 on 17 February 2017. This intervention is regarded as the most realistic recapitalisation option since market operations are seemingly not advisable. At the same time, the carrying out of a Liability Management exercise (e.g. voluntary conversion of subordinated bonds to capital) appears to be particularly complex and uncertain. It should be pointed out, however, that **precautionary recapitalisation by the State is a drawn-out and complex process** that requires the prior decision of the Directorate General for Competition (**DG Comp**) of the European Commission on the compatibility of the transaction with State aid rules on the matter, the results of which are uncertain.

COMPLAINTS ON BPVI SHARES AND SETTLEMENT OFFERS TOWARDS BPVI SHAREHOLDERS

In 2016, there was **an increase in the number of complaints, mediations and cases** initiated by customers and **pertaining to transactions involving shares of the Bank** (excluding those relating to the correlated capital), which rose to 11,246 at 31 December 2016, from 2,919 at 31 December 2015 (the amount claimed was Euro 629 million at 31 December 2016[7], from Euro 243 million at 31 December 2015). This phenomenon required the recognition of additional allocations to the provisions for risks and charges, i.e. Euro 110.6 million, bringing to the total provisions for these cases to Euro 244 million at 31 December 2016 (Euro 136.4 million at 31 December 2015).

As is well known, the new Board of Directors—with its resolution of 9 January 2017—established the launch, with effect from 10 January 2017, of a mass resolution initiative (the **Settlement Offer** or **Offer**) with which the Bank offered to the majority of its shareholder base (individuals, sole proprietorships, partnerships, non-profit bodies and ONLUS (social utility non-profit organisations, etc.), by way of settlement, and without this inferring, even implicitly, any

[7] In the second half of 2016, the Bank launched a process to refine the methodology for the assessment of complaints and mediations in view of the experience gained in the examination of complaints received and the information now available. Following this analysis, a new methodology was established for the calculation of the *petitum* that has allowed a "new base" (the New Petitum) to be established for estimating the provisions for risks and charges. Taking into account a closer assessment of litigation risk, the New Petitum is determined based on the risks underlying the different types of BPVi share purchase/subscription transactions in a specific time period, in accordance nevertheless with the principles of prudence and reasonableness on which methods and processes which could have an impact on the extent of balance sheet and income statement items must be based. The comparison between the petitum at 31 December 2015 and that at 31 December 2016 is therefore not accurate.

recognition of liability on its part, **a predetermined, flat-rate fixed and all-encompassing indemnity, equal to Euro 9** for each BPVi share purchased or subscribed, respectively, by or with a Banca Popolare di Vicenza Group Bank in the period between 1 January 2007 and 31 December 2016, net of sales and certain other operations described in the Settlement Offer Regulations.

Upon payment of the indemnity, **the shareholder relinquishes the right to take action against the Bank, or other companies in the BPVi Group, or their current or past directors, statutory auditors or employees**, for any reason or cause, in both civil and criminal matters, in relation to all transactions for the purchase or subscription of BPVi shares (or subscription of bonds convertible into BPVi shares issued by the Bank, or their conversion into BPVi shares) carried out over time by the shareholder, or the omitted sale thereof.

Acceptance of the Offer allows for **the time and cost involved in potential judgements to be avoided**, by subscribing to a suitable settlement agreement between shareholder and Bank which provides for the payment of an indemnity irrespective of the determination or recognition of liability. The payment of the indemnity is conditional on the Offer **being accepted for at least 80% of the BPVi shares included in its scope.** This condition precedent is established in favour of the Bank, which **may decide to waive it** and proceed, therefore, to the payment of the indemnity even if the threshold indicated above has not been reached.

Acceptance of the Offer through the subscription of the appropriate settlement with the Bank, and the payment of the indemnity, is expected to occur according to the following timetable: *i*) expression of interest in the Offer (not binding for the shareholder), communication of the indemnity payable to the shareholder: from 10 January 2017 to 15 March 2017; *ii*) subscription of the appropriate settlement with the Bank: from 10 January 2017 to 22 March 2017[8]; *iii*) checks by the Bank and notification of the outcome of the Settlement Offer (i.e. communication by the Bank of the fulfilment of the condition precedent indicated above, or of its waiver by the Bank: in the month of April 2017; payment of the indemnity: within five working days of the communication, by the Bank, of the fulfilment of the above-mentioned condition precedent, or a waiver thereof.) **Acceptance of the Settlement Offer has no effect on BPVi Shares, which remain under the ownership and availability of the shareholder**.

In the event that the Settlement Offer is successful, participants may also benefit from the commercial proposal envisaged by Settlement Offer Regulations, under the terms indicated therein.
In view of the increasing number of participations registered in the days preceding the deadline initially provided for the Offer and in order to facilitate the flow of shareholders in the branches, the Bank has decided to **extend the deadline for accepting the Offer to 1:30 pm on 28 March 2017** (which has made it necessary to re-establish certain other terms of the Offer, as provided for by the relevant Regulations).

As at 28 March 2017, the preliminary results of the Settlement Offer, which must be verified and certified over the next few days (following which the relevant assessments, decisions and communications will take place, as provided for by the Offer Regulations, for any consequent obligations), indicate that **66,712 shareholders have participated (71.9% of the total), representing 68.7% of the shares included in the scope of the Offer.**
Net of untraceable positions and those already the object of specific analysis, the percentage of participating shareholders is 72.9%, corresponding to 70.3% of BPVi shares included in the scope of the Settlement Offer.

[8] Subsequently extended to 1:30 pm on 28 March 2017.

In parallel with the Settlement Offer described above, the Bank has also launched **an initiative for shareholders affected by the so-called non-compliance of the chronological order of sale**—identified as a result of investigations conducted both by Consob, and by the Bank's competent facility—to whom a predetermined and fixed indemnity will be offered for each BPVi share subject to the sell order which was not executed but which theoretically could have been if the Bank, in managing it, had followed the chronological order. The indemnity will be awarded regardless of how many of the target shareholders accept this specific proposal; in contrast to the broader Settlement Offer, for this initiative there is no minimum acceptance threshold and, accordingly, no condition precedent.

Furthermore, the Bank decided to set up a fund for a total of **Euro 30 million** in support of **shareholders facing adverse conditions (Welfare Initiative).**
This initiative is based on an awareness that certain BPVi investor shareholders are involved with situations of impoverishment and serious social unrest, as well as a strong desire to rebuild a relationship of trust between the Bank and its investor members.
The Fund is reserved exclusively to shareholders who:
- are individuals, sole proprietorships or partnerships facing conditions of hardship and addressees of the Settlement Offer (mentioned above);
- have purchased or subscribed BPVi shares in the period between 1 January 2007 and 31 December 2016;
- have an "Ordinary" ISEE (equivalent economic status indicator), relating to the family unit and for which a valid certificate exists, equal to or less than Euro 13,000.

It is not necessary to have subscribed to the Settlement Offer in order to subscribe to the Welfare initiative. In the event that the shareholder participates in both initiatives, (i) the indemnity provided in the context of the Welfare Initiative will be added to that paid in the context of the Settlement Offer, within the limits set forth in the Welfare Initiative Regulations, (ii) it is not necessary to sign the settlement agreement provided for the Welfare Initiative and the person concerned must simply sign a declaration of participation in the Welfare Initiative.

BPVi shares that contribute to the determination of the indemnity provided by the Welfare Initiative—valued at Euro 62.50—are identified in accordance with criteria similar to those established for the Settlement Offer. The amount of the indemnity actually awarded is parameterised according to the amount of the Ordinary ISEE (see, in this regard, the Welfare Initiative Regulations, available on the Bank's website).

The Welfare indemnity may not be greater than Euro 20,000 and will be awarded against subscription of a settlement agreement with the Bank (or a participation declaration in the event that the shareholder is also participating in the Settlement Offer), by means of which the shareholder relinquishes the right to take action against the Bank, or other companies in the BPVi Group, or their current or past directors, statutory auditors or employees, for any reason or cause, in both civil and criminal matters, in relation to all transactions for the purchase or subscription of BPVi Shares (or subscription of bonds convertible into BPVi Shares issued by the Bank, or their conversion into BPVi Shares) carried out over time by the shareholder, or the omitted sale thereof.

The sum of the indemnity granted within the Welfare Initiative and the indemnity granted within the Settlement Offer (in the event that the shareholder participates in both initiatives), will not in any case exceed 90% of the exchange value of the shares included in the scope of the Welfare Initiative, valued at Euro 62.50 each.

In the event that the fund allocated by the Bank for the purposes of the Welfare Initiative is not sufficient (Euro 30 million) in respect of the calculation and disbursement criteria laid down by the Welfare Initiative Regulations, there will be a **(downward) revaluation of the sums payable** by way of Welfare indemnity to an extent equal to the ratio between Euro 30 million and the total amount resulting from the calculation process referred to in the preceding subparagraphs.

Acceptance of the Welfare Initiative has no effect on BPVi Shares, which remain under the ownership and availability of the shareholder.
The launch of the Welfare Initiative and, therefore, the payment of the indemnity provided for therein, is conditional upon the positive outcome of the Settlement Offer. It is, therefore, conditional on the Settlement Offer becoming effective as provided for by the Settlement Offer Regulations (see paragraph 5 of the Welfare Initiative Regulations and section 5 of the Settlement Offer Regulations).

The costs related to the outcome of the above-mentioned settlement initiatives with BPVi shareholders are covered by specific provisions to risks and charges and have resulted in the integration of the amount already provisioned against complaints and disputes on BPVi shares in the amount of Euro 180 million.

LIABILITY ACTION AGAINST FORMER DIRECTORS, FORMER MEMBERS OF THE GENERAL MANAGEMENT AND FORMER STATUTORY AUDITORS

On 13 December 2016, the Banca Popolare di Vicenza shareholders' meeting ("*Meeting*") decided to **bring the liability action** within the meaning of Articles 2392, 2393, 2396, 2407 of the Italian Civil Code - as well as any other appropriate initiative (even through compensation or recourse, including any appropriate preventive or revocation action) - **in respect of former members of the general management** (including, in addition to former general managers, former vice-general managers), **former directors, both executive and non-executive** (including the Chairman of the **Board of Directors), as well as** former statutory auditors, in office during any period until May 2015, with the aim of securing compensation for any damage, whether financial or non-financial (including reputational damage), suffered and being suffered:

- as a result of a breach, by the above-mentioned representatives, in the period in which they held their respective offices, of the obligations and regulations governing the rules of conduct, including those of a regulatory nature, with which they must comply;
- that the Bank may suffer or have suffered, by effect of or as a result of anomalies, breaches, unlawfulness and/or irregularities relating to the process of negotiation of BPVi shares, including the costs incurred by the Bank in order to conclude transactions with its shareholders in relation to the foregoing.

Taking into account the explanatory report of the Board of Directors, the latter has also been authorised by the Meeting to proceed - including, if necessary, through independent reviews - with the gradual extension of the scope of the liability action with reference to further facts or aspects that could emerge as a result of the checks underway, which involve one or more of the subjects referred to in the points above, as well as in respect of the auditors KPMG S.p.A. - and the natural persons responsible for audits - pursuant to and by effect of article 15 of Legislative Decree 39/2010 as subsequently amended.

Following the conclusion of the internal investigations concerning the liability action against former Directors, Statutory Auditors and members of General Management, in the session of 28

March 2017 the Board of Directors approved the proposed petition, which is expected to be filed for notification in the coming days.

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THE EXERCISE OF THE RIGHT TO WITHDRAW FROM THE BANCASSURANCE PARTNERSHIP BY CATTOLICA ASSICURAZIONI

On 4 August 2016, **Cattolica Assicurazioni informed BPVI of the unilateral exercise of the right to withdraw from the partnership agreements** stipulated in 2007 and subsequently renewed in 2010 and in 2012, by effect of the transformation of the legal form of the Bank from cooperative to company limited by shares, resolved by the Meeting of the Bank's Shareholders on 5 March 2016.
With reference to the decision by Cattolica, as well as on the basis of authoritative opinions received, the Bank deemed that there were compelling reasons to rule out that, in the case at hand, the requirements for legitimately exercising the right of withdrawal had in fact been met. With its letter sent on 24 August 2016, the Bank therefore informed Cattolica Assicurazioni that it challenged the legitimacy of its exercise of the right of withdrawal, inviting it to start immediate discussions between the parties including on other aspects of the aforementioned agreements.
Purely by way of information, it should be recalled that the exercise of the right of withdrawal, were it to be deemed legitimate (which, in this case, is ruled out), would take full effect at the expiration of the sixth month following the receipt by BPVI of the related notice from Cattolica (which took place on 4 August 2016)—in February 2017, therefore—entailing, in accordance with the aforementioned agreements, the following main effects:

- the immediate termination, at the date of notification of the withdrawal, of all the representations and safeguards of BPVI in the management and in the corporate structure of Cattolica and BPVI's commitment to provide, at all corporate levels, including the shareholders' meeting, its consent to the elimination or amendment of any and all clause of the articles of association of Cattolica, deriving from the ceased agreement, when deemed appropriate by Cattolica at its discretion;
- the immediate termination of the lock-up commitment on 4,120,976 Cattolica shares owned by BPVI - in this respect it should be noted that Cattolica, with the press release of 10 February 2017, confirmed the termination of the above-mentioned obligation;
- the effectiveness of specific commitments by BPVI, following the termination of the partnership, in relation to the disposal of all or part of the related shareholding in Cattolica, provided it is greater than 3% of its capital. BPVI shall be obligated, *inter alia*, in case of disposals on the market of the blocks as well, to adopt procedures that do not entail a significant negative impact for the price of Cattolica shares.

In addition, if the withdrawal right were to be exercised legitimately (which, as pointed out, BPVI challenged), the agreements would provide the determination and the settlement, at the effective date of termination of the partnership, of bonus and penalty schemes conventionally prescribed in relation to the performance of Berica Vita S.p.A., Cattolica Life DAC, and ABC Assicura S.p.A., as well as Cattolica's right, to be exercised no later than 60 business days from the effective date of the withdrawal (i.e. from the expiration of the sixth month following receipt of the related communication by BPVI), to sell (and the BPVI's converse right-obligation to buy) the 60% shares in Berica Vita S.p.A., Cattolica Life DAC and ABC Assicura S.p.A. Lastly, if the aforesaid right to sell is exercised by Cattolica, and otherwise if it is not exercised at its expiration date, then all the agreements, including commercial ones, pertaining to the partnership, will cease. It should be noted that, as it stands, Cattolica Assicurazioni has not notified any decision regarding the rights described above with the exception of the termination of the lock-up commitment and that preliminary discussions have begun between the parties in order to assess the possibility of redefining new agreements that are financially and legally balanced.

Without prejudice to the foregoing and irrespective of it, and without BPVi recognising in any way the right to withdraw invoked by Cattolica Assicurazioni and the other provisions associated therewith, the Bank deemed that, in light of Cattolica's intention and with the approach, *inter alia*, of the first contractually prescribed expiration of the arrangements, the conditions to proceed with a comprehensive revision of the economic and financial representation of the partnership already existed in the consolidated and individual half-year report at 30 June 2016.

In particular, in the consolidated report at 30 June 2016 the Bank decided to:

1. use fair value to determine the recoverable amount of the investment held in Cattolica, within the scope of the impairment test under IAS 36 and therefore recording a write-down of the latter of approximately Euro 230 million in the consolidated income statement and of approximately Euro 220 million at the individual level, although the associate continued to be recorded as "Equity investment", in accordance with the provisions of IAS 28;
2. account for the potential risk connected with the settlement, at the effective date of the withdrawal - should it be deemed legitimately exercised - of the bonus and penalty schemes conventionally provided in relation to the performance of Berica Vita S.p.A., Cattolica Life DAC, ABC Assicura S.p.A., whose total amount is estimated to be approximately Euro 4.3 million in penalties;
3. recognise, without prejudice to the above and taking into account the risk elements and the potential costs associated with the exercise, should it be legitimate, of the aforesaid right to sell the shares held by Cattolica in Berica Vita S.p.A., Cattolica Life DAC and ABC Assicura S.p.A., a capital loss of approximately Euro 81 million (corresponding to the differential between the theoretical maximum price of the aforesaid right to sell and the pro-rata corresponding embedded value of Cattolica in Berica S.p.A., Cattolica Life DAC, without taking into account the effects relating to the future profitability of the new production by effect of the possible termination of the partnership, and equity of ABC Assicura S.p.A.), inasmuch as these aspects pertain to dealings of a contractual origin which, for accounting purposes and regardless of the aforementioned challenges and of any consideration of a legal nature with regard to their validity, are deemed similar to derivative financial instruments and to which IAS 39 (Financial Instruments: Recognition and Measurement) applies and not IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) and, at the same time, deducting from Own Funds the full price for the exercise of this right.

Subsequently, in the face of the resignation, formalised on 24 October 2016, of Anna Tosolini, manager of the Bank, from the office of member of the Board of Directors of Cattolica, and considering then that significant influence by BPVI over Cattolica no longer exists (see para. 9 of IAS 28), it was considered necessary to proceed, on the same date, as described below:

1. recording of the equity interest held in Cattolica Assicurazioni under the heading "Financial assets available for sale" for a total value of approximately Euro 146 million (both individually and at consolidated level);
2. write-off of the equity interest held in Cattolica from the item "Equity investments" for approximately Euro 153 million and recognition of a loss in the income statement equal to approximately Euro 7 million at consolidated level and write-off of the equity interest held in Cattolica from the item "Equity investments" for approximately Euro 148 million and recognition of a loss in the income statement equal to approximately Euro 1 million at individual level;
3. reclassification to the income statement item "Profit (loss) from equity investments" of "valuation reserves" relating to the former investee recognised in the consolidated net equity at the date of reclassification, equal to approximately Euro 15 million, in accordance with the estimates of para. 22 c) of IAS 28 (at consolidated level).

On 31 December 2016, the equity interest held in Cattolica Assicurazioni was valued at a total value of approximately Euro 146 million, with the difference compared to the original value of the

recognition being entered under the heading “valuation reserves” in an amount equal to approximately Euro 239 thousand, at both consolidated and individual level.
Overall, in 2016, the accounting treatment of the shareholding in Cattolica resulted in:

1. an income statement write-down equal to approximately Euro 222 million at the consolidated level (reduction of the value of the equity investment at 30 June 2016 in the amount of approximately Euro 230 million, recognition of a loss in the income statement equal to approximately Euro 7 million at 24 October 2016, “profit from equity investments” relating to the former investee recognised in consolidated net equity at the date of reclassification in the amount of approximately Euro 15 million); an income statement write-down equal to approximately Euro 221 million at the individual level (reduction of the value of the equity investment at 30 June 2016 in the amount of approximately Euro 220 million and recognition of a loss in the income statement equal to approximately Euro 1 million at 24 October 2016);
2. recording of the equity interest held in Cattolica Assicurazioni under the heading “Financial assets available for sale” at 31 December 2016 for a total value of approximately Euro 146 million (both individually and at consolidated level);
3. the item “valuation reserves” relating to the former investee recognised in consolidated net equity equal to approximately Euro 239 thousand (at both consolidated and individual level);
4. accounting of potential risk connected to the adjustment of the bonus and penalty mechanisms, the total amount of which is estimated at approximately Euro 6.2 million in penalties (at both consolidated and individual level);
5. confirmation of the assessment at 30 June 2016 of the risk and the potential costs associated with the eventual exercise, should it be legitimate, of the aforesaid right to sell the shares held by Cattolica in Berica Vita S.p.A., Cattolica Life DAC and ABC Assicura S.p.A..

OTHER CHANGES IN THE INVESTMENT SEGMENT

Some of the major changes that have affected the investment segment in 2016, include

- the full subscription by the Parent Company, on 24 June 2016, of a capital increase of Euro 50 million issued by the subsidiary **Banca Nuova S.p.A.**, a process that was made necessary both in order to bring the subsidiary’s capital adequacy ratios to a balanced level and to allow, in a prospective view, the attainment of capital levels that widely exceed the regulatory limits;
- the payment, on 27 December 2016, of a capital contribution in the amount of Euro 35 million in favour of the subsidiary **BPV Finance (International) Plc** to allow the subsidiary’s winding-up to commence without debt.

As regards, instead, the former associate (now 99.97%-owned) **San Marco S.r.l.,** in the course of the financial year it proceeded to carry out two distinct recapitalisation operations, the first of which, carried out in March 2016, saw the subscription of an amount of approximately Euro 11.0 million, between nominal value and share premium, of the new share capital issued by the subsidiary through the conversion into equity of a portion of the receivables due to the Bank by San Marco S.r.l., while the second, carried out at the end of December 2016 saw the performing by the Bank of a payment in cash for the pertinent share of approximately Euro 1.3 million.
It should also be pointed out that starting from 1 January 2016, within the scope of the initiatives to streamline the BPVI Group, the merger by absorption of the **former Monforte 19 S.r.l.** took effect; until 31 December 2015, this real estate company belonged to the Banca Popolare di Vicenza Group of companies, but not to the Banking Group, and it managed several prime properties for business use by the Group, as well as properties not for business use; it was merged by absorption into **Immobiliare Stampa S.c.p.a.**, a real estate company of the Banking Group, whose book value saw an increase of the investment by Euro 13.7 million, amount corresponding to the concurrent zeroing of the book value previously attributed to the absorbed company Monforte 19 S.r.l.

Finally, in the month of December, in relation to the conclusion of the Agreement supplementing and amending the preliminary agreement to sell the controlling interest sold at the end of 2015 by the shareholding banks in **Istituto Centrale delle Banche Popolari Italiane S.p.A.** to Mercury Italy S.r.l., BPVI collected from the buyer, for the attributable portion, the sale price component connected to the quantification of an earn-out and amounting to Euro 18.4 million.

BANCA POPOLARE DI VICENZA'S RATINGS

The Parent Bank Banca Popolare di Vicenza is assigned a counterparty rating by the agencies DBRS and Fitch Ratings. The following table shows the latest rating assigned to the Bank by the aforementioned agencies.

Rating agency	Long term rating	Short term rating	Outlook	Date
DBRS	B (high)	R-4	UR-Neg	24/03/2017
Fitch Ratings	CCC	C	RWE	17/03/2017

UR-Neg: Under Review for Negative Implications
RWE: Rating Watch Evolving

On 24 March 2017, the rating agency **DBRS** kept Banca Popolare di Vicenza's ratings at the current level, placing them under observation with negative implications (UR-Neg). Currently the long and short-term ratings are respectively equal to B (high) and R-4. The rating of the bond guaranteed by the State was confirmed at BBB (high) with stable outlook. The subordinated debt is not subject to rating by DBRS.
The revision of the rating reflects the increased risk for the holders of senior rated BPVi bonds, due to the increased uncertainty about the Bank's financial position. DBRS emphasises how access to precautionary recapitalisation by the State, as provided for by Legislative Decree 237/2016 converted into Law no. 15 on 17 February 2017, could improve the risk profile of the BPVi Group and enable the merger with the Veneto Banca Group. Currently, however, it is not yet clear whether BPVi meets the conditions for access to state intervention. In addition, other aspects such as the methods and timing for this recapitalisation still remain uncertain. As a first step, DBRS expects the ECB to assess whether the bank is solvent and determine the amount of the capital shortage. Subsequently the European Commission will have to decide whether public intervention is in line with EU regulations in terms of State aid. According to DBRS, a precautionary recapitalisation should reduce the risk of bail-in for holders of senior rated BPVi bonds, even if the holders of subordinated bonds (bonds not subject to rating by DBRS) should be subjected to a forced conversion, in compliance with the rules of the European Union on so-called "burden sharing".
During the observation period, DBRS will evaluate the final result of the Settlement Offer, the results of financial year 2016, developments in the BPVi recapitalisation process, as well as any potential negative implications for the business and the liquidity of a bank linked to current uncertainty. As part of the audit process, DBRS will also monitor any further development in the planned merger with Veneto Banca.

On 17 March 2017, the rating agency **Fitch** amended Banca Popolare di Vicenza's rating, changing the long-term rating from "B-" to "CCC" and the short-term from "B" to "C". At the same time, the Viability Rating was changed from "b-" to "cc". The ratings of the subordinated debt the state-guaranteed bond were confirmed respectively at "CC" and "BBB+". The downgrading of the Viability Rating is due to the fact that Fitch considers it likely that the Bank requires a new recapitalisation to cope with a capital shortage, judged to be 'Material'. The downward revision of the long-term rating reflects the view of Fitch regarding the possibility that senior bonds would need to absorb capital losses in the event that the bank is not able to gain access to the precautionary recapitalisation and that the conversion of the subordinated bonds is not sufficient to cover the bank's capital shortage. The outlook of the rating in the long and short term was placed in Rating Watch Evolving (RWE) and reflects the possibility, on the one hand, of a further downgrade in the event that Fitch considers that senior bonds could absorb losses resulting from the capital shortage and, on the other hand, a possible upward revision in the event that the senior bonds do not suffer any capital loss and that the Bank succeeds in achieving a precautionary recapitalisation.

For more information about the aforementioned rating actions, reference should be made to the reports published by the respective rating agencies on their websites.

UPDATE ON OTHER SIGNIFICANT PROCEEDINGS

Criminal judicial proceedings

Criminal proceeding commenced by the Public Prosecutor at the Court of Palermo

Within the criminal proceeding R.G.N.R. 20909/12, on 6 July 2016, the fifth section of the Court of Palermo acquitted Prof. Marino Breganze and Mr Rodolfo Pezzotti "because the fact is not a crime". The criminal proceeding had been initiated by the Prosecutor's Office with the Court of Palermo, for the offences under Articles 40 and 644 I and V Paragraph no. 1 of the Italian Criminal Code (causality relationship and usury), against Prof. Breganze, in his capacity as Chairman and legal representative of the subsidiary Banca Nuova, as a participant together with others, including Mr Rodolfo Pezzotti in his capacity as Head of the Commercial Area of Banca Nuova at the time of the alleged facts.

Criminal proceeding initiated by the Prosecutor's Office with the Court of Vicenza, for the administrative offence depending on criminal offence prescribed and punished by Articles 21, first paragraph, and 25-ter, first paragraph, letters r) and s) of Legislative Decree no. 231 of 8 June 2001

On 22 September 2015, the Bank was served a search and concurrent seizure order - in accordance with Articles 247 et seq. of the Italian Code of Criminal Procedure - issued by the Prosecutor, Mr Luigi Salvadori, Deputy Prosecutor with the Court of Vicenza. Within this criminal proceeding, the Bank is under investigation for the administrative offence dependent on a criminal offence prescribed and punished by Articles 21, Par. I, and 25-ter, Par. I, Letters R) and S), Italian Legislative Decree no. 231 of 8 June 2001, for the offences per Articles 81, Par. II (formal conspiracy - protracted offence), and 110 of the Italian Criminal Code (Penalty for those who take part in the offence), 2637 of the Italian Civil Code (market manipulation) and 2638 of the Italian Civil Code (obstruction of public supervisory authorities in the exercise of their duties) with reference to which, an investigation is currently underway involving former Chairman Cav. Lav. Giovanni Zonin, former Directors Giuseppe Zigliotto and Giovanna Maria Dossena and the former General Manager, Samuele Sorato, and the former Deputy General Managers Emanuele Giustini and Andrea Piazzetta within the criminal proceeding No. 5628/15 R.G.N.R. – Mod. 21. At present, the proceeding is in the preliminary investigation stage and a request for the extension of its terms has been filed by the Prosecutors; it was notified to the Bank on 13 July 2016. On 22 July 2016, the Bank was also informed that the same criminal proceeding involves the former Directors Messrs.

Roberto Zuccato and Franco Miranda as well as the Head of the Budget and Planning Division and Financial Reporting Manager Mr. Massimiliano Pellegrini. It is pointed out that the Bank, therefore, is exposed to the risk of being subjected to the penalties prescribed by Legislative Decree no. 231 of 8 June 2001, which to date are not quantifiable.

Investigations by the Prosecutor's Office at the Court of Prato

The Bank is also aware of a pending criminal proceeding, currently in the preliminary investigation phase, initiated by the Prosecutor's Office at the Court of Prato in relation to Articles 629 ("Extortion") and 110 ("Penalty for those who take part in the offence") of the Italian Criminal Code against its own representatives and former representatives.

The criminal proceedings in question have been transmitted, for reasons of territorial jurisdiction, to the Public Prosecutor's office at the Court of Vicenza.

Civil judicial proceedings

There are many legal proceedings (which may include disputes of a commercial nature) pending against the Bank, mainly involving disputes initiated by customers for the alleged breach of contractual obligations or otherwise related to the provision of the services offered by the BPVi Group. The main types of disputes (other than labour law or fiscal disputes or those relating to debt recovery) relate to bankruptcy claims, compound interest measures and actions relating to the investment services provided, typical in the performance of banking activities; and also, in large part, to the so-called 'financed capital' phenomenon as well as transactions in BPVi shares.

In relation to these proceedings, where it is possible to reliably estimate the magnitude of loss and this loss is considered probable, provisions are made in the amount considered reasonable under the circumstances and in accordance with international accounting standards (IAS); if, instead, there is considerable uncertainty about the possible outcome of the procedures and the extent of any loss, for as long as it is not possible to predict the outcomes and to estimate the possible losses (if any) in a reliable manner, provisions are not made.

To safeguard against liabilities and costs that could result from the pending court proceedings (other than those relating to labour law, fiscal disputes or debt recovery), the BPVi Group has carried out the necessary allocations, when considered appropriate, to the provision for risks and charges. The estimation of the above-mentioned obligations that may reasonably arise and the size of the aforesaid provision are based on the information currently available, but also entail, due to the numerous uncertainties arising from legal proceedings, significant elements of judgement. It is not always possible to produce a reliable estimate (for example when the process has not yet been started or when there are legal and factual uncertainties such as to render any estimation unreliable). It may therefore happen that the possible provision may prove to be insufficient to fully cover the charges, expenses and claims for compensation related to pending cases and that therefore the actual costs of the pending proceedings may prove to be significantly higher. It can therefore not be ruled out that an unfavourable outcome of these proceedings might have a significant negative effect on the results of the BPVi Group and/or its financial situation.

With specific regard to compound and ultra-legal interest cases in 2016, claims for compensation increased slightly compared to 2015. On the whole, the risks deriving therefrom are safeguarded by specific provisions which at present, on the basis of the information available, are deemed to be appropriate.

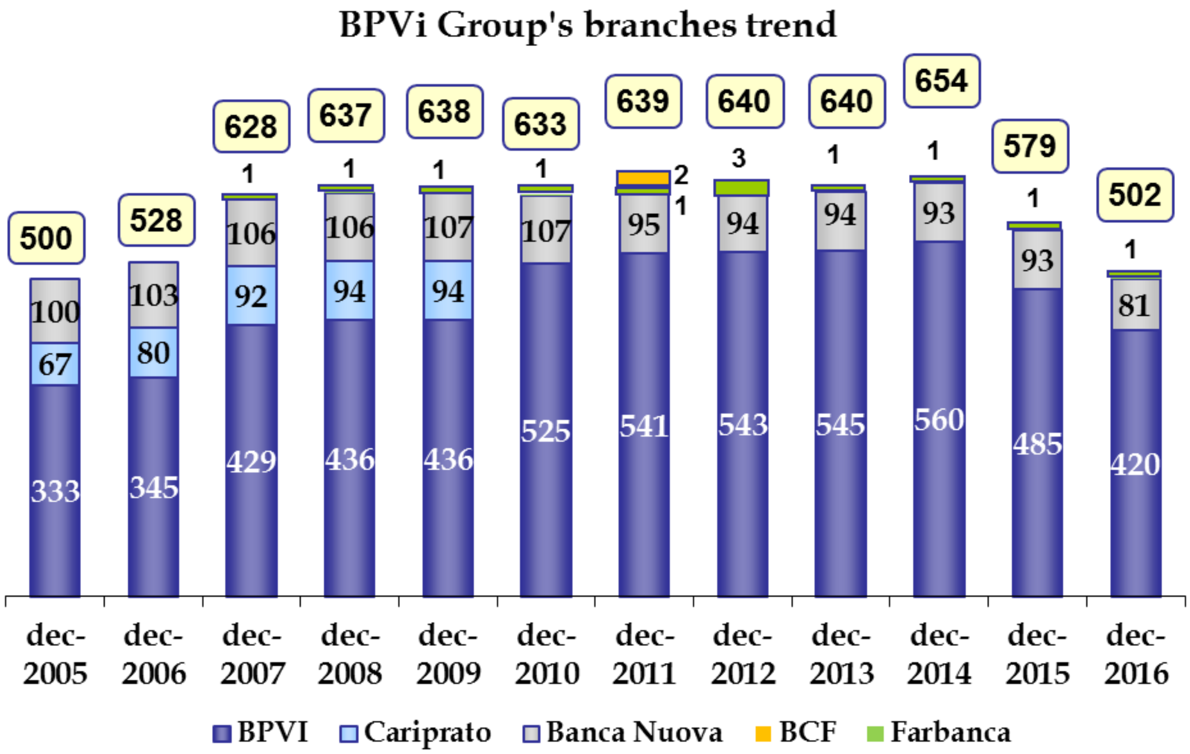
THE OPERATIONAL STRUCTURE OF THE BPVI GROUP

TERRITORIAL PRESENCE OF THE BANCA POPOLARE DI VICENZA GROUP

This section of the Report on Operations provides information about the **territorial presence and positioning of the Sales Network** and the **changes in employment by the BPVi Group**.

Traditional distribution channels

At 31 December 2016, **the BPVi Group's network consisted of 502 branches**, situated in **16 regions and 68 provinces throughout Italy**, accounting for **1.7%** of the national total.



In 2016, **the streamlining and optimisation of the sales network of the BPVi Group continued**; it was launched in the second half of 2015, **which saw the closing of 80 additional branches** (after the 75 already closed in 2015), 65 of which belonging to the Parent Bank and 15 to Banca Nuova. **During the year**, of note was also **the opening of a branch in Catania** and the inclusion among the branches of the BPVi Group of **two Banca Nuova treasuries** located in Sicily, as prescribed recently by the Bank of Italy for the entire Italian Banking System.
The geographical distribution (regions and main provinces) of the BPVi Group's branches is shown below; it confirms **the deep roots in the original region of Veneto (38.2% of branches) and throughout the Northeast (51.8% of branches), one of the wealthiest, most productive areas of Italy**.

BPVi Group's branches geographical distribution	31/12/2016	% Comp. Dec' 2016	31/12/2015	Abs. Chg.
Veneto	**192**	**38.2%**	**221**	**-29**
o/w Vicenza	76	15.1%	83	-7
o/w Treviso	32	6.4%	38	-6
o/w Padova	24	4.8%	28	-4
o/w Verona	22	4.4%	27	-5
o/w Venezia	20	4.0%	25	-5
Friuli Venezia Giulia	**49**	**9.8%**	**57**	**-8**
o/w Udine	28	5.6%	31	-3
o/w Pordenone	10	2.0%	13	-3
Emilia Romagna	**17**	**3.4%**	**17**	**0**
Trentino Alto Adige	**2**	**0.4%**	**2**	**0**
NORTH -EAST ITALY	**260**	**51.8%**	**297**	**-37**
Lombardia	**67**	**13.3%**	**75**	**-8**
o/w Brescia	26	5.2%	30	-4
o/w Bergamo	18	3.6%	20	-2
o/w Milano	8	1.6%	9	-1
Liguria	**5**	**1.0%**	**5**	**0**
Piemonte	**2**	**0.4%**	**3**	**-1**
NORTH-WEST ITALY	**74**	**14.7%**	**83**	**-9**
Toscana	**61**	**12.2%**	**75**	**-14**
o/w Prato	25	5.0%	27	-2
o/w Firenze	11	2.2%	15	-4
o/w Pistoia	4	0.8%	7	-3
Marche	**1**	**0.2%**	**1**	**0**
Umbria	**2**	**0.4%**	**2**	**0**
Lazio	**20**	**4.0%**	**25**	**-5**
o/w Roma	17	3.4%	22	-5
CENTRAL ITALY	**84**	**16.7%**	**103**	**-19**
Abruzzo	**1**	**0.2%**	**1**	**0**
Puglia	**2**	**0.4%**	**2**	**0**
Campania	**1**	**0.2%**	**1**	**0**
Sicilia	**67**	**13.3%**	**78**	**-11**
o/w Palermo	23	4.6%	28	-5
o/w Trapani	15	3.0%	17	-2
Calabria	**13**	**2.6%**	**14**	**-1**
SOUTHERN ITALY	**84**	**16.7%**	**96**	**-12**
TOTAL	**502**	**100.0%**	**579**	**-77**

The following table shows the changes during the year in the Branch network of each Group bank.

BPVi Group's branches trend	31/12/2016	31/12/2015	Abs. Chg.
Banca Popolare di Vicenza	420	485	-65
Banca Nuova	81	93	-12
Farbanca	1	1	0
Total	**502**	**579**	**-77**

Third Party Networks and the other sales channels of the BPVi Group

In addition to branches, at 31 December 2016 the BPVi Group's sales network includes **7 finance shops**[9] (6 Banca Nuova and 1 BPVi Multicredito), **32 private customer points**[10] (27 for BPVi and 5 for Banca Nuova), **totalling 541 outlets**. In addition to the physical network, the BPVi Group also has third party networks of **freelance professionals (Financial Promoters and Financial Agents)**, supporting branch operations with the goal of acquiring and retaining new customers, both among individuals and small businesses. **At 31 December 2016, the financial promoter network consisted of 78 professionals** (36 BPVi and 42 Banca Nuova), whilst at the same date, **the number of agents** operating at the Group company called "BPVI Multicredito Agenzia in Attività Finanziaria Spa" **stood at 48 professionals**.

BPVi Group's Other distribution channels	31/12/2016	31/12/2015	Abs. Chg.
Finance Shops	7	13	-6
Private Banking offices	32	35	-3
Financial Promoters	78	110	-32
Financial Agents	48	116	-68
ATM	589	680	-91
POS	48,308	50,961	-2,653

Electronic channels and e-money

Some time ago, the Bank began making significant investments aimed at enhancing **electronic channels**, as an alternative to traditional branches, through which customers, both individuals and businesses, are able to operate autonomously on their transactions and make use of innovative payment services. In line with the market, the use by the Bank's customers of electronic channels

[9] Permanent operating point open to the public where the Bank allows one or more Financial Promoters and/or Agents appointed with a specific agency agreement to carry out their professional activities exclusively for the bank.
[10] Permanent operating point open to the public, dedicated to the operating management of Private Banking customers.

has progressively grown over time, thanks in part to the constant effort to enrich the offer in terms of new features and services, as well as the steps taken constantly adapt to the best technological solutions and to more stringent safety parameters.

As a result of the great relevance of alternative channels, other than branches, in 2016 work continued on the upgrading of the online bank platform **BPViGO!**; it was launched in the second part of 2015, with a further extension of the features available on the direct channels (Internet Banking, Smartphone, Tablet, etc.). In particular, in the first half of 2016 the new website www.bpvigo.it was published; it is intended for new customers and dedicated to the current account BPViGO!, which can be subscribed online, as can the c/Conto prepaid card.
With reference to home banking functions, several new features have been made available to private customers with the aim of making the BPViGO! online service more and more comprehensive and efficient. These include the ability to **purchase products online**, such as the c/Conto prepaid card and the debit card, activating and using **the Remote Digital Signature** for the signing of contracts, the **online management of foreign bank transfers** in euros and in foreign currencies, and finally the online management of **time deposits** with the introduction of the new option for the **periodic liquidation of interest**. Work also started for the complete restyling of the **BPViGO! Mobile App** for Smartphone iOS and Android, that will be launched in the first half of 2017 with a functional graphic design aligned with the best market benchmarks.
On the businesses front, in 2016 **the @time Impresa corporate banking service was significantly overhauled**; its graphics were restyled and new features were added for business customers, such as the new @time Impresa app which allows access to various mobile information and payment functions, in addition to a range of dedicated services for condominium managers.
Particular attention was devoted, moreover, to the issue of "**IT Security**" for customers, with the goal of making the Bank's online services ever more secure and in step with the highest industry standards: this foresaw the inclusion, as regards access to the online BPViGO! service, in addition to the usual user code and password, of a "One Time Password" (OTP) generated by the Personal Key or by the Software Token function present on the smartphone app. In addition, for certain transactions (e.g. transfers or top-ups to new beneficiaries), an additional **PIN will be required to confirm** the transaction, in addition to the PIN generated by the Personal Key, which will arrive **via SMS** to the customer's mobile phone number as recorded in the BPViGO! contact details.
As regards **security**, in accordance with recent regulations on the security of internet payments, 3DSecure was introduced for prepaid cards and new anti-fraud systems were activated for both cards and Internet Banking.

Presence abroad

In line with the previous Business Plan and in order to contain the Group's cost base, the Board of Directors resolved **to close the Representative Offices in New York, Sao Paulo, Moscow, Shanghai and Hong Kong.**
For now, only the Representative Office in New Delhi remains open, in order to facilitate commercial exchanges between Italian businesses and the markets in India and neighbouring countries, such as Bangladesh and Pakistan.
The activity carried out so far by the Representative Offices, whose closure was decided, will be replaced by the optimisation of the commercial development activity in the geographical areas where these Offices were located, by the strengthened central organisation of the Foreign Department.
In order to provide the best support to companies in international markets, the BPVi Group **signed cooperation agreements with 74 foreign banks with a total network of approximately 85,000 branches located in 49 countries**, i.e.: Afghanistan, Albania, Argentina, Australia, Austria, Belarus, Bosnia-Herzegovina, Bulgaria, Canada, Chile, China, Croatia, Czech Republic, Ecuador, Egypt,

Georgia, Hungary, India, Indonesia, Iran, Iraq, Japan, Korea, Kosovo, Macedonia, Malaysia, Mexico, Mongolia, Morocco, Peru, Philippines, Poland, Portugal, Romania, Russian Federation, Serbia, Slovakia, Slovenia, South Africa, Spain, Taiwan, Thailand, Tunisia, Turkey, Ukraine, United Kingdom, United States, Venezuela, Vietnam.

In 2016, Banca Popolare di Vicenza executed **three cooperation agreements, with the largest Philippine bank, BDO Unibank of Manila, the third largest Indonesia bank, Bank Central Asia of Jakarta**, and, after the liberalisation of the trade in goods and services between the EU and Iran (which took place with the implementation day of 16 January 2016), with one of Iran's leading banks, Bank Pasargad of Tehran. These agreements make it possible to assist Italian businesses, mainly SMEs, respectively in the Philippines, in Indonesia and in Iran, through the 1,029 branches of BDO Unibank, the 985 Branches of Bank Central Asia and the 327 Branches of Bank Pasargad. In addition, an agreement was reached with the Philippine bank BDO Unibank to follow, jointly with the BPVi Group, the offer of banking services to the vast community of Philippine individuals and households present in Italy. Lastly, the BPVi Group has **2,834 correspondent bank relationships** with banks located in 158 Countries, **84 account relationships** with banks located in 46 countries and **409 foreign banks with credit lines**, based in 71 countries.

HUMAN RESOURCES

At 31 December 2016, **the BPVi Group had 5,366 employees, 100 fewer than in December 2015, a decrease of -1.8%**. It should be noted that, with respect to 31 December 2015, the scope of consolidation of the BPVI Group changed at the end of June 2016 by effect of the acquisition of full control of the company HDS Food Service Srl by the Fund Nem Imprese II managed by the subsidiary Nem Sgr. At 31 December 2016, the above-mentioned company has 38 employees, net of which the reduction of the Group's headcount, on a line-by-line basis, would have been **138 units (-2.5%).**

The breakdown of the changes in the workforce of the other companies in the BPVi Group in 2016, shown in the table below, indicates an overall reduction of the workforce of the main Group companies. **In particular, the number of the Parent Bank's employees declined by 110.**

Staff	31/12/2016		31/12/2015		Change	
	Number	% Comp.	Number	% Comp.	abs.	%
Banca Popolare di Vicenza	4,330	80.7%	4,440	81.2%	-110	-2.5%
Banca Nuova	696	13.0%	710	13.0%	-14	-2.0%
Farbanca	28	0.5%	29	0.5%	-1	-3.4%
BANKS TOTAL EMPLOYEES	**5,054**	**94.2%**	**5,179**	**94.7%**	**-125**	**-2.4%**
PrestiNuova	7	0.1%	9	0.2%	-2	-22.2%
BPV Finance	4	0.1%	5	0.1%	-1	-20.0%
BPVI Multicredito	1	0.0%	2	0.0%	-1	-50.0%
NEM SGR	7	0.1%	7	0.1%	0	0.0%
Servizi Bancari	223	4.2%	231	4.2%	-8	-3.5%
Immobiliare Stampa	32	0.6%	33	0.6%	-1	-3.0%
HDS Food Service*	38	0.7%	n.s.	n.s.	n.s.	n.s.
OTHER COMPANIES TOTAL EMPLOYEES	**312**	**5.8%**	**287**	**5.3%**	**25**	**8.7%**
TOTAL EMPLOYEES	**5,366**	**100.0%**	**5,466**	**100.0%**	**-100**	**-1.8%**
TOTAL EMPLOYEES excluding HDS Food Service*	**5,328**	**100.0%**	**5,466**	**100.0%**	**-138**	**-2.5%**

* New company included in the scope of consolidation of the BPVi Group by effect of the acquisition of full control of the company HDS Food Service Srl by the Fund Nem Imprese II managed by the subsidiary Nem Sgr.

The breakdown of the workforce of the Group's Banks at 31 December 2016, as shown in the following table, shows that **76% of personnel are employed with the branch Network**, (compared to 77% at the end of December 2015), **19% work at the Central Offices** (95 more than at the end of 2015, mainly by effect of the implementation of the new network model and of the strengthening of some offices of the General Management, with particular reference to the Legal Department for the management of litigation, the Loan Division and control offices), whilst **5% at present are not assigned to any office** (employees seconded to other companies, on maternity leave, on leave of absence, social hour, etc.).

BANKS EMPLOYEES	31/12/2016				31/12/2015			
	Branch network	Corp. Center	Other [1]	% Branch	Branch network	Corp. Center	Other [1]	% Branch
Banca Popolare di Vicenza	3,215	891	224	74.2%	3,389	801	250	76.3%
Banca Nuova	589	85	22	84.6%	600	79	31	84.5%
Farbanca	16	11	1	57.1%	17	12	0	58.6%
TOTAL	**3,820**	**987**	**247**	**75.6%**	**4,006**	**892**	**281**	**77.4%**

(1): The category "Other" includes personnel not assigned to any organisation because they are seconded to other companies or temporarily absent for maternity leave, leave of absence, social hour, etc.

The **breakdown** of Group employees **by professional category** at 31 December 2016 shows that there are **93 executives** (-9 compared to December 2015), i.e. 1.7% of the Group's total number of employees, **2,239 managers** (-49 compared to December 2015), i.e. 41.7% of the total, and **3,034 clerical and other employees** (-42 compared to December 2015), i.e. 56.5% of the Group's employees.

Employees by professional category as of 31/12/2016	Category				Total
	Senior managers	Managers	Remaining staff	Other staff [3]	
Banca Popolare di Vicenza	76	1,843	2,410	1	4,330
Banca Nuova	8	291	395	2	696
Farbanca	0	8	20	0	28
PrestiNuova	0	3	4	0	7
BPV Finance	1	1	2	0	4
BPVI Multicredito	0	1	0	0	1
NEM SGR	2	4	1	0	7
Servizi Bancari	3	73	145	2	223
Immobiliare Stampa	1	13	18	0	32
HDS Food Service	2	2	34	0	38
TOTAL	**93**	**2,239**	**3,029**	**5**	**5,366**
% Composition	**1.7%**	**41.7%**	**56.4%**	**0.1%**	**100.0%**
TOTAL **exluding HDS Food Service***	**91**	**2,237**	**2,995**	**5**	**5,328**
% Composition **excluding HDS Food Service***	**1.7%**	**42.0%**	**56.2%**	**0.1%**	**0.0%**

(1) The category "Other" includes personnel belonging to the 1st Area and to the first 2 levels of the 2nd Area.
* New company included in the scope of consolidation of the BPVi Group by effect of the acquisition of full control of the company HDS Food Service Srl by the Fund Nem Imprese II managed by the subsidiary Nem Sgr.

At 31 December 2016, **the effective workforce of the BPVi Group**, calculated by taking account of the employees of the Group companies as well as persons on secondment and project or temporary workers, **totalled 5,365 persons**. The figure is 108 units lower than at 31 December 2015 (-2.0%) and includes the above-mentioned reduction of 100 employees and the decrease of 8 units relating to workers with project-based contracts and to secondments and temporary workers. Net of the employees of the company HDS Food Service, the effective workforce declined by 146 units (-2.7%).

The following table shows a dynamic that substantially reflects the comments already made in relation to the trends in the number of employees of the Group's companies.
The following table shows the actual workforce of BPVi Group companies at 31 December 2016.

Permanent Staff	Staff (a)	31/12/2016 o/w seconded at other BPVi's Group companies (b)	o/w seconded at other companies (c)	seconded from other companies (d)	other staff (1) (e)	Permanent staff (a-b-c+d+e)	31/12/2015 Permanent Staff	Absolute Change
Banca Pop. di Vicenza	4,330	44	1	4	0	**4,289**	**4,412**	**-123**
Banca Nuova	696	6	0	6	0	**696**	**707**	**-12**
Farbanca	28	0	0	6	0	**34**	**34**	**0**
PrestiNuova	7	0	0	4	0	**11**	**12**	**-1**
BPV Finance	4	0	0	0	0	**4**	**5**	**-1**
BPVI Multicredito	1	0	0	1	0	**2**	**3**	**-1**
NEM SGR	7	1	0	2	0	**8**	**7**	**1**
Servizi Bancari	223	3	0	29	0	**250**	**256**	**-7**
Immobiliare Stampa	32	1	0	5	0	**36**	**38**	**-2**
HDS Food Service	38	0	0	0	0	**38**	**0**	**38**
TOTAL	**5,366**	**55**	**1**	**55**	**0**	**5,365**	**5,473**	**-108**
TOTAL excluding HDS Food Service*	**5,328**	**55**	**1**	**55**	**0**	**5,327**	**5,473**	**-146**

(1) Contains project workers/cooperation agreements
* New company included in the scope of consolidation of the BPVI Group by effect of the acquisition of full control of the company HDS Food Service Srl by the Fund Nem Imprese II managed by the subsidiary Nem Sgr.

Management of Human Resources

In 2016, management of the BPVi Group personnel was mainly characterised by a series of **organisational initiatives**, in line with the strategies already defined by the previous Business Plan, aimed at **revising customer service models**, **focusing on commercial chains in high-value segments** and at **streamlining Central Office structures**.

These initiatives made it possible to leverage internal potential and professional skills, as well as to optimise the workforce of Group companies, in part through the closing of the additional set of 80 branches in 2016 (65 BPVi and 15 Banca Nuova) which enabled the new structures of the central office to be strengthened, in particular the Loan Division.

As regards the commercial Network, the new organisational model entailed the introduction of two commercial chains: "***Community Banking***", focused on Retail customer segments, comprising **6 new Territorial Districts** that coordinate the branch network, and "***Private & Corporate***", comprising **15 Business Centres** located throughout Italy.

In terms of Districts, 111 micro markets were established, to be overseen through the new "***Hub & Spoke***" Branch model.

In addition to a general repositioning of employees, in line with the needs of the new distribution model **new Affluent Account Managers** (38 new portfolios) **and Small Business Account Managers** (82 new portfolios) were identified for the purposes of better overseeing and enhancing the management of commercial relations with customers. Moreover, at the beginning of 2016 the rules for the management segmentation of companies were revised, with the goal of focusing

Corporate Managers on customers with more complex requirements and at the same time strengthening the safeguarding of the Small Business segment. A number of management initiatives were implemented in this regard in order to identify and leverage the skills and know-how most suited to the management of reference customers for the two segments.

As regards the central structures, a comprehensive set of initiatives aimed at increasing General Management's organisational efficiency and enforceability was put in place. The aim of the proposed readjustments was to optimise organisational structures, in terms of efficiency and effectiveness, through a reduction of hierarchical reporting to the Managing Director and a more precise explanation of responsibilities and operational supply chains. The new organisational structure is split into three distinct areas: 1) Managing Director; 2) Divisions reporting directly to the Managing Director; 3) Organisational structures that report to the second area, which they form part of, and that are structured, according to operational size and diversification and any regulatory constraints, into Divisions, Departments and Offices. These changes are the basis for any further steps to optimise and strengthen the "Internal Governance", first and foremost of the Management Committees, as recalled in the recommendations made by the ECB within the scope of the "Thematic Review on Risk Governance and Appetite" of January 2016.

Moreover, **already in the first half of 2016 the Loan Division adopted a new organisational model** directed, in particular, at strengthening the structures for controlling non-performing loans, at specialisation of the decision-making process by segment and at the creation of structures dedicated to the management of particular exposures.

Additional initiatives also involved the **Finance Division**, which was the subject of a reorganisation that entailed the implementation of certain activities in order to achieve a set-up that is consistent with the demands made by the European Central Bank.

In view of the particular context that determined a significant increase in complaints, the structures of the **Legal Department** were strengthened and two dedicated Task Forces were created.

Finally, particular attention has been paid to strengthening the qualitative and quantitative **control functions**.

Training and Development Activities within the BPVi Group

Financial year 2016 was characterised by training and development activities aimed at supporting employees in the implementation of the relevant contextual and organisational change processes underway. Particular attention was paid to the analysis and assessment of skills and knowledge possessed by certain business populations, in order both to ensure the coverage of new organisational positions - arising from the reorganisations underway - and to enable training and development activities to be targeted to roles based on the evidence that emerged. A significant part of the training was then dedicated to learning paths intended for the obtaining of the **specialist technical certifications** increasingly required by both national and international Supervisory Bodies, as well as for projects relating to obligations and new sector regulations.
As already mentioned, some learning paths are made up of an initial skills assessment stage, followed by a direct intervention stage for skills development. These include **a first initiative that involved the District Managers and the Heads of the Corporate & Private Business Centres of the Parent Bank**, identified through a specific skills analysis initiative, in a training and development path aimed at strengthening managerial skills. A second path involved **the Branch Managers of Banca Popolare di Vicenza** (436 people) who took part in a skills assessment survey the results of which, together with data provided by direct managers and Management Staff,

helped to identify the 111 Directors to be put at the head of the Hub Branches and to identify the main areas in which to invest in educational terms. Some **Control Function employees** (8 employees from the Compliance and Anti-Money Laundering and Internal Audit Function and 16 Network Inspectors) were involved in an activity to map transversal skills and record potential with the aim of assessing their coverage capacity with respect to different roles and strengthening the strategic professional and managerial skills for the role through individual coaching initiatives.

One of the initiatives implemented in support of the local area was a project, carried out at the Parent Bank, called "**Our future begins now – Intern Project 2016**"; through the project, 40 interns were selected and placed within the network and office teams. To date, the project has resulted in 9 recruitments, mostly within the highly specialist Control and General Management functions.

Another particularly significant initiative involving Group staff was specialist technical training relating to the implementation of the **MIFID project (MIFID - New Model for the provision of investment services)**, which will bring significant innovations in terms of the logic, procedures and operations related to products and services offered to customers. The new content was disseminated through classroom training initiatives and via online training involving all the staff from the Commercial Network at Group level.
Many of the training initiatives throughout the year involved an examination of the issues relating to the analysis, **assessment and management of credit** and its specific characteristics, and of new legislation. These included the conclusion of the "Credit Master" project which involved approximately forty employees with roles of responsibility in the Credit process within Banca Popolare di Vicenza and Banca Nuova, a training initiative focusing on specific aspects of operation of the SME rating model which involved around 700 employees of the Group's Commercial Network, a specific training path for the Group's Branch Managers (involving approximately 230 employees at Group level) on the themes of financial reporting and forecast analysis, a training path for Credit Analysts on AQR and the new credit granting logic, training for Deputy Branch Managers on the management of credit, and a targeted initiative following the application of the new Mortgage Credit Directive.
As regards Finance matters, particularly in relation to ESMA guidelines, in 2016 training connected with **DEFS Certification** continued, aimed at ensuring a high level of training of staff and the training of Customer Managers through **the "Finance Objective" project**.

As regards **training on regulatory issues**, in line with the initiatives undertaken in the course of previous years, **a wide-ranging project on the subject of Money Laundering was set up and launched** in collaboration with the Compliance and Anti-Money Laundering Department. The initiatives, which involved, first and foremost, Corporate Managers, Private Banking Managers and Customer Managers, with specific classroom training, will continue involving the roles of the Group's Commercial Network with innovative methods such as "training pills", newsletters, teaching videos, e-learning and classroom courses, with the goal of increasingly developing a culture in this matter.

As usual, **all the mandatory training initiatives concerning Bancassurance (Ivass)**, Law 81/2008 and technical and transversal training in response to requests by staff in the Human Resource Portal available on the Company's Intranet, were planned and carried out. General Management staff also participated in conferences, seminars and courses organised by external companies and specialised bodies in relation to regulatory updates and industry changes.
Financial year 2016 was also characterised by the development of **online courses** that help to curb costs and facilitate participation. This method has been used in particular in the case of regulatory or operational updates such as Legislative Decree 231/01, Fatca Legislation, third party foreclosures, cash management, MIFID.

The following table provides an overview of the **quantitative results** of the training activities carried out in 2016 for the employees of BPVi Group companies, divided into the usual types of **entry training** (for newly hired employees and all those who change jobs), **permanent training** (with refresher training courses with specialist technical and professional content), **development training** (to promote and strengthen managerial skills), and **mandatory training** (required by law).

Tranining	BPVi Group			
(days)	31/12/2016	31/12/2015	Abs. Chg.	% chg.
Entrance	532	1,260	-728	-57.8%
Permanent	7,094	8,587	-1,493	-17.4%
Development	883	2,737	-1,854	-67.7%
Mandatory	19,293	19,319	-26	-0.1%
Total	**27,802**	**31,903**	**-4,101**	**-12.9%**

In summary, **in 2016 a total of 27,802 training days** (approximately 24,285 in the Parent Bank alone) **were administered to employees of the BPVI Group**. The overall reduction in training days is mainly attributable to a more targeted and focused management of training activities and an effort to curb costs.

Labour-management relations

As regards the labour-management relations of the BPVi Group, 2016 was characterised by the **conclusion of the talks pertaining to the closure of the BPVi and Banca Nuova branches**, as well as **the start of the information process pertaining to the new Hub & Spoke network model** and the revision of **the General Management Organisational Model**, for the achievement of the planned strategic objectives and improvements in terms of efficiency.

As regards structural cost reduction, in terms of information regarding the updating of the new Business Plan about to be completed, the Company restarted union discussions (initially suspended pending further details) which were concluded on 16 December 2016 with the signing of a union agreement which, in particular, has provided for the possibility of access to the Lending Solidarity Fund for the staff of all BPVi Group Companies fulfilling pension requirements during the period 1.7.2017 - 31.12.2019 and the possibility of consensually terminating employment for employees who, up to 30.6.2017, fulfilled the requirements established by law for entitlement to A.G.O. pension benefits.

Consistent with the predictions of the union agreement signed, as at 31 January 2017 (the submission deadline) - **225 participation requests had been received, 164 of which have already been finalised with the termination of employment on 28 February 2017.**

The provisions allocated as at 31 December 2016 for the activation of the industry Solidarity Fund amounted to Euro 20.4 million.

On a national level, as a result of the Unions' requests to stipulate a national Protocol on commercial policies and work organisation, discussions on commercial pressures and on the code of ethics for the sale of products were started within ABI; this discussion was concluded on 8 February 2017 with the signing in the ABI headquarters of the National Agreement on Commercial Policies and Work Organisation, which lays down specific obligations on these matters for Companies in the industry.

COMMERCIAL ACTION: CHARACTERISTICS AND RESULTS

Commercial action: characteristics and changes in 2016

The commercial action of the BPVi Group has been heavily revised and refocused. One of the most significant commercial changes introduced in the first half-year was the revision of the customer service models, which will focus on core customers of the BPVi Group, i.e. individuals and small and medium-sized enterprises.
From an operational point of view, **since early 2016**, the Group's customers have been segmented with new criteria that have led to the **creation of two new business units**, differentiating the service model adopted in relation to the customers served:

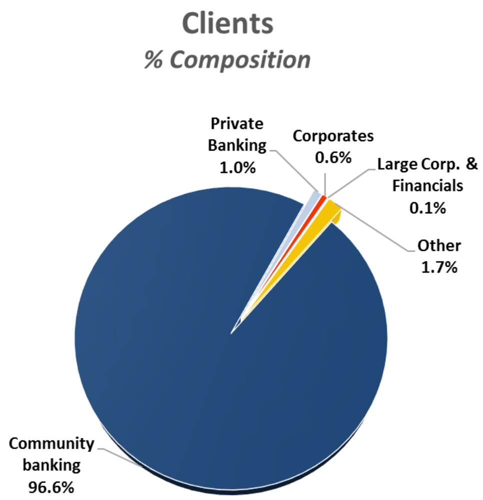
- **Community Banking**: which includes Private customers, excluding the private banking segment (therefore only the so-called "mass" and "affluent" customers) and small business customers, i.e. sole proprietorships and companies with revenues below Euro 10 million. For the latter, the threshold before the entry into force of this new model was fixed at Euro 2.5 million. This operational change has allowed us to better calibrate the level of service offered in the face of the specific needs of business customers.
  In the course of the year, the **commercial action** of the Community Banking Division **has focused in particular on the Private segment**, with specific initiatives in terms of both deposits and loans (particularly with reference to the granting of mortgage loans). In addition, periodic campaigns and tools have been put in place to facilitate the branch network in the process of granting consumer loans.

- **Corporate & Private Banking**: which includes small and medium enterprises and corporate customers, i.e. enterprises with revenues above Euro 10 million and the individuals of the private banking segment.
  15 integrated corporate & private business centres were created; they follow the two customer segments offering specialised support on high value added services. As regards the corporate segment, it refers in particular to the structured finance and trade/export finance compartments in support of the internationalisation activities of customer firms, to the equity capital market (in support of listing on a regulated market and capital transactions) and to the debt capital market. With regard to the private segment, the wealth management unit was strengthened and **a dedicated structure was established for advisory services**. With reference to investment services, an open platform operation to expand the offering to investment products of multiple asset managers was confirmed.

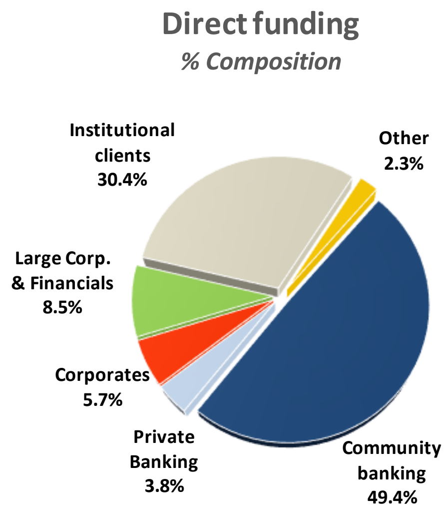
Segment analysis of the BPVi Group's customers and operations

The following is a brief analysis of the characteristics of customers served and the operations of the banks within the BPVi Group.

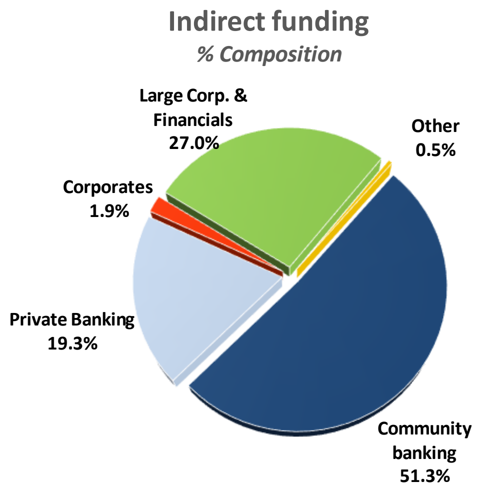
At 31 December 2016, customer distribution, analysed on the basis of the new segmentation started in early 2016, confirms **the commercial orientation of the BPVi Group**, with operations dedicated mainly to households and small and medium enterprises, **a typical expression of the socio-economic operating environment of the Group's banks**. The chart shows that the prevalent customer segment, by far, is that of **Community Banking** customers (mass, affluent, small business customers), i.e. 96.6% of the total, while the weight of the **Private** segment (**1.0%**) and of the **Corporate** segment (**0.6%**) is definitely more limited, in terms of customers, and the segment of **Large Corporate & Financials** customers is close to zero. It should be noted that in the face of the reputational impacts related to the specific situation of the BPVi Group, the customer portfolio in the course of 2016 has undergone a general deterioration.



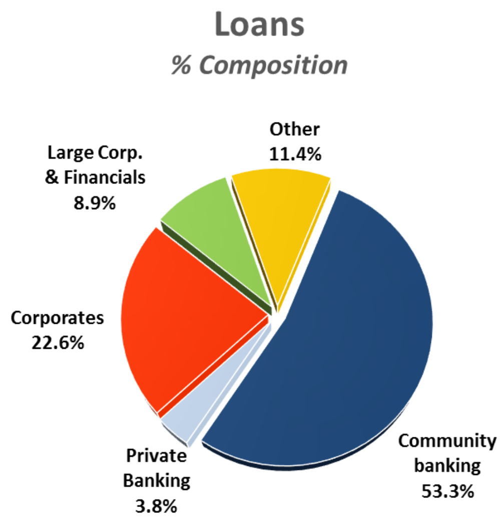
Community Banking dominates **direct funding** (deposits and bonds, net of transactions with central counterparties), contributing over **49%** of the total funds gathered by the BPVi Group Banks. With regard to the other customer segments, in order of importance, the **Large Corporate & Financials** and **Corporate** segments follow with, respectively, 8% and 6% of the Group's funding, while Private customers contribute little more than 4% of total funding. Lastly, more significant is the incidence of institutional funding (consisting of funding on the Euromarket in the form of EMTN, of the liabilities collected in view of the securitisations and of operations with Cassa Depositi e Prestiti), which contributes over 30% of the total.



With regard to **indirect funding** (net of the BPVi shares held in the portfolio by the customers of the Group's Banks), of note is the significant contribution of **Community Banking**, which contributes **51%** of funds. ***Large Corporate & Financials*** follow with 27% of the total, while ***Private Banking***'s weight of the Group's indirect funding is 19%. Lastly, the contribution from ***Corporate*** customers is minimal, at 2%.



The analysis of the contribution on the volumes of **net loans** (net of repurchase agreements with central counterparties and of the related guarantee margins) confirms BPVi's attention to its core customers, individuals and small and medium enterprises, who are the recipients of most of the Group's loans. In fact, **53%** of the Group's loans are destined to **Community Banking**, and 23% to **Corporate** customers. Lending activities with the **Large Corporate & Financials** and **Private** segments are more limited, and their share of total net loans is, respectively, 9% and 4%. The "Other" category, which contributes to 11% of total lending, includes the loans of the BPV Finance subsidiaries, non-performing loans, adjusting provisions and LRO securities.



PRODUCTS, SERVICES AND MARKETS

Commercial innovations for Private customers

One of the main changes in the sales package dedicated to Households and Individuals is the launch of the "**Ripartiamo da qui. Ripartiamo da Te**" [Let's start afresh from here. Let's start afresh with you] initiative with which the Bank has revised and renewed its own range of products dedicated to personal banking both in terms of loans and the management of savings. The offer is made up of seven products and includes two types of loans, four different solutions for the management of savings and the Home Banking service via internet and mobile.
Included in the new offering is the introduction of a **new current account** named "**N'evo**", which adds to the range of accounts that can be obtained at branches with the dual purpose of responding in a more targeted manner to the needs of the different sub-segments of private customers and

gradually simplifying the Bank's current account product offering. For this purpose, the "N'evo" account has been designed in a modular manner available in three different versions that respond to a range of personal and operational profiles, with the possibility of discounting or voiding costs based on the purchase and/or use of products and services. The account is also suited to the needs of more advanced customers since an upgrade can be performed, independently of the selected module, in order to take advantage of investment and trading services. In the context of the new offer, particular attention has been paid to the Under 35 sub-segment with the introduction of a smart module which provides particularly advantageous conditions for tools favoured by young people, such as no charges for online transactions and the prepaid card.

Changes in the product range dedicated to Private customers also relate to the **multichannel offering**, which was redesigned in 2016 improving usability and enhancing the range of functions on offer. For example, the multimedia banking service was completed revamped, with **the introduction of a new online current account (BPViGO!)**, the renewal of the Website, the online trading features and the mobile and tablet apps. Among the most important innovations is the possibility for new customers to purchase products and/or services directly online, without signing any hardcopy documentation, using the digital signature ("paperless" mode). During the year, the revamping of the smartphone and tablet apps began with a view to better usability and the development of new, innovative features, such as the possibility, for the customer, to communicate with his/her account manager via webcam, to share documents and to sign them digitally from his/her own multichannel without the need to go into the branch.

The "**N'evo**" and the **BPViGO!** accounts thus become the two leading products within the current account catalogue, replacing the '**Sempre Più**' range previously on offer.

To further complete the offer range, and in response to the new requirements stipulated by the changing national standards, a **new current account** package **dedicated to residents of condominiums** was put together with solutions of particular interest for both condominium managers and for condominium residents themselves. "Amministra" is the current account dedicated to Condominiums, with two versions available: one for Condominium Residents (Mini, Standard and Maxi Profiles), to facilitate the reporting of costs, and one for Condominium Managers (Mini and Maxi Profiles), for the carrying out of their activity. The structure of the offer is designed to enable full acquisition by the condominium manager.
To support the Bank's commitment to increasing direct funding, in the course of 2016 **two new forms of Time Deposit** were offered, both designed to stimulate the economy in the medium-term and encourage customer retention:

- **Time deposit with variable increasing rates and decreasing capital**. The offer provides for a term of 18 months with semi-annual payment of interest, increasing rates and concurrent repayment of part of the capital. Businesses can also make use of the offer and it is available both in Branches and via the internet;
- **Time deposit with final maturity up to 36 months**. With the 36-month duration option you can choose between payment at maturity only and periodic payment of interest.

In order to increase the attractiveness compared to competitors, both products offer a particularly competitive rate for new sums of money deposited with the Bank.
As regards insurance, 2016 saw the **renewal of some products in the insurance range** as a result of the Ivass and Bank of Italy letter to the market of 26 August 2015. As a result of new indications provided therein, at the same time as the amendment requested by Ivass and the Bank of Italy, the New Protection Company Loans, New Protection Company Mortgages, New Protection Loans (dedicated specifically to Compass loans), Family Multi-risk, New Protection Mortgages Light, New Protection Private Mortgages, and New Protection Bank Loans Policies were revisited.

Commercial innovations for Companies

In 2016, the activities in support of local companies continued, both using traditional financial instruments through the usual lending activity and by developing products and services designed to support the growth of start-ups, promote the internationalisation process, and rebalance the financial profile of small and medium enterprises through Stock Market listing.
Since 2014 the Bank has achieved the Nomad (Nominated Adviser) qualification and has entered into a partnership agreement with Borsa Italiana with a view to positioning itself as a **preferred partner** that can assist SMEs in fully meeting their financing requirements and has begun the process for the structuring and placement of hybrid financial products such as the going public convertible and convertible bonds.
In 2016, the Equity Capital Markets structure **assisted a total of 8 businesses in the process for their listing on AIM Italia - Alternative Market of Capital**, the market organised and managed by Borsa Italiana for the listing of small and medium enterprises, took care of the issue of 5 bond loans and assisted an issuer in a capital increase operation.

Some of the initiatives in **direct support** to businesses **with classic banking instruments** were:

- **the loans granted with CDP and EIB funding**: in 2016, the BPVi Group continued to make use of the CDP financing ceilings, which allow the bank to obtain funding at competitive rates and to issue, for the same amount, loans to companies at controlled prices;
- **the loans guaranteed by the Central Guarantee Fund**: in 2016, the State's support activity, carried out through the Central Guarantee Fund, continued and was expanded, allowing access to loans for SMEs that are deserving in terms of market positioning, but need guarantee support to supplement their modest capitalisation;
- **advance of PA receivables:** for some years, the BPVi Group has been active in the disposal of receivables due to customer companies from the Public Administration, with particular reference to Local Authorities. By taking advantage of the consolidated experience acquired through the management of public treasuries and the subsequent network of relations, the Bank can boast a number of agreements with public administrations for the certification and subsequent transfer of the receivable to us. The tool for the disposal of receivables from Local Authorities is especially appreciated by local SMEs which represent the majority of the suppliers of said Authorities;
- **"Gold" department**: has continued to assist Customers operating in the precious metals sector, exploiting market opportunities with particular reference to the management of owned metal in the presence of difficult supply on global financial markets;
- **Foreign market department**: in 2016 the BPVi Group strengthened the team dedicated to the assistance of Customers on foreign markets, including in support of overseas missions, and strengthened its local presence with direct meetings with Companies and Associations for insights into operating issues;
- **support to Start-ups:** in this sector, the Bank is participating in the "Facciamo Impresa" and "Cercando Lavoro" projects, developed in synergy with the Municipality of Vicenza and the main Trade Associations which aim to establish and sustain micro companies in the Municipality of Vicenza and in another 14 municipalities that took part in the initiative. At the same time, the Bank has long been a partner of another significant project to provide support to start-ups, promoted by the Giovani Imprenditori di Confindustria Vicenza Group and called "Primo Miglio 1609". This second project, through the establishment of an "enterprise incubator", proposes to support and implement entrepreneurs' ideas for the establishment of new enterprises in the manufacturing industries or otherwise connected to the manufacturing sector, which is the main sector in the economy of the Vicenza area.

In the course of the year, the BPVi Group proceeded to broaden the range of short and medium-term loans, supporting businesses with financing structures more suited to covering their financial needs.

In October 2016, in order to promote the Bank's strategic role in the economic fabric of historically important areas, the "**Ripartiamo da qui, 1 miliardo per le imprese del Nord Est [Let's start afresh from here, 1 billion for companies in the North East]**" initiative was launched. This initiative provides for the allocation of a ceiling of Euro 1 billion to support the productive investment needed to increase productivity, innovation, and the purchase of tangible and intangible assets and stock, and is reserved to companies in the area, particularly those in the North East. At the end of December 2016, over 1,100 new loans were granted for a total of Euro 228 million, 31 of which to new customers. The initiative also continued in the first quarter of 2017.

RESEARCH AND DEVELOPMENT

In view of its business and industry sector, the BPVi Group does not generally carry out research and development as such. As a result, it has not recognised any intangible assets or costs in this regard. The routine implementation and update of the product catalogue, designed to ensure that each business offers a complete range of products and services in line with those of major competitors, and the revision of procedures and internal processes to ensure that the operational structure functions adequately, do not result in new or significantly improved products, services or processes with respect to those already present on the market, since they are not the result of research and development in the strict sense.

SYSTEMS

Simplification and branch efficiency

Initiatives to simplify and improve the activities carried out within the Branch Network continued over the course of 2016. Actions have been centred on **digitising printed documentation within Branches**.

As a first step, new initiatives have been focused on consolidating the good results relating to **customers' use of electronic signatures using tablets** at Group branches both for in-branch accounting transactions and for the opening of new accounts.

In order to facilitate the transition to digital, **new scanner devices** have been installed in every Group Branch, allowing documentation presented by customers at the counter to be digitised (e.g. ID documents) and represent the beginning of a plan to revise the entire process by which these documents are sent from Branches to the Bank's various departments. A new interbank procedure is also being developed whereby these scanners will be used to acquire images of checks handled in branch to be sent to banking partners for payment, rather than sending the physical documents themselves.

Another aspect of the digitisation project has focused on the **Information Sheets** that are required by law to be made available to customers within Branches. For the majority of these, the documents previously available in paper form are now handled electronically on specific equipment (TOTEM) present in every Group Branch.

In addition, from January 2016 onwards, the organisational model of the commercial network was revised, through the establishment of two distinct chains, focused respectively on Retail customers (Community Banking) and on Corporate & Private customers (Corporate & Private Banking).

In the context of this reorganisation, six Retail Districts and 15 Corporate & Private Business Centres were created, each with specific territorial powers.

In 2016, **the streamlining and optimisation of the sales network of the BPVi Group continued**; it was launched in the second half of 2015, **which saw the closing of 80 additional branches** (after the 75 already closed in 2015), 65 of which belonging to Banca Popolare di Vicenza and 15 to Banca Nuova. In addition, during the second half of the year the Parent Bank launched a new area supervision model through the establishment of local "Micro-markets" made up of multiple branches coordinated centrally at area level.

The Micro-markets are made up of a "Hub Branch", generally medium to large in size, which is the central coordination point of the micro-market, and of one or more "Satellite Branches" that report hierarchically to the Director of the Hub Branch Manager.

Lending

As regards Lending, the first half of 2016 was mainly spent supporting the Lending Function in its analyses aimed at defining the action plan to **strengthen the credit machine**. The main actions subject to analysis were:

- the review of the process and implementation of the performing credit portfolio "Lending Policies";
- the strengthening of the "Early Warning" instruments available to the function;
- the rational reallocation of activities to manage doubtful credit within the central credit structures;
- the improvement of the activities related to property assessment in support of credit transactions.

As a result of the analyses carried, in the second part of the year the main prescribed actions were implemented.

In the second part of 2016, moreover, efforts were focused on supporting the Bank functions responsible for the implementation of the **plan to dispose of non-performing exposures**. The first part of the project saw these functions carry out a securitisation transaction for a substantial proportion of the non-performing portfolio.

Finally, activities continued to **revise the internal regulations** as necessary to support changed commercial requirements and the evolution of the regulatory framework.

Foreign trading

As regards foreign trading, in addition to the **further development of the foreign procedure Pr.E.M.I.A.** (in particular the development of web components inherent to the functionalities of foreign loan products), the following new features have been released:

- **management of negative rates on foreign loan products** with the ability to manage a negative rate index by algebraic sum with spread (as prescribed by Bank of Italy Circular);
- activation of **controls on foreign exchange procurement** in currencies managed by Offices Abroad to allow the exchange rate to be fixed only up to the amount authorised by the Finance Division;
- activation of **automatic controls to identify the extension of loans that exceed the deadline defined by the credit facility** in order to be able to manage an electronic authorisation of the anomalous event;
- adjustment of **the management of multi-currency accounts**, as provided for by compound interest regulations, and the calculating of debit interest only once a year, payable only from 1 March of the following year.

Finance

In 2016, with reference **to the provision of investment services**, a project to fully revise the MiFID system was launched. This project featured three main macro areas:

- **the complete revision of the MiFID questionnaire system for getting to know customers**. In line with the requirements of ESMA (European Securities and Markets Authority) guidelines in matters of MiFID suitability, the main changes relating to MiFID questionnaires concern the introduction of objective questions on economic and financial concepts, the possibility of directly recovering from the Bank's departmental archives certain financial situation data and the strengthening of the system of consistency checks on the answers given by Customers;

- **the complete revision of the advisory system** that foresees the installation of more advanced applications for the provision of consultancy services for all customers, the use of a capital logic in capital adequacy assessment phases and the integration and automation of the consultancy provided to customers with prescribing procedures, for the purposes of executing the orders issued/recommended by customers;
- **the complete revision of contract system for customers**, which also foresees the introduction of the new agreement for consultancy on investment services.

Activities also continued in relation to the consolidation of the MiFID system for managing the complexity of products through the activation of concentration risk controls on these types of products. Moreover, the system for signalling Conflicts of Interest and Relevant Persons was developed further with the roll-out of a new release of the dedicated IT application.

Significant organisational changes were put in place in relation to procedures regarding the operation to transform the Bank into a company limited by shares (Spa), the capital increase and the four Shareholders' Meetings carried out in the course of 2016. These changes were aimed at automating the various stages (e.g. procedure for issuing shareholder tickets).

With reference to the **CRS legislation** that came into force on 1 January 2016, the BPVi Group adapted its procedures in order to classify new customers through the administration of an ad hoc Natural Person and Legal Entity questionnaire (Onboarding) and to classify, for CRS purposes, customers with active accounts.

As regards **Own Funds**, initiatives to strengthen IT tools and technical forms relevant to the **supervision of the Group's liquidity position** continued; of particular note are actions to consolidate the operational infrastructure that allows full management of **Collateralised Bank Assets** (ABACO), and the extension of the tools that can be used to include self-liquidating assets, residential pools, syndicated bank facilities and loans for Group banks.

With reference to settlement risk, an infrastructure was set up that enables participation in the **continuous linked settlement** (CLS) system while, as regards operations in derivative financial instruments, initiatives to consolidate the operating system adopted in view of the **EMIR discipline** have continued.

In terms of **Assets under Management**, the following are of note:

- the start of the project to standardise ISO 20022 flows, which has seen Arca Sgr and all the SICAVs placed by the BPVi Group through the correspondent bank BNP Paribas S.S. move over to the new standard;
- the start of the placement of new Product and Fund Companies (Sidera Fund, Timeo Sicav, Srca Previdenza, etc.);
- the start of the project for the placement of new Multi-strategy Portfolio Management products, that provides for the complete revision of applications dedicated to this new operation and the review of the contractual system.

Development activities pertaining to the **'Bancassurance' sector**, both with reference to the **product catalogue** (for example the starting of the placement of the new multi-branch Berica policy) and with reference to the **changes required by reference regulations** within the scope of the IVASS/Bank of Italy joint letter relating to policies associated with loans (PPI - Payment Protection Insurance).

Information Technology

In 2016, the Microsoft Enterprise Agreement governing the purchase and use of software licenses and services provided by Microsoft for all Group banks was renewed. The signing of this Agreement has enabled the Group to make **full use of cloud computing services**, with benefits for the safety and protection of corporate data, internal collaboration, communication and the

management of information services. Following the signing of the agreement, the first projects were put in place for the implementation and migration to the cloud of storage solutions, databases, departmental systems, and application and communication services. In terms of IT infrastructures, the analysis was completed for the **strengthening of the disaster recovery solution** for IT services in the Milan Finance Division for subsequent implementation.
In terms of its application, the first cloud application solutions were prepared and a model for the management and development of applications still under the direct responsibility of the IT function was defined and adopted, with the target of improving the quality of service, adapting the infrastructure and increasing the level of security.
As regards **logical security**, the functions have mainly been working on **strengthening data protection measures**, safeguarding corporate business and fulfilling newly introduced regulatory compliance requirements. With regard to compliance requirements, it is worth noting the work carried out to comply with ECB rules on Resolution Planning, IT Outsourcing and Cloud Computing, as well as **EBA rules on the security of payments via the Internet**, in addition to the changes, already envisaged by the mitigation plan, in line with the requirements of the Bank of Italy circular letter no. 285/2013, the ECB rules on Cybercrime and privacy obligations, following the assessment carried out at the end of 2015. Within the scope of adjustments for the purpose of circular 285, of note are the approval of the Strategic IT Plan and the start of preliminary activities to issue the Operational Plan for IT initiatives and the IT Adequacy and Costs Report. Other actions in terms of logical security have focused on the introduction of a **platform for handling security incidents**, the launch of a project to revise the model for the management of access control measures, and the definition and implementation of a vulnerability assessment plan and penetration test. Time has also been spent introducing an awareness and education campaign for staff on IT security issues and implementing the process of classifying applications in connection with the IT risk analysis process.
In the course of the financial year, there has also been investment in new collaboration and communication solutions, in particular the new corporate communication platform based on cloud-based Office 365 Video and Skype for Business for intercompany communication and collaboration.
In accordance with the provisions of Bank of Italy Circular no. 285/2013, a new Group IT governance function was also established for which responsibilities, tasks and processes were defined. With the introduction of this function, operations began to improve the monitoring of outsourcing to outsourcers and service providers, with the aim of defining new service levels and improving monitoring and control processes.

Safety

With regard to the **health and safety of employees in the workplace**, work continued in 2016 on continuous compliance with/fulfilment of the provisions of the “Consolidated law on health and safety in the workplace” (Legislative Decree 81/2008 and subsequent amendments and additions), such as risk assessment and updating work at the Bank’s sites, the “Improvement Plan” and the “Risk Assessment Document - DVR”. Of particular importance in terms of activities relating to the “Assessment of Work-Related Stress Risk” is the launch of the ‘Listening Service’ for subjective and personal problems, an initiative that puts the Group in line with market best practices. Lastly, information and training continued to be provided to responsible persons, emergency staff (first aid, fire prevention and care of the differently abled), workers in direct contact with customers (aggressive interactions), personnel in the Prevention and Protection Department, and Employee Safety Representatives as well as executives with delegated powers. As a result of these initiatives, the compliance of the Workplace Health and Safety System with UNI-INAIL Guidelines was confirmed for 2016; compliance was verified through dedicated audits conducted by leading certification companies (DNV).

In terms of **physical and behavioural security**, work continued on alignment to the Parent Bank's security standards and guidelines and Crime-Prevention Memorandums of Understanding were also signed with Prefectures and with the ABI. Additionally, robbery risk prevention training continued for branch managers and customer managers and, more in general, information was provided to all Network personnel.

Significant efforts were made, both in terms of safety and security, to organise and manage the numerous procedures prior to and during the shareholders' meeting that have characterised the year just ended.

Additionally, the Parent Bank intensified its governance work with respect to the Group's Banks and Companies, and its work to update company regulations in order to "consistently" comply with legal prescriptions.

SYSTEM OF INTERNAL CONTROLS

THE SYSTEM OF INTERNAL CONTROLS AND AUDIT FUNCTIONS

The 15th revision of Bank of Italy Circular no. 263 of 2006 "**New regulations for the prudential supervision of banks**", issued on 2 July 2013, introduced the new Supervisory Regulations concerning "**Internal Control System**", "**Reporting System**" and "**Operating Continuity**", which were subsequently incorporated in Bank of Italy Circular no. 285/2013.
The Regulations defined a comprehensive framework of standards and rules underpinning the Internal Control System, consistent with international best practices and with the recommendations of the main international bodies (Financial Stability Board, Basel Committee on Banking Supervision, EBA).
The **Internal Control System** consists of the set of functions, organisations, resources and processes directed at assuring, in compliance with sound and prudent management and through an adequate process for identifying, measuring, managing and monitoring corporate risks, a business management that is sound, proper and consistent with the pre-set objectives. It is a fundamental element of the overall bank governance system that guarantees the protection of company capital, the efficiency and effectiveness of corporate processes and operations, the credibility of financial disclosure and compliance with laws and regulations. It ensures that activities are carried out in accordance with corporate strategies and policies and in compliance with the standards of sound and prudent management.
The controls involve, with different roles, the Strategic Supervision Body, the Management Body, the Control Body, the Governance Committees and all Group personnel and they are an integral part of day-to-day activities. These "controls" must be identified with the goal of mitigating the inherent risks existing in corporate processes and, consequently, assuring the correct execution of corporate operations.
The Internal Controls structure comprises the following three tiers:
- **Line controls;**
- **Risk management controls;**
- **Internal audit activities.**

Line controls

The purpose of **line controls** is to ensure the correct execution of operations, also by applying a control involving a check of the regular execution of processes. They are carried out by the operating structures themselves (e.g. hierarchical, system-wide and sampling controls) also through different units reporting to the heads of the operating structures, or performed within the back office; insofar as possible, they are included in IT procedures.
Line controls, be they carried out by real persons or through IT procedures, can be further distinguished into:
- **First level line controls**: these are carried out directly by those who perform a certain activity, or by the IT procedures supporting that activity;
- **Second level line controls**: these are carried out by persons who do not actually perform the operations but are tasked with supervising them ("risk owners"). In particular, the latter are divided into:
    - **Functional controls**: carried out by corporate structures separate from the operating structures; they include the controls carried out within the scope of specialist back-office or support activities;

- **Hierarchical controls**: carried out by corporate roles hierarchically above those responsible for the operation (e.g. controls carried out by Network Managers on operations performed by the operators reporting hierarchically to them).

Risk management controls

Risk management controls serve the purpose of ensuring, *inter alia*:
- the correct implementation of the risk management process;
- compliance with the operating limits assigned to the various Functions;
- the corporate operations' compliance with regulations.

The Functions tasked with performing these controls are separate from the productive functions; they contribute to the definition of the risk governance policies and of the risk management process.
Specifically, these controls are carried out by the **Corporate risk management Control Functions (Compliance, Risk Management, Anti-Money Laundering and Validation)**, as defined by the Supervisory Authority and by the Functions that, according to provisions of law, regulations, articles of association or self-regulation, have prevalent control duties (**Financial Reporting Manager**). In particular, with reference to the Corporate risk management Control Functions, the objectives of the controls are set out below, according to the corporate structures tasked with performing them:
- to contribute to the definition of methodologies for the measurement of risk, check compliance with the limits assigned to the various operational functions and check the consistency of the transactions carried out by each production unit with the assigned risk/return targets (**Risk Management Function**);
- to contribute to monitoring the performance and stability of the internal risk management systems and models (**Validation Function**);
- to contribute to the definition of methods for measuring/assessing the risk of non-compliance with regulations, verifying that corporate processes are capable of preventing the violation of externally imposed regulations (laws, regulations, etc.) and voluntarily adopted regulations (codes of conduct, codes of ethics, etc.) (**Compliance Functions**);
- to contribute to the prevention of risks connected with use of the financial system for the purpose of laundering the revenues from criminal activities and financing terrorism, in accordance with the reference regulations (Italian Legislative Decree no. 231/07) (**Anti-money laundering**).

Internal audit

The **Internal Audit activity** serves the purpose of identifying violations of procedures and regulations, as well as periodically assessing the completeness, functionality, adequacy (in terms of efficiency and effectiveness) and the reliability of the Internal Control System. Another purpose of the activity is to bring potential improvements to the attention of the corporate Bodies, with particular reference to risk governance policies, to the risk management process and to risk measurement and control instruments. Based on the results of its own controls, the Internal Audit Function submits intervention requests to corporate structures.
It should be specified that the Internal Audit Function operates throughout the Group. In compliance with independence requirements, this Function reports hierarchically to the BPVi Strategic Supervisory Body and, functionally, to the BPVi Control and Risk Committee, to the BPVi Control Body and to the BPVi Management Body. In addition to serving its main purpose of assessing the Internal Control System, its activity is also carried out in the interest of process analysis, as well as in the interest of the oversight activity performed by other control Bodies and

Functions (Board of Statutory Auditors, also in its capacity as Supervisory Body under Legislative Decree no. 231/01, Control and Risk Committee) or Strategic Supervision and Management roles (Board of Directors, General Managers and Vice-General Managers). In organisations characterised mainly by territorial distribution models, as in the BPVi Group, inspections are fundamental in the policy for the mitigation of credit, financial, operational, and legal/reputational risks.
The Internal Audit Department is based on:

- **A Team tasked with verifying the operation of the Commercial Network**, intervening either on site or remotely. In particular, this structure is tasked with verifying compliance with regulations, internal procedures and corporate standards and expressing merit assessments with respect to certain cases.
- **Auditing Teams**, focused on the "core" activity of internal auditing, which consists of the execution of audits directed at assessing the functionality of corporate processes (rules, procedures and organisational structures) and the operations of the Central Offices. The team is also focused on advisory activities in support of the Corporate Bodies and the Corporate Functions of the Group's Banks and Companies in the definition of internal controls, formulating proposals for improving the risk control and management processes and corporate governance.
- **An ICT Audit and Remote Checking Team** whose objective is to assess the overall reliability and security of the IT system, including with reference to the main outsourcer (e.g. SEC Services), and to check the business continuity plan, including with reference to outsourced Important Operating Functions. It is also responsible for structuring and appropriately supervising remote checks on network structures, as well as on the main processes and business risks.

The Auditing function is also responsible for performing periodic audits on the adequacy and effectiveness of the second level control Corporate Functions, on the adequacy and compliance of the risk management and control system, including the assessment of the effectiveness of the process for defining the Risk Appetite Framework (RAF), on the compliance of the Internal Capital Adequacy Assessment Process (ICAAP) with the requirements set by regulations, on the adherence of remuneration and incentive practices with respect to current provisions and to the policies put in place by the Board of Directors of the Parent Bank.
At the end of financial year 2016, the activities of the Internal Audit Department made it possible to:

- complete **39 audits on the central processes and offices** (8 focused on credit risks, 2 on financial risks, 5 on reputational risks, 9 on operational risks, 4 on IT risks, 1 on securitised debt risk, 8 on strategic and non-viability risks and 2 within the scope of the AIRB);
- complete **175 on-site inspections on the distribution network**, in addition to a series of remote checks, pertaining to branches, corporate portfolios, private portfolios and financial advisors (142 inspections on Banca Popolare di Vicenza, 32 on Banca Nuova and 1 on Farbanca);
- carry out **75 inspections focused on specific practices or issues**, each of an extraordinary nature and not subject to planning;

The Internal Audit Function is carried out centrally by the Parent Bank's Internal Audit Department for all Companies in the Group, on the basis of specific outsourcing service agreements and formalised SLAs. In particular, during the period a specific audit was carried out on NEM Sgr, two on Servizi Bancari, one on Banca Nuova and one on Prestinuova.
From 1 January 2016 onwards, as prescribed by Bank of Italy Circular no. 285/2013, **an internal violation reporting system ("Whistleblowing") was activated,** under the responsibility of the Internal Audit Department. Activation of this procedure was duly communicated to the personnel of the Group's Banks. No significant report was received in 2016.

At the end of 2015, the Board of Directors of the Parent Bank initiated a specific task **aimed at improving the System of Internal Controls**, the governance of which was assigned to the Internal Audit Department. The first phase of this task was completed during the year with **the preparation of an assessment on the Internal Control System**, developed with the support of a leading consulting company and presented to the Control and Risk Committee and to the Board of Directors in May 2016. The assessment allowed **specific areas of improvement** to be identified. In terms of the implementation of these improvements, a three-year development plan has been established aimed at ensuring the revision of operational methodologies in line with Group development objectives, as well as with international best practices and new regulatory methods. In this regard, **2016 saw the launch of project activities aimed at implementing the above-mentioned development plan** with particular reference to the following areas: (i) the revision of the Internal Audit Department's organisational model (approved by the Board of Directors of 5 September) and subsequent requirements in terms of the target sizing and skills of individual structures; (ii) revisitation of methodologies for risk assessment and the management of critical issues; iii) updating of the methods for reporting to company Bodies.

With regard to the activity carried out by the **Control and Risk Committee** of the Parent Bank, it held 20 meetings in 2016. Among the main topics discussed were the Plans of action for 2016 of the various second and third level control functions, the periodic reports on the activities carried out by Internal Audit, Compliance, Anti-Money Laundering and by the Financial Reporting Manager as well as the periodic reports prepared by the Risk Management function on the risk profile of the Group. In addition, the reports about the audits carried out by the Internal Audit Function, by the Compliance Function and by the Anti-Money Laundering Function were brought to the attention of the Control and Risk Committee and were followed by constant information on the execution of the actions identified as a result of these audits.

THE GROUP COMPLIANCE AND ANTI-MONEY LAUNDERING FUNCTIONS

The Bodies of the Parent Bank Banca Popolare di Vicenza, in exercising their prerogatives with regard to "*taking Group-level strategic decisions on the management of risks of non-compliance with regulations (i.e. the risk of incurring judicial or administrative penalties, material financial losses or reputation damage as a consequence of violations of mandatory or self-imposed rules) and of the risk of money laundering and terrorism financing*", have established the **Group Compliance Function** and the **Group Anti-Money Laundering Function**, comprising Offices that work within the Compliance and Anti-Money Laundering Function.

The **Group Compliance Function** provides a **second level control** in the prevention and management of risks of non-compliance with rules, with a view to preserving the good name of the BPVi Group and the public's confidence in its operational and managerial integrity, contributing to the creation of corporate value. The Parent Bank's Compliance Function performs this role also on behalf of the Group's companies that are obligated to establish this Function because they are recipients of the obligations set out by current provisions regulating the matter.

The **Group Anti-Money Laundering Function** provides a **second level control** in preventing and counteracting the execution of recycling and terrorism financing transactions, in the interest of the entire Banca Popolare di Vicenza Group. The Anti-Money Laundering Function performs said role also on behalf of Group companies required to establish said function, inasmuch as they are the recipients of obligations set forth by the Provision issued by the Bank of Italy on 10 March 2011.

In particular, the Organisational Model entails centralising in the Parent Bank the Compliance and Anti-Money Laundering functions for all the Group's Banks, for NEM SGR S.p.A., and for the companies PrestiNuova S.p.A. and BPVi Multicredito Agenzia in Attività Finanziaria S.p.A. (solely the Anti-Money Laundering function), with the appointment of a single Contact Person for the two Functions with each Subsidiary, selected among the personnel belonging to the Parent Bank's Compliance and Anti-Money Laundering Department. The activities are carried out on the basis of Service Level Agreements (SLA) formalised between the Parent Bank and the individual Companies.
The Functions' activities are governed by Internal Regulations that are consistent with the Provisions of the Bank of Italy. With reference to the Anti-Money Laundering Function, the "Group Policy to counteract money laundering and terrorism financing" is now in force. This Policy defines the responsibilities, tasks and operating methods for the management, at Group level, of the risk of money laundering and terrorism financing.
The marked increase, already in 2015, in audit activities (especially ex ante activities), participation in working groups and communication with the Supervisory Authorities, required an action to strengthen and reorganise the Functions, also in view of the results of the reports and of the findings formulated over time by the Supervisory Authorities (foremost among them, the European Central Bank).

In relation to these needs, the "Risks and Internal Controls" site was put into operation as part of the previous Business Plan; it comprises the "Compliance & Anti-Money Laundering" project. The assessment carried out by an outside consulting firm to evaluate the adequacy of the Internal Controls System (submitted to the Board of Directors of the Parent Bank in the meeting of 27 May 2016) highlighted, with particular reference to Compliance, certain areas of improvement, including: the revision of the compliance model (and the connected possibility of modulating the Function's duties), the revision of the information flows to the corporate Bodies, the definition of an integrated risk management system (with the other corporate Control Functions) and the expansion of the workforce.

The Group Compliance and Anti-Money Laundering Functions were consequently involved in the **replacement of the Head of the Department** and (in the latter part of the year) the activation of the new organisational structure, the start of internal recruiting activities and the revision of internal regulations, as well as the carrying out of activities to overcome the gaps identified above, in conjunction with the other corporate control Functions for the management of shared issues (risk taxonomy and evaluation scales, reporting to corporate bodies, information flows etc.).
During the year, the Functions performed the activities for which they are responsible, as prescribed in the respective 2016 Compliance Plan and 2016 Anti-Money Laundering Plan, both through **preventive assessments** (ex ante activities) and through **continuous monitoring** and **dedicated audits** (ex post activities); the Group Anti-Money Laundering Function also carried out the other ongoing activities, such as analysis and transmission of suspicious transaction reports, remote checks of the precise compliance, by sales Network persons, with anti–money laundering provisions, communications of violations of the rules on the use of cash and bearer securities to the Ministry of the Economy and Finance and replies to requests from the Authorities.

The progress of the plans was affected by the numerous extraordinary and unplanned activities and those which required an additional effort, which led to the rescheduling of certain activities, especially ex post, to the year 2017. Among these activities, of significant weight was the continuous communication with the Supervisory Authorities, with particular reference to the extraordinary events that involved the Parent Bank in relation to the Capital Increase/IPO and the Settlement Offer to Shareholders, and to the inspections by the Italian Antitrust Authority or AGCM, for which the functions provided their contributions in the preparation of the defensive briefs. Assistance was also given for inspection accesses made by the Bank of Italy on the commercial network as regards anti-money laundering (for 11 BPVi subsidiaries) and banking transparency (for 5 Banca Nuova branches).

As regards ordinary activities, during the period in question more attention was paid to regulatory changes and the related organisational updates, also through participation in numerous inter-disciplinary projects and working groups, and to consultant support within the scope of the most important projects carried out by the Bank. Among them, Working Groups on usury, banking transparency (e.g. the Project related to the so-called "Mortgage Credit Directive") and market abuse were coordinated by the Compliance Function, with the goal of defining and revising the processes, procedures, controls and communication flows best suited to prevent violations of the reference standards. Work then continued on revising the adequacy/consulting model, based on the Mifid profiling questionnaire; within the anti-money laundering area, the activities connected with the self-assessment process within the scope of the assessment required by the Bank of Italy were concluded in October 2015, concurrently following the initiatives necessary to overcome the critical issues highlighted in the dedicated Report.

During the year, an important commitment required a detailed analysis of mitigating actions identified in previous years and reported in the Functions' Reports at 31 December 2015. This review enabled the drawing up of critical issue dashboards, documents used by the recipient structures to more efficiently handle the actions to be carried out as regards the priorities discussed and assigned.

At Group level, the initiatives for the modification of products and processes and the new product proposals were then evaluated (through the issue of "opinions for the Products and Wealth Management Committee"); additionally, draft Board of Directors resolutions pertaining to sensitive cases in terms of non-compliance risks were evaluated. In relation to these ex ante advisory activities, at 31 December 2016 a total number of 99 compliance interventions had been carried out (comprising "Regulatory Alignment", "Clearing", "Consulting"), as well as 1 anti-money laundering intervention.

Audit and monitoring activities (which also include the data flows originating from the checks carried out by the Internal Audit Department and those responsible for line controls, and the data about customer complaints at Group level) focus, in terms of compliance, on the safeguarding of compliance with regulations identified by the primary and implementing legislation, carried out annually on the basis of the business plan and/or extraordinary needs that arise in the course of the financial year. At 31 December 2016, a total of 33 reports had been issued (17 relating to monitoring activities and 16 to audit/study activities).
The ex post interventions of the Anti-Money Laundering Function (12 monitoring initiatives and 3 audits concluded during the period) instead pertained to compliance with regard to: adequate customer checking, keeping the single computerised archive, reporting and active collaboration and training of personnel.

THE FINANCIAL REPORTING MANAGER AND THE MAIN CHARACTERISTICS OF THE EXISTING RISK MANAGEMENT AND INTERNAL AUDIT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (also pursuant to article 123-bis, paragraph 2 (b) of the Consolidated Financial Markets Act)

This section describes the principal characteristics of the "**Model for the Governance and Control of the BPVi Group's administrative and accounting processes**", which is designed to **guarantee the credibility and reliability of financial information**.
The definition of the "Model for the Governance and Control of the BPVi Group's administrative and accounting processes" was guided by:

- the preliminary identification of a recognised and well-known comparative model;
- comparison with reference practices defined or referred to by institutional bodies[11];
- comparison with domestic and international best practices adopted by organisations comparable with the BPVi Group.

Based on the model that has been defined, the Financial Reporting Manager's operations will develop along a cycle of sequential activities (the "DP cycle"[12]), which aims to place the administrative accounting processes under a plan, assess the adequacy and functionality of the relative audits, ascertain/declare the corporate accounting disclosures required by the law based on the knowledge deriving from the existence/adequacy of processes and the actual performance of accounting controls.
The phases of the cycle of activities fall under the responsibility of the Financial Reporting Manager who, however, relies not only on the results of the activities carried out by the control functions, but also on support from the Internal Audit Department, for the performance of audit activities defined according to a specific service agreement; for specific needs, moreover, (s)he can request support from outside consultants.
The activities performed by the Financial Reporting Manager in 2016 are in line with the provisions of the relevant work programme.
On the basis of a web-based application, the Financial Reporting Manager obtained the internal sub-certification by the Control Owners on the actual execution of the administrative and accounting audits during the financial year. The Financial Reporting Manager also obtained the certifications of those responsible for the administrative and accounting processes and the results of the audits carried out by other control functions and outside consultants on behalf of the Financial Reporting Manager. Analysis of the above processes identified that the Group's exposure to administrative-accounting risk is compatible with the requirements to provide correct financial information.

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[11] The COSO Report – "Internal Control Integrated Framework" developed by the Committee of Sponsoring Organizations of the Treadway Commission, comprising the principal US professional accounting and auditing associations was used as a reference for defining the Financial Reporting Manager's Model. It provides a methodology for the analysis and evaluation of the system of internal controls recognised at an international level and recommended by ANDAF (National Association of Finance Directors) in a specific position paper, as well as by ABI in Circular no. 13 dated 27 April 2007.

[12] The operational activities comprising the "DP cycle" are grouped in terms of sequence, nature and purpose into the phases indicated below:

- Phase 1 - Assessment of business controls (Entity Level Control) established by the administrative-accounting Model;
- Phase 2 - Definition of scope and planning of activities;
- Phase 3 - Formalisation/update of administrative-accounting processes;
- Phase 4 - Assessment of risks and design of accounting controls, as well as monitoring of the plan for corrective action (Risk & Control Assessment);
- Phase 5 - Test of controls;
- Phase 6 - Assessment of process controls and preparation of the declaration/certification.

RISK MANAGEMENT

This section of the Report presents key information about the work performed by the Group in 2016 to **manage the risks that are typical of credit brokering and financial activities**.

The purpose of the Risk Management Function is to measure and control risks, both at an individual level and on a consolidated basis. This mission involves:

- **the definition and development of models and tools for the measurement and control of risks at Group level**, as well as the systematic and continuous verification of the adequacy of the risk management models and tools used, while also monitoring developments in the regulatory framework;
- **verification that the risk profiles** of the Group's Banks and Companies **comply with the objectives and limits** established by the respective Boards of Directors, and by the Board of Directors of the Parent Bank with regard to the overall risk profile for the Group.

The Group identifies its exposure to risks within the self-assessment of capital adequacy (ICAAP process), taking into account its own business model, its strategies, and the evolution of the operating and market environment. These analyses are taken into account in the annual definition of risk appetite formalised in the **Risk Appetite Statement** (RAS) approved by the Board of Directors of the Parent Bank. Its compliance is verified on the basis of the processes formalised in the **Risk Appetite Framework** (RAF) and in policies dedicated to the individual risk profiles.
In particular, in the course of 2016 the risk monitoring and management activity was based on the **Risk Appetite Statement** and on the Policies for protection against financial and credit risks approved on 22 December 2015 by the Board of Directors of the Parent Bank Banca Popolare di Vicenza.
On this occasion, the **Risk Appetite Framework** was amended, with respect to the previous version, in order to:

- better **represent the Group's new organisation and governance**, as reflected in the Business Plan;
- comply with the **new regulatory requirements for "Bank recovery and resolution"[13]**, providing an integrated vision between management of the Bank under "business as usual" conditions and under stress conditions.

The framework was subsequently updated, with the Board of Directors' resolution of 5 May 2016, to take into account the most recent revision of the previous Business Plan, approved by the Board at the end of March 2016, and integrate it with the policy for safeguarding against operational, IT and reputational risk.
For the individual risk profiles, when relevant, the Risk Appetite Statement sets out the following reference values:

- **Risk Appetite**, which represents the risk level (overall and by type) the Group intends to assume for the pursuit of its own strategic objectives;
- **Risk Tolerance**, which represents the maximum allowed deviation from the Risk Appetite; the tolerance threshold is fixed in such a manner as to ensure, in any case, that the bank has sufficient margins to operate, even under stress conditions, within the maximum risk assumed;
- **Risk Capacity**, i.e. the maximum level of risk (when it exists) that the Group is technically able to assume without violating the regulatory requirements or the other constraints imposed by the Supervisory Authority or by the shareholders.

The indicators contained in the Risk Appetite Statement are periodically monitored by the Risk Management Function; if the effective risk profile assumed and measured (Risk Profile) does not meet the Appetite, Tolerance or Capacity level, specific escalation processes will be activated,

[13] Banking Resolution and Recovery Directive – 2014/59/EU (BRRD).

involving the Board of Directors of the Group and/or individual legal entities and the Managing Director. To complement the aforesaid indicators, moreover, specific "risk limits and threshold", contained in the Policies for safeguarding against risks and in their annexes, are defined to supplement the monitoring perimeter of the RAS.

Risk profile of the BPVI Group

The following discussion covers the management and monitoring of the principal types of risk that involved the BPVi Group in force in 2016.

Credit risk

Credit risk is defined as the **risk of loss due to an unexpected deterioration in the creditworthiness of a borrower, whether as a result contractual non-performance or otherwise**. The credit risk is also connected with the risk of incurring losses as a result of the performance of advisory services involving extraordinary finance and acquisition of equity investments not classified in the trading book for supervisory purposes, due to non-performance by the counterparty.
The credit exposure risks considered by the BPVi Group are regulated by the "**Prudential supervisory instructions for Banks**" (Bank of Italy, Circular no. 285 of 17 December 2013). In particular, credit risk is included among first pillar risks, for which the bank must calculate the minimum capital requirements, while concentration, country and transfer risks are included among the risks in relation to which banks must assess their capital adequacy ("Second Pillar" risks).
With regard to **the way credit risk is managed**, the BPVi Group has defined a dedicated internal regulation for managing credit risk, concentration risk and other exposure risks, which identifies the risk measurement methods and risk assumption limits in line with the strategic objectives defined in the Risk Appetite Guidelines and with the metrics indicated in Risk Appetite Statement, the roles and responsibilities of the corporate Bodies and Functions involved, and the related management reports.
The core principles of the credit exposure risk governance model of the BPVi Group, developed according to a logic consistent with the roles and responsibilities defined in the Risk Appetite Framework Rulebook and in the ICAAP, prescribe that:

- responsibility for defining the guidelines on managing these risks rests with the Body with strategic supervision function of the Parent Bank which, with annual periodicity within the process for the approval of the Risk Appetite Statement, defines the objectives in terms of credit exposure;
- riskiness is monitored centrally by the Parent Bank with reference to the individual Legal Entities and to the Group as a whole;
- individual Legal Entities must comply with the guidelines defined by the Parent Company for risk and capital management.

In this context, the Risk Management Function monitors changes in the risk profile of the loans portfolio at a consolidated level and for each Group bank. This activity includes the preparation of quarterly reports brought to the attention, respectively, of senior management at Group Banks and the respective Boards of Directors. The Function also develops rating models, and takes part in the definition of methodologies for estimating the general provisions needed with reference to the related components of risk. More generally, the function also provides support for the definition of credit measurement methodologies for accounting purposes, with the exclusion of the "analytical" component.
Moreover, in 2016 the second level audit activity of loan performance monitoring continued, directed at auditing, *inter alia*, the work of the operational and credit collection units, assuring the

correct classification of non-performing exposures and the adequacy of their degree of irrecoverability.
Within the Risk Appetite Framework (RAF), during the year the Risk Management Function monitored compliance with the system of objectives and limits approved by the Board of Directors. The credit risk framework focuses on the quality of the loans portfolio, monitoring the expected loss of the performing component and the trend of the non-performing component from the standpoint of its growth, coverage ratio, and ratio with respect to tangible assets (Texas ratio). From the viewpoint of the quality of the loans portfolio, exposure to “critical sectors” is also verified; these are the sectors that, based on assessments made on data outside and inside the Bank, exhibit such systemic risk elements as to call for the application of specific, non-expansionary lending policies.
With regard to the analyses carried out within the ICAAP, the country risk and the transfer risk were assessed as not significant for the Group.
The matter is regulated internally, *inter alia*, by the Policy to safeguard against credit risk and by its implementing Regulation.
The **A-IRB (Advanced Internal Rating Based) Project**, aimed at achieving the shift to advanced credit risk management methods, led to the implementation of the **New Rating System** (models, processes, procedures, regulations) for all segments (Large Corporate, SME Corporate, SME Retail, Small Business and Private) with consequent activation of the **New Rating Assignment Procedure** throughout the Group’s sales Network. In the first quarter of 2016, the organisational and IT activities preparatory to the April 2016 production of the following models were concluded:
- rating models for estimating the probability of default (PD), improved with respect to those already in use in the Group starting from 2014;
- internal Loss Given Default (LGD) model, replacing the one in force starting from the second half of 2014;
- internal Exposure at Default (EAD) model to quantify any expected change in the margins granted and unused by the counterparties.

During the second half of 2016, the PD and LGD models were recalibrated to include the data for financial year 2015 in the estimates.
It should be recalled that internal ratings represent a summary assessment, for the coming year, of the credit quality of the customer expressed as a probability that the counterparty may become insolvent. This assessment is expressed on internal classification scales (one for each rating segment) consisting of 11 rating classes for performing accounts and 1 residual class for those in default. A probability of default is associated with each rating class. Rating classes are ordered on the basis of credit risk: moving from a lower risk class to a higher risk class means an increase in the probability of default by the debtor within the following 12 months.
The BPVi Group has developed internal rating models that cover the types of counterparties with which it usually works and to which it is most exposed. The models contemplate the following customer segments: retail counterparties, divided into small businesses (mostly comprising sole traders) and SME Retail (entities with revenues between Euro 0.7 million and Euro 2.5 million), and corporate counterparties, divided into SME Corporate (entities with revenues between Euro 2.5 million and Euro 150 million) and Large Corporate (entities with revenues above Euro 150 million).
The activities carried out on the models, and the organisational and IT aspects, signalled the end of the A-IRB Project and the above-mentioned activities became part of the Bank’s ordinary operations.

Routine monitoring activities are based on the **GDC (Credit Management)** instrument, aimed at defining an advanced model for managing loan books based on predetermined strategies (goals, actions and timing) according to the level of customer risk. This IT tool supports account managers, allowing them to check on changes in the credit status of customers, and quickly identify any

deterioration in the standing of borrowers. This management tool is based on an **Early Warning** monitoring system, which promptly identifies anomalies that are indicators of possible deterioration in customers' creditworthiness. In recent years, the tool was enhanced with the introduction of improvements deriving from A-IRB rating models, including the revision of the indicators used for credit risk monitoring.
In addition, the management of loans is governed by "Lending Policies" that specify how the Group intends to accept credit risk in relation to its customers, covering both the granting and the renewal phases of the lending relationship. The policies affect all customers and are directed at promoting a balanced growth of loans to counterparties with higher standing, regulating the issuing of loans to customers with lower credit ratings and managing credit more correctly.

The system automatically establishes the deciding power based on the level of risk (lower powers in the case of high risk and greater powers in relation to more creditworthy customers).

It should be noted for the Parent Bank in particular that the launch of a new network model from January 2016 amended the power for customers belonging to the Corporate & Private branch, requiring as minimum decision-making level the Central Bodies of the Loan Division.

For all branches, moreover, decision-making powers above the Branch Manager were concentrated on organs functionally dependent on the Loan Division.
Lastly, the standard reports on the dynamics of anomalous loans are, via the Intranet, now available to individual account managers within the commercial network.

Concentration risk

Concentration risk is defined by the BPVi Group as the risk deriving from a low level of diversification of counterparties; concentration refers to central counterparties, groups of related counterparties and counterparties operating in the same industry, located in the same geographic area or exercising the same activity or dealing the same goods, as well as to individual guarantee providers, if credit risk attenuation techniques are applied. There are two types of concentration risk:

- **single name concentration risk** (concentration to parties belonging to the same economic group and/or connected);
- **geo-sectorial concentration risk** (concentration towards particular industries and/or geographic areas).

Regarding single name concentration, the BPVi Group has long applied a risk limit defined in terms of the portion of loans granted to single customers or economic groups out of the total loans granted by the Bank, net of exposures to counterparties belonging to banking and insurance groups. This indicator is calculated for positions with borrowings exceeding a given threshold, variable for the Group's banks. The BPVi Group also defines, as part of the Risk Appetite Framework, a risk level relating to the geographical and industry concentration (geo-sectorial concentration risk) of the loans portfolio. In geo-sectorial concentration risk, concentration by economic sector is monitored (net of exposures to banks), using the breakdowns called for by the method proposed by the ABI Studies and Research Centre.
Lastly, the Group monitors the second pillar capital requirement in view of the single name concentration risk, calculated according to the regulatory methodology.

Other credit exposure risk

The policy for safeguarding against credit risk regulates the management of the credit and concentration risk as well as of the country, transfer and residual risk.

The **country risk** is defined by the BPVi Group as the risk of losses caused by events that occur in a country other than Italy. The country exposure concept is broader than sovereign risk because it refers to all exposures, regardless of the nature of the counterparties, be they natural persons, entities, banks or public administrations.
For country risk, an annual assessment of materiality is performed; the assessment carried out in early 2016, within the 2015 ICAAP, showed that the risk was not significant.
The **transfer risk** is defined as the risk that the Group, exposed to a party that finances itself in a currency other than the one in which its main sources of income are denominated, realises losses due to the debtor's difficulty in reconverting its own currency into the currency of the exposure. The BPVi Group, with annual periodicity, evaluates the materiality of the transfer risk, isolating exposures that are potentially subject to this risk; the check carried out in early 2016, within the 2015 ICAAP, confirmed that the risk is not significant for the Group.
The **residual risk** is connected to the ineffectiveness of the guarantees, when enforcing and/or collecting the non-performing and anomalous loan, connected to the incorrect management of the guarantee both in the acquisition and in the monitoring and/or renewal stage. For this risk, the Group does not define specific limits within the Risk Appetite Framework, but it actively manages it through the existing processes and procedures.
The residual, transfer and country risks are included among "Second Pillar" risks, in relation to which banks must assess their capital adequacy: the BPVi Group does not determine an internal capital to hedge them, but they are partly quantified within the requirement for the credit risk.

Counterparty risk

Counterparty risk is the risk that the counterparty to a transaction involving specified financial instruments will default prior to settlement. More specifically, counterparty risk emerges in the presence of certain types of transaction that present the following characteristics:
- the exposure to risk generated is equal to the positive fair value generated by said transaction;
- they present a market value which changes over time based on the underlying market variables;
- they generate an exchange of payments or the trading of financial instruments or commodities.

With regard to the way in which counterparty risk is detected and monitored, the BPVi Group has defined a dedicated internal regulation for managing counterparty risk, which identifies the risk measurement methods, the roles and responsibilities of the corporate Bodies and Functions involved, the monitoring activities consistent with the Risk Appetite Framework and the related management reports.
As regards the monitoring of counterparty risk within the Risk Appetite Framework, the Group uses the associated consolidated capital requirement, calculated in accordance with supervisory regulations, inclusive of the so-called Credit Valuation Adjustment (CVA) on OTC derivative transactions, i.e. a capital add-on to take account of potential losses in value connected with fair value adjustments deriving from a change in the creditworthiness of the counterparty in an OTC derivative contract.

Market risk

Market risk is commonly defined as the risk of incurring an adverse change in the value of exposure to financial instruments due to unfavourable trends in the interest rates, exchange rates, inflation rate, volatility, stock prices, credit spreads, commodity prices (generic risk) and issuer's credit rating (specific risk).
With regard to market risks, the main activities of the Risk Management Function are to validate and document the sources of, and the processes for gathering market data, to determine and validate the methodologies adopted for pricing the financial instruments used by various entities

within the Group, and to determine the fair value, for accounting purposes, of nearly all financial instruments held as assets.
Moreover, within the Risk Appetite Framework (RAF), the Risk Management Function, in concurrence with the Financial Division, submits to the Board of Directors' approval the system of objectives and limits, detailed by macro-aggregates. These limits are monitored on a daily basis with the subsequent reporting by the same Function to the Board of Directors on a quarterly basis and to the various Committees with different periodicity.
With regard to the way market risk is managed, the BPVi Group has defined a dedicated internal regulation which identifies the risk measurement methods and risk assumption limits in line with the strategic objectives defined in the Risk Appetite Guidelines and with the metrics indicated in Risk Appetite Statement, the roles and responsibilities of the corporate Bodies and Functions involved, and the related management reports.
For **the quantification of market risk**, and the consequent definition of the limits, the BPVi Group has long applied a model based on the **Value at Risk (VaR)** approach, calculated in full evaluation through the "historical simulation": this method implies the revaluation of the risk position conveyed by the sensitivities of the portfolio with the shifts in the market parameters that actually occurred last year. The application of the 99% confidence interval to the distribution of probabilities of Profit & Loss (hereafter P&L) thus obtained, determines the VaR with holding period of 1 day.
In order to test the forecasting effectiveness of the results of the VaR, back-testing is carried out which makes it possible to compare the potential loss in time t+1, represented by the estimate of VaR obtained at time t by historical simulation, with the P&L data resulting from the revaluation of positions with the actual changes in the market parameters between time t and time t_{+1}, assuming that the portfolio has not moved.

The method for the measurement of financial risks through the VaR is unable to provide an adequate measurement of market risks in extreme situations which could compromise the Bank's economic and capital situation. For this reason, the need arises to conduct further analyses to assess the capacity to absorb the impact of significant shocks that may occur in financial markets. This type of analysis takes the name of stress testing and consists of a revaluation of the portfolio imposing particularly adverse shocks, defined according to discretionary logic, to the various risk factors. Therefore, stress testing is, de facto, a complement to VaR and it measures potential vulnerability upon the occurrence of exceptional and unlikely events that are nonetheless possible.
In defining the stress test scenarios used, the BPVi Group has adopted a grid of extreme and symmetrical variations regarding stock markets, parallel shifts in rate curves, trends in exchange rates, volatility and credit spreads; in addition, two market crash scenarios are envisioned, which reproduce events that have actually occurred in the past.

Compliance with the limits set for VaR is directed at capping, within the established confidence interval, the maximum daily loss. However, even if the limits are complied with in the time interval of a single day, over several consecutive days losses may still occur whose sum, within a given time interval, may reach values that are not in line with the Group's risk appetite. To protect itself against this possibility, the Group, in line with financial best practice, has combined VaR limits with monitoring the actual cumulated loss, which shows any operating loss from a portfolio or aggregate of portfolios, calculated from the start of the year to the monitoring date. Lastly, the BPVi Group, to monitor synthetic exposure to individual risk factors, has defined "**operating limits**", which represent the maximum risk assumable in terms of Greeks with respect to individual risk factors (sensitivity).

In 2016 the Parent Bank's Risk Management Function continued its work on quantifying and controlling the VaR limits; in the same period, it also took over the daily checks of the operating limits and of the impact on the income statement, previously carried out by an office of the Finance Division.

The above-mentioned VaR limits in previous years were determined solely for the trading book. With regard to the banking book (Available For Sale portfolio - AFS), in addition to activities to monitor the absorption of the ceiling approved by the Board of Directors of the Parent Bank, VaR and stress testing were monitored, with weekly reporting to the Finance & ALMs Committee and quarterly reporting to the Board of Directors.
For 2016, in addition to the described monitoring activity, VaR limits were defined for the AFS portfolio.

With specific reference to the trading activity, in 2016 the monitoring of the VaR limits, as defined upon preparing the Risk Appetite Statement of the Group, was carried out both with regard to the Global Markets aggregate, pertaining to the Parent Bank's operations, and for the trading book of BPV Finance (the only two Group Companies with their own trading books). More specifically, the two aggregates had the following performance[14]:

- **Global Markets: average figure of Euro 1,054 thousand, figure at 30 December 2016 equal to Euro 297 thousand;**
- **BPV Finance: average figure of Euro 24 thousand, figure at 31 December 2016 equal to Euro 0 thousand;**

During the year, the VaR limits defined for the Trading Book Group Total and for the total aggregates of Global Markets and BPV Finance were not exceeded.

Within the back-testing activity, in the different periods analysed no cases of negative clean P&L figure below the VaR figure were recorded in the Global Markets aggregate, while in the BPV Finance aggregate one case of clean P&L figure lower than the VaR was recorded on 24 June 2016, due to the strong movement of market parameters as a result of the vote in favour of Brexit.

With specific reference to the AFS portfolio, in the course of 2016 the monitoring of the VaR limits, as defined upon preparation of the Group's Risk Appetite Statement, did not reveal any exceeding for the Banking Book Group Total and on the Government Securities, Covered Call, Equity, Bond, Securitisation and UCITS aggregates.

Within the Risk Appetite Framework (RAF), during the year the Risk Management Function monitored the sovereign exposure indicator, focused on the amount of government securities in the Bank's AFS portfolio.
Within the market risk, the BPVi Group also identifies the **basic risk**, defined as the risk of incurring losses caused by non-aligned changes in the values of positions of opposite sign, similar but not identical. In this regard, Risk Management verifies, annually within the ICAAP, the presence of any positions in one or more equities included in a stock index with one or more positions in figures/other derivatives correlated to that index or that offset opposite positions in futures on stock indices, which are not identical in terms of expiration date, composition or both. As a result of the audit carried out in early 2016, within the 2015 ICAAP, the basic risk was not significant.

Lastly, market risk also includes the **risk of settlement of foreign exchange transactions**, defined by the BPVi Group as the risk to incur losses when, in the execution of a foreign exchange transaction, the bank hands over the currency it sold, but does not receive the currency it purchased. With quarterly periodicity, Risk Management monitors the indicator of the exposure to this risk through an RAF metric defined on it. In 2016, the expected loss on the daily exposure deriving from foreign currency transactions never exceeded the risk limit.

[14] During the year, the monitoring perimeter of the trading activity was revised, so for the sake of consistency the figure refers to the period from 22 February to 30 December 2016.

Interest rate risk

The Banca Popolare di Vicenza Group has defined **interest rate risk** as the risk of incurring losses or reduced profits as a result of the negative effect of a fluctuation in the interest rates on the value of the assets and liabilities of the banking book. These fluctuations affect both income and balance sheet items, by impacting on the net interest income (and the level of other operating costs and revenues, sensitive to interest rates) and the value of equity, as a direct consequence of the change in the value of assets and liabilities sensitive to the interest rate risk. Therefore, an effective measurement, control and management system, which maintains the exposure to interest rate risk within prudent limits, becomes essential for the strength of the Bank and for the proper structuring of its Risk Appetite. Financial differences between the assets and liabilities in the Bank's financial statements, and consequently, the potential exposure to interest rate risk, derives as much from customers' preferences regarding the financial characteristics of investment and debt instruments, as from the decisions of the institution regarding funding methods and the use of funds.
With regard to **the way interest rate risk is managed**, the BPVi Group has defined a dedicated internal regulation which identifies the risk measurement methods and risk assumption limits in line with the strategic objectives defined in the Risk Appetite Guidelines and with the metrics indicated in Risk Appetite Statement, the roles and responsibilities of the corporate Bodies and Functions involved, and the related management reports.
This risk is monitored each month using ALMPro ERMAS, an **Asset & Liability Management** tool, which measures in "static" conditions the effect of a change in interest rates on the financial margin and equity. Operational and strategic decisions regarding the management of the banking book have the ultimate goal of immunising the volatility of the net interest income (considering current profits) expected over the financial year (12 months) and of total economic value (considering the market value of the banking book) as a consequence of changes in interest rates.
The Parent Bank's Board is ultimately responsible for the management of interest-rate risk, as assisted by the Finance & ALMs Committee and the business functions responsible for the strategic and operational management of such risk, both at Group level and at level of individual legal entity within the Group. The Parent Bank's Board of Directors approves the strategic guidelines and operational limits proposed by the Finance & ALMs Committee, and is periodically informed about changes in the exposure to interest-rate risk and the way it is managed.
The Risk Management Function inputs a continuous and comprehensive flow of data into the Asset & Liability Management system, provides for the management, maintenance and evolution of the data base and of the parameters of the ALM system and is also responsible for reporting to Corporate Bodies and for the monitoring of RAF metrics. Lastly, the Finance Division is directly responsible for the operational management of interest-rate risk through the execution of the indications provided by the Finance & ALMs Committee.
The Group's Risk Appetite Statement for 2016, in relation to the interest rate risk, provided a system of objectives and limits centred on the sensitivity of the banking book and the net interest income. Moreover, limits were defined on the potential negative Net Market Value of the portfolio of derivatives pertaining to different coverage strategies on fixed-rate, variable-rate and sight loans.
In relation to the monitoring of the aforementioned indicators, it should be pointed out that, at 31 December 2016:

- the exposure to interest rate risk in terms of sensitivity +200 basis points of the Group, relative to Own Funds, was within the limit established in terms of risk capacity;
- exposure to the interest rate in terms of sensitivity of the net interest income over a time span of 12 months following a parallel and immediate shock of the interest rate curves of +100 bps was found to be in line with the set targets;
- the risk limits relating to the potential negative Net Market Value of the hedging strategies under Hedge Accounting, active during the period, were complied with.

Liquidity risk

The Banca Popolare di Vicenza Group has defined **liquidity risk** as the risk of incurring losses or lower profits as a result of a temporary difficulty both in raising funds on the market (**funding liquidity risk**) and/or of the presence of restrictions on the ability to sell assets (**market liquidity risk**), necessary to fulfil the Group's own payment commitments. In particular, funding liquidity risk is incurred if the Group is not able to fulfil its own payment commitments and its own obligations in an efficient manner (thus, according to a logic that is consistent with the "desired" risk profile and at "fair" economic conditions), because of the inability to raise funds without compromising its own core operations and/or financial situation. Market liquidity risk on the other hand relates to the risk that the Group may be unable to sell an asset, except at a capital loss, due to the illiquid nature of the market and/or due to the timing required for the transaction.
With regard to **the way liquidity risk is managed**, the BPVi Group has defined a dedicated internal regulation which identifies the risk measurement methods and risk assumption limits in line with the strategic objectives defined in the Risk Appetite Guidelines and with the metrics indicated in Risk Appetite Statement, the roles and responsibilities of the corporate Bodies and Functions involved, and the related management reports.
The Risk Management Function develops models and tools for the measurement of liquidity risk, produces the daily operational maturity ladder and the monthly structural maturity ladder, and analyses, maintains and develops the various reports produced, ensuring coordination with the related functions within the Group's Banks and Companies.
The **operational management** of liquidity risk is entrusted to a dedicated function within the Finance Division of the Parent Bank, whose objective is to maintain the best balance between the medium-term maturities of loans and short-term funding, while taking care to diversify it by counterparty and maturity arranged over the counter and in the interbank deposits market. In addition to usual banking treasury activities (daily monitoring of the Group's liquidity and optimisation of its short-term management), any medium and long-term imbalances are managed using appropriate policies established by the Finance and ALMs Committee. Additionally, the Finance and ALMs Committee is provided a report on the performance of the Loans/Direct Commercial Funding ratio and the portion of encumbered assets ('asset encumbrance') as further support to monitor the Group's structural liquidity. For more effective monitoring of liquidity risk, for the year 2016, a system of targets and limits was defined: it is functional to the daily monitoring of the operational liquidity position and the monthly monitoring of the structural liquidity position.
Within the Risk Appetite Framework, and concerning the monitoring of the Group's daily liquidity, the indicators monitored during 2016 are:

- **Liquidity Coverage Ratio (LCR):** this indicator identifies, at Group level, the stock of uncommitted high quality liquid assets held by the Bank, usable to cover the Total Net Cash Outflows which the Bank might need to cover in the short term (30-day time span).
- Level 1 High Quality Liquid Asset, i.e. the value of free allocatable assets (Government bonds) for LCR purposes net of the haircut;
- Intraday liquidity buffer, which represents the liquidity usable by the Treasury to address potential liquidity needs within one day;
- *Cost of wholesale funding*, i.e. the interest, in percentage terms, paid on funding by wholesale counterparties (excluding funding by the ECB).

With regard to monitoring the Group's structural liquidity position, the selected reference indicator is the **Net Stable Funding Ratio (NSFR)**. This indicator identifies the ratio of **Available Stable Funding** to **Required Stable Funding**, which are both calculated as the sum of capital cash flows in the banking book placed into various buckets on the basis of the contractual maturity weighted for the respective factors (ASF factor and RSF factor).

Similar to the themes of structural liquidity, capital equilibrium is monitored through the "**loans/direct commercial funding**" ratio and "**Asset Encumbrance**" which represents the percentage of assets pledged as collateral for funding purposes (the indicator is directed at monitoring the level of assets pledged as collateral for funding purposes, with the goal of maintaining this ratio within narrow levels in order not to compromise the ability to use this form of funding in any stress situations). Moreover, in order to facilitate a more accurate management of liquidity risk, risk limits are also defined on certain structural and **early warning** alert indicators and on the **level of funding concentration** on individual counterparties.
In addition, the **Contingency Funding Plan** (the plan for raising funds under stress conditions) is also drafted on a yearly basis, to define the intervention strategies in case of liquidity stress, requiring specific fund raising actions as well as the adequacy of the **Group's liquidity reserves**.
For more details on the Group's liquidity situation, please refer to the dedicated section of this Report.

Operational risks

Operational risk is defined as the risk of losses deriving from inadequate or dysfunctional procedures, human resources or internal systems, or external events.
This category includes, *inter alia*, losses deriving from fraud, human error, the interruption of operations, the malfunction and non-availability of systems, contractual non-performance and natural catastrophes. Operational risk also includes legal risk, defined as the risk of losses deriving from violations of laws or regulations, from contractual or non-contractual liability or from other disputes, but excludes strategic and reputation risk.
In case of judicial or administrative penalties or significant financial losses as a consequence of regulations with respect to the areas identified by the Compliance and Anti-Money Laundering Department, operational risk also includes compliance risk.
With regard to **the way operational risk is managed**, the BPVi Group has defined a dedicated internal regulation which identifies the risk measurement methods and risk assumption limits in line with the strategic objectives defined in the Risk Appetite Guidelines, the roles and responsibilities of the corporate Bodies and Functions involved, and the related management reports.
More specifically, the risk management framework comprises four main elements:

1. **process for the identification, collection and classification of operating loss events for the purposes of measuring the actual risk (Loss Data Collection - LDC)**: a set of methods, systems and activities for the collection, processing, validation and preservation of the operating loss data and related recoveries experienced by the Group.
2. **process for assessing the exposure to operational risks in order to assess prospective/potential risks (Operational Risk Self-Assessment)**[15]: set of methods, systems and activities to identify and assess the operational areas that are most exposed to operational risks and the effectiveness of existing controls.
3. **mitigation process:** set of procedures, tasks and responsibilities directed at the adoption of risk prevention, reduction and/or transfer actions in relation to the identified critical areas.
4. **reporting process:** sets of systems and activities for processing all information about the operational risks for monitoring and controlling risk exposure and describing the actions to be carried out to prevent and attenuate risk and indicating their effectiveness.

With regard to the first point, the Parent Bank was a founding member in 2002 of DIPO, the interbank consortium promoted by ABI that maintains an Italian database of operational losses. As a consequence, the Group gathers regular information about its operational losses.

[15] The project to define the model and implement it from a procedural viewpoint is currently underway

The Operational Risk was hedged within the Risk Appetite Statement for 2016, with the definition of an indicator based on the net operating losses recognised in the Loss Data Collection (LDC) process, and with the allocation of capital in view of the operational risks.
In 2016:
- the new Loss Data Collection model at the Group level was released; it is supported by a new, specifically developed application;
- the Parent Bank continued to gather, report and analyse the realised operational losses. Upon monitoring the RAF indicator, at 31 December 2016, the level of operating losses that emerged, net of extraordinary events, was found to be in line with the defined risk appetite;
- the project to define and develop the collaborative model of self-assessment of potential operational risk (Operational Risk Self-Assessment) was begun, contributing to the consolidation of the overall framework for the management of operational risk adopted by the Group.

The risks underlying the equity investments that may be held

Risks connected with the acquisition of equity investments are the risks of excessive illiquidity of the asset deriving from equity investments in financial and non-financial entities.
The BPVi Group adopted a set of internal regulations, to contain the risk of excessive illiquidity of the assets deriving from equity investments in financial and non-financial entities and to promote adequate management of risks and conflicts of interest in accordance with sound and prudent management principles. The regulations are based on the following fundamental elements:
- the procedures for measuring and managing the risks underlying the equity investments through the definition of the criteria for managing risk with reference to the roles and responsibilities of corporate Bodies and Functions;
- the procedures for monitoring the risks linked to the equity investment portfolio and verifying the regulatory and operational limits defined internally for the different operating organisations and units;
- the definition of the levels of risk propensity within the Group's Risk Appetite Framework;
- the reports to corporate Bodies and Functions.

Regarding the risks underlying the equity investments that may be held, the Risk Management Function annually submits to the approval of the Parent Bank's Board of Directors the system of objectives and limits that, within the Risk Appetite Framework, refer to the regulations that govern the allowed level of exposure in relation to the equity investments that may be held; the same Function then periodically monitors these indicators, based on the data provided by the Financial Statements Function, verifying compliance with the regulatory and operational limits.

Lastly, the same Function participates in the process for the preparation and approval of investments/divestments in equity assets, according to the procedures defined in the "Regulations on the equity investments that may be held by the Banca Popolare di Vicenza Group"; within this process, it is called upon to express its opinion with regard to compliance of the RAF limits, with reference to the proposed investment/divestment.
As regards the monitoring of the RAF limits with reference to the risks underlying equity investments, it should be noted that as at 31 December 2016 the "general limit" risk profile revealed that the risk tolerance was exceeded and the "total limit" risk profile showed that the risk appetite was not complied with. This was due to the reduction in own funds, which are the denominator of the indicators, the equity investment portfolio having remained substantially unchanged.

Risk Assets with respect to Related Parties

Risks connected with risk assets and conflicts of interest with respect to Related Parties refer to the risk that the nearness of certain persons to the Bank's decision-making centres may compromise the objectivity and impartiality of the decisions to issue loans and to carry out other transactions with the same persons, with possible distortions in the resource allocation process, exposure of the bank to inadequately measured or controlled risks, potential damage for depositors and stockholders.

The internal regulatory framework defined by the Group, consistently with the provisions of the supervisory regulations[16], defines the addresses to be applied by the BPVi Group, with the following component elements:

- the procedures for measuring and managing the risks underlying Related Party transactions through the definition of the criteria for managing risk with reference to the roles and responsibilities of corporate Bodies and Functions;
- the methods for measuring risks connected with Related Party transactions;
- the procedures for monitoring the risks underlying Related Party transactions and verifying the limits assigned to the different operating organisations and units;
- the definition of the levels of risk propensity (risk appetite);
- the reports to corporate Bodies and Functions (Management Reporting System).

The core principles of the governance model of the BPVi Group within the assumption of risks with respect to Related Parties, developed according to a logic consistent with the roles and responsibilities defined in the Risk Appetite Framework Regulation and in the ICAAP, prescribe that:

- responsibility for defining the guidelines on assuming and managing the risks underlying related-party transactions shall rest with the Parent Bank's Board of Directors;
- the assumption of risks with respect to Related Parties shall be monitored centrally by the Parent Bank with reference to the individual legal entities and to the Group as a whole;
- individual legal entities shall comply with the guidelines defined by the Parent Bank for the assumption of risks with respect to Related Parties.

The Risk Management Function, with the input of the other involved organisations, submits annually for approval to the Board of Directors of the Parent Bank the Risk Appetite Framework parameters in the form of objectives and limits on the exposure in risk assets referred to Related Parties, having regard to the regulations governing the matter; the same Function then periodically monitors these indicators, verifying, *inter alia*, compliance with the regulatory and operational limits.
In 2016, the Risk Management Function, within the scope of its own 2nd level controls, started monitoring the risks connected with transactions with Related Parties, which entails the following stages:

- measuring the risks underlying exposures to Related Parties that may be mainly due to credit, market and counterparty risks;
- verifying compliance with prudential limits (regulatory limits) at the consolidated level and at the individual Group bank level;
- verifying compliance with the limits set in Risk Appetite Framework in terms of risk exposure to Related Parties.

At 30 September 2016, the last available date, all regulatory and management limits were complied with, being positioned below the regulatory and internal limits.

[16] Bank of Italy Circular no. 263/2006, Title V, Chapter 5.

Other risk profiles

The **risk of excessive financial leverage** is the risk that a particularly high level of debt relative to equity makes the Group vulnerable, making it necessary to adopt corrective measures to its own business plan, including the sale of assets with the recognition of losses that may entail value adjustments on the remaining assets as well.
At least once a year, the Risk Management Function submits to the Board of Directors' approval the system of objectives and limits for this type of risk.
In 2016, the Risk Management Function monitored, as a RAF indicator, the leverage ratio (i.e. Tier1 Capital over total assets), which at 31 December 2016 complied with the 3.5% risk capacity.

The **ICT risk** is defined as the risk of incurring economic, reputational and market share losses in relation to the use of Information and Communication Technology – ICT.
The Risk Management Function co-operates in designing the process for analysing, treating, monitoring and reporting the ICT risk, and it is responsible for collecting the information, communicating and reporting to the corporate Bodies on the status of the risk control system and on any exceptions that may have been observed. The Risk Management Function annually submits for the approval of the Parent Bank's Board of Directors, within the scope of the definition of the Risk Appetite Framework, the maximum level of exposure to the ICT risk deemed acceptable, as determined by the ICT risk analysis process that assesses the possibility that a threat may exploit a vulnerability of the ICT infrastructure (physical or logical) and damage the Bank. The indicator is monitored on the basis of the results of the IT risk self-assessment, carried out on an annual basis.

With respect to the **reputational risk**, defined as the current or prospective risk of decline in the profit or capital deriving from a negative perception of the bank's image by customers, counterparties, stockholders of the bank, employees, investors or supervisory Authorities, the Risk Management Function defines the procedure for measuring and controlling reputational risks, coordinating with the Compliance and Anti-Money Laundering Function and with the other more exposed corporate organisation; the same Function measures the reputational risk on the basis of a set of qualitative and quantitative metrics (Key Risk Indicators) defined within the Risk Appetite Framework. Among the main indicators identified are: complaints, system locks, assessment of compliance risks, rating downgrades, media coverage and web sentiment analysis.
In 2016, monitoring of the KRI continued and its analysis confirmed that the BPVi Group is experiencing a situation of reputational tension.

Strategic risk is defined as the current or prospective risk of a decline in profits or capital deriving from changes in the operating context, erroneous company decisions, inadequate implementation of decisions and poor reactivity to changes in the competitive and market environment.
The Risk Management Function defines, on the indication of the Parent Bank's Board of Directors, the methods for assessing the strategic risk, and for stress tests and analyses the existing organisational controls and the related mitigation systems. The Risk Management Function is also called upon to formulate preventive opinions on Transactions with Major Relevance, i.e. those operations from the income, capital and financial viewpoint and with reference to their impact on the risks assumed or being assumed, that are relevant for the Group, thereby assuring a further safeguard against Strategic Risk.
In the course of the year, the Risk Management Function, consistently with the 2016 Risk Appetite Statement, monitored strategic risk through the control and analysis of the indicators defined within the Risk Appetite Framework over all other risk profiles, in order to highlight difficulties in the achievement of the objectives of the previous Business Plan and/or deviations between the expected and the actual evolution of the markets.

EXPOSURE TO STRUCTURED CREDIT PRODUCTS DERIVING FROM SECURITISATION TRANSACTIONS ORIGINATED BY THE GROUP

At 31 December 2016 there were seventeen securitisations originated by the BPVi Group and called Berica Residential MBS 1, Berica 5 Residential MBS, Berica 6 Residential MBS, Berica 8 Residential MBS, Berica 9 Residential MBS, Berica 10 Residential MBS, Berica ABS, Berica ABS 2, Berica ABS 3, Berica ABS 4, Berica ABS 5, Berica PMI, Berica PMI 2, Berica Funding, Piazza Venezia, Piazza Venezia 2 and Adriano.

All the above securitisations were carried out pursuant to Law no. 130/1999 via the formation of a special-purpose vehicle (SPV) to which the securitised assets were sold without recourse.

It is specified that the prerequisites of "control" under the new accounting standard IFRS 10 exist with regards to the special purpose vehicles used by the Group in its securitisation transactions. For these companies, however, the decision was made not to proceed with the corresponding consolidation in consideration of the fact that all financial statement values are irrelevant with respect to those of the Group and that the securitised assets, like the related liabilities, are already included in the Group financial statements, the prerequisites prescribed by IAS 39 for "derecognition" not applying for the various transactions carried out[17] since the Group substantially maintained within it the risks and benefits related to the transferred receivables.

In relation to the securitisations carried out during the year, the following information is provided:

- on 1 January 2016, the Berica Funding securitisation took effect, in which the originators (the Parent Bank BPVi and the subsidiary Banca Nuova) assigned a portfolio of performing residential mortgages totalling Euro 1,277.3 million. The transaction was then completed in January through the pro-rata subscription of the entirety of the originators' securities;
- on 1 February 2016, in the context of the Adriano securitisation carried out during 2015, the subsidiary Prestinuova sold a further share of salary-backed loans for a total of Euro 102.2 million; the transaction was then completed with the issuing of new ABSs by the special purpose entity, the senior tranches of which were placed on the market while the junior tranches were fully subscribed by the subsidiary;
- on 1 February 2016, the Piazza Venezia 2 securitisation took effect, in which the originators (the Parent Bank BPVi and the subsidiaries Banca Nuova and Farbanca) assigned a portfolio of performing residential mortgages and unsecured loans granted to small-medium enterprises totalling Euro 357.8 million. The transaction was then completed in February through the pro-rata subscription of the entirety of the originators' securities;
- on 1 December 2016, the Berica ABS 5 securitisation took effect, in which the originators (the Parent Bank BPVi and the subsidiary Banca Nuova) assigned a portfolio of performing residential mortgages totalling Euro 618.6 million. The transaction, which at 31 December 2016 was still in the warehousing stage, was completed on 1 March 2017 through the pro-rata subscription of the entirety of the originators' securities.

It is also noted that in the course of 2016, tranches of ABS securities deriving from securitisations carried out in previous years, which had been subscribed and/or bought back by the Group, were sold on the market for a nominal amount of Euro 1.2 billion (Berica 6 Residential MBS, Berica 9 Residential MBS and Berica ABS 4).

As part of the Group's broader aim to identify a strategy to optimise the management and enhancement of the doubtful loans portfolio, it should be noted that on 1 January 2017 a securitisation transaction was carried out that resulted in the transfer by BPVi, Banca Nuova and Farbanca of a total of Euro 4.3 billion gross in doubtful loans to a special purpose entity (Ambra SPV s.r.l.). The notes issued by the SPV have been fully subscribed by the originator banks and are currently being used in a bridge financing transaction.

[17] With the exception of the Berica Residential Mbs 1 transaction which was carried out before 1 January 2004, and for which the securitised assets were not "reinstated" on the first-time adoption of IAS-IFRS, as allowed by IAS 1.

Finally it should be noted that on 1 April 2017, as a result of the exercise of the specific contractually prescribed option, the self-securitisations involving receivables arising from commercial loans made through the special purpose entities Piazza Venezia, Piazza Venezia 2 and Berica PMI 2, by means of the repurchase by the originators of the residual receivables on that date and the simultaneous full reimbursement of the Asset Backed Securities still in circulation at that date, will be closed out early.

The following table shows the details of the exposures held by the BPVi Group at 31 December 2016 towards the various SPVs used to complete the securitisations originated by Group companies. The net amount of the underlying securitised exposures is also shown.

SPV (in millions of euro)	Exposures				Securitized assets (net exposure)		
	Senior	Mezzanine	Junior	Total	Non Performing	Performing	Total
Berica Residential Mbs 1	12.5	20.0	11.0	**43.5**	16.6	60.8	**77.4**
Berica 5 Residential Mbs	30.9	21.1	34.3	**86.3**	40.0	107.8	**147.8**
Berica 6 Residential Mbs	-	33.6	1.0	**34.6**	12.3	329.1	**341.4**
Berica 8 Residential Mbs	-	-	201.5	**201.5**	54.6	436.7	**491.3**
Berica 9 Residential Mbs	-	-	226.8	**226.8**	19.3	524.4	**543.7**
Berica 10 Residential Mbs	-	300.3	228.7	**529.0**	16.9	503.6	**520.5**
Berica Abs	-	110.0	395.5	**505.5**	61.5	721.0	**782.5**
Berica Abs 2	-	0.1	213.5	**213.6**	25.5	491.0	**516.5**
Berica Abs 3	-	-	143.0	**143.0**	30.7	608.5	**639.2**
Berica Abs 4	-	123.0	120.4	**243.4**	22.7	712.5	**735.2**
Berica Abs 5	618.5	-	-	**618.5**	0.2	622.7	**622.9**
Berica PMI	-	-	590.9	**590.9**	69.6	525.5	**595.1**
Berica PMI 2	334.3	-	531.3	**865.6**	36.0	762.9	**798.9**
Berica Funding	759.2	199.0	221.7	**1,179.9**	22.4	1,086.9	**1,109.3**
Piazza Venezia	-	-	427.3	**427.3**	56.4	339.0	**395.4**
Piazza Venezia 2	188.9	-	95.1	**284.0**	30.3	243.3	**273.6**
Adriano	-	-	42.1	**42.1**	3.4	252.7	**256.1**
Total	**1,944.3**	**807.1**	**3,484.1**	**6,235.5**	**518.4**	**8,328.4**	**8,846.8**

The cash exposures relating to Berica Residential Mbs 1 are shown at the book value at 31 December 2016. Although the securitisation does not qualify for derecognition under IAS 39, the securitised assets were not "reinstated" on the first-time adoption of IAS-IFRS, as allowed by IAS 1, because the transaction was carried out before 1 January 2004.

Cash exposures to the other special purpose vehicles are instead stated at the residual nominal value at 31 December 2016. The aforesaid exposures are not reported as assets of the BPVi Group since the various securitisations do not meet the requirements of IAS 39 to proceed with derecognition and, consequently, the residual securitised assets at the date and the related liabilities were recognised in the balance sheet, and the tranches of the ABS securities held and the other forms of financing granted, were reversed.
All securitised assets have been valued using the same principles as for the Group's own assets. "Non-performing" exposures include loans classified as "bad loans", "unlikely to pay" or "past due", as defined by the supervisory regulations (Circular no. 272 of 30 July 2008 as amended).

EXPOSURE AS INVESTOR TO STRUCTURED CREDIT PRODUCTS DERIVING FROM SECURITISATION TRANSACTIONS ORIGINATED BY THIRD PARTIES

At 31 December 2016, the BPVi Group's exposure to Asset Backed Securities deriving from securitisations originated by third parties totals Euro 271.4 million (Euro 278.2 million at 31 December 2015).

The table that follows shows the details of the exposures held, divided according to the type of underlying securitised assets and to the degree of subordination of the individual tranches (ABSs characterised as individual tranches have traditionally been recorded in senior exposures).

Type of assets securitized (in millions of euro)	Exposures			Total
	senior	mezzanine	junior	
ABS - Credit for consumption	12.2	-	-	12.2
ABS - Other asset	252.4	6.8	-	259.2
Total	**264.6**	**6.8**	**-**	**271.4**

Exposures having "Consumer loans" as their underlying assets, classified among "Financial assets available for sale", refer to investments made in ABSs issued within operations originated by primary Italian players operating in the sector. At 31 December 2016, positive valuation reserves of Euro 70 thousand, before taxes, are recorded on them.

The other exposures are instead recorded among "Loans and advances to customers" and refer mainly (Euro 170.4 million) to Asset Backed Securities issued within the scope of securitisations carried out in accordance with Law no. 130/1999 in which the Group acted as arranger in the structuring of the transactions and also acts as servicer, calculation agent, cash manager, paying agent and collection account bank for nearly all of them. On these exposures, no elements emerged that may indicate the existence of an impairment, and the related fair value, estimated with an internal model that is based on specific analyses to determine the expectations of repayment on the part of the SPV, was found to be higher than the related carrying amount.

In addition, the Parent Bank holds, together with the other partner banks of the originator, its own share of the only tranche issued within the scope of the securitisation carried out by Banca Nuova Terra. Said exposure is recorded in the financial statements with an amount of Euro 61.9 million, and has been subject to a total impairment loss of Euro 13.2 million, of which Euro 4.4 million recognised in 2016.

The special purpose entity was not consolidated in any transaction, since the conditions set out by IFRS 10 were not met.

INFORMATION ABOUT LENDING

Information about **the situation of the loan portfolio of the Banca Popolare di Vicenza Spa Group** is presented below in terms of **concentration, geographical distribution and distribution by economic sector**, together with **a number of risk indicators**. The data used in this analysis were obtained, in most cases, by **processing data compiled for the purposes of reporting to the Central Risks Database** and they include cash loans, guarantees and derivatives. Group Banks and companies are excluded from the aggregates, which however do include all securitised mortgages, even if derecognised, in order to provide a complete picture of the way the Group's loans portfolio is structured.

Concentration of customers

The Group's loans portfolio is well spread overall with around 277 thousand positions, of which approximately 260 thousand, i.e. 94.1% of the total, have facilities of less than Euro 250 thousand. **The most numerous band with facilities of up to Euro 25 thousand represents 53.6% of the total positions**, which is in line with the position at the end of 2015. The proportion of classes from Euro 26 thousand to Euro 250 thousand is 40.4% (40.3% in December 2015), whilst facilities above this latter threshold account for 5.9% of the total, down from 6.1% at the end of 2015.

Considering the **amounts drawn down**, instead, the brackets with facilities up to Euro 25 thousand account for just 5.5% of total loans issued by the Group (albeit increasing markedly from 4.5% at the end of 2015), while the bracket from Euro 26 thousand to Euro 250 thousand is much larger (36.1% versus 35.2% in December 2015), and those drawing against greater facilities are at 58.4% (lower than 61.1% at the end of 2015). In particular, facilities in excess of Euro 5 million represent 21.6% of total loans drawn down, a decline from 23.4% at the end of 2015.

Additionally, concerning the single name concentration risk, the Group, in order to assure appropriately fractioned positions, set specific limits on the total amount granted to customers or groups of customers whose facilities exceed certain thresholds. More specifically:

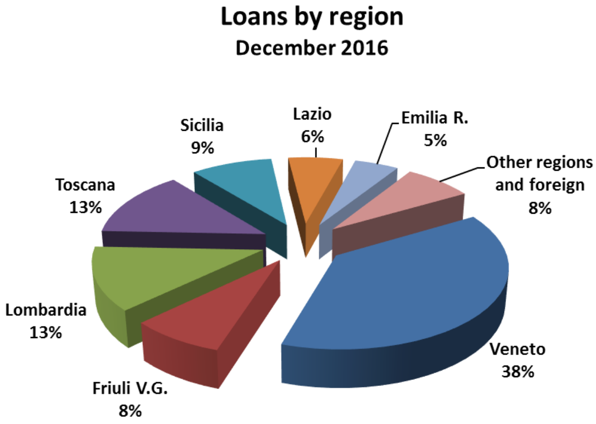
- for the Parent Bank, the percentage of credit granted to counterparties, whether individual or in the same group, with facilities exceeding Euro 60 million, must remain within a maximum limit of 8% of the bank's total facilities (net of those pertaining to banking and insurance Groups);
- for Banca Nuova, the percentage of credit granted to counterparties, whether individual or in the same group, with facilities exceeding Euro 20 million, must remain within a maximum limit of 2.5% of the bank's total facilities.
- for FarBanca, the percentage of credit granted to counterparties, whether individual or in the same group, with facilities exceeding Euro 3 million, must remain within a maximum limit of 3% of the bank's total facilities.

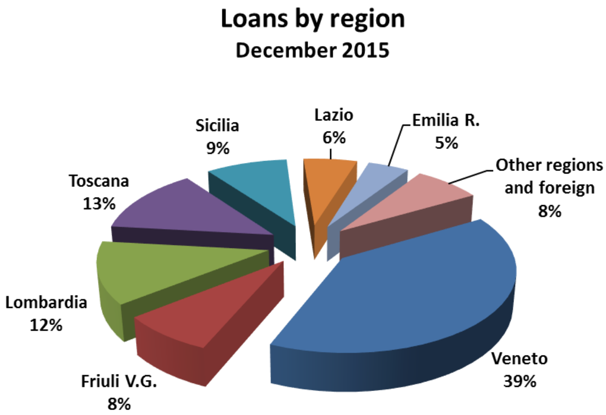
In December 2016, all of the Group's banks **complied with the limit.**

Geographical distribution

The geographical distribution of Group gross lending in December 2016 (excluding repurchase agreements), considering the region/province of residence of individuals and the registered offices of legal persons, is in line with the situation at the end of December 2015, **confirming the strong concentration of the Group's loans in its original home regions, such as Veneto** (38% of total loans, with the Vicenza province at 16%) and **Friuli V.G.** (8%).

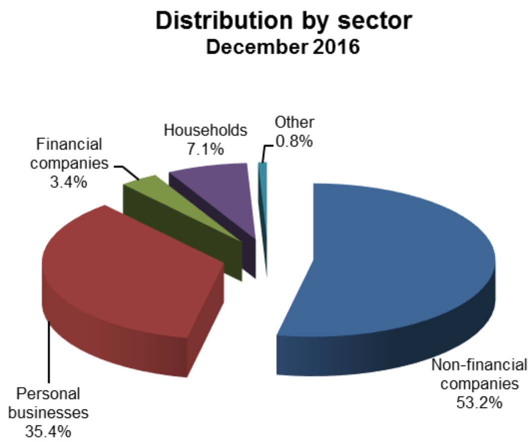
As regards the other regions, **Tuscany** and **Lombardy** reached a significant level, each with 13%, followed by **Sicily** with 9% and **Lazio** with 6%.

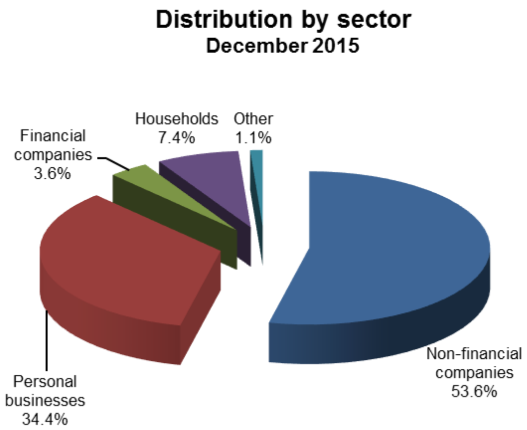




Distribution by business sector

Analysis at Group level of the distribution of the loans portfolio by business sector shows, between end-2015 and December 2016, an increase in the weighting of "**Consumer Households**" from 34.4% to 35.4%, whereas all other sectors contracted: "**Non-financial companies**" fell from 53.6% at end-2015 to 53.2%, "**Personal Businesses**" from 7.4% to 7.1%, "**Financial companies**" from 3.6% to 3.4%, "**Other sectors**" from 1.1% to 0.8%.





Concerning "Non-Financial Companies" and "Personal Businesses", which together account for 60.4% of the Group's loans, they are distributed in highly granular merchandise segments, called ATECO. For representation reasons, the latter are grouped together in this Report on Operations, into macro-sectors with the most homogeneous characteristics as possible. In view of the above, our Group ATECO macro-sectors are characterised by the following proportions of the total loan portfolio: "Construction and Real Estate businesses" account for 19.8% of the total, followed by "Wholesale and retail commerce" with 11.9%, by "Other services" (mainly personal services) with 5.9%, by "Metal working" (4.9%), by "Other light industry" (which contains industrial sectors other than metal working, basic industry and textile and clothing) with 4.5%, by "Financial services and business services" with 4.1%, by "Mining and basic industry" (3.4%), by "Textile and clothing" at 2.5%, by "Farming" (2.4%) and, lastly, by the companies involved with "Supply of electricity, gas, water, and waste treatment" with 1.6%, residual others with 0.9%.

Other risk indicators

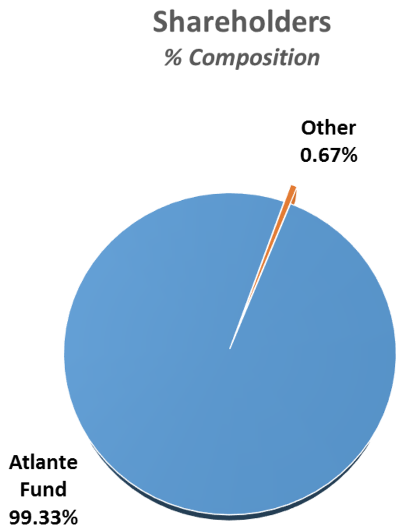
With regard to performing loans, the main instrument for monitoring changes in risk conditions is the Early Warning system, based on performance indicators of the relationship and on all the information that comes from the IT systems of the Group's banks and that can forewarn of a change in the risk level associated with the counterparty. At Group level, then, the performing positions with performance anomalies are classified as "**Watch**" and "**Pre-Past Due**" (the latter are continuous overdrafts exceeding 30 days, but which have not yet reached the 90-day threshold that would trigger the classification as defaulted).
Concerning the evolution of these categories, the percentage of loans classified as "**Watch**" relative to the total portfolio, declined from 7.3% to 5.4% between December 2015 and December 2016, whereas "**Pre-Past Due**" loans increased remained the same at 2.1%.

SHAREHOLDING STRUCTURE, DONATIONS, SPONSORSHIPS AND EXTERNAL COMMUNICATIONS

Shareholding structure

At 31 December 2016, the share capital of Banca Popolare di Vicenza is **99.33%**-held by the Atlante Fund (an alternative closed-end mutual fund managed by Quaestio Capital Management SGR S.p.A.). As a result of the full subscription of the share capital increase by Euro 1.5 billion, finalised on 4 May 2016, said Fund became the controlling shareholder of the Bank.

The remaining part of the share capital, equal to **0.67%**, is held by 118,643 shareholders, 88.7% of which are natural persons and 11.3% companies and institutions. The geographical breakdown shows that approximately **66%** of shareholders **reside in Veneto** (29% in Vicenza) and **Friuli Venezia Giulia**.



Donations

In the course of 2016, a total of **Euro 224,448** out of the sum approved by the 2015 Shareholders' Meeting **was donated to 41 good causes** mainly for charitable works, welfare, culture and projects of social benefit.
These funds were allocated to: research, study and training activities through the establishment of scholarships and projects aimed at broadening universities' range of educational offerings; the field of health and medical care, particularly to the San Bortolo di Vicenza Hospital; culture and the artistic heritage of our communities; sports and youth associations; volunteer organisations and associations in support of the underprivileged; and finally, parishes and church organisations.

Promotion of culture, art and the artistic treasures owned by the Bank

Banca Popolare di Vicenza also confirmed its **commitment to culture** in 2016 with two important initiatives aimed at younger age groups and organised in its own historic headquarters in Vicenza, the Palladian Palazzo Thiene, a building that UNESCO has listed as a World Heritage Site.

- The **"Scuole a Palazzo Thiene" [Schools in Palazzo Thiene] project**, created in 2008 as part of the celebrations of the fifth centenary of the birth of Andrea Palladio, involves pupils from schools in the Veneto and Friuli Venezia Giulia regions, and the provinces of Bergamo, Brescia, Florence and Prato, in a new and expanded offer of educational visits to the palace and its art collections, with over 4,300 students having participated;
- The "**Festival of Creative Culture**", an initiative promoted by the Italian Banking Association (ABI), now in its third edition, saw the week-long involvement in May of 200 primary and secondary school students in educational workshops and performances aimed at finding out about historical events that actually took place in Vicenza in the 16th century, and at identifying, through role play, with the life, dining and customs of that time.

Banca Popolare di Vicenza also confirmed it participation in the **"Invito a Palazzo"** [Invitation to Palazzo Thiene] event, promoted on a yearly basis by the ABI, as part of which the historical headquarters of the participating Banks are open to the public with guided visits, with an extraordinary turnout on Saturday 1 October of well over 1,300 visitors.

On the theme of music, there was the **Christmas Concert**, organised in collaboration with the **Fondazione Teatro La Fenice in Venice** and offered to the city in the splendid setting of the Church of Santa Corona in Vicenza, with the performance from the Marciana Cappella choir from Venice in a repertoire of sacred music of Claudio Monteverdi (1567 - 1643).

In terms of art, in 2016, with a view to promoting, enhancing and sharing its artistic heritage, the Institute temporarily loaned a series of works from its own collection to prestigious national and international exhibitions: 'Madonna col Bambino' [Madonna with Child] by Filippo Lippi was displayed for the first time in Japan in the major exhibition "Botticelli and his time", held from January to April at the Metropolitan Museum in Tokyo, while the 'Coronazione di spine' [The Crowning with thorns] by Caravaggio played a leading role in the exhibition "Caravaggio y Los Pintores del Norte" [Caravaggio and the Painters from the North] from June to September at the Thyssen-Bornemisza Museum in Madrid.

The Bank also loaned several of its paintings within Italy: 'The Piazza San Marco, Venice' by Johann Richter and 'The Dockside of San Marco' by Alessandro Zezzos for the exhibition "Canaletto, Bellotto, Guardi and the view-artists of the Nineteenth Century" held at Palazzo Martinengo in Brescia from January to June; 'La Maddalena' by Giovanni Martinelli was loaned in the second half of the year to the major exhibition dedicated to Artemisia Gentileschi at Palazzo Braschi in Rome, while the splendid 'Crucifix in a Jewish cemetery' by Giovanni Bellini was displayed at the Musei Civici di Palazzo Chiericati in Vicenza as part of an exclusive exhibition conceived to celebrate the five hundredth anniversary of the death of Bellini, one of the most important Italian artists of all time.

Events and sponsorship

In 2016, one hundred **sponsorships** were established, mainly relating to local requests gathered and managed by the Territorial Districts. In line with previous years, there was a particular focus on the world of sport. There was also continued **contribution in terms of the carrying out of meetings, cultural events and exhibitions** throughout the areas served by BPVi branches.

Marketing Initiatives

In the course of 2016, commercial activities were accompanied and supported by a multitude of actions, promotional initiatives and communication campaigns. Particular attention was given to **digital bank** services. January 2016 saw the launch of the **BPViGO!** brand (the BPVi Digital Bank offer) and the new online current account of the same name. This also involved the launch of the site **www.bpvigo.it**, which offers prospective customers banking products and services that can be purchased directly online, including in paperless format, i.e. no longer requiring the signing of paperwork, thanks to the use of digital signatures. The site has been designed in responsive format so that it can also easily be used on tablets and smartphones. In order to enhance the brand and optimise its presence on search engines, a specific Search Engine Optimisation initiative was carried out from June to December 2016. A coordinated communication campaign was also set up for BPViGO!, which included a series of sales and post-sales communication materials such as dedicated printed brochures, targeted ads for products and services, and post-sale welcome kits. The creativity also spread to digital media with pop-up banners and dedicated posts on social media.

In order to overhaul the BPVi Group's online image, the Parent Bank's website was updated (**www.popolarevicenza.it**) with a restyling of the home page to make it responsive (adaptable to different devices). In addition to this, certain sections such as Investor Relations and Press Room were added and updated.

Two different campaigns were launched as part of a commercial development strategy, one dedicated to Business customers and the other to Private customers.

For Business customers there was the "**1 billion for companies in the North-East**" campaign aimed at developing the area's economic fabric, which provided for the allocation of Euro 1 billion to businesses in the North-East to support companies' productive investment, the rebalancing of their financial structure and the purchase or the restructuring of real property and movable assets. For Private customers there was the **"Ripartiamo da qui. Ripartiamo da te" [Let's start afresh from here. Let's start afresh with you]** campaign that presents the renewed offer range dedicated to personal banking and is made up of seven service areas (Assets under Management, Home Mobile Banking, Home Loans, Time Deposit, N'evo Current Accounts, Compass Personal Loans) which together form one of the most competitive offers on the market. Both campaigns were disseminated through a communication plan that paid particular attention to traditional and/or strategic areas for the Institute, through national, regional and provincial press, the internet, radio, and internal and external displays at branches.

In terms of funding products, a number of campaigns were launched throughout the year to support commercial action. More specifically:

- the communication campaign **"2% interessi – Durata 6 mesi!" [2% interest - Duration 6 months!]** (February 2016) which involved pull-outs in local newspapers and a digital presence, in addition to the usual paper materials (posters and flyers) for use by the Branches;
- the campaign **"Convenienza – Risparmio – Serenità" [Convenience - Savings - Peace of mind]** (starting in July 2016), which promoted Time Deposits, the BPViGO! Account, the N'evo Account and Home Loans, and which was disseminated through the press, digital channels with video ads, and announcements and materials for Branches;
- finally, the campaign for the **BPViGO! Time Deposit** (launched in November and December 2016), disseminated via announcement and video ad for the web, and linked to a special prize contest which aimed to encourage take-up of the Time Deposit.

Media relations

Communication with the media in the course of 2016 was characterised by a number of strategically significant events and changes that affected the Group in the last year, as well as more ordinary aspects related to the core banking business and to financial results.

In 2016, **58 press releases** were issued (they are available on the Bank's website www.popolarevicenza.it); they confirmed the significant presence of BPVi in local and national newspapers, websites, radio and TV.

In early 2016, until the completion of the capital increase (initiated in May 2016), corporate communications focused mainly on issues concerning the company transformation and recapitalisation project with the aim of encouraging maximum transparency, and discussing and making full use of all the relevant information for shareholders, customers and the media.
In this regard, in view of the Shareholders' meeting of 5 March in relation to the company transformation and the capital increase, a series of **meetings was organised with the Shareholders** in the main cities of the areas in which the Bank operates (Vicenza, Treviso, Udine and Prato).

Over the year, four **Shareholders' Meetings** were held, which saw the participation of many journalists both onsite and via video links arranged *ad hoc*. Below is the summary of the Media Relations activities organised during the 2016 Meetings:
- Ordinary and Extraordinary Shareholders' Meeting of 5 March: press room with ninety journalists from local and national newspapers, websites and local and national TV;
- Ordinary Shareholders' Meeting of 26 March: press room with around thirty journalists from local and national newspapers, websites and local TV;
- Ordinary and Extraordinary Meeting of 7 July: press room with around thirty journalists from local and national newspapers, websites and local TV, followed by a press conference;
- Ordinary Meeting of 13 December: press room with around thirty journalists from local and national newspapers, websites and local TV.

With regard to the Bank's core business, press conferences were organised in order to present the project "Ripartiamo da qui" project, which were divided into three stages:
- **"Ripartiamo da qui. Imprese"** [Let's start afresh from here. Businesses], addressed to businesses from the area with a ceiling for loans of Euro 1 billion and presented in October to around fifteen journalists from local newspapers;
- **"Ripartiamo da qui. Ripartiamo da te"** [Let's start afresh from here. Let's start afresh with you], dedicated to individuals with a range of completely new products and services was presented in December to around fifteen journalists from local newspapers;
- **"Settlement Offer"**, reserved to shareholders and presented in January 2017 via a joint press conference with Veneto Banca which was attended by over forty journalists (30 of which present, 11 through remote connection from the BPVi office in Milan and 2 from Rome).

Other events organised with the media in the course of the year included:
- September: meeting with the press at the Vicenza office, in which the Chairman, Vice-Chairman and Managing Director presented to approximately fifteen journalists from the local press the financial data from the first half of 2016.

- December: press conference in Palermo, in the Banca Nuova offices, to introduce the new Board of Directors, the guidelines and the outlook for 2017 in the presence of ten journalists.

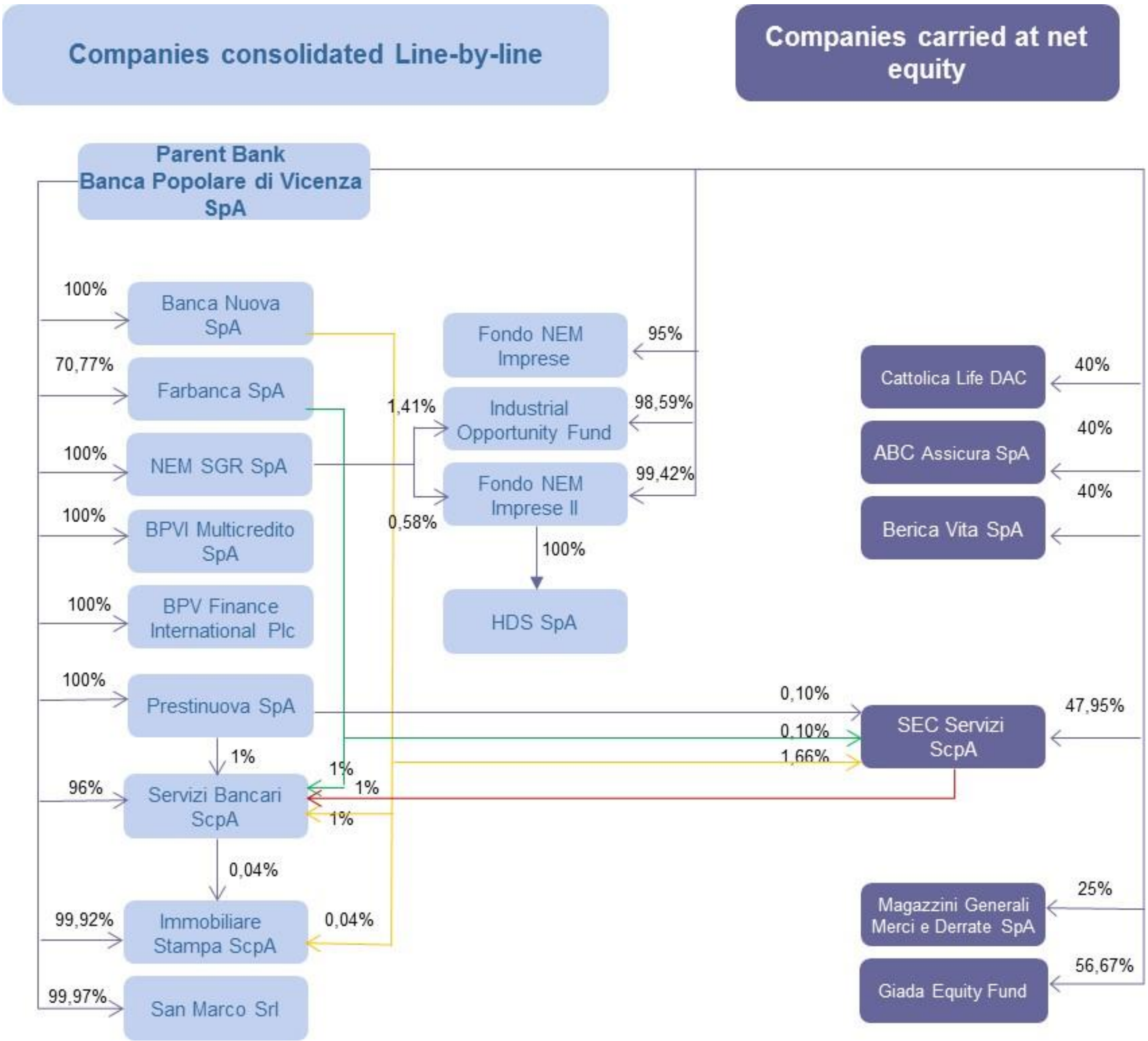
The Bank also encourages regular dialogue with the financial community through the Investor Relations Department, established during 2016.

To make external communications ever more effective and thorough, and in view of the growing importance of the use of social networks, Banca Popolare di Vicenza has its own accounts on Twitter, Facebook and LinkedIn with ad hoc profiles based on the target audience of each social medium.

CONSOLIDATED RESULTS OF OPERATIONS

Scope of consolidation

At 31 December 2016, the scope of consolidation of the BPVi Group is as follows:



Popolare Assessoria e Consultoria Ltda, a subsidiary in which the Parent Bank holds a 99% equity investment, was excluded from the scope of consolidation and valued at cost since its value is insignificant with respect to the Group's consolidated financial statements.

It is also specified that the prerequisites of "control" under the new accounting standard IFRS 10 exist with regards to the **special purpose vehicles used by the Group in its securitisation transactions**. For these companies, however, **the decision was made not to proceed with the corresponding consolidation in consideration of the fact that all financial statement values are irrelevant** with respect to those of the Group and that the securitised assets, like the related liabilities, are already included in the Group financial statements, the prerequisites prescribed by IAS 39 for "derecognition" not applying for the various transactions carried out[18].

[18] With the exception of the Berica Residential Mbs 1 transaction which was carried out before 1 January 2004, and for which the securitised assets were not "reinstated" on the first-time adoption of IAS-IFRS, as allowed by IAS 1.

Compared to 31 December 2015, the changes occurred in 2016 relate to:

- **the removal from the scope of consolidation of Società Cattolica di Assicurazione SCpA**, whose equity interest was reclassified to "Available-for-sale financial assets", due to the loss of the Bank's significant influence over the company following the resignations of Dr. Anna Tosolini, manager of the Bank, from the role of member of the Board of Directors of Cattolica Assicurazioni, which took place on 24 October 2016 as a consequence of the unilateral exercise of the right to withdraw from the partnership agreements with Banca Popolare di Vicenza, resolved by on 4 August 2016;
- **the merger by absorption of the former subsidiary Monforte 19 Srl** into the subsidiary Stampa Scpa, effective as of 1 January 2016;
- **the acquisition**, as a result of the conversion into share capital of part of the Parent Bank's mortgage credit, of a further 53.97% in **San Marco Srl**, already subject to significant influence and now 99.97% owned;
- **the acquisition of full control** in the company **HDS SpA** by the NEW Imprese II Fund managed by the subsidiary Nem Sgr, which was subject to initial consolidation in the half-yearly financial statements at 30 June 2016, with effects on equity only, the results of which, starting from the second half of 2016, have already started to have an effect on the Group's economic result.

The financial statements of the Banca Popolare di Vicenza Group at 31 December 2016 comprise the financial and operating information reported by the Parent Bank and its direct and indirect subsidiaries and associated companies. **The statements of financial position and income statements used for consolidation purposes according to line-by-line and equity methods were those referred to 31 December 2016, with the exceptions set out below.** These statements were adjusted, where necessary, to align them with the correct and consistent IAS/IFRS standards applied by the Group. The financial statements of companies consolidated line-by-line, but presented using formats that differ from those established in Bank of Italy Circular no. 262 of 22 December 2005 and subsequent amendments, have also been reclassified in accordance with these formats.

The data used for **Cattolica Life, Berica Vita and ABC Assicura** were derived from the statements of financial position and income statements prepared by the three investees to be incorporated in the Consolidated Financial Statements of the Parent Bank Società Cattolica di Assicurazioni SCpA at **31 December 2016**. Therefore, the contribution to the BPVi Group's economic result by these subsidiaries **reflects 15 months of operations** (last quarter of 2015 and the whole of 2016), or an additional quarter compared to the previous year, insofar as the approval of the BPVi Group 2015 draft financial statements occurred prior to the availability of the year-end data of the aforementioned subsidiaries. It is also noted that the former associate Società Cattolica di Assicurazione contributed to the economic results of the BPVi Group until the date of reclassification to "Available for sale financial assets", which took place on 24 October 2016 (conventionally assuming the consolidated result achieved at 30 September 2016).

The equity investment in **Giada Equity Fund was carried at the NAV values** reported in its Interim Report at **30 June 2016**, whilst the carrying amount of Magazzini Generali Merci e Derrate SpA was kept at zero, inasmuch as the last approved financial statements (year 2013) show negative equity.
Lastly, the **equity investments held indirectly** through mutual funds managed by the subsidiary **Nem Sgr** were **recognised at fair value**, in accordance with the derogation provided by IAS 28, para. 19.

Statement of financial position consolidated aggregates

Below is the BPVi Group's reclassified statement of financial position at 31 December 2016 and at 31 December 2015 which, as specified in greater detail below the tables, represents an aggregation in a management perspective of the statement of financial position items required under Bank of Italy Circular no. 262 of 22 December 2005, as amended.

ASSETS	31/12/2016	31/12/2015	Changes	
			absolute	%
Loans and advances to customers	22,558.8	25,178.1	-2,619.3	-10.4%
Loans and advances to banks	2,120.5	2,150.2	-29.7	-1.4%
Financial assets held for trading	2,065.8	3,408.6	-1,342.8	-39.4%
Other financial assets and hedging derivatives (1)	5,394.8	5,766.7	-371.9	-6.4%
Equity investments	65.9	492.7	-426.8	-86.6%
Property, plant and equipment and intangible assets (2)	592.4	609.2	-16.8	-2.8%
Other assets (3)	1,626.0	2,177.9	-551.9	-25.3%
Total assets	**34,424.2**	**39,783.4**	**-5,359.2**	**-13.5%**

The line items shown above, unless specified otherwise refer to the corresponding line items in the statement of financial position set forth by Circular no. 262 of the Bank of Italy.
(1) includes items "30. Financial assets at fair value", "40. Financial assets available for sale", "50. Financial assets held to maturity" and "80. Hedging derivatives".
(2) includes items "120. Tangible assets" and "130 Intangible assets".
(3) includes items "10. Cash and cash equivalents", "90. Remeasurement of financial assets backed by macro hedges", 140. Tax assets" and "160 Other assets".

LIABILITIES	31/12/2016	31/12/2015	Changes	
			absolute	%
Direct funding (1)	18,794.3	21,942.7	-3,148.4	-14.3%
Due to banks	9,173.9	9,973.5	-799.6	-8.0%
Financial liabilities held for trading	1,455.3	2,772.0	-1,316.7	-47.5%
Hedging derivatives	875.4	887.6	-12.2	-1.4%
Other liabilities (2)	1,976.6	1,673.5	303.1	18.1%
Equity (3) (4)	2,148.7	2,534.1	-385.4	-15.2%
- *of which (profit) loss for the year pertaining to the Parent Bank*	*-1,902.4*	*-1,407.0*	*-495.4*	*35.2%*
Total liabilities	**34,424.2**	**39,783.4**	**-5,359.2**	**-13.5%**

The items shown above, unless specified otherwise refer to the corresponding items in the statement of financial position set forth by Circular no. 262 of the Bank of Italy.
(1) Includes items "20. Due to customers", "30. Debt securities in issue" and "50. Financial liabilities at fair value".
(2) Includes items "70. Remeasurement of financial liabilities backed by macro hedges", 80. Tax liabilities", "100. Other liabilities", "110. Provision for severance indemnities", "120. Provisions for risks and charges" and "210. Minority interests".
(3) Includes items "140. Valuation reserves", "160. Equity instruments", "170. Reserves", "180. Additional paid-in capital", "190. Share capital", "200. Treasury shares" and "220. Net profit (loss) for the year".
(4) Includes non-distributable equity reserves equal to 236,3 millions (304,4 millions on 31 December 2015) in connection with the financed capital and equal to 40,3 millions (57 millions on 31 December 2015) due to the two share capital increase transactions (duly noticed to the Supervisory Authorities).

The changes occurred in the BPVi Group's statement of financial position are discussed below.

Banking business

At 31 December 2016, the **banking business** of the Group, comprising **total funding** and **cash loans and advances to customers**, reached Euro 52,886 million, down by 14.2% compared to Euro 61,671 million at 31 December 2015.

The aggregate under examination has been affected in particular by events that have shaped the Group since the second half of 2015, mainly related to BPVi shares and the consequent reputational impact.

Banking business (in millions of euro)	**31/12/2016**	**31/12/2015**	**Changes**	
			(+/-)	**%**
Total funding	30,327	36,493	-6,166	-16.9%
- of which: Direct funding	*18,794*	*21,943*	*-3,149*	*-14.4%*
- of which: Indirect funding (excluding BPVi shares)	*11,533*	*14,550*	*-3,017*	*-20.7%*
Loans and advances to customers	22,559	25,178	-2,619	-10.4%
Total	**52,886**	**61,671**	**-8,785**	**-14.2%**

At 31 December 2016, the Group's **total funding**, consisting of the sum of **direct funding** and **indirect funding**, amounted to Euro 30,327 million, down by 16.9% compared to Euro 36,493 million at end-2015. **Direct funding**, equal to Euro 18,794 million, fell by 14.4% compared to the figure at 31 December 2015, mainly as a result of the reduction in **current accounts and demand deposits** (-17%) and **bonds** (-21.9%). **Indirect funding** (excluding BPVi shares) amounted to Euro 11,533 million, down by 20.7% compared to end-2015, with **assets under administration** declining by 22.4% and **assets under management and retirement savings** by 18.9%.

At 31 December 2016, **net cash loans and advances to customers** amounted to Euro 22,559 million, a decrease of 10.4% compared to the figure at 31 December 2015, as a result of both the deleveraging performed in support of the Group's liquidity profile and the increased average coverage of the deteriorated loans portfolio. Gross loans show a more moderate decline of 5.6%.

Net of exposures to central counterparties (**repurchase agreements** carried out in the Euro MTS market operated by **Cassa Compensazione e Garanzia** and the related guarantee margins), the Group's **banking business** amounts to Euro 52,884 million, a decline of 14.1% compared to Euro 61,544 million at 31 December 2015.

Banking business net of exposures to central counterparties (in millions of euro)	**31/12/2016**	**31/12/2015**	**Changes**	
			(+/-)	**%**
Total funding	30,327	36,493	-6,166	-16.9%
- of which: Direct funding	*18,794*	*21,943*	*-3,149*	*-14.4%*
- of which: Indirect funding (excluding BPVi shares)	*11,533*	*14,550*	*-3,017*	*-20.7%*
Loans and advances to customers	22,557	25,051	-2,494	-10.0%
Total	**52,884**	**61,544**	**-8,660**	**-14.1%**

Direct funding

The Group's **direct funding**, determined as the sum of "Due to customers" (line item 20), "Debt securities in issue" (line item 30) and "Financial liabilities at fair value" (line item 50), amounted to Euro 18,794 million at 31 December 2016, down 14.4% compared to end-2015.

The changes in direct funding were due to the reputational impact related in particular to the emergence, from the second half of 2015, of irregularities related to loans granted for the acquisition and subscription of BPVi Shares.

Direct funding (in millions of euro)	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Current accounts and demand deposits	9,472	11,415	-1,943	-17.0%
Time deposits	1,759	1,710	49	2.9%
Repurchase agreements	132	-	132	n.a.
Bonds	4,326	5,539	-1,213	-21.9%
Certificates of deposit and other securities	79	132	-53	-40.2%
Other payables	3,026	3,147	-121	-3.8%
Total	**18,794**	**21,943**	**-3,149**	**-14.4%**

The aggregate in question shows a decline in **current accounts and demand deposits** (-17%), in **bonds** (-21.9%), and in **certificates of deposit and other securities** (-40.2%) and **other payables** (-3.8%), whereas increases were recorded in **time deposits** (+2.9%) and **repurchase agreements** (none at end-2015).

With regard to **bonds**, in 2016 the Group did not issue any new bond securities, with the exception of a private placement Euro of 116 million and, therefore, the reduction shown for the aggregate is mostly attributable to buy-backs and redemptions carried out during the year, which mainly involved securities placed with Group clients. Subordinate issues existing at 31 December 2016 had a nominal value of Euro 656 million (inclusive of Euro 86 million repaid at the beginning of 2017), of which a nominal amount of Euro 450 million were issued on the EMTN programme and placed with institutional investors.

Other payables include **liabilities relating to assets disposed of but not written off** (Euro 2,275 million at 31 December 2016 and Euro 2,052 million at 31 December 2015). These are the contra-entry of the receivables sold as part of own securitisations that do not meet the derecognition requirements under IAS 39 and therefore were reinstated under asset line item 70 in the statement of financial position. The aforesaid liabilities, posted net of the cash available to the various special purpose entities and generated with the periodic collection of the instalments of the securitised loans, represent the share of the Asset Backed Securities issued by the special purpose entities and placed on the market. In this regard it should be noted that during 2016, tranches of asset-back securities relating to securitisations carried out in past years, which had been subscribed and/or bought back by the Group, were sold on the market. Conversely, the aggregate under review does not include the self-securitisations performed by the Group, including those carried out and/or completed during the year (Berica Funding, Piazza Venezia 2, Berica PMI 2 and Berica ABS 5). **Other payables** also include **subsidies received by entities** (Euro 631 million at 31 December 2016 and Euro 851 million at 31 December 2015), mainly as part of loan disbursement activities.

Indirect funding

The Group's **indirect funding** (excluding BPVi shares) amounted at market values to Euro 11,533 million at 31 December 2016, down by 20.7% compared to end-2015. The reduction in the aggregate under review was principally due to the reputational impact of the emergence, from the second half of 2015, of irregularities related to loans granted for the acquisition and subscription of BPVi Shares.

Indirect funding (excluding BPVi shares) (in millions of euro)	**31/12/2016**	**31/12/2015**	**Changes**	
			(+/-)	**%**
Assets under administration	**5,824**	**7,507**	**-1,683**	**-22.4%**
Shares	993	1,328	-335	-25.2%
Other securities	4,831	6,179	-1,348	-21.8%
Assets under management and pension premiu	**5,709**	**7,043**	**-1,334**	**-18.9%**
Mutual funds/Sicav	3,891	4,852	-961	-19.8%
Portfolio management	50	64	-14	-21.9%
Pension premiums	1,768	2,127	-359	-16.9%
Total	**11,533**	**14,550**	**-3,017**	**-20.7%**

Source: management accounting

Deposits in administration decreased by 22.4% due to the reduction in both "Shares" (-25.2%) and "Other securities" (-21.8%). Also down were **assets under management and retirement savings** and, in particular, "Mutual funds" (-19.8%) and "Pension premiums" (-16.9%).

Loans and advances to customers

At 31 December 2016, **cash loans and advances to customers** net of adjustments (asset line item 70 in the consolidated statement of financial position) amounted to Euro 22,559 million, down by 10.4% compared to Euro 25,178 million at end-2015. New lending amounted to almost Euro 2.4 billion and was mainly to households and SMEs.

Loans and advances to customers (in millions of euro)	**31/12/2016**	**31/12/2015**	**Changes**	
			(+/-)	**%**
Current accounts	3,367	4,093	-726	-17.7%
Repurchase agreements	-	110	-110	-100.0%
Mortagages	14,948	16,168	-1,220	-7.5%
Credit cards, personal loans and salary assignment	484	527	-43	-8.2%
Other transactions	3,421	3,902	-481	-12.3%
Debt securities	339	378	-39	-10.3%
Total	**22,559**	**25,178**	**-2,619**	**-10.4%**

The aggregate performance under examination mainly reflect the deleveraging performed in support of the Group's liquidity profile, as well as by the increase in the average coverage ratio of the non-performing loans portfolio, which stood at 47.34% at end-2016 (48.54% considering the partial write-offs of receivables for bankruptcy proceedings), compared to 40.64% at 31 December 2015 (42.41% including the write-offs). Indeed, gross loans show a more moderate decline of 5.6% (Euro -1,623 million).

Also down were: **current accounts** (-17.7%), **mortgages** (-7.5%), **credit cards** and **personal loans and salary-backed loans** (-8.2%), **debt securities** (-10.3%) and **other transactions** (-12.3%). Lending **repurchase agreement** amounts were also written off.

Other transactions include the **cash and cash equivalents** available to the **various special purpose entities** (typically those used for self-securitisations) that are generated with the periodic collection of the instalments of the securitised loans and intended for the repayment of the Asset Backed Securities issued. At 31 December 2016 these amounted to Euro 332 million, down Euro 29 million since the start of the year. The item also includes the **cash collateral paid to financial companies to guarantee own liabilities** (typically derivative contracts with negative fair value).

Loans and advances to customers include **net assets sold but not derecognised** totalling Euro 8,768 million (Euro 8,284 million at 31 December 2015) in relation to the securitisations originated by the Group[19]. These transactions do not meet the derecognition requirements of IAS 39, so the residual securitised assets at the reporting date have been "reinstated" in the financial statements, in the relevant technical forms.

In this regard it is noted that in early 2016, two new self-securitisations were performed (Berica Funding and Piazza Venezia 2), through which the three banks of the Group assigned a portfolio of performing loans totalling Euro 1,635 million, mostly consisting of home mortgages, while a third securitisation (Berica ABS 5, involving a portfolio of performing loans totalling Euro 619 million consisting of home mortgages) was carried out at the end of 2016 and at 31 December 2016 was still in the warehousing stage.

Loans/funding ratio

Loans / direct funding ratio (in millions of euro)	**31/12/2016**	**31/12/2015**	**Changes**	
			(+/-)	**%**
Loans and advances to customers	22,559	25,178	-2,619	-10.4%
Direct funding	18,794	21,943	-3,149	-14.4%
Net imbalance	**3,765**	**3,235**	**530**	**16.4%**
Loans / direct funding ratio	**120.0%**	**114.7%**		

By effect of the changes that took place in the aggregate values of direct funding and of the net loans, illustrated above, the "**Loans / Funding Ratio**" amounted to 120%, versus 114.7% at 31 December 2015. Net of trading operations with central counterparties, the **loans/funding ratio** at 31 December 2016 amounted to 120%, versus 114.2% at the end of 2015.

The tables which follow summarise the contribution of the Group's various Companies to the individual components of banking business (direct funding, indirect funding, loans and advances to customers) for the purpose of identifying their incidence on total operations and of providing a global overview of the Group's banking operations.

[19] With the exception of the Berica Residential Mbs 1 transaction which was carried out before 1 January 2004, and for which the securitised assets were not "reinstated" on the first-time adoption of IAS-IFRS, as allowed by IAS 1.

Direct funding (in millions of euro)	Individual results	Eliminations and consolidation adjustments	Contribution to consolidated	
			(+/-)	%
Banca Popolare di Vicenza	16,621	(772)	15,849	84.3%
Banca Nuova	3,082	(445)	2,637	14.1%
Farbanca	310	(183)	127	0.7%
Prestinuova	177	-	177	0.9%
Other subsidiaries	4	-	4	0.0%
Total	**20,194**	**(1,400)**	**18,794**	**100.0%**

Indirect funding (in millions of euro)	Individual results	Eliminations and consolidation adjustments	Contribution to consolidated	
			(+/-)	%
Banca Popolare di Vicenza	10,559	(1)	10,558	91.5%
Banca Nuova	961	(19)	942	8.2%
Farbanca	34	(1)	33	0.3%
Total	**11,554**	**(21)**	**11,533**	**100.0%**

Loans and advances to customers (in millions of euro)	Individual results	Eliminations and consolidation adjustments	Contribution to consolidated	
			(+/-)	%
Banca Popolare di Vicenza	19,537	(554)	18,983	84.3%
Banca Nuova	2,671	-	2,671	11.8%
Farbanca	524	-	524	2.3%
Prestinuova	346	-	346	1.5%
BPV Finance	25	-	25	0.1%
Other subsidiaries	10	-	10	0.0%
Total	**23,113**	**(554)**	**22,559**	**100.0%**

Quality of credit

At 31 December 2016, **gross non-performing loans to customers** showed an increase in absolute value of Euro 837 million compared to 31 December 2015 (+9.3%).

Gross non perfoming loans to customers (in millions of euro)	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Bad loans	5,116.2	4,369.4	746.8	17.1%
Unlikely to pay	4,603.2	4,438.9	164.3	3.7%
Past due exposures	80.2	154.3	-74.1	-48.0%
Total	**9,799.6**	**8,962.6**	**837.0**	**9.3%**

In detail, bad loans grew by 17.1% and unlikely to pay by 3.7%, whilst past due exposures declined by 48%.

50.5% of this increase in gross non-performing loans in 2016 is attributable to customers with financed capital who, based on analyses performed internally, no longer had sufficient cash flows to repay the loan in full. Gross impaired loans of this kind amounted at 31 December to Euro 1,305.1 million compared to Euro 882.4 million at 31 December 2015.

It should be noted, moreover, that the changes that took place in 2016 also incorporate the reclassifications (and the consequent adjustments) communicated by the ECB team within the scope of the "Credit and counterparty risk management and risk control system" on-site inspection started on the Group in the month of June and completed at the beginning of September. For the sake of complete disclosure, it should be pointed out that on 13 March 2017 the Bank received the draft communication with which the Supervisory Body lists the results of the inspection in detail and requires the bank to implement, within a specific timeframe (between June and September 2017), the actions necessary to remove the identified shortcomings. In view of the recommendations received, the Bank will review, with a more conservative outlook, the policies, processes and procedures associated with credit and counterparty risks, the application of which to the entire credit portfolio will presumably have further currently unquantifiable but potentially significant negative impacts on the financial and economic situation of the BPVi Group, as early as 2017.

Furthermore, as already illustrated in the specific paragraph of the report on operations dedicated to audit work by the Supervisory Bodies (to which reference is made for further details), the Parent Bank BPVi was the subject of a further on-site audit limited to the scope of loans "correlated" with the purchase/subscription of BPVi shares.
The audit began in early February 2017 and ended on 10 March. At the date of this Report, the usual pre-closing meeting with the formal notification of the results of the audit to management, had not yet taken place. Based on the preliminary results of the audit, in the 2016 Financial Statements the Group already acknowledged the higher provisions and the reclassifications from performing to non-performing proposed by the inspection team and agreed by the Bank. Analyses were also carried out on significant reclassifications to non-performing proposed by the inspection team and for which higher provisions have already been recognised. These reclassifications will be made once the analysis has been concluded, in the first half of 2017. With reference to the value adjustments that emerged in the course of the audit, in the Financial Statements as at 31 December 2016 the Group already acknowledged the valuation differences highlighted by the inspection team, with the exception of certain justified positions, for which settlement agreements that do not involve additional charges with respect to those that have already been set aside have, in the meantime, been concluded or are in the process of completion.

At 31 December 2016, gross impaired loans subject to forbearance totalled Euro 2,262.8 million compared to Euro 1,709.9 million at the end of 2015.

At 31 December 2016, **gross non-performing loans over total gross loans and advances to customers** grew by 4.9 p.p. (35.84% compared to 30.94% at 31 December 2015), as a result of an increase of 3.6 p.p. of the percentage of doubtful loans and 1.5 p.p. of the percentage of unlikely to pay loans.

At 31 December 2016, **net non-performing loans to customers** showed a decrease in absolute value of Euro 159.9 million compared to end-2015 (-3%).

Net non perfoming loans to customers (in millions of euro)	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Bad loans	2,022.6	1,889.2	133.4	7.1%
Unlikely to pay	3,070.5	3,295.6	-225.1	-6.8%
Past due exposures	67.2	135.4	-68.2	-50.4%
Total	**5,160.3**	**5,320.2**	**-159.9**	**-3.0%**

In detail, non-performing loans grew by 7.1%, while unlikely to pay and past due and/or overdue declined, respectively, by 6.8% and 50.4%.

Net non-performing loans over total gross loans and advances to customers at 31 December 2016 amounted to 22.87% of total loans to customers, compared to 21.13% as of 31 December 2015. More specifically, non-performing loans equalled 8.97% of net loans (7.50% at 31 December 2015), unlikely to pay 13.61% of net loans (13.09% at 31 December 2015) and past due exposures 0.30% of net loans (0.54% at 31 December 2015).

At 31 December 2016, the **non-performing loan coverage percentage**, i.e. the ratio of total impairments to gross loans and advances, excluding partial write-offs for bankruptcy proceedings, stood at 47.34%, up by 6.70 p.p. compared to end-2015. Including "write-offs", the non-performing loan coverage ratio was 48.54% (42.41% at end-2015).

Loan to customers coverage percentage	31/12/2016	31/12/2015	Change
Impaired loans	**47.34%**	**40.64%**	**6.70 p.p.**
- of which: exposures with forbearance measures	28.95%	18.05%	10.90 p.p.
Bad loans	60.47%	56.76%	3.71 p.p.
Unlikely to pay	33.30%	25.76%	7.54 p.p.
Past due exposures	16.21%	12.25%	3.96 p.p.
Performing loans	**0.84%**	**0.73%**	**0.11 p.p.**
- of which: exposures with forbearance measures	2.52%	1.37%	1.15 p.p.
Loans to customers and debt securities	0.84%	0.74%	0.10 p.p.
Repurchase agreements and collateral margin	0.00%	0.00%	0.00 p.p.
Non performing loans (included partial write-offs for	**48.54%**	**42.41%**	**6.13 p.p.**
Bad loans (included partial write-offs for bankruptcy proceedings)	**62.16%**	**59.32%**	**2.84 p.p.**

In detail:

- **Net bad loans** show a coverage percentage, determined without taking account of the partial write-offs of receivables for bankruptcy proceedings, of 60.47% against 56.76 % at 31 December 2015. Including "write-offs", the coverage percentage was 62.16% (59.32% at end-2015);
- **Net unlikely to pay loans** show a coverage percentage of 33.30% compared to 25.76% as of 31 December 2015;
- **Net past due exposures** showed a coverage percentage of 16.21% (12.25% at 31 December 2015).

Net impaired loans subject to forbearance showed a coverage percentage of 28.95% (18.05% at 31 December 2015).

Lastly, the "general provision" for **performing loans and advances to customers** (excluding repurchase agreements and guarantee margins not impaired) amounted to Euro 146.7 million at 31 December 2016, providing a coverage percentage of 0.84%, up by 0.10 p.p. compared to the end of 2015. Performing loans subject to forbearance showed a coverage percentage of 2.52% (1.37% at 31 December 2015).

The **cost of credit on a yearly basis**, defined as the ratio of net adjustments to cash loans to customers, and the relevant net exposure was 4.74% (5.29% in 2015).

In the tables that follow, the details of the loans to Group customers at 31 December 2016 and at 31 December 2015 are shown separately for each category of non-performing loans as well as for performing loans.

31 December 2016

Categories (in millions of euro)	Gross exposure	Adjustments	Net exposures	% loans gross	% coverage	% net loans
Non performing loans	**9,799.6**	**4,639.3**	**5,160.3**	**35.84%**	**47.34%**	**22.87%**
- of which: exposures with forbearance measures	*2,262.8*	*655.1*	*1,607.7*	*8.28%*	*28.95%*	*7.13%*
Bad loans	5,116.2	3,093.6	2,022.6	18.71%	60.47%	8.97%
Unlikely to pay	4,603.2	1,532.7	3,070.5	16.83%	33.30%	13.61%
Past due exposures	80.2	13.0	67.2	0.29%	16.21%	0.30%
Performing loans	**17,545.2**	**146.7**	**17,398.5**	**64.16%**	**0.84%**	**77.13%**
- of which: exposures with forbearance measures	*619.2*	*15.6*	*603.6*	*2.26%*	*2.52%*	*2.68%*
Loans to customers and debt securities	17,543.3	146.7	17,396.6	64.16%	0.84%	77.12%
Repurchase agreements and collateral margin	1.9	-	1.9	0.01%	0.00%	0.01%
Total	**27,344.8**	**4,786.0**	**22,558.8**			
Non performing loans (included partial write-offs for bankruptcy proceedings)	*10,028.5*	*4,868.2*	*5,160.3*	*36.37%*	*48.54%*	*22.87%*
Bad loans (included partial write-offs for bankruptcy proceedings)	*5,345.1*	*3,322.5*	*2,022.6*	*19.38%*	*62.16%*	*8.97%*
Credit Cost	**4.74%**					

31 December 2015

Categories (in millions of euro)	Gross exposure	Adjustments	Net exposures	% loans gross	% coverage	% net loans
Impaired loans	**8,962.6**	**3,642.4**	**5,320.2**	**30.94%**	**40.64%**	**21.13%**
- of which: exposures with forbearance measures	*1,709.9*	*308.6*	*1,401.3*	*5.90%*	*18.05%*	*5.57%*
Bad loans	4,369.4	2,480.2	1,889.2	15.08%	56.76%	7.50%
Unlikely to pay	4,438.9	1,143.3	3,295.6	15.32%	25.76%	13.09%
Past due exposures	154.3	18.9	135.4	0.53%	12.25%	0.54%
Performing loans	**20,004.7**	**146.8**	**19,857.9**	**69.06%**	**0.73%**	**78.87%**
- of which: exposures with forbearance measures	*808.8*	*11.1*	*797.7*	*2.79%*	*1.37%*	*3.17%*
Loans to customers and debt securities	19,878.0	146.8	19,731.2	68.62%	0.74%	78.37%
Repurchase agreements and collateral margin	126.7	-	126.7	0.44%	0.00%	0.50%
Total	**28,967.3**	**3,789.2**	**25,178.1**			
Non performing loans (included partial write-offs for bankruptcy proceedings)	*9,237.5*	*3,917.3*	*5,320.2*	*31.59%*	*42.41%*	*21.13%*
Bad loans (included partial write-offs for bankruptcy proceedings)	*4,644.3*	*2,755.1*	*1,889.2*	*15.88%*	*59.32%*	*7.50%*
Credit Cost	**5.29%**					

Interbank and liquidity situation

At 31 December 2016, the Group's **net exposure** on the **interbank market**, given by the algebraic sum of amounts due from banks (asset line item 60) and amounts due to banks (liability line item 10) was negative by Euro 7,053.5 million, down by Euro 769.8 million compared to the figure at the end of 2015.

Net interbank position (in millions euro)	**31/12/2016**	**31/12/2015**	**Changes**	
			(+/-)	**%**
Net exposure to Central Banks	(5,930.3)	(6,542.6)	612.3	-9.4%
Repurchase agreements position	(1,481.2)	(851.2)	(630.0)	74.0%
Other net secured exposure	(94.0)	(674.9)	580.9	-86.1%
Net exposure through cash collateral	747.4	909.1	(161.7)	-17.8%
Net unsecured position	(295.4)	(663.7)	368.3	-55.5%
Total	**(7,053.5)**	**(7,823.3)**	**769.8**	**-9.8%**

The net exposure to Central Banks includes the compulsory reserve and other liquid assets (Euro 506.2 million compared to Euro 108.5 million at the end of 2015), as well as refinancing operations in which the Group participated by forming a pool of assets eligible as collateral, including part of the Government bonds held by the Group. In particular, at 31 December 2016, there is a Euro 4,696 million TLTRO II (Targeted Longer Term Refinancing Operation) in place, carried out by participating in the June 2016 auction, as well as ordinary refinancing operations (MRO) totalling Euro 1.75 billion (Euro 4.2 billion at 31 December 2015). Lastly, at the end of June 2016 the TLTRO I operations carried out in 2014 (Euro 1,249 million) and in 2015 (Euro 600 million) were extinguished early.

The repurchase agreements position had a negative imbalance of Euro 1,481.2 million, up compared to Euro -851.2 million at end-2015. The increase recorded during 2016 is mostly attributable to the new operations of this type carried out using Asset Backed Securities issued in the context of its Berica PMI 2, Berica Funding and Piazza Venezia 2 self-securitisations.

Other net secured exposures (Euro -94 million at 31 December 2016, and Euro -674.9 million at 31 December 2015) relate almost entirely to the financing received from multilateral development banks, which decreased by approximately Euro 80 million compared to the end of 2015. Already during the first half of 2016, following completion of the Berica PMI 2 self-securitisation through the issue of ABS fully subscribed by the originators, the special purpose vehicle extinguished the Euro 500 million bridge financing it had obtained from third-party lenders.

The **net exposure through cash collateral** had a positive balance of Euro 747.4 million (Euro 909.1 million at 31 December 2015) and refers mainly to mutual guarantees, aimed at mitigating credit risk, that are exchanged on a daily basis with all major market operators with which the Group carries out OTC derivative and repo/bond buy sell back transactions, quantified on the basis of the market value of existing positions. The guarantees are regulated by international standards (CSA/GMRA) agreed to with the various market counterparties, applicable to the existing ISDA agreements that regulate the aforesaid transactions. The item also includes the initial and variation margins exchanged with central counterparties, directly or through clearing brokers.

Unsecured net exposure amounted to Euro -295.4 million versus Euro -663.7 million at 31 December 2015.

The table below summarises the cash flow statements for 2016 and 2015, derived from the consolidated financial statements at 31 December 2016, which show that in 2015 the Group absorbed net liquidity of Euro 14.7 million.

Liquidity (in millions euro)	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Cash and cash equivalents at the beginning of the year	**173.5**	**192.8**	**(19.3)**	**-10.0%**
Net liquidity generated/absorbed by operating activities	(1,564.2)	(66.7)	(1,497.5)	n.a.
Net liquidity generated/absorbed by investing activities	(110.2)	34.4	(144.6)	n.a.
Net liquidity generated/absorbed by funding activities	1,659.7	13.0	1,646.7	n.a.
Total net cash generated/absorbed in the year	**(14.7)**	**(19.3)**	**4.6**	**-23.8%**
Cash and cash equivalents at the end of the year	**158.8**	**173.5**	**(14.7)**	**-8.5%**

Net liquidity absorbed by operating activities in 2016 amounted to Euro -1,564.2 million versus Euro -66.7 million absorbed in 2015, and it resulted from:

- liquidity generated by financial activities, amounting to Euro 2,050 million versus Euro 2,365.5 million in 2015;
- liquidity absorbed by financial liabilities of Euro 3,349.6 million, compared to Euro 2,630.3 million in 2015;
- liquidity of Euro 264.6 million absorbed by operations, versus Euro 198.1 million in 2015.

In 2016, **net liquidity absorbed by investment activities** amounted to Euro 110.2 million (Euro 34.4 million generated in 2015), of which Euro 108.7 million derive from the purchase of debt securities classified as "Financial assets held to maturity", which were not present in 2015.

Lastly, in 2016, the **liquidity generated by funding activities** amounted to Euro 1,659.7 million (Euro 13 million in 2015), almost entirely related to capitalisation transactions concluded during the year and fully subscribed by the Atlante Fund.
As regards the liquidity position, the Liquidity Coverage ratio at 31 December 2016 was 37.9% compared to 47.5% in December 2015 and a regulatory target set at 70% for 2016. Following the aforementioned bond issue guaranteed by the State, the LCR indicator rose to 112.8% (28 February 2017 figure) above the regulatory minimum for 2017, equal to 90%, as stipulated in the 2016 SREP decision. **It should be noted, however, that in March 2017 the indicator deteriorated as a result of the significant outflow of commercial funding as a result of the bail-in fears related to uncertainties on the recapitalisation process.** Against this background, on 23 March 2017 the Board of Directors decided to proceed with the request to the Bank of Italy and the Ministry of Economy and Finance for a further issue of State-Guaranteed bonds pursuant to Legislative Decree 237/2016 up to a maximum of Euro 2.2 billion with a duration of 3 years.

FINANCIAL ASSETS AND LIABILITIES

At 31 December 2016, the Group's **cash financial assets** amounted to Euro 5,486.4 million, versus Euro 5,871.8 million at 31 December 2015 (-6.6%).

Cash financial assets (in millions of euro)	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Financial assets held for trading	**119.6**	**138.2**	**(18.6)**	**-13.5%**
- Debt securities: Governments and Central Banks	1.0	1.0	-	0.0%
- Debt securities: other issuers	117.5	133.1	(15.6)	-11.7%
- Listed equities	0.3	1.0	(0.7)	-70.0%
- Unlisted equities	0.8	3.1	(2.3)	-
Financial assets at fair value	**35.7**	**7.8**	**27.9**	**357.7%**
- Debt securities: other issuers	6.0	7.8	(1.8)	-23.1%
- Unlisted equities	29.7	-	29.7	n.a.
Financial assets available for sale	**4,263.2**	**5,725.8**	**(1,462.6)**	**-25.5%**
- Debt securities: Governments and Central Banks	3,711.5	5,231.5	(1,520.0)	-29.1%
- Debt securities: other issuers	24.3	46.0	(21.7)	-47.2%
- Listed equities	17.7	17.1	0.6	3.5%
- Unlisted equities	319.8	159.1	160.7	101.0%
- Mutual funds	161.1	244.2	(83.1)	-34.0%
- Loans	28.8	27.9	0.9	3.2%
Financial assets held to maturity	**1,067.9**	**-**	**1,067.9**	**n.a.**
-Government securities	1,067.9	-	1,067.9	n.a.
Total	**5,486.4**	**5,871.8**	**(385)**	**-6.6%**

Financial assets held for trading (asset item 20) include own securities held for the purpose of trading or related to market making in support of trade. At 31 December 2016, these amounted to Euro 119.6 million (-13.5% compared to 31 December 2015), mainly consisting of "Other debt securities" (Euro 117.5 million, -11.7%), including bonds (structured or otherwise) issued by financial institutions and non-financial entities, the latter being mostly minibonds.

Financial assets designated at fair value (asset item 30) include convertible bonds (Euro 6 million, partly arising from restructuring of credits) not held for the purpose of trading and/or in support of trade for which the Group has made use of the fair value option. The item also includes equity investments in unlisted companies held through funds managed by the subsidiary Nem Sgr (Euro 29.7 million) for which the Group made use of the derogation provided for by IAS 28, paragraph 19, which allows for their recognition at fair value (at 31 December 2015 these equities were recorded the balance sheet assets in "Equity investments" in an amount of Euro 31.2 million).

Financial assets available for sale (asset item 40) includes own securities that have not been classified in the other categories envisaged by IAS 39. At 31 December 2016, these amounted to Euro 4,263.2 million (-25.5% compared to 31 December 2015) and mostly refer to government bonds (Euro 3,711.5 million, -29.1%, also as a result of the reclassification to "Financial assets held to maturity" of own Italian government bonds for a nominal value of Euro 925 million) and, to a lesser extent, to equity securities that are not quoted in active markets (Euro 319.8 million, +101% mainly due to the reclassification to the item under review of the interest held in Cattolica Assicurazioni, which at 31 December 2015 was included in "Equity") and to valuations of mutual funds. (Euro 161.1 million, a decrease of 34% due to the effect of disposals carried out during the year, including the Athena fund following the conclusion of a settlement with the counterparty, as well as the reductions in fair value that have affected, in particular, the funds Optimum MS1 and Optimum MS2).

Financial assets held to maturity (asset item 50), equal to Euro 1,067.9 million (absent at the end of 2015) include the government securities that, during the last quarter of the year, were reclassified from "Financial assets available for sale" in order to mitigate the current and prospective impact on the own funds and on the prudential ratios of the Group connected to the extinction of the right to sterilise the valuation reserves (positive and negative) relating to exposures to Central Governments of European Union countries held in the "Financial assets available for sale" portfolio.

Overall, at 31 December 2016, the BPVi Group holds cash assets representing exposures to **sovereign debt** amounting to Euro 4,780.4 million, equal to 87.1% of the Group's cash financial assets, all referred to Italian government bonds with the exception of a marginal exposure (Euro 0.1 million) in Argentine Government bonds.

The table that follows shows the breakdown of exposures to the Italian State, all represented by debt securities, by accounting category, by type of interest rate and by residual duration.

Exposures to sovereign debt (in millions of euro)	Term to maturity				
	Within 12 months	**12 to 36 months**	**36 to 60 months**	**Over 60 months**	**Total**
Financial assets held for trading	**1.0**	**-**	-	**-**	**1.0**
- fixed rate	-	-	-	-	-
- floating rate	*1.0*	-	-	-	*1.0*
- inflation linked	-	-	-	-	-
Financial assets available for sale	***10.4***	**-**	**395.4**	**3,305.6**	**3,711.4**
- fixed rate	10.4	-	-	*0.1*	*10.5*
- floating rate	-	-	-	-	-
- inflation linked	-	-	*395.4*	*3,305.5*	*3,700.9*
Financial assets held to maturity	**-**	**-**	**1,067.9**	**-**	**1,067.9**
- fixed rate	-	-	*1,067.9*	-	*1,067.9*
- floating rate	-	-	-	-	-
- inflation linked	-	-	-	-	-
Total	**11.4**	**-**	**1,463.3**	**3,305.6**	**4,780.3**

The inflation linked exposures recorded among "Financial assets available for sale" hedge the interest rate risk and the inflation risk for a nominal amount of Euro 2,893 million.

At 31 December 2016, sensitivity to increases by 1 bps in the Republic of Italy credit spread for Government securities classified as "Financial assets held for trading" equalled +/- Euro 2.43 million on the gross result of the Statement of Comprehensive Income.

The breakdown of **trading derivatives** is shown below. If their fair value is positive, they are recorded under asset line item 20; if their fair value is negative, they are recorded under liability line item 40.

Trading derivatives (in millions of euro)	31/12/2016		31/12/2015	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Derivatives on debt securities and interest rates	1,865.8	(1,362.7)	3,167.0	(2,762.7)
Derivatives on equities and equity indices	0.6	(80.9)	0.3	(0.1)
Derivatives on exchange rates and gold	41.4	(11.6)	39.6	(8.7)
Total	**1,907.8**	**(1,455.2)**	**3,206.9**	**(2,771.5)**

It is noted that for plain vanilla OTC derivatives on interest rates, in 2016 the Parent Bank initiated central clearing activities at the London Clearing House (LCH), of which it is an indirect member through two clearing brokers.

The negative fair value of derivatives on equities and equity indices refers entirely to the valuation of the put options held by Cattolica on the insurance companies Berica Vita, Cattolica Life and ABC Assicura.

The breakdown of **"hedging" derivatives** is shown below. These are included in balance sheet asset item 80 (positive fair value) and in balance sheet liabilities item 60 (negative fair value), with the exception of the fair value options "natural hedges"), which are instead included in balance sheet asset item 20 (positive fair value) and balance sheet liabilities item 40 (positive fair value negative).

Hedging derivatives (in millions of euro)	31/12/2016			31/12/2015		
	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value	Notional
***Fair value* hedge**	**27.9**	**(141.3)**	**3,201.2**	**33.0**	**(117.1)**	**1,718.2**
- debt securities	-	(134.3)	700.0	-	(53.3)	220.0
- mortgages	17.3	-	1,041.0	13.6	(63.8)	1,207.4
- due to customers	-	(7.0)	1,366.2	-	-	-
- own bond issues	10.6	-	94.0	19.4	-	290.8
***Cash flow* hedge**	**-**	**(734.1)**	**2,280.5**	**-**	**(770.5)**	**3,915.9**
- debt securities	-	(733.7)	2,193.0	-	(766.8)	3,673.0
- mortgages	-	-	-	-	(3.2)	100.0
- due to customers	-	(0.4)	87.5	-	(0.5)	142.9
Fair value option (natural hedging)	**38.4**	**(0.1)**	**541.4**	**63.5**	**(0.5)**	**964.8**
- own bond issues	38.4	(0.1)	541.4	63.5	(0.5)	964.8
Total	**66.3**	**(875.5)**	**6,023.1**	**96.5**	**(888.1)**	**6,598.9**

The **fair value hedges** pertain to interest rate risk on specific portfolios of floating rate mortgages with maximum rate classified as "Loans and advances to customers", on individual own-issue bonds recorded among "securities in issue", on "amounts due to customers at sight" (current accounts and demand deposits) and on inflation-linked Italian government bonds recorded among "financial assets available for sale" hedged also for inflation rate.

To represent the aforesaid hedging transactions, the Group opted for the "Micro Fair Value Hedge" accounting model for those relating to own-issue bonds and to investments in debt securities, while it used the "Macro Fair Value Hedge" model for those relating to mortgage loans, with the consequent recognition of the revaluations of the hedged assets (Euro -17.4 million at 31 December 2016 versus Euro +46.2 million at the end of 2015) in Asset line item 90 "Remeasurement of financial assets backed by macro hedges". In this respect, it should be noted that during the second half of 2016 all the fair value hedges on fixed-rate mortgages were closed out early. The cumulative revaluation that had been entered in item 90 of the balance sheet assets (Euro 58.6 million) was consequently added to the balance-sheet value of the individual loan and treated, in terms of amortised cost, through the modification of the effective interest rate of each single loan through which the relevant interest income is determined. A decision was also made to use the Macro Fair Value Hedge for hedges of on-demand items of the amounts due to customers activated during 2016, with the consequent recognition of fair value changes in the hedged liabilities (Euro -6.8 million at 31 December 2016, absent at the end of 2015) under balance sheet liabilities item 70 "Remeasurement of financial liabilities backed by macro hedges".

The **cash flow hedges** pertain to specific portfolios of Italian Government bonds (particularly inflation linked BTPs) recorded among "financial assets available for sale" and "due to customers", the latter activated by the subsidiary Prestinuova on the notes issued as part of its securitisation transaction completed last year.

Finally, the **fair value option** is used to manage own-issue bonds related, from their origin, to derivative contracts entered into in order to mitigate their interest rate risk.

Trading in **OTC derivatives** entered into with market counterparties, mostly banks, **is almost entirely secured by bilateral offsetting agreements** that provide the option of offsetting creditor positions with debtor positions in case of counterparty default. Moreover, in order further to attenuate credit risk, specific Credit Support Annex contracts have been stipulated, which regulate the cash collateral financial guarantees given/received by the various counterparties with which the Group operates. The following table shows the Group's net exposure in derivative instruments, determined on the basis of the net fair values of all existing contracts with a single counterparty with respect to the transactions that are secured by a bilateral offsetting agreement, whilst the remaining transactions are posted on the basis of the fair value of each individual contract.

Derivatives (in millions of euro)	31/12/2016		31/12/2015	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
OTC derivatives with market counterparties	**296.6**	**(741.1)**	**320.5**	**(768.2)**
- subjected to clearing with Central counterparties	180.5	-	-	-
- covered by bilateral offsetting arrangements	116.1	(660.2)	320.5	(768.2)
- other	-	(80.9)	-	-
OTC derivatives with Group clients	**92.3**	**(4.4)**	**97.1**	**(5.6)**

At 31 December 2016, the **exposures** with positive fair values with central and market counterparties **are secured by cash collaterals deposited with the Parent Bank BPVi, totalling Euro 284.5 million**. Derivative instruments with customers have been adjusted for a total of Euro 4 million, to take account of the related counterparty risk.

PRINCIPAL EQUITY INVESTMENTS

Below are the main investments and disposals of equities carried out during 2016.

Purchases of equity instruments and capital transactions by investee companies

During 2016, Banca Popolare di Vicenza carried out **various transactions on controlling interests and on AFS securities** that changed the interests held in existing investee companies or, while maintaining the share held unchanged, led to an increase in the invested amount, both because of new acquisitions of shares and because of participation in capital increases.
In this respect it should be noted that Banca Popolare di Vicenza, in addition to measures to **increase investments in the subsidiaries Banca Nuova S.p.A., BPV Finance (International) Plc, Immobiliare Stampa S.c.p.a. and San Marco S.r.l.** (already mentioned in the chapter "Other changes in the investment segment" of the "Activities with strategic importance" section of this Report), carried out further equity operations as a result and/or in view of operations to restructure the debt of borrower company In particular, a new investment of Euro 1.2 million in equity instruments issued by Ferroli S.p.A. and an investment, amounting to Euro 20.5 million, in shares issued by the closed-end multi-segment Italian alternative mutual fund (FIA) "IDeA CCR (Corporate Credit Recovery) I" following the Bank's contribution to this fund (i) of its own receivables and (ii) of financial assets, respectively owed by and issued by counterparties whose debt was restructured.
It should also be noted that as part of an intervention to support the **Cassa di Risparmio di Cesena** S.p.A. through a reserved capital increase for an amount of Euro 280 million put in place by the FITD Voluntary Scheme[20], **the BPVi Group participated for a total amount of approximately Euro 4.1 million (BPVi for Euro 3.2 million, Banca Nuova S.p.A. for approximately Euro 562 thousand and Farbanca S.p.A. for approximately Euro 30 thousand)**. The above-mentioned intervention, similarly to those carried out by other banks participating in the Voluntary Scheme and in accordance with the indications contained in Technical Note prot. no. 1283502/16 of 26/10/2016 by the Bank of Italy, to FITD notification prot. no. 200 of 31 October 2016, and having heard the opinion of the Independent Auditors PWC, was **accounted for in balance sheet asset item "Financial assets available for sale" as an asset with equity risk**.

In addition, during the year the Bank completed the payment in various tranches of amounts, totalling **Euro 9.5 million**, called up as fees and for new investments by the **funds NEM Imprese II and Industrial Opportunity Fund** managed by the subsidiary NEM SGR S.p.A. and subscribed, within a previous commitment, new shares and new financial instruments issued by the investee V.E.I. Capital S.p.A. amounting to Euro 9.5 million.

Finally, in 2016 the subsidiary **NEM SGR S.p.A.** - through the NEM Imprese II Fund - completed a transaction by which it holds **100% of the share capital of HDS S.p.A.** (formerly HDS Foodservice S.r.l.), a company that distributes food products to the 'ho.re.ca.' channel (hotels, restaurants, cafés, catering). The acquisition cost of a shareholding equal to Euro 8.789 million was increased in the course of 2016 by Euro 2 million as a result of capital increases. At the end of 2016, the impairment on the financial asset valued the shareholding at Euro 6.7 million, equal to equity, following an unsatisfactory performance in financial year 2016.

[20] The purpose of the FITD (interbank fund for deposit protection) Voluntary Scheme is to carry out interventions in favour of banks adhering thereto, in respect of which early intervention measures are adopted, pursuant to the consolidated banking act, both in the event that bankruptcy is declared or in the event that there is a risk of collapse by the Bank of Italy.

Sales of equity instruments

In the course of the year, the following were carried out: (i) for approximately Euro 18.5 million, a partial repayment of the investment made by the Bank in the **Industrial Opportunity Fund**, managed by the subsidiary NEM SGR S.p.A., as a result of the realisation, by this private equity fund, of disposals of investments in the target companies CEME S.p.A., Emmeti S.p.A., Agripower S.r.l. and Capitolonove S.r.l., (ii) for approximately Euro 29.3 million, a partial redemption of units by the **NEM Imprese II** fund (also managed by the subsidiary NEM SGR S.p.A.) as a result of the capital distributions and the disposals that involved the targets Meta Fin S.p.A. and Orogroup S.p.A., and (iii) for a total amount of Euro 2.4 million, a partial repayment of the shares by the Giada Equity Fund in relation to the divestment of the Stroili Oro and Capitolodue S.r.l. equity investments.

In addition, in 2016 the Bank completed the sale of the equity investment held in **Consorzio Triveneto S.p.A.**, a company that is active in the performance of ITC services to the customers of the banking sector, with respect to which a first tranche, amounting to 7.54% of the share capital, had been sold on 31 December 2015 to the controlling shareholder of the investee (Bassilichi S.p.A.) at a price of Euro 1.3 million; the residual 3.39% of the share capital of this asset, still owned by the Bank at the end of last year, was sold for Euro 590 thousand in April as a result of the pre-emption procedure that involved the other shareholders of Consorzio Triveneto S.p.A. and in which an additional pro rate purchaser, in addition to the controlling stockholder who had indicated his willingness to pre-empt the entire share to be sold by the Bank, was Banca Popolare dell'Alto Adige. The **net capital gain** generated by said equity investment sale, whose main component was recognised in 2015, amounted to Euro 1.53 million.

EQUITY

The Group's **equity** at 31 December 2016 amounted to Euro 2,148.7 million, reporting a decrease of Euro 385.4 million with respect to the figure at the end of 2015 (-15.2%).

In this regard, **the equity reserves at 31 December 2016 are subject to a restriction making them non-distributable pursuant to Art. 2358, paragraph 6 of the Italian Civil Code, in the amount of Euro 236.3 million** (Euro 304.4 million at 31 December 2015), in connection with the correlations, identified following the ECB's 2015 inspection, between purchases/subscriptions of BPVi shares and loans disbursed to certain Members/Shareholders. In addition to the aforesaid amount, there is another **non-distributable equity reserve pursuant to Art. 2358, paragraph 6 of the Italian Civil Code in the amount of Euro 40.3 million** (Euro 57 million as at 31 December 2015) relating to the two "ordinary" share capital increase transactions to expand the shareholder base, which offered new Shareholders the possibility of subscribing BPVi shares with resources deriving from a loan granted by the Bank, in compliance with the provisions of Art. 2358 of the Italian Civil Code.

Group equity (in millions euro)	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Capital stock	677.2	377.2	300.0	79.5%
Additional paid-in capital	3,080.3	3,206.6	(126.3)	-3.9%
Reserves	277.8	224.0	53.8	24.0%
Valuation reserves	43.9	157.4	(113.5)	-72.1%
Equity instruments	-	1.4	(1.4)	-100.0%
Treasury shares	(28.1)	(25.5)	(2.6)	10.2%
Equity	**4,051.1**	**3,941.1**	**110.0**	**2.8%**
Net income	(1,902.4)	(1,407.0)	(495.4)	35.2%
Total equity	**2,148.7**	**2,534.1**	**(385.4)**	**-15.2%**
- of which restricted reserves ex art. 2358, c. 6, Civil Code	*276.6*	*361.4*		

During May 2016, the Parent Bank Banca Popolare di Vicenza, in executing the share capital increase transaction, issued 15 billion new shares fully subscribed by the Atlante Fund managed by Quaestio Sgr for an overall exchange value of Euro 1.5 billion posted partially under the item **Capital stock** (Euro 300 million) and partially under the item **Additional paid-in capital** (Euro 1.2 billion). Euro 1,326.3 million was drawn from **Additional paid-in capital** and to cover the loss for the year 2015, as approved by the Shareholders' Meeting on 26 March 2016.

The first tranche of Euro 163.7 million paid by the Atlante Fund/Quaestio Sgr up to 31 December 2016 against the future capital increase, in relation to a total assistance of Euro 310 million which was concluded in early 2017, was instead recorded in **Reserves**. The other changes that affected the item **Reserves** are due to draw-downs (Euro 80.7 million) to cover the amount of the loss for the year 2015 not covered by the amount taken from Additional paid-in capital, as well as the costs (Euro 29.3 million) incurred by the Parent Bank as part of the capital increase transaction, which, in accordance with IAS 32, have been recognised directly in equity. The remaining changes were associated with the measurement of the Companies consolidated using the equity method and other minor effects, including the reclassification to the item under review of **Capital instruments** (Euro 1.4 million at 31 December 2015) attributable to the equity component embedded in the convertible subordinated loan "BPVi 15^ 2009-2016 Issue" which matured during the year and which was recorded separately in accordance with IAS 32.

Treasury shares at 31 December 2016 are equal to Euro 28.1 million (Euro 25.5 million at 31 December 2015), corresponding to 666,060 shares, increased during the first quarter 2016 by 258,533 shares as a result of the conclusion of a settlement agreement with Athena Fund. The shares retained in the portfolio are mostly intended to service the "Loyalty Bonus" due to Members/Stockholders as part of the capital increase of Euro 608 million made in 2014 by the Parent Bank Banca Popolare di Vicenza. More specifically, in 2017, these shares may be assigned, as bonuses, to those Members who fulfilled the requirements prescribed by the regulations of the transaction.

The **valuation reserves** decreased by Euro 113.5 million compared to 31 December 2015, mainly because of the net changes in fair value (negative for Euro 97.2 million) recognised on Italian government bonds recorded among "financial assets available for sale" and on the related derivatives hedging the cash flows. Valuation reserves relating to investees measured at equity also decreased (Euro -21.8 million, mostly due to the above-mentioned deconsolidation of Cattolica Assicurazioni), as did those resulting from the actuarial valuation of the defined-benefit pension plans (Euro -2.8 million). The reserves in the item under review also include the reserves relating to special revaluation laws, such as those arising from the valuation of land, buildings and works of art at deemed cost on the first-time adoption of IAS/IFRS.

The following table shows the breakdown of **valuation reserves** at 31 December 2016 compared to 31 December 2015.

Valuation reserves (in millions of euro)	**31/12/2016**	**31/12/2015**	**Changes**	
			(+/-)	**%**
Financial assets available for sale	466.3	557.2	(90.9)	-16.3%
- Italian government securities	*432.5*	*527.5*	*(95.0)*	*-18.0%*
- Other debt securities	*0.5*	*0.8*	*(0.3)*	*-37.5%*
- Quoted equities	*(1.3)*	*(2.7)*	*1.4*	*-51.9%*
- Unquoted equities	*32.2*	*25.0*	*7.2*	*28.8%*
- Mutual funds	*2.4*	*6.6*	*(4.2)*	*-63.6%*
Property, plant and equipment	0.2	0.1	0.1	100.0%
Cash-flow hedges	(505.5)	(505.4)	(0.1)	0.0%
- Italian government securities	*(505.2)*	*(503.0)*	*(2.2)*	*0.4%*
- Assets/Liabilities at cost	*(0.3)*	*(2.4)*	*2.1*	*-87.5%*
Actuarial gains (losses) on defined-benefit pension plans	(9.2)	(6.4)	(2.8)	43.8%
Portion of valuation reserves of equity investments carried at equity	3.7	25.5	(21.8)	-85.5%
Special revaluation laws	88.4	86.4	2.0	2.3%
Total	**43.9**	**157.4**	**(113.5)**	**-72.1%**

The following table reconciles the equity and net income of the Parent Bank Banca Popolare di Vicenza with those of the Group that pertain to the Parent Bank itself.

(in millions of euro)	31/12/2016 Equity	31/12/2016 of which: net income for the period	31/12/2015 Equity	31/12/2015 of which: net income for the year
Parent bank's statement of financial position	**2,112.6**	**(1,901.7)**	**2,465.1**	**(1,399.4)**
Year results pertaining to the Group, as to:				
- companies consolidated line-by-line	(86.9)	(86.9)	(231.6)	(231.6)
- companies valued at shareholders'equity	8.5	8.5	17.2	17.2
Differences compared to carrying values, as to:				
- companies consolidated line-by-line	125.5	106.0	278.0	227
- companies valued at shareholders'equity	(5.4)	-	11.2	3.2
Write-off of dividends collected during the year from:				
- companies consolidated line-by-line	-	(14.0)	-	(28.0)
- companies valued at shareholders'equity	-	(13.0)	-	(11.0)
Derecognition of intercompany profit and loss	(4.4)	(4.4)	(0.3)	4.7
Derecognition of intercompany capital gains from discontinuing and contributing operations	(4.0)	-	(4.0)	10.6
Other consolidation adjustments	2.8	3.1	(1.5)	0.4
Consolidated statement of financial position	**2,148.7**	**(1,902.4)**	**2,534.1**	**(1,407.0)**

Consolidated equity pertaining to the Parent Bank, equal to Euro 2,148.7 million at 31 December 2016, is Euro 36.1 million greater than that of the Parent Bank at that date (Euro 2,112.6 million). The consolidated net loss, amounting to Euro 1,902.4 million, was Euro 0.7 million higher than the Parent Bank's.

OWN FUNDS AND RATIOS

Own funds and the **Own fund requirements** at 31 December 2016 were determined in accordance with the regulatory framework of Basel 3, including the transitional provisions and the national discretionary powers. In this regard, as from 1 October 2016, the right exercised by the Group to sterilise the valuation reserves relating to debt securities issued by central governments of European Union countries held in the "Financial assets available for sale" portfolio, including the valuation reserves relating to cash flow hedges on the same securities, no longer exists.

At 31 December 2016, Own funds amounted to Euro 1,906.5 million, versus Euro 2,022.5 million at 31 December 2015. The decrease mainly refers to the loss for the period, only attributable in part to elements subject to deduction from Own Funds, as well as to the calculation of the negative valuation reserves relating to exposures to Central Governments of European Union countries and to the repayments and the depreciation provided for by the prudential rules that have affected subordinated bonds. Moreover, despite elements of uncertainty concerning the legitimacy of the decision by Cattolica Assicurazioni to exercise the unilateral right of withdrawal from the partnership in place with the Bank, and consequently of the validity of Cattolica's right to sell the 60% equity investments held in the capital of Berica Vita, Cattolica Life and ABC Assicura, the entire price of exercise of Cattolica's potential right to sell its investments in the aforesaid insurance companies (Euro 178.5 million), was deducted from Own funds at 31 December 2016, taking into account the provisions (including transitional provisions) contained in Regulation (EU) no. 575/2013.

Finally, it should be recalled that a "prudential filter" (Euro 255.3 million at 31 December 2016, Euro 320.8 million at the end of 2015) is applied to the BPVi Group's Own funds in order to neutralise the capital with respect to which a "correlation" was found between purchases/subscriptions of BPVi shares and loans disbursed to certain Members/Shareholders, or in relation to which other elements were detected that require it to be deducted from the Common Equity Tier 1 capital elements pursuant to Art. 36 of Regulation (EU) no. 575/2013 and not already "neutralised" through provisions or impairments recognised in the income statement.

Capital adequacy requirements were calculated using the following methods:

- risk-weighted assets used for determining the credit and counterparty risk requirement have been quantified using the standard method and credit risk mitigation (CRM) simplified by adopting unsolicited external ratings provided by the DBRS ECAI for the supervisory portfolio "Exposures to Central governments or central banks", by the Moody's, S&P and Fitch ECAIs for the supervisory portfolio "Elements that represent positions relating to securitisations", and unsolicited ratings by the Cerved Group ECAI for the supervisory portfolio "Exposures to Companies";
- the market risk requirement is determined using the standard method, under which sensitivity models are used to represent derivatives involving interest rates and debt securities;
- the operational risks requirement was determined using the basic method.

Own funds and capital adequacy ratio (in millions of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %	31/12/2016 pro-forma*
Common Equity Tier 1 (CET1)	1,605.3	1,655.6	(50.3)	-3.0%	1.766,7
Additional Tier 1 (AT1)	-	-	-	0.0%	-
Tier 2 (T2)	301.2	366.9	(65.7)	-17.9%	303,1
Own Funds	**1,906.5**	**2,022.5**	**(116.0)**	**-5.7%**	**2.069,8**
Requirement for Credit and Counterparty risk	1,549.6	1,784.2	(234.6)	-13.1%	1.553,9
Requirement for Credit Value Adjustment	8.6	33.3	(24.7)	-74.2%	8,6
Requirement for Market risk	28.0	22.7	5.3	23.1%	28,0
Requirement for Operational risks	132.0	150.6	(18.6)	-12.3%	132,0
Capital adequacy requirements	**1,718.2**	**1,990.7**	**(272.5)**	**-13.7%**	**1.722,5**
Risk-weighted assets	**21,477.4**	**24,884.3**	**(3,406.9)**	**-13.7%**	**21.531,2**
Common Equity Tier 1 Ratio	7.47%	6.65%	0.82 p.p.		8,21%
Tier 1 Ratio	7.47%	6.65%	0.82 p.p.		8,21%
Total Capital Ratio	8.88%	8.13%	0.75 p.p.		9,61%
Surplus(Deficit) respect minimal requirements art. 92 CRR, included combined capital reserve requirement	**(348.7)**	**(590.4)**	**241.7**	**-40.9%**	**(190,9)**

*The consolidated pro-forma ratios at 31 December 2016 include the second tranche of the payment towards future capital increase carried out on 5 January 2017 by the Atlante Fund equal to 146,3 millions of euro.

The **Common Equity Tier 1 Ratio and the Tier 1 Ratio are both 7.47%** (6.65% at 31 December 2015), while the **Total Capital Ratio is 8.88%** (8.13% at 31 December 2015).

However, the Basel 3 framework also prescribes establishing additional capital reserves above the regulatory minimums in order to provide banks with high quality capital means to be used at times of market stress to prevent dysfunctions in the banking system and avoid interruptions in the loan granting process and to address risks deriving from the systemic relevance of banks at the global or domestic level.

In this regard, in addition to the already implemented "capital conservation buffer"[21], a "countercyclical capital buffer"[22], the "buffer for entities with global systemic relevance" (G-SII

[21] For banking groups, the capital conservation buffer is equal to 2.5% of total risk exposure. In this respect it should be noted that for said requirement, the Bank of Italy recently introduced a "phase-in" that envisages the application of a reduced requirement for the year 2017 (equal to 1.25% instead of 2.5%) and for the year 2018 (equal to 1.875% instead of 2.5%). From 2019 the requirement will be equal to 2.50% of total risk exposure.

[22] The Bank of Italy published the decision with which it set, also for the fourth quarter of 2016, to zero percent the coefficient of the countercyclical capital buffer applicable to exposures towards Italian counterparties.

buffer) and the "buffer for other entities with systemic relevance"[23] (O-SII buffer) are in place since 1 January 2016.

The total amount of the aforesaid additional capital reserves is called "combined capital reserve requirement" and banks are obligated to address it with Common Equity Tier 1 (CET1) capital. At 31 December 2016, **the BPVi Group had a deficit of Euro 348.7 million on the "combined capital reserve requirement" prescribed by the prudential regulations**. Lastly, **the ECB set the 2016 CET1 Ratio target value for the Banca Popolare di Vicenza Group to 10.25%**. At 31 December 2016, **the deficit of Common Equity Tier 1** (CET1) **capital** compared to the target ratio **was Euro 596.1 million**.

The consolidated pro-forma ratios at 31 December 2016, determined by including the second tranche of the payment towards future capital increase carried out on 5 January 2017 by the Atlante Fund/Quaestio Sgr, equal to Euro 146,3 million, **amounted to 8.21% as regards the CET1 ratio and the Tier 1 ratio and to 9.61% as regards the Total Capital ratio**, while the capital shortage with respect to the "combined capital reserve requirement" and the CET1 Ratio target value fixed by the ECB **fell respectively to Euro 190.9 million and Euro 440.2 million**.

Finally, it should be noted that with effect from 31 March 2017, following the new SREP decision communicated on 16 December 2016, the new minimum SREP requirements for CET1 ratio and Tier 1 ratio are respectively equal to 8.75% and 10.25%. Since the BPVi Group has not issued hybrid equity instruments, the minimum Tier 1 ratio limit will have to be fully covered with Common Equity instruments. To said new minimum requirements, a Total Capital Ratio target equal to 12.25% is added.

[23] The requirements for entities with global systemic relevance or for the other entities with systemic relevance do not apply to the BPVi Group.

COMMENTS ON THE INCOME STATEMENT

The BPVi Group closed 2016 with a **net result** of Euro -1,902.4 million, compared to Euro -1,407 million at 31 December 2015.

The Group's **income from operations**, **despite having reduced significantly compared to 2015** (Euro -324.3 million, -90.9%) **is generally positive in the amount of Euro 32.6 million. Operating income**, in particular, recorded a decrease of 31.6% and reflects the significant reduction in volumes traded with customers (approximately Euro -8.7 billion, equal to 14.1%), the increase in the cost of funding and the reduction of the contribution resulting from the sale of government bonds. The trend in **operating costs** was, on the other hand, **positive**, **falling by 1.2%** despite the presence of **certain non-recurring components** (activation of the staff solidarity fund, AGCOM fine and the initial consolidation of the company HDS) net of which **operating costs** were further **reduced** and equal to **5.6%.**

Adjustments and **provisions** were very high, although they were down by 26.6% overall compared with 31 December 2015. More specifically:

- **Adjustments to loans,** equal to Euro 1,077.5 million (-19.2%) reflect the evolution of impaired credit, the further corrections on customers with loans correlated with the capital, and the aforementioned effects of ECB inspections in 2016 and early 2017, and led to an increase of 6.13 p.p. in the coverage of impaired loans which, at the end of 2016, reached 48.54% including write-offs;
- **Value adjustments in respect of securities and equity investments,** equal to Euro 367 million (+114.3%), are mainly attributable to the withdrawal from the partnership by Cattolica Assicurazioni and the consequent write-down of the equity investment (Euro 221.8 million inclusive of the effects linked to the reclassification of the interest to "Financial assets available for sale") and to the negative assessment (Euro 80.9 million) of the put options held by Cattolica on 60% of insurance companies, as well as to further write-downs of the Luxembourg funds Optimum MSI and MSII (Euro 50.5 million);
- **Net provisions for risks and charges** amounted to Euro 265.4 million (-48.3%), largely due to litigation risks on BPVi shares (Euro 290.6 million inclusive of the preliminary estimate of the costs in relation to the settlement offer by the Parent Bank to its Members/Shareholders partially offset by approximately Euro 83 million in freed up funds allocated last year on shares related to funding in view of write-offs for settlement agreements and/or further value adjustments on loans) and, to a lesser extent, other litigation risks (Euro 24.5 million), for criminal proceedings relating to the dissolution of the joint venture with Cattolica Assicurazioni (Euro 6.2 million) and other charges (Euro 27.1 million) mostly attributable (Euro 25.5 million) to the sanctions notified in advance to the Parent Bank by the various supervisory authorities.

The annual result was also negatively affected by the reduction in **income achieved on disposal/evaluation of investments** (-95%), which last year included a capital gain of Euro 166.7 million realised on the sale of the interest held in the Istituto Centrale delle Banche Popolari, as well as **taxes** that are **negative for Euro 164.5 million** (Euro +486.3 million at the end of 2015) and suffer as a result of the cancellation of previously recorded DTAs as a result of the outcome of the new probability test carried out on new economic, financial and equity projections.

To better illustrate the contribution made to net income by the various areas of the Bank's operations, the trends in the principal performance indicators that characterised the year 2016 are discussed below and compared with those in the prior year, even if in certain cases there are limits to their comparability.

Reclassified Income Statement (in thousands of euro)	**31/12/2016**	**31/12/2015**	**Changes (+/-)**	**Changes %**
Net interest income	380,051	503,880	(123,829)	-24.6%
Dividends and Profit (loss) from equity investments	14,045	47,928	(33,883)	-70.7%
Net financial income	**394,096**	**551,808**	**(157,712)**	**-28.6%**
Net fees and commissions income	230,308	322,425	(92,117)	-28.6%
Net profit for the proprietary portfolios	46,186	163,400	(117,214)	-71.7%
Other net income	49,502	15,337	34,165	222.8%
Net Operating income	**720,092**	**1,052,970**	**(332,878)**	**-31.6%**
Administrative costs:	(653,760)	(660,315)	6,555	-1.0%
- personnel expenses	(412,750)	(410,374)	(2,376)	0.6%
- other administrative expenses	(241,010)	(249,941)	8,931	-3.6%
Depreciation and amortization	(33,690)	(35,727)	2,037	-5.7%
Net Operating costs	**(687,450)**	**(696,042)**	**8,592**	**-1.2%**
Profit (loss) from operations	**32,642**	**356,928**	**(324,286)**	**-90.9%**
BRRD, FITD and voluntary plan charges	(57,748)	(58,108)	360	-0.6%
Net impairment adjustments	(1,453,375)	(1,827,306)	373,931	-20.5%
- *of which on loans and advances*	*(1,077,512)*	*(1,333,720)*	*256,208*	*-19.2%*
- *of which impairment on financial assets available for sale and Equity investments*	*(366,962)*	*(171,209)*	*(195,753)*	*114.3%*
- *of which impairment on goodwill and other intangible assets*	*(8,338)*	*(334,571)*	*326,233*	*-97.5%*
- *of which other financial transactions*	*(563)*	*12,194*	*(12,757)*	*n.a.*
Net provisions for risks and charges	(265,441)	(513,060)	247,619	-48.3%
Gain (loss) on disposal/valuation of investments	7,422	149,028	(141,606)	-95.0%
Net income (loss)	**(1,736,500)**	**(1,892,518)**	**156,018**	**-8.2%**
Income tax	(164,479)	486,339	(650,818)	n.a.
Minority interest	(1,395)	(815)	(580)	71.2%
Net income (loss) for the period	**(1,902,374)**	**(1,406,994)**	**(495,380)**	**35.2%**

The reconciliation of the items of the "reclassified" income statement, commented below, with those prescribed in accordance with Bank of Italy Circular no. 262 "Banks' financial statements: layout and preparation" is provided below.

Key:
Net interest income: income statement item 30.
Dividends and profit (loss) from equity investments: income statement items 70 and 240, excluding impairment adjustments of the equity investments and other economic effects not referable to the economic result of related companies (Euro -221,875 thousand at 31 December 2016, Euro -10,982 thousand at 31 December 2015).
Net fee and commission income: income statement item 60.
Net profit from the proprietary portfolios: income statement items 80, 90, 100, and 110, excluding the earn-out related to the sale of the equity investment in ICBPI (Euro +18,421 thousand at 31 December 2016, Euro +166,661 thousand at 31 December 2015), the differential, recorded in item 80 (Euro -80,858 thousand at 31 December 2016, absent at 31 December 2015), between the predetermined price of Cattolica Assicurazioni's right to sell the 60% equity investments in Berica Vita SpA, Cattolica Life DAC and ABC Assicura SpA and the corresponding pro-rata embedded value of Cattolica in Berica Vita SpA, Cattolica Life DAC and the equity of ABC Assicura SpA, and the losses realised on the sale of loans (Euro -8,223 thousand at 31 December 2016, Euro -357 thousand at 31 December 2015).
Other operating income: income statement items 220, excluding "recovery of stamp duty and other indirect taxes" (Euro +39,642 thousand at 31 December 2016, Euro +56,146 thousand at 31 December 2015) and "depreciation for expenses on third party proprietary improvement" (Euro -4,917 thousand at 31 December 2016, Euro -5,320 thousand at 31 December 2015).
Payroll costs: income statement item 180 a).
Other administrative costs: income statement items 180 b), net of "recovery of stamp duty and other indirect taxes" (Euro +39,642 thousand at 31 December 2016, Euro +56,146 thousand at 31 December 2015), ordinary contribution to the National Resolution Fund (Euro -57,748 thousand at 31 December 2016, Euro -58,108 thousand at 31 December 2015) and DTA Fee in accordance with Law Decree 59/2016 (Euro -7,519 thousand at 31 December 2016, absent at 31 December 2015).
Depreciation and amortisation: income statement items 200 and 210, including "depreciation for expenses on third party proprietary improvement" (Euro -4,917 thousand at 31 December 2016, Euro -5,320 thousand at 31 December 2015) and excluding adjustments (Euro -8,414 thousand at 31 December 2016, Euro -23,806 thousand at 31 December 2015).
BRRD, FITD and voluntary form costs: Euro -57,748 thousand at 31 December 2016, Euro -58,108 thousand at 31 December 2015, charges recorded in income statement item 180 b.
Net impairment adjustments: income statement items 130 and 260, including the losses realised on the sale of loans (Euro -8.223 thousand at 31 December 2016, Euro -357 thousand at 31 December 2015) entered in item 100 a) of the income statement, the impairment adjustments of the intangible assets recorded under income statement item 210 (absent at 31 December 2016, Euro -10,932 thousand at 31 December 2015), the impairment adjustments of the Shareholdings and other economic effects not attributable to the economic result of the related companies (Euro -221,875 thousand at 31 December 2016, Euro -10,982 thousand at 31 December 2015) recorded in item 240 of the income statement and the differential recorded in item 80 (Euro -80,858 thousand at 31 December 2016, absent at 31 December 2015) between the predetermined price of the right by Cattolica Assicurazioni to sell the 60% equity investments in Berica Vita SpA, Cattolica Life DAC and ABC Assicura SpA and the corresponding pro-rata embedded value of Cattolica in Berica Vita SpA, Cattolica Life DAC and the equity of ABC Assicura SpA.
Net provisions for risks and charges: income statement item 190.
Gains (losses) on disposal/evaluation of investments: income statement items 250 and 270, including the gains/earn-out related to the sale of the equity investment in ICBPI (Euro +18,421 thousand at 31 December 2016, Euro +166,661 thousand at 31 December 2015) recorded in income statement item 100 and the impairment adjustments on tangible assets for business use (Euro -8,414 thousand at 31 December 2016, Euro -12,874 thousand at 31 December 2015).
Income tax: income statement item 290, including DTA Fee per Law Decree 59/2016 (Euro -7,519 thousand at 31 December 2016, absent at 31 December 2015) recorded in income statement item 180 b.
Minority interests: income statement item 330.

Net financial income

At 31 December 2016, the **net financial income** stood at Euro 394.1 million, compared with Euro 551.8 million at 31 December 2015 (-28.6%).

Net financial income (in thousands of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Transactions with customers (not including EMTN own securities)	464,665	535,111	(70,446)	-13.2%
Transactions with banks (including EMTN own securities)	(166,005)	(145,097)	(20,908)	14.4%
Other (including hedging derivatives)	81,391	113,866	(32,475)	-28.5%
Net interest income	**380,051**	**503,880**	**(123,829)**	**-24.6%**
Dividends	5,376	30,614	(25,238)	-82.4%
Profit from equity investments	8,669	17,314	(8,645)	-49.9%
Total	**394,096**	**551,808**	**(157,712)**	**-28.6%**

At 31 December 2016, **net interest income** stood at Euro 380.1 million, down by 24.6% from end-2015, principally as a result of the higher cost of funding due to the different mix of sources that have been used to support the Group's liquidity profile, which has progressively deteriorated and has required correcting, also by deleveraging loans to customers. The total contribution of own securities and hedging activities decreased by Euro 32.5 million.

At 31 December 2016, **dividends** amounted to Euro 5.4 million, down from Euro 30.6 million at end-2015, when they benefited from significant contributions (Euro 21.8 million) from investments in private equity funds. **Profit from equity investments** totalled Euro 8.7 million versus Euro 17.3 million at 31 December 2015 (-49.9%); this result mainly reflects the worsened performance of insurance companies.

Net fee and commission income

At 31 December 2016, **net fee and commission income** stood at Euro 230.3 million, compared with Euro 322.4 million at 31 December 2015 (-28.6%).

Net fee and commission income (in thousands of euro)	31/12/2016	31/12/2015	Variazione (+/-)	Variazione %
Guarantees given and received	8,515	11,782	(3,267)	-27.7%
Management and dealing services	68,673	123,961	(55,288)	-44.6%
Collection and payment services	26,970	28,207	(1,237)	-4.4%
Servicing for securitization transactions	655	2,439	(1,784)	-73.1%
Provision and management of current accounts	110,163	127,843	(17,680)	-13.8%
Other services	15,332	28,193	(12,861)	-45.6%
Total	**230,308**	**322,425**	**(92,117)**	**-28.6%**

The aggregate under review shows the significant decrease (-44.6%) in net fee and commission income related to management and brokerage services, impacted by the reduction in indirect funding, as a result among other things of the reduced placement of new asset management and retirement saving products partly attributable to the need to support the Group's liquidity profile, which came under pressure during the year.

The above-mentioned reduction in volumes, along with the lower number of "active" customers, also had a negative impact on the growth of fees for the provision of traditional services, such as administration and management of current accounts, foreign transactions, management of receipts and payments, and receipt and transmission of financial instruments trading orders. Lastly, an increase was recorded in expenses paid to customers for securities lending and borrowing in support of the liquidity position.

Net profit from the proprietary portfolios

At 31 December 2016, the **net profit from the proprietary portfolios was Euro 46.2 million, compared with Euro 163.4 million in the period to 31 December 2015** (-71.7%).

Net profit from the proprietary portfolios (in thousands of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Net trading income	(9,133)	33,883	(43,016)	n.a.
Net hedging gains (losses)	15,319	64,192	(48,873)	-76.1%
Gains (losses) on disposal or repurchase of assets	21,141	61,095	(39,954)	-65.4%
Net change in financial assets at fair value	3,955	(112)	4,067	n.a.
Gains (losses) on disposal or repurchase of liabilities	18,407	6,086	12,321	202.4%
Net change in financial liabilities at fair value	(3,503)	(1,744)	(1,759)	100.9%
Total	**46,186**	**163,400**	**(117,214)**	**-71.7%**

The trading income was negative Euro 9.1 million, compared to the Euro +33.9 million at end-2015. It is recalled that the 2015 results also included profits on derivatives related to the structuring of banking book hedging transaction, in relation to which, starting in the second half of 2015, the operating procedure with which said transactions are conducted have changed and no longer require transit on trading books.

The net result of hedging transactions also recorded a downturn (-76.1%) as did profits from the sale of financial assets (-65.4%) as a result, in particular, of the reduced contribution of investments in Italian Government bonds (partly hedged) which, during the previous financial year, benefited from favourable market opportunities that allowed the realisation of significant capital gains.

An increase was recorded in the net result of financial assets measured at fair value, including the net profits achieved (Euro 6.5 million) as a result of the disposal of equity investments held through the private equity funds managed by the Group's Sgr.

Lastly, transactions on own liabilities achieved a positive total net profit of Euro 14.9 million (compared to Euro 4.3 million at end-2015), mainly attributable to the profit realised by repurchasing own bonds on the secondary market.

Other operating income

Other operating income at 31 December 2016 equalled to **Euro 49.5 million, compared to Euro 15.3 million at 31 December 2015**. It should be noted that there are certain limits to this comparability insofar as, at the end of 2016, the aggregate includes the Euro 4.2 million net result of the company HDS SpA, which is not however present at 31 December 2015. More specifically, "Other income" includes the revenues earned by the company during the period, in the amount of Euro 15.8 million, while "Other expenses" includes the costs pertaining to the company that are not classifiable in administrative expenses, in the amount of Euro 11.6 million.

Other operating expenses/income (in thousands of euro)	31/12/16	31/12/15	Changes (+/-)	Changes %
Operating income	**63,765**	**40,477**	**23,288**	**57.5%**
- Expenses recovered from third parties on current and savings accounts	16,332	19,719	(3,387)	-17.2%
- Property rental income	5,146	5,136	10	0.2%
- Other income	42,287	15,622	26,665	170.7%
Operating charges	**(14,263)**	**(25,140)**	**10,877**	**-43.3%**
Total	**49,502**	**15,337**	**34,165**	**222.8%**

The decrease in "**expenses recovered from third parties on current and savings accounts**" reflects, in particular, the lower contribution of the "fast preliminary commission".

Other expenses at 31 December 2015 included one-off negative components relating to re-crediting to customers due to the reversal of commissions and reimbursements of expense charged in past years.

Net operating costs

Operating costs amounted to **Euro 687.5 million, a decrease of 1.2% compared to end-2015**. There are certain **limits to this comparability** insofar as, at the end of 2016, the aggregate includes the Euro 5.8 million result of the company HDS SpA, which is not however present at 31 December 2015, and non-recurring components such as the AGCOM fine of Euro 4.5 million and the charges set aside in relation to the solidarity fund in the amount of Euro 20.4 million. Net of these components, **operating costs** saw a **reduction** of **5.6%**.

Net Operating costs (in thousands of euro)	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Payroll costs	**(412,750)**	**(410,374)**	**(2,376)**	**0.6%**
- Employees	(406,327)	(400,488)	(5,839)	1.5%
- Other personnel	(121)	(1,791)	1,670	-93.2%
- Directors and Statutory Auditors	(6,302)	(8,095)	1,793	-22.1%
Other administrative costs	**(241,010)**	**(249,941)**	**8,931**	**-3.6%**
- Indirect taxes net of recovery of stamp duty and other indirect taxes	(14,095)	(9,573)	(4,522)	47.2%
- Products and services	(156,891)	(158,277)	1,386	-0.9%
- Rentals	(31,172)	(36,499)	5,327	-14.6%
- Maintenance of furniture and installation	(9,140)	(10,827)	1,687	-15.6%
- Insurance premiums	(3,704)	(2,989)	(715)	23.9%
- Other expenses	(26,008)	(31,776)	5,768	-18.2%
Depreciation	**(33,690)**	**(35,727)**	**2,037**	**-5.7%**
- Property	(11,588)	(11,448)	(140)	1.2%
- Plant and equipment	(13,027)	(13,753)	726	-5.3%
- Intangible assets	(4,158)	(5,206)	1,048	-20.1%
- Amortization of leasehold improvements	(4,917)	(5,320)	403	-7.6%
Total	**(687,450)**	**(696,042)**	**8,592**	**-1.2%**

It should be noted that **the aggregate does not include the DTA fee** as per Law Decree 59/2016 (Euro 7.5 million, absent in 2015) reclassified for the purposes of representation in the taxes item, **and BRRD, FITD and voluntary scheme contributions** (Euro 57.7 million at 31 December 2016, Euro 58.1 million at the end of 2015) which are recorded separately in the reclassified income statement.

Payroll costs increased by 0.6% and include the cost (Euro 20.4 million) referable to the activation of the staff solidarity fund, net of which the item is down by 4.3% mainly due to a reduction in the number of employees and in the costs of severance indemnities and pension adjustment provision in connection with the renewal of employment contracts. **Other administrative costs** decreased by Euro 8.9 million (-3.6%). Net of the AGCM sanction and of the results of the company HDS SpA, the item's reduction is equal to 7.7%. Finally, **depreciation and amortisation** declined by Euro 2 million (-5.7%).

Adjustments and provisions

Net impairment adjustments amounted to **Euro 1,453.4 million**, versus Euro 1,827.3 million at end-2015 (-20.5%).

Net impairment adjustments (in thousands of euro)	**31/12/2016**	**31/12/2015**	**Changes**	
			(+/-)	**%**
Loans and advances to banks	(61)	(237)	176	-74.3%
Loans and advances to customers	(1,077,451)	(1,333,483)	256,032	-19.2%
Financial assets available for sale	(64,229)	(160,227)	95,998	-59.9%
Other financial transactions	(563)	12,194	(12,757)	n.a.
Equity investments	(302,733)	(10,982)	(291,751)	n.a.
Goodwill	(8,338)	(334,571)	326,233	-97.5%
Total	**(1,453,375)**	**(1,827,306)**	**373,931**	**-20.5%**

Value adjustments relate to **loans and advances to customers** for **Euro 1,077.5 million** (-19.2%) and are mostly attributable to impaired loans whose levels of coverage increased by 6.13 p.p. (including write-offs) with respect to levels at the end of 2015. The credit cost[24] was 4.74%, compared to 5.29% in financial year 2015.

Impairment adjustments to **financial assets available for sale** amounted to **Euro 64.2 million** (Euro 160.2 million at end-2015) and refer for Euro 50.5 million to the Luxembourg funds Optimum MS1 and Optimum MS2.

On the **Other financial transactions** (in particular, guarantees given and commitments to disburse funds) adjustments of Euro 0.6 million were recorded.

Net write-downs of **equity investments** relate **for Euro 221.8 million** (inclusive of the effects linked to the reclassification to "Financial assets available for sale") to the **devaluation of Cattolica Assicurazioni**. The item also includes the amount of **Euro 80.9 million** for the **potential charge** arising from the possible exercise (if legitimate) of **Cattolica Assicurazioni's right to sell to the Bank** the 60% equity investments in Berica Vita S.p.A., Cattolica Life Dac and ABC Assicura S.p.A., corresponding to the differential between the predetermined price of the aforesaid right to sell and the corresponding pro-rata embedded value of Cattolica in Berica Vita S.p.A., Cattolica Life DAC and the equity of ABC Assicura S.p.A.

Lastly, adjustments to **goodwill** refer to the **write-down in full of the differences in consolidation that have arisen as a result of the acquisition of control over the companies San Marco Srl and HDS SpA.** The aforementioned value adjustments last year also included the Euro 323.6 million impairment made on the recorded **goodwill**, and the total write-off (Euro 10.9 million) of the residual value of the intangibles identified within the scope of the Purchase Price Allocation of the former UBI Banca branches.

[24] The indicator is calculated as the ratio between net adjustments to cash loans to customers and net loans amounted.

The **provisions for risks and charges** at 31 December 2016 **amounted to Euro 265.4 million** (Euro 513.1 million at the end of 2015, -48.3%) and are mainly referable to provisions (Euro 290.6 million) against complaints and disputes on BPVI shares including, for Euro 180 million, the integration of such provisions in relation to the expected outcomes of the settlement offer by the Parent Bank to its Members/Shareholders, including the charge relating to the "Welfare Initiative" for Members/Shareholders facing adverse conditions.

Net provisions for risks and charges (in thousands of euro)	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Legal disputes	(21,836)	(10,980)	(10,856)	98.9%
Bankruptcy claims	(2,690)	(5,052)	2,362	-46.8%
Financed capital and letters of commitment	83,007	(352,560)	435,567	n.a.
Complaints and disputes on BPVI shares (incl.Settlement Offer)	(290,551)	(136,398)	(154,153)	113.0%
Penalties on joint venture with Cattolica Assicurazioni	(6,230)	-	(6,230)	n.a.
Other	(27,141)	(8,070)	(19,071)	236.3%
Total	**(265,441)**	**(513,060)**	**247,619**	**-48.3%**

The net releases to income (Euro 83 million) of the provisions for risks relating to "Financed capital and letters of commitment" principally refer to exposures whose potential legal risks have been eliminated either through settlement agreements or, following the recently introduced classification of credit exposures to Members/Stockholders among non-performing loans, have been incorporated into the measurement of the recoverable amount of the loan.

Provisions relating to "Complaints and disputes on BPVi shares" refer, for Euro 110.6 million, to new complaints or disputes received on BPVi shares, which have considerably increased in 2016, also as a result of a further significant reduction in share value.

Provisions relating to "Penalties on joint ventures with Cattolica Assicurazioni" refer to charges for the potential risk connected with the settlement, at the effective date of the withdrawal - should it be deemed legitimately exercised - of the bonus and penalty schemes conventionally provided in relation to the performance of Berica Vita, Cattolica Life and ABC Assicura.

Other risks and charges mainly include estimates of charges for sanctions notified in advance to the Parent Bank by certain supervisory authorities.

Other revenue and cost components

The **net profit from the disposal/evaluation of investments** amounted to **Euro 7.4 million** and refers for Euro 18.4 million to the **earn-out related to the sale of the interest held in ICBPI** in the previous year. In this respect it should be noted that the **2015 results included instead the capital gain of Euro 166.7 million realised on the sale of the interest held in Istituto Centrale delle Banche Popolari.**

On the contrary, the effects of the assessment of some own buildings entailed the recognition of **impairment adjustments of Euro 8.4 million on properties for business use** (Euro 12.9 million at the end of 2015) and **net capital losses of Euro 2.4 million connected with the fair value measurement of the investment properties** (Euro 4.7 million at 31 December 2015).

Therefore, the **gross result** at 31 December 2016 amounted to **Euro -1,736.5 million** versus Euro -1,892.5 million at end-2015.

Taxes are **negative for Euro 164.5 million** (Euro +486.3 million at 31 December 2015), mainly as a result of the **cancellation of previously recorded DTAs as a result of the outcome of the new probability test carried out at the end of the financial year**. The item also includes the DTA fee as per Law Decree 59/2016 (Euro 7.5 million, absent in 2015).

Minority interests, i.e. net income attributable to minority shareholders, amounted to Euro 1.4 million (Euro 0.8 million at end-2015).

Therefore, the **net result** at 31 December 2016 amounted to Euro -1,902.4 million versus Euro -1,407 million at 31 December 2015.

The table below reports the contribution of the various Group companies to the net result for the year.

Net income (in thousands of Euro)	**Individual results pertaining to the Group**
Banca Popolare di Vicenza	(1,901,705)
Banca Nuova	(47,233)
Farbanca	3,373
Total banks	**(1,945,565)**
Prestinuova	7,893
BPV Finance	(42,138)
BPVi Multicredito	107
Nem Sgr	780
Fondo Nem Imprese	69
Fondo Nem Imprese II	1,174
Fondo IOF	(3,551)
Total financial companies	**(35,666)**
Immobiliare Stampa	(4,484)
Servizi Bancari	-
HDS	(1,610)
San Marco	(1,574)
Total service companies	**(7,668)**
Results of the companies carried at equity	8,669
Elimination of intercompany dividends	(27,031)
Adjustements to comply with IAS / IFRS	274
Other intercompany eliminations and consolidation adjustments	104,613
Net income pertaining to the Group	**(1,902,374)**

It should be noted that the results for the year referable to BPV Finance and HDS SpA are taken from Group Reporting Package prepared by the companies for the BPVi Group's Consolidated Financial Statements at 31 December 2016. In this respect it is recalled that HDS SpA was subject to initial consolidation in the half-yearly financial statements at 30 June 2016, with effects on equity only, and, therefore, the result mentioned above is attributable to the contribution of the subsidiary for the second half of 2016 only. "Other consolidation eliminations/adjustments" refer primarily to the reversal of value adjustments recognised by the Parent Bank Banca Popolare di Vicenza on equity investments consolidated line-by-line or with the equity method.

Summary indicators of the Parent Bank Banca Popolare di Vicenza

Statement of Financial Position and Regulatory figures (in millions of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Banking business	46,715	54,838	-8,123	-14.8%
- of which Direct funding	*16,620*	*19,474*	*-2,854*	*-14.7%*
- of which: Indirect funding	*10,559*	*13,235*	*-2,676*	*-20.2%*
- of which Loans and advances to customers	*19,536*	*22,129*	*-2,593*	*-11.7%*
Net interbank position	-6,054	-6,849	795	-11.6%
Cash financial assets	5,363	5,469	-106	-1.9%
- of which Financial assets available for sale	*4,169*	*5,326*	*-1,157*	*-21.7%*
Property, plant and equipment and intangible assets	120	126	-6	-4.8%
Total Assets	32,681	37,283	-4,602	-12.3%
Equity	2,113	2,465	-352	-14.3%
Comon Equity Tier 1	1,594	1,649	-55	-3.3%
Total Capital	1,896	2,021	-125	-6.2%
Risk-weighted assets	19,022	22,666	-3,644	-16.1%
CET 1 ratio	8.38%	7.28%	1.10 p.p.	0.15 p.p.
Tier 1 ratio	8.38%	7.28%	1.10 p.p.	0.15 p.p.
Total Capital Ratio	9.97%	8.91%	1.06 p.p.	0.12 p.p.

Reclassified Income Statement figures [(1)] (in millions of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Net interest income	276.0	369.7	-93.7	-25.3%
Net Operating income	569.4	852.2	-282.8	-33.2%
Net Operating costs	-576.0	-593.2	17.2	-2.9%
Net profit from operating activities	-6.6	259.0	-265.6	n.a.
Net impairment adjustments	-1,430.8	-1,726.4	295.6	-17.1%
Net provisions for risks and charges	-254.6	-506.6	252.0	-49.7%
Net income for the period before income tax	-1,726.6	-1,861.1	134.5	-7.2%
Net income	-1,901.7	-1,399.4	-502.3	35.9%

Other information and Key performance indicators	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Number of employees at the end of the period	4,289	4,412	-123	-2.8%
Average number of employees [(2)]	4,111	4,233	-122	-2.9%
Bank branches	420	485	-65	-13.4%
Loans to customers / Direct funding	117.5%	113.6%	3.9 p.p.	
Total Assets / Equity (leverage)	15.5 x	15.1 x	0.4 x	
Cost/Income [(3)]	101.2%	69.6%	31.6 p.p.	
Net non performing loans /net loans	23.77%	21.35%	2.42 p.p.	
Net bad loans/net loans	9.25%	7.66%	1.59 p.p.	
Non-performing loans coverage (%) [(4)]	49.05%	42.87%	6.18 p.p.	
Bad loans coverage (%) [(4)]	62.48%	59.19%	3.29 p.p.	
Performing loans coverage (%) [(5)]	0.85%	0.76%	0.09 p.p.	
Credit cost [(6)]	5.04%	5.32%	-0.28 p.p.	

(1) For the reconciliation between the reclassified income statement data and the Income Statement items prescribed by Bank of Italy Circular no. 262, reference is explicitly made to the "key" provided in the paragraph dedicated to comments on the Group's income statement, except for the difference in numbering of the same items between the individual statement and the consolidated statement.

(2) The average number of employees is calculated in accordance with the indications contained in Bank of Italy Circular no. 262 dated 22 December 2005 and subsequent amendments.

(3) The indicator is calculated as the ratio between "operating costs" and "operating income" in the reclassified income statement.

(4) The coverage is determined including partial write-offs on loans for which bankruptcy proceedings are still in progress at the reporting date.

(5) The coverage is determined excluding intra-group transactions, repurchase agreements and guarantee margins.

(6) The indicator is calculated by annualising the ratio between "impairment adjustments on loans and advances" and "net cash loans to customers".

Banking products and credit quality

Banking business (in millions of euro)	**31/12/2016**	**31/12/2015**	**Changes**	
			(+/-)	**%**
Total funding	27,179	32,709	-5,530	-16.9%
- of which: Direct funding	*16,620*	*19,474*	*-2,854*	*-14.7%*
- of which: Indirect funding (excluding BPVi shares)	*10,559*	*13,235*	*-2,676*	*-20.2%*
Loans to customers	19,536	22,129	-2,593	-11.7%
Total	**46,715**	**54,838**	**-8,123**	**-14.8%**

At 31 December 2016, the **banking business** of the Bank, comprising **total funding** and **cash loans to customers**, reached Euro 46,715 million, down by 14.8% compared to Euro 54,838 million at 31 December 2015.

At 31 December 2016, the Bank's **total funding**, consisting of the sum of **direct funding** and **indirect funding**, amounted to Euro 27,179 million, down by 16.9% compared to Euro 32,709 million at 31 December 2015.

Direct funding, equal to Euro 16.6 billion, fell by 14.7% compared to the figure at end-2015, particularly as a result of the reduction in **current accounts and demand deposits** (-19%) and **bonds** (-18.6%).

Indirect funding (excluding BPVi shares) amounted to Euro 10.6 billion (-20.2%), with assets under administration declining by 21.1%, and assets under management and retirement savings declining by 19.2%.

At 31 December 2016, **net cash loans to customers** amounted to Euro 19,536 million, a decrease of 11.7% compared to the figure at end-2015, as a result of both the deleveraging performed in support of the Group's liquidity profile and the increased average coverage of the deteriorated loans portfolio. Gross loans show a more moderate decline of 6.4%.

By effect of the changes that took place in the aggregate values of direct funding and of the loans, illustrated above, the "**Loans / Funding Ratio**" amounted to 117.5% versus 113.6% of 31 December 2015. At 31 December 2016, the Group's net exposure to the interbank market was negative by Euro 6,054 million, compared to Euro -6,849 million at the end of 2015, and it mostly refers to exposures to central banks.
Gross non-performing loans to customers grew by Euro 874.9 million (+10.9%) and 45% of this increase is attributable to customers with financed capital who, based on analyses performed internally, no longer had sufficient cash flows to repay the loan in full. It should be noted, moreover, that the changes that took place in 2016 also incorporate the reclassifications (and the consequent adjustments) communicated by the ECB team within the scope of the "Credit and counterparty risk management and risk control system" on-site inspection started on the Group in the month of June and completed at the beginning of September. For the sake of complete disclosure, it should be pointed out that on 13 March 2017 the Bank received the draft communication with which the Supervisory Body lists the results of the inspection in detail and requires the bank to implement, within a specific timeframe (between June and September 2017), the actions necessary to remove the identified shortcomings. In view of the recommendations received, the Bank will review, with a more conservative outlook, the policies, processes and procedures associated with credit and counterparty risks, the application of which to the entire credit portfolio will presumably have further currently unquantifiable but potentially significant negative impacts on the financial and economic situation of the BPVi Group, as early as 2017.

Furthermore, as already illustrated in the specific paragraph of the report on operations dedicated to audit work by the Supervisory Bodies (to which reference is made for further details), the Parent Bank BPVi was the subject of a further on-site audit limited to the scope of loans "correlated" with the purchase/subscription of BPVi shares. The audit began in early February 2017 and ended on 10 March. At the date of this Report, the usual pre-closing meeting with the formal notification of the results of the audit to management, had not yet taken place. Based on the preliminary results of the audit, in the 2016 Financial Statements the Group already acknowledged the higher provisions and the reclassifications from performing to non-performing proposed by the inspection team and agreed by the Bank. Analyses were also carried out on significant reclassifications to non-performing proposed by the inspection team and for which higher provisions have already been recognised. These reclassifications will be made once the analysis has been concluded, in the first half of 2017. With reference to the value adjustments that emerged in the course of the audit, in the Financial Statements as at 31 December 2016 the Group already acknowledged the valuation differences highlighted by the inspection team, with the exception of certain justified positions, for which settlement agreements that do not involve additional charges with respect to those that have already been set aside have, in the meantime, been concluded or are in the process of completion.

On the contrary, at 31 December 2016, **net non-performing loans to customers** showed a reduction in absolute value of Euro 79.9 million compared to 31 December 2015 (-1.7%) due to the increase of 6.68 p.p. of the relative average coverage. In detail, net non-performing loans grew by 6.7%, while net unlikely to pay and past due and/or overdue declined, respectively, by 4.2% and 60.6%.

Asset quality (in millions of euro)	31/12/2016			31/12/2015		
	Net exposures	% net loans	% coverage	Net exposures	% net loans	% coverage
Non performing loans	**4,643.9**	**23.77%**	**47.80%**	**4,723.8**	**21.35%**	**41.12%**
Bad loans	1,807.1	9.25%	60.70%	1,694.3	7.66%	56.62%
Unlikely to pay	2,791.8	14.29%	34.20%	2,915.4	13.17%	26.85%
Past due exposures	45.0	0.23%	18.63%	114.1	0.52%	12.87%
Performing loans	**14,892.4**	**76.23%**	**0.82%**	**17,405.6**	**78.65%**	**0.71%**
Loans to customers and debt securities	14,373.3	73.57%	0.85%	16,403.6	74.13%	0.76%
Repurchase agreements and collateral margin	519.1	2.66%	0.00%	1,002.0	4.53%	0.00%

Overall, the coverage of **non-performing loans,** excluding partial write-offs for bankruptcy proceedings still pending at the end of the year, grew from 41.12% at 31 December 2015 to 47.80% at 31 December 2016. Including "write-offs", the non-performing loan coverage ratio was 49.05% (42.87% at 31 December 2015). The breakdown of impaired loans is as follows:

- **net non-performing loans**, representing 9.25% of net loans (7.66% at 31 December 2015), amounted to Euro 1,807.1 million with a percentage coverage of 60.70% (56.62% at 31 December 2015). Including "write-offs", the coverage percentage was 62.48% (59.19% at 31 December 2015);
- **net unlikely to pay loans**, representing 14.29% of net loans (13.17% at 31 December 2015), amounted to Euro 2,791.8 million with a percentage coverage of 34.20% (26.85% at 31 December 2015);
- **net past due exposures** totalled Euro 45 million, with a coverage percentage of 18.63% (12.87% at 31 December 2015).

Lastly, the "general provision" for performing loans and advances to customers (excluding intragroup balances, repurchase agreements and guarantee margins) amounted to Euro 123.2 million at 31 December 2016, assuring coverage (excluding intragroup balances, repurchase agreements and guarantee margins) of 0.85%, compared to 0.76% at 31 December 2015. At 31

December 2016, the cost of credit on a yearly basis, defined as the ratio between net adjustments to cash loans to customers and net loans amounted to 5.04%, versus 5.32% in 2015.

Equity and Own Funds

At 31 December 2016, the Bank's **equity** amounted to Euro 2,112.6 million, versus Euro 2,465.1 million at 31 December 2015.

Equity (in millions of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Capital stock	677.2	377.2	300.0	79.5%
Additional paid-in capital	3,080.3	3,206.6	(126.3)	-3.9%
Reserves	329.3	268.8	60.5	22.5%
Valuation reserves	(44.4)	36.0	(80.4)	-223.3%
Equity instruments	-	1.4	(1.4)	-100.0%
Treasury shares	(28.1)	(25.5)	(2.6)	10.2%
Equity	**4,014.3**	**3,864.5**	**149.8**	**3.9%**
Net income	(1,901.7)	(1,399.4)	(502.3)	35.9%
Total equity	**2,112.6**	**2,465.1**	**(352.5)**	**-14.3%**
- of which restricted reserves ex art. 2358, c. 6, Civil Code	*272.0*	*356.2*		

In this regard, the equity reserves at 31 December 2016 are subject to a restriction making them non-distributable pursuant to Art. 2358, paragraph 6 of the Italian Civil Code, in the amount of Euro 231.7 million (Euro 299.2 million at 31 December 2015), in connection with the correlations, identified during the ECB's 2015 capital inspection, between purchases/subscriptions of BPVi shares and loans disbursed to certain Members/Shareholders. In addition to the aforesaid amount, there is another non-distributable equity reserve pursuant to Art. 2358, paragraph 6 of the Italian Civil Code in the amount of Euro 40.3 million (Euro 57 million as at 31 December 2015) relating to the two "ordinary" share capital increase transactions (duly notified to the Supervisory Authorities) to expand the shareholder base, which offered new Shareholders the possibility of subscribing BPVi shares with resources deriving from a loan granted by the Bank, in compliance with the provisions of Art. 2358 of the Italian Civil Code.

During May 2016, the Bank, in executing the share capital increase transaction, issued 15 billion new shares for an overall exchange value of Euro 1.5 billion posted partially under the item **Capital stock** (Euro 300 million) and partially under the item **Additional paid-in capital** (Euro 1.2 billion). Euro 1,326.3 million was drawn from **Additional paid-in capital** and to cover the loss for the year 2015, as approved by the Shareholders' Meeting on 26 March 2016. The first tranche of Euro 163.7 million paid by the Atlante Fund/Quaestio Sgr up to 31 December 2016 against the future capital increase carried out, in relation to a total assistance of Euro 310 million which was concluded in early 2017, was instead recorded in **Reserves**.

The other changes that affected the item **Reserves** are due to draw-downs (Euro 80.7 million) to cover the amount of the loss for the year 2015 not covered by the amount taken from Additional paid-in capital, as well as the costs (Euro 29.3 million) incurred by the Parent Bank as part of the capital increase transaction, which, in accordance with IAS 32, have been recognised directly in equity and other minor effects, including the reclassification to the item under review of **Capital instruments** (Euro 1.4 million at 31 September 2015) attributable to the equity component embedded in the convertible subordinated loan "BPVi 15^ 2009-2016 Issue" which matured during the year and which was recorded separately in accordance with IAS 32.

The shares of the Parent Bank, Banca Popolare di Vicenza, which is one of the Relevant Issuers listed in CONSOB Resolutions 11.768/98 and 11.862/99, are dematerialised and centralised with Monte Titoli, in accordance with the provisions of Italian Legislative Decree 58/98 and Italian Legislative Decree 213/98. During 2016, the only **purchases and sales of Bank shares** concern the subscription by the Atlante Fund of all of the new shares (15 billion) issued as part of the capital increase carried out in May, as well as the repurchase of 258,533 shares as a result of the conclusion of a settlement agreement with Athena Fund.

At 31 December 2016, the Bank's **Own funds** amounted to Euro 1,896.4 million, versus Euro 2,020.5 million at end-2015. The Common Equity Tier 1 Ratio and the Tier 1 Ratio both amount to 8.38%, whilst the Total Capital ratio is equal to 9.97%.

Comments on the income statement

The Bank closed 2016 with a **net result** of Euro -1,901.7 million, compared to Euro -1,399.4 million at 31 December 2015.

Reclassified Income Statement (in thousands of euro)	**31/12/2016**	**31/12/2015**	**Changes**	
			(+/-)	**%**
Net interest income	276.0	369.7	(93.7)	-25.3%
Net Operating income	569.4	852.2	(282.8)	-33.2%
Net Operating costs	(576.0)	(593.2)	17.2	-2.9%
Net profit from operating activities	(6.6)	259.0	(265.6)	n.a.
Net impairment adjustments	(1,430.8)	(1,726.4)	295.6	-17.1%
Net provisions for risks and charges	(254.6)	(506.6)	252.0	-49.7%
Net income for the period before income tax	(1,726.6)	(1,861.1)	134.5	-7.2%
Net income	(1,901.7)	(1,399.4)	(502.3)	35.9%

Income from operations was negative by Euro 6.6 million. **Operating income**, in particular, recorded a decrease of 33.2% and reflects the significant reduction in traded volumes (approximately Euro -8.1 billion, equal to 14.7%), the increase in the cost of funding and the reduction of the contribution resulting from the sale of government bonds. The trend in **operating costs** was, on the other hand, positive, falling by 2.9% despite the presence of certain non-recurring components (activation of the staff solidarity fund, AGCOM fine) net of which the aggregate was further reduced and equal to 6.3%.

Adjustments and **provisions** were very high, although they were down by 24.5% overall compared with 31 December 2015. More specifically:

- **Adjustments to loans,** equal to Euro 993 million (-15.7%) reflect the evolution of impaired credit, the effects of the two ECB inspections, and the further corrections on customers with loans correlated with the capital, and led to an increase of 6.18 p.p. in the coverage of impaired loans which, at the end of 2016, reached 49.05% including write-offs;
- **Adjustments to securities and equity investments,** equal to Euro 437.3 million (+33%), are mainly attributable to the withdrawal from the partnership by Cattolica Assicurazioni and the consequent write-down of the equity investment (Euro 220.1 million) and to the negative assessment (Euro 81 million) of the put option held by Cattolica on 60% of insurance companies, as well as to further write-downs on certain equity investments and on the Luxembourg fund Optimum MSI (Euro 11.5 million);

- **Net provisions for risks and charges** amounted to Euro 254.6 million (-49.7%), largely due to litigation risks on BPVi shares (Euro 284.1 million inclusive of the preliminary estimate of the costs in relation to the settlement offer to Members/Shareholders partially offset by approximately Euro 81.3 million in freed up funds allocated last year on shares related to funding in view of write-offs for settlement agreements and/or value adjustments on loans) and, to a lesser extent, other litigation risks (Euro 21.8 million), for criminal proceedings relating to the dissolution of the joint venture with Cattolica Assicurazioni (Euro 6.2 million) and other charges (Euro 23.7 million) mostly attributable to sanctions imposed on the Bank by the various supervisory authorities.

There was a reduction in the **income achieved on disposal/evaluation of investments** (-89%), which last year included a capital gain of Euro 166.7 million realised on the sale of the interest held in the Istituto Centrale delle Banche Popolari. **Taxes** were also negative for Euro 175.1 million (compared to Euro +461.7 million at the end of 2015) and suffered as a result of the cancellation of previously recorded DTAs following the outcome of the new probability test carried out.

Summary indicators of Banca Nuova

Statement of Financial Position and Regulatory figures (in millions of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Banking business	6,713,993	7,546,516	-832,523	-11.0%
- of which Direct funding	*3,081,989*	*3,392,632*	*-310,643*	*-9.2%*
- of which: Indirect funding (excluded BPVi shares)	*960,751*	*1,312,244*	*-351,493*	*-26.8%*
- of which Loans and advances to customers	*2,671,253*	*2,841,640*	*-170,387*	*-6.0%*
Net interbank position	436,077	549,280	-113,203	-20.6%
Cash financial assets	11,660	12,089	-429	-3.5%
- of which Financial assets available for sale	*11,660*	*12,088*	*-428*	*-3.5%*
Property, plant and equipment and intangible assets	8,224	9,267	-1,043	-11.3%
Total Assets	4,147,563	4,161,617	-14,054	-0.3%
Equity	160,477	158,213	2,264	1.4%
Common Equity Tier 1	147,661	155,350	-7,689	-4.9%
Total Capital	177,665	185,362	-7,697	-4.2%
Risk-weighted assets	2,119,363	2,305,995	-186,632	-8.1%
CET 1 ratio	6.97%	6.74%	0.23 p.p.	
Tier 1 ratio	6.97%	6.74%	0.23 p.p.	
Total Capital Ratio	8.38%	8.04%	0.34 p.p.	

Reclassified Income Statement figures [(1)] (in millions of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Net interest income	75,642	90,345	-14,703	-16.3%
Net Operating income	117,847	142,422	-24,575	-17.3%
Net Operating costs	-97,295	-100,918	3,623	-3.6%
Net profit from operating activities	20,552	41,504	-20,952	-50.5%
Net impairment adjustments	-79,608	-205,835	126,227	-61.3%
Net income for the period before income tax	-63,937	-164,336	100,399	-61.1%
Net income	-47,233	-149,183	101,950	-68.3%

Other information and Key performance indicators	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Number of employees at the end of the period	696	707	-12	-1.6%
Average number of employees [(2)]	686	694	-8	-1.2%
Bank branches	81	93	-12	-12.9%
Loans to customers / direct funding	86.7%	83.8%	2.9 p.p.	
Total Assets / Equity (leverage)	25.8 x	26,3 x	-0,5 x	
Cost/Income [(3)]	82.6%	70.9%	11.7 p.p.	
Net non performing loans /net loans	18.51%	16.22%	2.29 p.p.	
Net bad loans/net loans	7.78%	6.55%	1.23 p.p.	
Non-performing loans coverage (%) [(4)]	43.28%	43.35%	-0.07 p.p.	
Bad loans coverage (%) [(4)]	58.93%	60.49%	-1.56 p.p.	
Performing loans coverage (%) [(5)]	0.75%	0.70%	0.05 p.p.	
Credit cost [(6)]	2.68%	3.22%	-0.54 p.p.	

(1) For the reconciliation between the reclassified income statement data and the Income Statement items prescribed by Bank of Italy Circular no. 262, reference is explicitly made to the "key" provided in the paragraph dedicated to comments on the Group's income statement, except for the difference in numbering of the same items between the individual statement and the consolidated statement.

(2) The average number of employees is calculated in accordance with the indications contained in Bank of Italy Circular no. 262 dated 22 December 2005 and subsequent amendments.

(3) The indicator is calculated as the ratio between "operating costs" and "operating income" in the reclassified income statement.

(4) The coverage is determined including partial write-offs on loans for which bankruptcy proceedings are still in progress at the reporting date.

(5) The coverage is determined excluding intra-group transactions, repurchase agreements and guarantee margins.

(6) The indicator is calculated by annualising the ratio between "impairment adjustments on loans and advances" and "net cash loans to customers".

Banca Nuova is 100% directly owned by the Parent Bank Banca Popolare di Vicenza. The Commercial Network had 92 outlets at the end of 2016 of which 81 branches, while on the same date there were 696 employees (707 at end-2015).

At 31 December 2016, the **banking business** of the Bank, comprising direct funding, indirect funding and cash loans to customers, amounted to Euro 6,714 million, down by 11% compared to Euro 7,546.5 million at 31 December 2015. **Direct funding** amounted to Euro 3,082 million compared to Euro 3,392.6 million at the end of 2015 (-9.2%), with a decline of all the various forms of funding, particularly current accounts and demand deposits (-8.9%) and bonds (-15.9%), with the exception of time deposits which instead grew by 13.9%. **Indirect funding** (excluding BPVi shares) amounted to Euro 960.8 million, compared to Euro 1,312.2 million at 31 December 2015 (-26.8%), with assets under administration declining by 40%, also due to the effect of the reduction in the value of the shares of the Parent Bank BPVi, while assets under management and retirement savings fell by 16.9%. **Cash loans to customers** amounted to Euro 2,671.3 million compared to Euro 2,841.6 million at the end of 2015 (-6%), with a decline of all the various forms of funding, in particular current accounts (-13%) and mortgages (-4.7%), with the exception of credit cards, personal loans and salary-backed loans which instead grew by 9.6%.

At 31 December 2016, **gross non-performing loans** to customers showed an increase in absolute value compared to end-2015 of Euro 75.7 million (+9.6%), with their proportion of total gross loans increasing to 28.18% from 24.66% at end-2015. **Net non-performing loans** to customers showed an increase in absolute value of Euro 33.4 million (+7.3%), with their proportion of total net loans and advances to customers growing to 18.51% compared to 16.22% at end-2015. At 31 December 2016, the non-performing loan coverage percentage, i.e. the ratio of total impairments to gross loans and advances, excluding partial write-offs for bankruptcy proceedings, stood at 42.54%, up by 1.28 p.p. from compared to the figure at 31 December 2015. Including “write-offs”, the non-performing loan coverage ratio was 43.28% (43.35% at end-2015). There was a slight increase in the average coverage of non-performing loans at 31 December 2016, which was equal to 58% compared to 57.90% at the end of 2015 (including write-offs, the average coverage of non-performing loans was reduced by 1.56 p.p. reaching 58.93%, including as a result of the divestment, carried out during the first quarter of the year, of a package of almost fully depreciated non-performing loans), while that of unlikely to pay was equal to 22.08%, up by 1.67 p.p. Lastly, the general provision for performing loans and advances to customers is Euro 16.3 million at 31 December 2016, providing coverage of 0.75% (0.70% at 31 December 2015).

At 31 December 2016, the Bank’s **equity** was Euro 160.5 million. Own funds at 31 December 2016 amounted to Euro 177.7 million. The Common Equity Tier 1 Ratio and the Tier 1 Ratio both amount to 6.97%, whilst the Total Capital ratio is equal to 8.38%. On 31 January 2017, the Parent Bank BPVi carried out a payment of Euro 50 million to the “Loss coverage account” which will result in an increase of own funds by the same amount. The pro-forma ratios at 31 December 2016, i.e. taking account of the aforementioned payment, showed an improvement of 2.36 p.p.

The Bank closed 2016 with a **net result** of Euro -47.2 million, compared to Euro -149.2 million at 31 December 2015, a figure which included the total write-off of the recorded goodwill (Euro 110 million). **Net profit from operating activities** amounted to Euro 20.6 million compared to Euro 41.5 million at 31 December 2015 (-50.5%), as a result of a decrease in **operating income** (-17.3%) and a marginal increase in **operating costs** (+3.6%). In operating income, **net interest income** and **net commissions** are down, respectively, 16.3% and 18.2%, while the contribution of the **net result of the portfolio of properties** is negative. In operating costs, **payroll costs** grew by 4.8% as a result of the activation of the solidarity fund referred to the agreement signed last December with the trade unions. **Net impairment adjustments** to loans remain high, albeit down compared the previous year, and amount to a total of Euro 71.7 million (Euro 91.6 million at the end of 2015, -21.7%), with the cost of credit at 2.68% compared to 3.22% last year. Finally, **net provisions for risks and charges** were Euro 7.8 million, compared to Euro 6.6 million in December 2015.

Summary indicators of Farbanca

Statement of Financial Position and Regulatory figures (in millions of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Banking business	868,450	886,646	-18,196	-2.1%
- of which Direct funding	*310,264*	*325,857*	*-15,593*	*-4.8%*
- of which: Indirect funding (excluded BPVi shares)	*33,976*	*34,147*	*-171*	*-0.5%*
- of which Loans and advances to customers	*524,210*	*526,642*	*-2,432*	*-0.5%*
Net interbank position	-185,832	-157,452	-28,380	18.0%
Total Assets	619,435	547,779	71,656	13.1%
Equity	62,131	60,124	2,007	3.3%
Common Equity Tier 1	57,341	57,217	124	0.2%
Total Capital	57,341	57,217	124	0.2%
Risk-weighted assets	376,842	384,534	-7,693	-2.0%
CET 1 ratio	15.22%	14.88%	0.34 p.p.	
Tier 1 ratio	15.22%	14.88%	0.34 p.p.	
Total Capital Ratio	15.22%	14.88%	0.34 p.p.	

Reclassified Income Statement figures [(1)] (in millions of euro)	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Net interest income	14,351	13,263	1,088	8.2%
Net Operating income	16,920	15,483	1,437	9.3%
Net Operating costs	-5,543	-5,216	-327	6.3%
Net profit from operating activities	11,377	10,267	1,110	10.8%
Net impairment adjustments	-4,153	-6,226	2,073	-33.3%
Net income for the period before income tax	7,028	3,817	3,211	84.1%
Net income	4,766	2,902	1,864	64.2%

Other information and Key performance indicators	31/12/2016	31/12/2015	Changes (+/-)	Changes %
Number of employees at the end of the period	34	34	0	0.0%
Average number of employees [(2)]	32	32	0	0.0%
Bank branches	1	1	0	0.0%
Loans to customers / direct funding	169.0%	161.6%	7.3 p.p.	
Total Assets / Equity (leverage)	10 x	9.1 x	0.90 x	
Cost/Income [(3)]	32.8%	33.7%	-0.9 p.p.	
Net non performing loans /net loans	2.35%	2.92%	-0.57 p.p.	
Net bad loans/net loans	1.46%	1.68%	-0.22 p.p.	
Non-performing loans coverage (%)	58.63%	49.20%	9.43 p.p.	
Bad loans coverage (%)	63.85%	56.16%	7.69 p.p.	
Performing loans coverage (%)	0.86%	0.82%	0.04 p.p.	
Credit cost [(4)]	0.79%	1.19%	-0.40 p.p.	

(1) For the reconciliation between the reclassified income statement data and the Income Statement items prescribed by Bank of Italy Circular no. 262, reference is explicitly made to the “key” provided in the paragraph dedicated to comments on the Group’s income statement, except for the difference in numbering of the same items between the individual statement and the consolidated statement.

(2) The average number of employees is calculated in accordance with the indications contained in Bank of Italy Circular no. 262 dated 22 December 2005 and subsequent amendments.

(3) The indicator is calculated as the ratio between “operating costs” and “operating income” in the reclassified income statement.

(4) The coverage is determined including partial write-offs on loans for which bankruptcy proceedings are still in progress at the reporting date.

(5) The coverage is determined excluding intra-group transactions, repurchase agreements and guarantee margins.

(6) The indicator is calculated by annualising the ratio between “impairment adjustments on loans and advances” and “net cash loans to customers”.

Farbanca is an on-line bank specialising in the offer of banking services to pharmacies; the Parent Bank Banca Popolare di Vicenza owns a direct interest of 70.77%.

At the end of 2016, Farbanca's staff consisted of 34 persons, unchanged compared to the end of 2015. The commercial structure is based on the Bologna branch, whilst the Bank has a team of financial promoter employees for door-to-door services who have been trained in-house to acquire knowledge of this sector and the ability to serve the bank's pharmacist customers. In addition, the Bank also has 8 administrative offices, where no commercial activities may be conducted.

At 31 December 2016, the **banking business** of the Bank, comprising direct funding, indirect funding and cash loans to customers, amounted to Euro 868.5 million, down by 2.1% compared to Euro 886.6 million at 31 December 2015. **Direct funding** amounted to Euro 310.3 million, compared with Euro 325.9 million at the end of 2015 (-4.8%) with a decline, in particular, of bonds (-18.2%) and time deposits (-28.5%), whereas increases were recorded in current accounts and demand deposits (+21.6%) and other payables (+34.1%). **Indirect funding** (excluding BPVi shares) amounted to Euro 34 million, compared to Euro 34.1 million at 31 December 2015 (-0.5%), with assets under administration declining by 4.5% and assets under management and retirement savings increasing by 12.1%. **Cash loans to customers** amounted to Euro 524.2 million compared to Euro 526.6 million at the end of 2015 (-0.5%), with a decline of all the various forms of funding, with the exception of mortgages which instead grew by 4.9%.

At 31 December 2016, **gross non-performing loans** to customers showed a decrease in absolute value compared to end-2015 of Euro 0.6 million (-1.8%), with their proportion of total gross loans falling to 5.45% from 5.55% at end-2015. **Net non-performing loans** to customers showed an increase in absolute value of Euro 3.1 million (-20%), with their proportion of total net loans and advances to customers reaching 2.35% compared to 2.92% at end-2015. At 31 December 2016, the non-performing loan coverage percentage, i.e. the ratio of total impairments to gross loans and advances, excluding partial write-offs for bankruptcy proceedings, stood at 58.57%, up by 9.37 p.p. from compared to the figure at 31 December 2015. Including "write-offs", the non-performing loan coverage ratio was 58.63% (49.20% at end-2015). The average coverage of non-performing loans at 31 December 2016, equal to 63.79% (63.85% including write-offs) is up compared to 56.16% at the end of 2015, while that of unlikely to pay is equal to 45.66%, up by 8.88 p.p. Lastly, the general provision for performing loans and advances to customers is Euro 4.4 million at 31 December 2016, providing coverage of 0.86% (0.82% at 31 December 2015).

At 31 December 2016, the Bank's **equity** was Euro 62.1 million. Own funds at 31 December 2016 amounted to Euro 57.3 million. The Common Equity Tier 1 Ratio, the Tier 1 Ratio and the Total Capital Ratio all amount to 15.22%.

The Bank closed 2016 with a **net result** of Euro 4.8 million, compared to Euro 2.9 million at 31 December 2015. **Net profit from operating activities** amounted to Euro 11.4 million compared to Euro 10.3 million at 31 December 2015 (+10.8%), as a result of an increase in **operating income** (+9.3%), only partially offset by an increase in **operating costs** (+6.3%). In particular, in operating income, the **net interest income** grew by 8.2%, while in operating costs, **payroll costs** grew by 8% as a result of the activation of the solidarity fund referred to the agreement signed last December with the trade unions. **Net impairment adjustments** to loans amount to Euro 4.2 million (Euro 6.2 million at the end of 2015, -33.3%), with the cost of credit at 0.79% compared to 1.19% last year.

Summary indicators of Prestinuova

Statement of Financial Position and Regulatory figures (in millions of euro)	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Banking business	523,293	548,493	-25,200	-4.6%
- of which Direct funding	*177,449*	*165,518*	*11,931*	*7.2%*
- of which Loans and advances to customers	*345,844*	*382,975*	*-37,131*	*-9.7%*
Net interbank position	-117,477	-162,275	44,798	-27.6%
Property, plant and equipment and intangible assets	4,051	4,076	-25	-0.6%
- of which goodwill	4,000	4,000	-	0.0%
Total Assets	353,813	391,859	-38,046	-9.7%
Equity	42,475	44,392	-1,917	-4.3%
Tier 1 Capital	30,841	30,867	(26)	-0.1%
Total Capital	30,841	30,867	(26)	-0.1%
Risk-weighted assets	305,786	245,629	60,157	24.5%
Core Tier 1 ratio	10.09%	12.57%	-2.48 p.p.	
Tier 1 ratio	10.09%	12.57%	-2.48 p.p.	
Total Capital Ratio	10.09%	12.57%	-2.48 p.p.	

Reclassified Income Statement figures (1) (in millions of euro)	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Net interest income	15,645	19,388	-3,743	-19.3%
Net Operating income	15,970	19,063	-3,093	-16.2%
Net Operating costs	-3,971	-4,199	228	-5.4%
Net profit from operating activities	11,999	14,864	-2,865	-19.3%
Net impairment adjustments	-19	552	-571	n.a.
Net income for the period before income tax	11,980	15,414	-3,434	-22.3%
Net income	7,893	10,375	-2,482	-23.9%

Other information and Key performance indicators	31/12/2016	31/12/2015	Changes	
			(+/-)	%
Number of employees at the end of the period	11	12	-1	-10.8%
Average number of employees (2)	12	12	0	0.0%
Total Assets / Equity (leverage)	8.3 x	8.8 x	-0.5 x	
Cost/Income (3)	24.87%	22.03%	2.84 p.p.	
Net non performing loans /net loans	3.06%	2.67%	0.39 p.p.	
Net bad loans/net loans	0.00%	0.00%	0.00 p.p.	
Non-performing loans coverage (%)	19.17%	20.14%	-0.97 p.p.	
Bad loans coverage (%)	100.00%	100.00%	0.00 p.p.	
Performing loans coverage (%)	0.15%	0.15%	0.00 p.p.	
Credit cost (4)	-0.01%	-0.18%	0.17 p.p.	

(1) For the reconciliation between the reclassified income statement data and the Income Statement items prescribed by Bank of Italy measure of 9 December 2016, reference is explicitly made to the "key" provided in the paragraph dedicated to comments on the Group's income statement.

(2) The average number of employees is calculated as the weighted average number of employees where the weighting is given by the number of months worked in the year.

(3) The indicator is calculated as the ratio between "operating costs" and "operating income" in the reclassified income statement.

(4) The indicator is calculated by annualising the ratio between "net adjustments/write-backs for impairment on financial assets" and "net cash loans to customers".

It should be noted that the comparison of the prudential supervision data is not homogeneous, inasmuch those at 31 December 2015 were determined with the previous Basel 2 rules.

Prestinuova is 100% owned by the Parent Bank Banca Popolare di Vicenza. At 31 December 2016, Prestinuova had 11 employees.

The core business of Prestinuova consists of "lending secured against one-fifth of salary/pension", with particular focus on employees of Public Agencies and a gradual, well-balanced process of opening to the segment of employees of private enterprises, and of "loans that are repaid through withholdings from salaries", available for public sector employees. Distribution activities are carried out mainly through the Group's sales network (both bank counters in Group banks and the network of agents of BPVi Multicredito). Partnerships were maintained with Banca Popolare di Sviluppo, Fincontinuo Finanziaria, M3 Group spa, A&A Servizi Finanziari, BCC Paceco, BCC del Cilento e Lucania Sud and BCC Chianti.

At 31 December 2016, **cash loans to customers** amounted to Euro 345.8 million net of adjustments, versus Euro 382.9 million at 31 December 2015 (-9.7%) and they are almost entirely referred to "loans secured against one-fifth of salary" and they also include securitised loans.

With reference to **credit quality** at 31 December 2016, **net non-performing loans to customers** amounted to Euro 10.6 million, up compared to Euro 10.2 million at the end of 2015 and accounting for 3.06% of total net loans, versus 2.67% last year. More specifically, net **unlikely to pay**, equal to 2% of net loans, totalled Euro 6.9 million (Euro 6.1 million at 31 December 2015) with a coverage percentage of 9.57%, while **past due** amounted to Euro 3.7 million (Euro 4.1 million at 31 December 2015) with a coverage percentage of 3.68%. **Non-performing loans** were also recorded, for a gross amount of Euro 1.6 million (Euro 1.5 million at the end of 2015) which were written down in full. Lastly, the general provision for performing loans amounted to Euro 0.5 million, covering 0.15% of the performing loans portfolio.

The total debt of the Company amounts to Euro 294.9 million, of which Euro 112.6 million refer to net exposure to the Group's banks and Euro 177.4 million refer to **liabilities relating to assets sold and not derecognised**, as the matching entry of the receivables sold within the own securitisation that do not meet the derecognition requirements under IAS 39 and therefore were reinstated under asset line item 70 in the statement of financial position. The aforesaid liabilities, posted net of the cash available to the various special purpose entities and generated with the periodic collection of the instalments of the securitised loans, represent the share of the Asset Backed Securities issued by the special purpose entities and placed on the market.

At 31 December 2016, the Company's **equity** amounted to Euro 42.5 million. Own funds at 31 December 2016 amounted to Euro 30.8 million. The Common Equity Tier 1 Ratio, the Tier 1 Ratio and the Total Capital Ratio all amount to 10.09%.

The Company closed 2016 with a **net result** of Euro 7.9 million, compared to Euro 10.4 million at 31 December 2015. **Net profit from operating activities** amounted to Euro 12 million compared to Euro 14.9 million at 31 December 2015 (-19.3%), as a result of a decrease in **operating income** (-16.2%), only partially offset by a decline in **operating costs** (-5.4%). In particular, in operating income the **net interest income** fell by 19.3%, while in operating costs there were reductions in both **payroll costs** (-4.5%) and **other administrative costs** (-5.5%). **Net value adjustments for impairment** and provisions amount to Euro -19 thousand compared to Euro +552 thousand in the previous year.

BPV Finance Plc

For the subsidiary BPV Finance, within the scope of the previous Business Plan guidelines requiring the streamlining of the structure, the decision was made to cease activities through voluntary liquidation by the Company itself that should be completed in 2017. Therefore, during 2016, the Company continued to dispose of its own assets.

The information provided below is taken from the Group Reporting Package prepared by the Company for the BPVi Group's Consolidated Financial Statements at 31 December 2016.

The Company's securities portfolio at 31 December 2016 amounted to Euro 74 million, compared with Euro 441 million at the end of 2015, and is made up almost exclusively of units of mutual funds and SICAVs. Loans issued amounted to Euro 25 million, versus Euro 140 million at end-2015. At 31 December 2016, net debt on the interbank market was Euro 58.4 million of which Euro 59.2 million referred to net debts to the Parent Bank. The company's equity amounted to Euro 14.1 million, (Euro 35.6 million at the end of 2015).

The Company closed 2016 with a loss of Euro 42.1 million. As regards the trends in the composition of net income/loss for the year, operating income amounted to Euro 13 million and is mostly referable to the profits achieved with the disposal of assets and, to a lesser extent, to net interest income. Operating expenses instead amounted to Euro 2 million. Finally, net impairment adjustments amounted to Euro 51.4 million, attributable mainly to the Optimum MS2 Fund (Euro 39 million).

Nem Sgr Spa

In 2016, the Company, wholly owned by Banca Popolare di Vicenza, continued to manage the speculative closed-end mutual fund reserved for Professional Investors named "Industrial Opportunity Fund", as well as the non-speculative closed-end mutual funds reserved for Professional Investors named "NEM Imprese" and "NEM Imprese II".

The Company closed 2016 with **net profit** of Euro 780 thousand (Euro 1,093 thousand in 2015), and **equity** of Euro 3.6 million.

It is specified that the three funds managed by the subsidiary Nem Sgr are subject to line-by-line consolidation being that the prerequisites of "Control" set forth in IFRS 10 are fulfilled.

The total value of the 3 funds amounts to Euro 58.2 million and is mainly referred to the investments made (in equities and/or in debt instruments) in some unlisted companies (Euro 54.2 million), to tax credits (Euro 3.3 million) and to cash and cash equivalents (Euro 0.7 million). The cumulative operating result recorded by them in 2016 was negative by Euro 2.5 million and includes gains realised from the disposal of investments for Euro 7.8 million, dividends collected for Euro 1 million, and the relevant interest income for Euro 0.4 million, as well as the impairment adjustments recognised on assets for Euro -7.8 million, and other operating charges and taxes for Euro -4 million.

Servizi Bancari Scpa

This consortium Company provides back office services to the Group's banks; its stockholders are Banca Popolare di Vicenza with a 96% controlling interest and Banca Nuova, Farbanca, Prestinuova and Sec Servizi, with 1% each.
The Company closed 2016 with a break-even, being a non-profit co-operative.

Immobiliare Stampa Scpa

The Company, 99.92% owned by Banca Popolare di Vicenza, and 0.04% held by Banca Nuova and Servizi Bancari, respectively, manages the real estate portfolio of the Group, provides real estate services and carries out administrative activities relating to the management of group properties leased to third parties and of third-party properties leased by Group banks.

Starting from 1 January 2016, within the guidelines of the Group's Business Plan that call for a simplification of the Group's operating structure, the Company absorbed Monforte 19 srl, formerly 100% owned by the Parent Bank Banca Popolare di Vicenza.

The Company ended 2016 with a loss of Euro 4.5 million, entirely referred to the net impairment adjustments (Euro 6.2 million), net of tax, carried out on certain own buildings in order to align their book value to the value of the appraisal made by an independent expert. The company's equity amounted to Euro 204.3 million.

BPVi Multicredito

The exclusive purpose of the Company, wholly owned by Banca Popolare di Vicenza, is to serve as a financial agency, pursuant to Article 128-quater of Italian Legislative Decree no. 385/93 and subsequent amendments and additions.

At 31 December 2016, the Company manages 48 professionals operating in regions in which the branches of the Parent Bank Banca Popolare di Vicenza are present, who promote specific Bank and BPVi Group products to individual customers and small businesses, such as current accounts, loans and payment services. Certain insurance products issued by Group investees and connected to banking products being promoted are also offered.

The Company closed 2016 with **net profit** of Euro 107 thousand and **equity** of Euro 338 thousand.

TRANSACTIONS WITH RELATED PARTIES, SIGNIFICANT NON-RECURRING AND ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Related-party transactions, significant and non-recurring events and operations, and positions and transactions deriving from atypical and/or unusual transactions, as prescribed by CONSOB Communication no. 6064293 of 28 July 2006, pertaining to "*Disclosures by listed issuers and issuers whose financial instruments are held by the general public pursuant to Article 116 of the TUF – Requirements pursuant to Article 114 paragraph 5 of Legislative Decree no. 58/98*", the definitions and qualitative/quantitative criteria set out in the Internal Regulations approved by the Board of Directors in the course of its meeting of 23 January 2007 for the identification of the above transactions are presented below.

Related-party transactions

For the definition of related-party transactions, please refer to "Part H – Related-party transactions" of the Notes to the Separate and Consolidated Financial Statements.

Significant and non-recurring transactions

"Significant and non-recurring" transactions are defined as all transactions that are not repeated frequently in the ordinary course of the Group's activities and whose balance sheet and/or economic value exceeds a certain materiality threshold. More specifically:

- ***Significant transactions:***
  transactions whose balance sheet and/or economic value exceeds at least one of the following parameters:
  - Capital threshold: 1% of Group equity, as reported in the latest consolidated financial statements;
  - Income threshold: since the separate and consolidated 2015 financial statements closed with a negative result, the income threshold was conventionally assumed to be equal to 1% of the net interest and other banking income.

  For the purposes of the above calculation, each transaction must be considered separately; if transactions are strictly and objectively related as part of the same strategic or operational plan, the calculation must refer to all the related transactions taken together.
  If no consideration is agreed for a transaction, its "normal value" must be determined beforehand to reflect the price at which the transaction would have taken place between independent parties on arms' length terms.
  Standard funding, lending and investment activities conducted on normal market terms are not reported as significant transactions.
- ***Non-recurring transactions:***
  transactions that are not repeated frequently in the ordinary course of the Group's activities. The frequency of transactions must also be assessed with reference to prior years as well as to the current year.

No significant and non-recurring transactions were arranged during 2016.

Atypical and/or unusual transactions

These are defined as all "significant" transactions, as defined above, which due to the nature of the counterparties, the purpose of the transaction, the method of determining the transfer price or the timing of the event (close to the accounting reference date) may give rise to doubts about the correctness/completeness of the information reported in the financial statements, possible conflicts of interest, the safeguarding of assets or the protection of minority stockholders.
Atypical and/or unusual transactions are a subset of significant transactions and are identifiable from the atypical nature of the counterparty or purpose of the transactions and/or from the unusual way in which the transfer price is determined or from the timing of the event.

As an example, the following may be atypical and/or unusual transactions:

- as regards the nature of counterparties: the significant transactions entered into with Related parties;
- as regards the object of the transaction: significant transactions involving the transfer of resources, services or obligations that do not fall within ordinary Group activities;
- as regards the method for determining the transfer price: significant transactions whose transfer price is not determined on an arms' length basis and, in any case, those for which no consideration is agreed;
- as regards the timing of the event: significant transactions entered into close to the accounting reference date or other relevant dates for the purposes of providing information to the Stockholders and/or the market.

No atypical and/or unusual transactions with a significant effect on the Group's balance sheet, financial position and results of operations were carried out **during 2016**.

SIGNIFICANT SUBSEQUENT EVENTS

With regard to information on significant events occurred after the reporting date per Article 2485 no. 5 of the Italian Civil Code, reference is explicitly made to Part A "Accounting policies", Section 4 "Subsequent events" of the Explanatory Notes to the Consolidated Financial Statements.

MAIN RISKS AND UNCERTAINTIES AND OUTLOOK FOR OPERATIONS

Several elements of uncertainty continue to weigh on the 2017 macroeconomic and financial scenario, including the intensity of economic growth in the Eurozone, the future evolution of monetary policy rates in the United States, and fears regarding the profitability of the European and Italian banking sectors. In the **Eurozone**, cyclical expansion is continuing at a moderate pace and a dual carriageway with two speeds is beginning to emerge; on the one hand we have countries showing GDP growth rates close to 2%, with public debt in decline and inflation rates in growth, whereas on the other we have countries that are growing at a slower rate, finding it difficult to reduce debt and have more moderate inflation levels. Moreover, there is still uncertainty about the progress of negotiations for the exit of the United Kingdom from the European Union and about its economic benefits in the medium term. In **Italy**, economic recovery is struggling to materialise. Despite tentative positive signals, the future outlook is uncertain and changeable. Industrial production is on the rise, but retail sales are more reluctant, with only a minimal increase, and consumer confidence seems to be rather uncertain. In terms of politics, the resignation of the previous Government could cause credibility issues at international level as regards the effectiveness of the reform agenda.

On the **lending front**, the ECB's monetary policy, which extended the Quantitative Easing measures while reducing the monthly purchase of securities from Euro 80 billion to Euro 60 billion, provides an important support to the banking system. However, the recent downgrading of Italian government ratings poses further difficulties to the banking sector in relation to which there are still concerns as regards the profitability and capital adequacy of Italian banks, which are still being penalised by the large stocks of impaired loans that have come under fire from the ECB in its bid to continue to reduce them within a given period of time. The need to recover profitability will continue to make cost containment actions necessary. Banks' economic results will continue to suffer as a result of ongoing high adjustments on credits due to the plans to dispose of non-performing loans being put in place by various intermediaries, in addition to an increase in the level of corrections on impaired credit required generally by the regulator.

In this context, the **BPVi Group's outlook** will be affected both by the difficult specific economic and financial situation, and the actions that will be implemented within the framework of the restructuring process under way, which provides for the **merger with Veneto Banca together with a recapitalisation, as envisaged by the 2017-2021 Business Plan** submitted to the respective Boards of Directors in the month of February 2017**. The merger, which is closely linked to the recapitalisation, is subject to approval by the Supervisory Authorities** as well as to the application of the regulations in force on the matter; the **authorisation process under way presents significant uncertainty.**

Results from operations in the months prior to the completion of the merger **will be affected by the constraints arising from the sharp reduction in equity ratios** following the loss for the financial year 2016. Although the liquidity position is strengthened by the issuance of debt securities guaranteed by the State, it remains influenced by the period of uncertainty and high volatility of funds could be seen with particular reference to those relating to corporate customers with positions with high unit amounts. It should be noted in fact that during March 2017 there was a significant deterioration in the liquidity situation. Against this background, on 23 March 2017 the Board of Directors decided to proceed with the request to the Bank of Italy and the Ministry of Economy and Finance for a further issue of State-Guaranteed bonds pursuant to Legislative Decree 237/2016 up to a maximum of Euro 2.2 billion with a duration of 3 years.

The cost of credit is expected to remain high, both in relation to the planned review, with a more conservative outlook, of the policies and provisioning procedures adopted by the Bank as a result of the implementation of the indications resulting from the inspection by the ECB on the credit and counterparty risks, and the impacts arising from the planned sale of the doubtful loans portfolio to be implemented via a public securitisation, which has already been set in motion.

The **carrying out** during the year of the necessary **capital strengthening** interventions is **essential for business continuity** and for the successful completion of the **merger** operation, which it is believed may accelerate the commercial recovery process and lay the foundations for significant synergies on the cost front.

With specific reference to capital strengthening actions, in terms of how to raise the capital required to implement the above-mentioned recapitalisation, the Bank, on the basis of the going concern assumption and **in the absence of a clear expression of willingness by the controlling shareholder to provide further capital support**, informed the Ministry of Economy and Finance, the Bank of Italy and the ECB of its **intention to make use of temporary and exceptional financial**

support by the Italian State ("precautionary recapitalisation"), within the meaning of Legislative Decree 237/2016 as converted, with amendments, into Law no. 15 on 17 February 2017. This intervention is regarded as the most realistic recapitalisation option since market operations are seemingly not advisable. Similarly, the carrying out of a Liability Management exercise (e.g. voluntary conversion of subordinated bonds to capital) appears to be particularly complex and uncertain. It should be pointed out, however, that **access to precautionary recapitalisation by the State is also a drawn-out and complex process**, subject to the binding opinion of the Directorate General for Competition (**DG Comp**) of the European Commission which must be expressed with regard to State aid, the results of which are uncertain.

PROPOSAL TO COVER THE LOSS FOR THE YEAR

Dear Shareholders,

With regard to the 2016 loss of Euro 1,901,705,146.19, we propose to cover said loss using the share premium reserve.

GLOSSARY

ABS (Asset backed securities)	Financial instruments deriving from securitisations whose return and repayment are secured by a portfolio of the issuer's assets (collateral). Examples of assets serving as collateral are mortgages, loans, bonds, trade receivables, receivables deriving from credit cards, etc.
ALMS	Asset & Liability Management System. This is an instrument for measuring interest rate risk relating to interest-bearing assets and liabilities and identifies how changes in rate curves influence the Bank's future profit margins. The ALMS is a valid tool for management allowing it to assess ex-ante at what level of risk the Bank intends to position itself in expected financial scenarios and to estimate the value of balance sheet items by discounting future cash flows, thus keeping the Bank's value under constant observation.
Euro Area	The group of countries which have adopted the Euro as the single currency. The Euro area consists of the following countries: Belgium, Germany, Greece, Spain, France, Ireland, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Finland, Slovenia, Slovakia, Estonia, Latvia and, starting from 1 January 2015, Lithuania.
Assessment	An assessment is an evaluation involving an opinion on the likely turn of the events assessed.
Asset allocation	It consists of identifying asset classes to be included in the portfolio in order optimally to allocate financial resources, in view of the reference time horizon, risk-return preferences and the set of existing assets.
Asset management	The management of wealth on behalf of third parties, comprising collective management (open-end and closed-end mutual funds, real estate funds, pension funds and SICAVs), endowment assurance products and individual management (by banks, brokers and trust companies).
ATM	Automated Teller Machine: automatic apparatus to enable customers to perform transactions such as withdrawing cash, depositing cash or cheques, requesting information on the account, paying utilities, topping up mobile phones, etc. The customer activates the terminal introducing a card and entering his/her personal identification number.
Back office	In a financial institution, the organisation that deals with all the reporting, accounting and administrative requirements relating to transactions carried out by the operating units (front office).

Back-testing Retrospective analysis to test the reliability of measurements of the sources of risk associated with asset positions.

Bail-in Bail-in is a tool that enables the Authorities of each country (in Italy, the Bank of Italy) to reduce, subject to resolution conditions, the value of shares and some loans or to convert them into shares to absorb losses and to recapitalise the Bank in difficulty to an extent sufficient to ensure adequate capitalisation and to maintain market confidence; or, in the event of a disposal, to reduce the nominal value of the liabilities transferred or to convert these liabilities to capital.

Bancassurance The offer of typically insurance-related products through the operating network of credit entities.

Banking book Generally referred to securities and financial instruments in general, identifying that part of the investment portfolio held for "proprietary" activities.

Basel 3 The expression 'Basel 3' indicates a set of measures approved by the Basel Committee on Banking Supervision as a consequence of the 2007-08 financial crisis with the intent to improve the existing prudential regulations of the banking industry (which in turn are commonly known as Basel 2), the effectiveness of the supervisory action and the banks' ability to manage the risks they assume.

β (Beta) Beta coefficient of an issuer or of a group of comparable issuers, expression of the inter-relation between the actual return of an equity and the overall return of the reference market.

Securitisation A securitisation represents a special issue of bonds with the payment of coupons and the redemption of principal on maturity funded by the cash flows deriving from a portfolio of financial assets (mortgages, commercial paper, leasing contracts) held by the vehicle company (see definition) issuing the securitisation. Each securitisation is divided into various tranches of bonds with different ratings (from AAA to BBB or even lower), depending on the credit risk involved.

CDO (Collateralised Debt Obligations) Securities issued as part of securitisation transactions, guaranteed by an underlying represented by loans, securities or other financial assets.

Common Equity Tier 1 (CET 1) The primary quality capital of Own Funds (or Regulatory Capital), as defined by Article 4 of Regulation (EU) no. 575/2013 (CRR). It mainly comprises instruments issued directly by the bank, which meet the criteria for classification as ordinary shares according to regulations; share premium accounts related to the instruments allowed in CET1, retained earnings and revaluation reserves and other visible reserves. From these elements are subtracted the deductions defined by the regulations, the main ones being: goodwill and intangible assets and deferred tax assets (DTA).
For more information, please refer to Regulation (EU) no. 575/2013 (CRR), Part Two, Title 1.

Compliance (function) The compliance function serves to prevent the risk of non-compliance by company activity with compulsory regulations and laws or self-regulatory ones (for example, articles of association, codes of conduct, self-regulatory codes etc.).

Confidi (Credit Guarantee Associations) Organisations with co-operative or consortium structure, which provide collective loan guarantees in favour of member or participating companies.

CONSOB The "Commissione Nazionale per le Società e la Borsa" (Italian stock market regulator), set up under Law no. 216 dated 7 June 1974, is an independent administrative authority, with a separate legal identity and full autonomy under Law no. 281/1985, whose activities are aimed at investor protection, and the efficiency, transparency and development of the Italian stock market.

Corporate Customer class consisting of small, medium and large companies.

Cost/income A performance indicator which expresses in percentage terms the ratio between a bank's costs and its income. It is one of the main indicators of the bank's operating efficiency: the lower the value expressed by the indicator, the higher the efficiency of the bank.

Period-on-period growth Growth relative to the previous reporting period (for example, the previous quarter).

Year-on-year growth Growth relative to the same period in the prior year.

Cross selling This is an indicator of the average number of products held by each customer; the higher the number of products held, the greater the degree of customer loyalty and the more profitable the relationship.

Probability of default (PD) The probability that a counterparty enters a state of default, even if temporarily, before the end of the reference period (one year). This measure is the output of a rating system.

Δ (Delta) The delta represents the degree of sensitivity of the premium of the options relative to the performance of the underlying security indicated in the contract.

ESM European Stability Mechanism. Permanent crisis management mechanism, which has replaced the EFSF. The ESM provides financial support to requesting Euro area member states and it uses the instruments already available to the EFSF.

Euribor Euribor (Euro Interbank Offered Rate) is the principal market reference rate and is calculated as the weighted average of interest rates applied to financial transactions in euro between prime European banks. It is published on a daily basis by the European Banking Federation with quotations for 1 month, 3 month and 6 month maturities.

Fair value The amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Stability Board (FSB) The Financial Stability Board is an international body in charge of international coordination of the work of national financial authorities and the commissions that define international standards. It was established in April 2009 by the G20, as the successor of the Financial Stability Forum, and brings together national authorities responsible for stability (i.e. Central banks, supervisory authorities and Treasury Departments), international financial institutions, committees of experts from central banks and international supervisory and regulatory bodies.

Banking spread Difference between the interest rate applied by the Bank on loans and the rate recognised on funding.

Governance The term identifies the set of instruments and rules that regulate corporate life, with particular reference to the transparency of the corporate documents and deeds and to the completeness of disclosure to the market.

House organ Periodic publication by a business to communicate with its employees and/or customers.

IAS/IFRS International Accounting Standards/International Financial Reporting Standards. These are the international accounting standards issued by the IASB (International Accounting Standards Board), whose application is compulsory (under a legislative decree promulgated in November 2004) for the purposes of preparing separate and consolidated financial statements by a wide array of companies, including banks.

Impairment In the context of the international accounting standards (IAS), impairment represents the loss in the value of an asset that is recognised if its carrying amount exceeds its recoverable value, being the amount that could be obtained by selling it or using it in the business. Impairment testing must be performed on all assets, except for those measured at fair value since, in this case, any losses (or gains) are implicit in such value.

ISTAT Italy's publicly-operated central statistics office. It has been in operation since 1926 and is the principal producer of official statistics in support of citizens and public policy-makers.

IVASS Istituto per la Vigilanza sulle Assicurazioni (Insurance Supervisory Authority) is a government agency with separate legal identity that operates to safeguard the stability of the insurance market and to protect consumers. Established with Italian Law no. 135/2012 (converting Law Decree no. 95/12 with amendments), the IVASS took over all of the ISVAP's functions, authority and powers.

Joint venture Agreement between two or more entities to carry out a given economic activity, usually through the establishment of a joint-stock company.

Liquidity Coverage Ratio The Liquidity Coverage Ratio (LCR) is a short-term indicator, devised by the Basel Committee on Banking Supervision, whose purpose is to assure that a bank will maintain an adequate level of unrestricted high quality liquid assets that can be converted into cash to meet its liquidity requirements within 30 calendar days in a particularly acute liquidity stress scenario specified by the supervisory authorities.

Mark-down Negative differential relative to a reference indicator, normally an interbank rate, applied to the rate on customer deposits.

Mark-up Positive differential relative to a reference indicator, normally an interbank rate, applied to the rate on loans to customers.

Maturity Ladder Representation of cash inflows/outflows by settlement date, in order to highlight cash mismatches (exact and/or cumulative), during various time buckets.

Mezzanine In a securitisation, it is the tranche with the intermediate subordination level between the junior tranche and the senior tranche.

MIFID Markets in financial instruments directive. European regulations provided by Directive 2004/39/EC to increase investor protection and assure the greatest possible transparency through mandatory disclosure to Customers.

E-money The set of techniques connected with the use of electronic money.

Multi-channel activities The offer of retail banking products and services both through the traditional channel of branches and through other channels (financial promoters, agents, electronic channels, call centres, etc.).

OTC (Over the Counter) Over the counter market (unregulated market). All those "markets" in which financial assets are traded other than official regulated ones. The methods of contracting are not standardised and it is possible to agree "atypical" contracts. Securities traded on an OTC market are generally less liquid that those traded on official markets.

POS	POS (Points of Sale) are terminals at cash registers in shops and supermarkets used for making payments with debit or credit cards.
Rating	A rating expresses the creditworthiness of issuers of bonds using letters that indicate the debtor's reliability. For example, a triple A (AAA) rating represents the highest quality investment grade; the scores descend progressively (AA, A, BBB, BB, B). Triple C (CCC) ratings are awarded to the least reliable debtors. The rating is assigned by a specialised agency.
Recession	Negative economic situation featuring a reduction in industrial output, a fall in consumption, and a decrease in household income. Technically a Country is in recession when its GDP declines for two consecutive quarters.
Risk Appetite Framework (RAF)	The reference framework defining, consistently with the maximum assumable risk, the business model and the strategic plan, risk propensity, tolerance thresholds, risk limits, risk governance policies, the reference processes needed to define them and implement them.
Sensitivity	The term identifies the situation of higher or lower sensitivity with which determined assets or liabilities react to changes in rates or other reference parameters.
SGR	SGRs (Società di Gestione del Risparmio) or asset management companies are companies authorised to promote, set up, organise and manage the assets of a mutual fund (collective asset management), keeping their own assets separate from those of the fund. An SGR can also manage funds set up by other asset management companies.
Single Supervisory Mechanism (SSM)	Financial supervision system, wherein, from November 2014 onwards, the European Central Bank has submitted significant credit institutions to direct supervision and act in close cooperation with the competent domestic authorities for the supervision of all credit institutions, carried out under the overall oversight of the ECB. The degree of significance of the institution is determined according to specific criteria. Euro Area countries automatically participate in the SSM, while countries outside the Euro Area may opt not to.
Small business	Market segment relating to small and very small businesses (typically tradesmen and shopkeepers).
Spread	This term normally indicates the difference between two interest rates, the gap between bid and ask prices in securities trading or the additional amount the issuer of securities recognises over a reference rate.
Stakeholder	Stakeholder. This term is used to indicate all categories of parties which may influence, be influenced by or hold a stake in the activities of a business/bank, such as Human Resources, Stockholders, Customers, the National Community and the State, Suppliers and future generations.

Stagnation	Stagnation is characterised by the persistence, over time, of modest changes in Gross Domestic Product and per capita income.
Stress test	Simulation used to measure the impact of extreme market scenarios.
Trading Book	Generally referred to securities and financial instruments in general, identifying that part of the investment portfolio held for trading.
Value at Risk – VAR	Value at Risk is an estimate of the expected maximum potential loss on a portfolio of financial instruments in a specified time period, with a defined level of probability, upon the occurrence of unfavourable market conditions.
Vega	Coefficient measuring the sensitivity of the value of an option in relation to a change or an underestimation of volatility.

CONSOLIDATED FINANCIAL STATEMENTS

BANCA POPOLARE DI VICENZA GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
in thousands of euro

	Assets		31 DECEMBER 2016		31 DECEMBER 2015
10.	Cash and cash equivalents		158,780		173,506
20.	Financial assets held for trading		2,065,791		3,408,612
30.	Financial assets designated at fair value		35,693		7,842
40.	Financial assets available for sale		4,263,246		5,725,818
50.	Financial assets held to maturity		1,067,948		-
60.	Loans and advances to banks		2,120,451		2,150,149
70.	Loans and advances to customers		22,558,843		25,178,117
80.	Hedging derivatives		27,907		33,024
90.	Remeasurement of financial assets backed by macro hedges (+/-)		(17,372)		46,187
100.	Equity method investments		65,857		492,736
120.	Property, plant and equipment		577,870		598,253
130.	Intangible assets		14,560		10,926
	of which: - goodwill	*6,223*		*6,223*	
140.	Tax assets		1,035,669		1,456,621
	a) current	135,841		101,607	
	b) deferred tax assets	899,828		1,355,014	
	of which: - of L. 214/2011	*443,238*		*706,322*	
160.	Other assets		448,998		501,579
Total assets			**34,424,241**		**39,783,370**

BANCA POPOLARE DI VICENZA GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
in thousands of euro

Equity and Liabilities		31 DECEMBER 2016		31 DECEMBER 2015	
10.	Due to banks		9,173,919		9,973,459
20.	Due to customers		14,388,985		16,272,137
30.	Debt securities in issue		4,118,256		5,199,085
40.	Financial liabilities held for trading		1,455,303		2,771,986
50.	Financial liabilities designated at fair value		287,056		471,516
60.	Hedging derivatives		875,430		887,624
70.	Fair value adjustment of financial liabilities subject to macro hedge (+/-)		(6,808)		-
80.	Tax liabilities		269,379		317,003
	a) current	1,165		3,456	
	b) deferred	268,214		313,547	
100.	Other liabilities		809,743		717,771
110.	Provision for severance indemnities		72,981		72,585
120.	Provisions for risks and charges:		812,604		548,077
	a) pensions and similar commitments	4,858		4,829	
	b) other provisions	807,746		543,248	
140.	Valuation reserves		43,880		157,390
160.	Equity instruments		-		1,415
170.	Reserves		277,815		223,949
180.	Additional paid-in capital		3,080,275		3,206,573
190.	Capital stock		677,204		377,204
200.	Treasury shares (-)		(28,056)		(25,470)
210.	Minority interests (+/-)		18,649		18,060
220.	Net income (loss) for the year (+/-)		(1,902,374)		(1,406,994)
Total Equity and Liabilities			**34,424,241**		**39,783,370**

BANCA POPOLARE DI VICENZA GROUP

CONSOLIDATED INCOME STATEMENT
in thousands of euro

	Captions		31 DECEMBER 2016		31 DECEMBER 2015
10.	Interest income and similar revenues		817,089		962,036
20.	Interest expense and similar charges		(437,038)		(458,156)
30.	**Net interest income**		**380,051**		**503,880**
40.	Fee and commission income		265,957		358,161
50.	Fee and commission expense		(35,649)		(35,736)
60.	**Net fee and commission income**		**230,308**		**322,425**
70.	Dividend and similar income		5,376		30,614
80.	Net trading income		(89,991)		33,883
90.	Net hedging gains (losses)		15,319		64,192
100.	Gains (losses) on disposal or repurchase of:		49,746		233,485
	a) loans and advances	(7,403)		(3,720)	
	b) financial assets available for sale	38,742		230,122	
	c) financial assets held to maturity	-		997	
	d) financial liabilities	18,407		6,086	
110.	Net change in financial assets and liabilities designated at fair value		452		(1,856)
120.	**Net interest and other banking income**		**591,261**		**1,186,623**
130.	Net impairment adjustments on:		(1,134,081)		(1,481,396)
	a) loans and advances	(1,069,289)		(1,333,363)	
	b) financial assets available for sale	(64,229)		(160,227)	
	d) other financial transactions	(563)		12,194	
140.	**Net income from financial activities**		**(542,820)**		**(294,773)**
170.	**Net income from financial and insurance activities**		**(542,820)**		**(294,773)**
180.	Administrative costs:		(758,669)		(774,569)
	a) payroll	(412,750)		(410,374)	
	b) other administrative costs	(345,919)		(364,195)	
190.	Net provisions for risks and charges		(265,441)		(513,060)
200.	Net adjustments to property, plant and equipment		(33,029)		(38,075)
210.	Net adjustments to intangible assets		(4,158)		(16,138)
220.	Other operating charges/income		84,227		66,163
230.	**Operating costs**		**(977,070)**		**(1,275,679)**
240.	Profit (loss) from equity method investments		(213,206)		6,332
250.	Net gains (losses) arising on fair value adjustments to property, plant and equipment and intangible assets		(2,375)		(4,715)
260.	Adjustments to goodwill		(8,338)		(323,639)
270.	Gains (losses) on disposal of investments		(210)		(44)
280.	**Profit (loss) on current operations before income taxes**		**(1,744,019)**		**(1,892,518)**
290.	Income taxes on current operations		(156,960)		486,339
300.	**Profit (loss) from current operations after tax**		**(1,900,979)**		**(1,406,179)**
320.	**Net income (loss) for the year**		**(1,900,979)**		**(1,406,179)**
330.	Net income (loss) attributable to Minority interests		(1,395)		(815)
340.	**Net income (loss) for the year pertaining to the parent bank**		**(1,902,374)**		**(1,406,994)**

BANCA POPOLARE DI VICENZA GROUP

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME
in thousands of euro

	Captions	31 DECEMBER 2016	31 DECEMBER 2015
10.	**Net income (loss) for the year**	**(1,900,979)**	**(1,406,179)**
	Other post-tax components of income without reversal to income statement		
20.	Property, plant and equipment	107	-
40.	Defined-benefit plans	(2,745)	3,993
60.	Portion of valuation reserves of equity method investments carried at equity	(47)	64
	Other post-tax components of income with reversal to income statement		
90.	Cash-flow hedges	(25)	(367,746)
100.	Financial assets available for sale	(90,934)	347,601
120.	Portion of valuation reserves of equity method investments carried at equity	(22,044)	(13,644)
130.	**Total other post-tax components of income**	**(115,688)**	**(29,732)**
140.	**Total comprehensive income (Lines 10. + 130.)**	**(2,016,667)**	**(1,435,911)**
150.	Total comprehensive income attributable to minority interests	(1,394)	(820)
160.	**Total comprehensive income attributable to the parent bank**	**(2,018,061)**	**(1,436,731)**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY 2016

(in thousands of Euro)

	Balance at 31/12/2015	Change in opening balances	Balance at 01/01/2016	Allocation of prior year results		Changes in the year									Group equity at 31/12/2016	Minority interests at 31/12/2016
						Changes in reserves [1]	Equity transactions							Total comprehensive income at 31/12/2016		
				Group reserves	Dividends and other allocations		Issue of new shares [2]	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in ownership interests			
Capital stock:	388,036	-	388,036	-	-	-	300,000	-	-	-	-	-	(33)	-	677,204	10,799
a) ordinary shares	388,036	-	388,036	-	-	-	300,000	-	-	-	-	-	(33)	-	677,204	10,799
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	3,210,436	-	3,210,436	(1,326,307)	-	9	1,200,000	-	-	-	-	-	-	-	3,080,275	3,863
Reserves:	226,510	-	226,510	(80,677)	-	165,296	(30,710)	-	-	-	-	-	-	-	277,815	2,604
a) from earnings	117,248	-	117,248	(80,677)	-	(2,603)	(30,710)	-	-	-	-	-	-	-	698	2,560
b) other	109,262	-	109,262	-	-	167,899	-	-	-	-	-	-	-	-	277,117	44
Valuation reserves	157,379	-	157,379	-	-	2,177	-	-	-	-	-	-	-	(115,688)	43,880	(12)
Equity instruments	1,415	-	1,415	-	-	-	-	-	-	(1,415)	-	-	-	-	-	-
Treasury shares	(25,470)	-	(25,470)	-	-	-	-	(2,586)	-	-	-	-	-	-	(28,056)	-
Net income (loss) for the year	(1,406,179)	-	(1,406,179)	1,406,984	(805)	-	-	-	-	-	-	-	-	(1,900,979)	(1,902,374)	1,395
Group Equity	**2,534,067**	**-**	**2,534,067**	**-**	**-**	**167,482**	**1,469,290**	**(2,586)**	**-**	**(1,415)**	**-**	**-**	**(33)**	**(2,018,061)**	**2,148,744**	**-**
Minority interests	**18,060**	**-**	**18,060**	**-**	**(805)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,394**	**-**	**18,649**

[1] In "Changes in reserves" is included the first tranche paid the 30th of December 2016 by the Atlante Fund/Quaestio Sgr against the future capital increase.

[2] The "issue of new shares" is stated net of the cancellations recorded during the year.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY 2015

(in thousands of Euro)

	Balance at 31/12/2014	Change in opening balances	Balance at 01/01/2015	Allocation of prior year results		Changes in the year									Group equity at 31/12/2015	Minority interests at 31/12/2015
							Equity transactions							Total comprehensive income at 31/12/2015		
				Group reserves	Dividends and other allocations	Changes in reserves	Issue of new shares [1]	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in ownership interests			
Capital stock:	362,873	-	362,873	-	-	-	25,333	-	-	-	-	-	(170)	-	377,204	10,832
a) ordinary shares	362,873	-	362,873	-	-	-	25,333	-	-	-	-	-	(170)	-	377,204	10,832
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	3,369,021	-	3,369,021	(398,695)	-	-	240,173	-	-	-	-	-	(63)	-	3,206,573	3,863
Reserves:	611,432	-	611,432	(359,781)	-	(26,948)	-	-	-	1,770	-	-	37	-	223,949	2,561
a) from earnings	504,870	-	504,870	(359,781)	-	(27,804)	-	-	-	-	-	-	(37)	-	114,731	2,517
b) other	106,562	-	106,562	-	-	856	-	-	-	1,770	-	-	74	-	109,218	44
Valuation reserves	186,816	-	186,816	-	-	295	-	-	-	-	-	-	-	(29,732)	157,390	(11)
Equity instruments	3,195	-	3,195	-	-	-	-	-	-	(1,780)	-	-	-	-	1,415	-
Treasury shares	(25,888)	-	(25,888)	-	-	-	-	418	-	-	-	-	-	-	(25,470)	-
Net income (loss) for the year	(757,587)	-	(757,587)	758,476	(889)	-	-	-	-	-	-	-	-	(1,406,179)	(1,406,994)	815
Group Equity	**3,731,462**	**-**	**3,731,462**	**-**	**-**	**(26,653)**	**265,506**	**418**	**-**	**(10)**	**-**	**-**	**75**	**(1,436,731)**	**2,534,067**	**-**
Minority interests	**18,400**	**-**	**18,400**	**-**	**(889)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(271)**	**820**	**-**	**18,060**

[1] The "issue of new shares" is stated net of the cancellations recorded during the period.

BANCA POPOLARE DI VICENZA GROUP

STATEMENT OF CONSOLIDATED CASH FLOWS

Direct method
in thousands of euro

	31 DECEMBER 2016	31 DECEMBER 2015
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**(264,582)**	**198,092**
- Interest income collected (+)	618,829	798,283
- Interest expense paid (-)	(339,049)	(383,465)
- Dividends and similar income	5,376	20,079
- Net fee and commission income (+/-)	230,308	318,553
- Payroll costs (-)	(413,572)	(410,584)
- Net premium income (+)	-	(7,233)
- Other insurance income (charges) (+/-)	-	-
- Other costs (-)	(677,438)	(372,717)
- Other revenues (+)	312,528	247,372
- Taxation (-)	(1,564)	(12,196)
-Costs/income relating to groups of assets held for sale, net of tax effect (+/-)	-	-
2. Cash generated/used by financial assets	**2,049,958**	**2,365,497**
- Financial assets held for trading	18,358	986,676
- Financial assets designated at fair value	8,651	(3,602)
- Financial assets available for sale	(413,324)	42,476
- Loans and advances to customers	2,303,657	1,375,746
- Loans and advances to banks: demand	52,268	626,909
- Loans and advances to banks: other receivables	(22,570)	(507,219)
- Other assets	102,918	(155,489)
3. Cash generated/used by financial liabilities	**(3,349,565)**	**(2,630,239)**
- Due to banks: demand	279,646	93,918
- Due to banks: other payables	(579,186)	4,625,620
- Due to customers	(2,106,160)	(5,064,920)
- Debt securities in issue	(1,080,829)	(1,216,990)
- Financial liabilities held for trading	-	15,564
- Financial liabilities designated at fair value	(182,776)	(1,038,571)
- Other liabilities	319,740	(44,860)
Net liquidity generated/used by operating activities	**(1,564,189)**	**(66,650)**

Key:
(+) generated
(-) used

	31 DECEMBER 2016	31 DECEMBER 2015
B. INVESTING ACTIVITIES		
1. Cash generated by	**13,369**	**67,004**
- Disposal of equity method investments	-	6,300
- Dividends collected on equity method investments	13,035	21,552
- Disposal/redemption of financial assets held to maturity	-	38,308
- Disposal of property, plant and equipment	306	844
- Sale of intangible assets	28	-
- Sale of subsidiary companies and business divisions	-	-
2. Cash used by	**(123,606)**	**(32,557)**
- Purchase of equity method investments	-	(18,584)
- Purchase of financial assets held to maturity	(108,680)	-
- Purchase of property, plant and equipment	(7,277)	(11,124)
- Purchase of intangible assets	(7,649)	(2,849)
- Purchase of subsidiary companies and business divisions	-	-
Net liquidity generated/used by investing activities	**(110,237)**	**34,447**
C. FUNDING ACTIVITIES		
- Issues/Purchases of treasury shares	1,661,115	13,854
- Issues/Purchases of equity instruments	(1,415)	(11)
- Distribution of dividends and other purposes	-	(889)
Net liquidity generated/used by funding activities	**1,659,700**	**12,954**
TOTAL NET CASH GENERATED/USED IN THE YEAR	**(14,726)**	**(19,249)**

Reconciliation

(in thousands of euro)

	31 DECEMBER 2016	31 DECEMBER 2015
Captions		
Cash and cash equivalents at the beginning of the year	**173,506**	**192,755**
Cash and cash equivalents resulting from business combination	-	**1,145**
Net liquidity generated/used in the year	(14,726)	(20,394)
Cash and balances with central banks: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the year	**158,780**	**173,506**

Key:
(+) generated
(-) used

The statement of consolidated cash flows presented above was prepared using the "direct" method envisaged by IAS 7 and reports the "cash flows" from the Group's operating, investing and financing activities.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A – ACCOUNTING POLICIES

PART B – INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

PART D – CONSOLIDATED COMPREHENSIVE INCOME

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICY

PART F – INFORMATION ON CONSOLIDATED EQUITY

PART G – BUSINESS COMBINATIONS

PART H – RELATED-PARTY TRANSACTIONS

PART I – EQUITY-SETTLED PAYMENT ARRANGEMENTS

PART L – SEGMENT INFORMATION

PART A – ACCOUNTING POLICIES

A. 1 – GENERAL INFORMATION

Section 1 – Declaration of conformity with IFRS

The Consolidated financial statements at 31 December 2016 were prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), endorsed by the European Commission under the procedure as per art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and Council dated 19 July 2002 and in force at the current reporting date, including the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The currently applicable international accounting standards (IAS/IFRS), as endorsed by the European Commission, adopted to prepare the consolidated Financial Statements at 31 December 2016 are as follows:

IFRS 1 First-time adoption of IFRS
IFRS 7 Financial instruments: disclosures
IFRS 8 Operating segments
IFRS 10 Consolidated financial statements
IFRS 11 Joint arrangements
IFRS 12 Disclosure of interests in other entities
IFRS 13 Fair value measurement
IAS 1 Presentation of financial statements
IAS 7 Statement of cash flows
IAS 8 Accounting policies, changes in accounting estimates and errors
IAS 10 Events after the reporting period
IAS 12 Income taxes
IAS 16 Property, plant and equipment
IAS 17 Leases
IAS 18 Revenue
IAS 19 Employee benefits
IAS 21 The effects of changes in foreign exchange rates
IAS 23 Borrowing costs
IAS 24 Related party disclosures
IAS 26 Accounting and reporting by retirement benefit plans
IAS 27 Separate financial statements
IAS 28 Investments in associates and joint ventures
IAS 32 Financial instruments: disclosure and presentation
IAS 33 Earnings per share
IAS 34 Interim financial statements
IAS 36 Impairment of assets
IAS 37 Provisions, contingent liabilities and contingent assets
IAS 38 Intangible assets
IAS 39 Financial instruments: recognition and measurement
IAS 40 Investment property

Accounting standards and interpretations applied from 1 January 2016

The following table shows the new international accounting standards or the amendments to accounting standards already in force, with the related endorsing regulations by the European Commission, that came into force in 2016.

New documents issued by the IASB and approved by the EU to be adopted mandatorily for annual periods beginning on or after 1 January 2016

Description	Date of issue	Effective date	Regulation Endorsement	UE Regulation and publication date
Changes IAS 19 Employee benefits	November 2013	February 1, 2015 (IASB: July 1, 2014)	December 17, 2014	(UE) 2015/29 January 9, 2015
Improvements to International Financial Reporting Standards (cycle 2010-2012)	December 2013	February 1, 2015 (IASB: July 1, 2014)	December 17, 2014	(UE) 2015/28 January 9, 2015
Changes IAS 16 Property, plant and equipment and IAS 41 Agriculture	June 2014	January 1, 2016	November 23, 2015	(UE) 2015/2113 November 24, 2015
Changes IFRS 11 Joint arrangements	May 2014	January 1, 2016	November 24, 2015	(UE) 2015/2173 November 25, 2015
Changes IAS 16 Property, plant and equipment and IAS 38 Intangible assets	May 2014	January 1, 2016	December 2, 2015	(UE) 2015/2231 December 3, 2015
Changes IFRS 2012-2014	September 2014	January 1, 2016	December 15, 2015	(UE) 2015/2343 December 16, 2015
Changes IAS 1 First-time adoption of IFRS	December 2014	January 1, 2016	December 18, 2015	(UE) 2015/2406 December 19, 2015
Changes IAS 27 Separate Financial Statements	August 2014	January 1, 2016	December 18, 2015	(UE) 2015/2441 December 23, 2015
Investment entities: application of the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	December 2014	January 1, 2016	September 22, 2016	(UE) 2016/1703 September 23, 2016

IAS/IFRS and IFRIC interpretations applicable to the financial statements of years starting after 1 January 2016

The information to be provided in the Explanatory notes to the financial statements set out in such documents is included in this checklist, as early application is permitted.

Description	Date of issue	Effective date	Regulation Endorsement	UE Regulation and publication date	Notes and references to this checklist
IFRS 15 – Revenue from Contracts with customers	May 2014 (1)	January 1, 2018	September 22, 2016	(UE) 2016/1905 October 29, 2016	Early application is allowed Points 460-481
IFRS 9 Financial Instruments	July 2014	January 1, 2018	November 22, 2016	(UE) 2016/2067 November 29, 2016	

(1) The amendment that changed the effective date of IFRS 15 was released in September 2015.

IAS/IFRS and IFRIC interpretations applicable to the financial statements of years starting after 1 January 2016

Please note that these documents will be applicable only after endorsement by the EU.

Description	IASB Date of issue	IASB Effective date	UE Regulation Endorsement
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	(1)	(1)
IFRS 16 Leases	January 2016	January 1, 2019	2017
Amendments			
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 2014	Deferred until the conclusion of the IASB project on Equity Method	Pending awaiting the conclusion of the IASB project on Equity Method
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	January 2016	January 1, 2017	
Amendments to IAS 7: Disclosure Initiative	January 2016	January 1, 2017	
Clarifications to IFRS 15 Revenue from Contracts with Customers	April 2016	January 1, 2018	1st semester 2017
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	June 2016	January 1, 2018	2nd semester 2017
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 2016	January 1, 2018	2017
Amendments to IAS 40: relating to transfers of investment property	December 2016	January 1, 2018	
Annual Improvements 2014-2016	December 2016	January 1, 2018	
IFRIC 22 Foreign currency transactions and advance consideration	December 2016	January 1, 2018	

(1) IFRS 14 entered into force from 1 January 2016, but the European Commission has decided to suspend the endorsement process pending approval of the new accounting standard on rate-regulated activities.

IFRS 9 Financial instruments

Starting from 1 January 2018 the new IFRS 9 "Financial Instruments", released by the IASB on 24 July 2014, will enter into force; it replaces the previous versions of the standard (released in 2009 and in 2010 for the "classification and measurement" phase, and in 2013 for the "hedge accounting" phase) and it completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The standard was endorsed by the European Commission on 22 November 2016 and the Regulations for its adoption were published in the Official Journal of the European Union of 29 November 2016.

IFRS 9:

1. amends the classification rules, and consequently the measurement methods of financial assets which, as regards debt instruments, will be based on the management arrangements ("business model") and the characteristics of the financial instrument's cash flows characteristics, while equity instruments are measured at fair value through profit and loss, without prejudice to the possible use of the OCI option;
2. provides for a new impairment accounting model based on an "expected losses" instead of an "incurred losses" approach as in the current IAS 39, and also introduces for performing loans the concept of lifetime expected loss which could lead to an anticipation and a structural increase in impairments;
3. introduces changes to hedge accounting by rewriting the rules for the designation of a hedging relationship and the testing of its effectiveness, with the aim of ensuring a closer alignment between the accounting representation of hedges and the underlying management logics.

The new standard also changes accounting for "own credit risk", i.e. the changes in fair value of the liabilities designated in fair value option due to fluctuations in one's own credit rating. The new standard requires to recognise such changes in an equity reserve, rather than in the income statement as provided by IAS 39, thus removing a source of income volatility.

Already in the first half of 2016, the Group started, with the support of outside advisors, the "Transition to IFRS 9" project, with an internal analysis of the main impact areas of the new IFRS 9 accounting standard, while in the second half of 2016 a second step was started with the IT outsourcer SEC Servizi SCpA aimed at defining the methodological framework of reference for the classification, measurement and impairment of financial assets, and the design of the target solutions and of their implementations.

In particular, the consortium project is organised into two main work areas (Classification & Measurement – C&M and Impairment) supported by the IT and TOM (Target Operating Model) areas, acting across the two main areas in order to analyse and define impacts on the IT architecture and internal operational processes.

With regard to Hedge Accounting, the Group has chosen not to start a specific work area, as the regulatory changes only concern *General Hedge*, and at this time it is deemed preferable to continue to apply IAS 39 to all types of hedges in place, as temporarily permitted by the standard.

For each of the above-mentioned work areas, the adopted methodological approach includes the following micro-phases:

- analysis and preliminary choices (mainly related to accounting and model);
- design of the target operating model and definition of the related IT impacts;
- application and organisational development and impact analysis.

Along with the above consortium project, the Group has chosen to establish an internal Workgroup involving resources from the Credit, Finance and Sales areas, as well as stakeholders of the Financial Statements, Risk Management and Organisation areas, supported by a Project Manager and organised into the same work areas as described above, in charge of analysing specific aspects of the Group in terms of tools (processes, procedures, regulations etc.) and resources, and to provide practical contributions to the work of the consortium project.

On the basis of the work plan developed, ongoing project activities concern the identification and analysis of the product portfolio (contractual screening), the definition and simulation related to the new C&M rules (Business Model and SPPI (Solely Payments of Principal and Interest) tests), and the definition of internal policies for staging credit exposures and determining the “expected loss”.

At the date of preparation of these Financial Statements, the project is underway according to the originally planned schedule, and has not yet reached such progress as to allow a reliable estimate of the impacts resulting from first-time application of the new standard. Any updates in connection with the project's progress will be provided in the next interim accounting reports.

Lastly, it should be noted that as the introduction of IFRS 9 involves major changes for the banking sector with regard to provisions for potential losses arising from credit exposures, on 23 November 2016 the European Commission published a draft legislative proposal (known as “CRD V”) that will update CRR, CRD IV, BRRD and the SRM Regulation. These proposals includes provisions to dilute over time the negative impact on regulatory capital arising from first-time application of IFRS 9 in 2018.

Section 2 – Basis of preparation

The Consolidated Financial Statements as at 31 December 2016 comprise the statement of financial position and the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and these explanatory notes and they are accompanied by the report on Group operations.

The Consolidated Financial Statements have been prepared with reference to the formats and rules specified in Bank of Italy Circular no. 262 of 22 December 2005 and subsequent updates ("Banks' financial statements: layout and preparation"), issued by the Supervisory Body exercising its regulatory powers pertaining to the technical forms of bank financial statements, in accordance with Article 43 of Legislative Decree 136/2015.

As prescribed by Article 5, paragraph 2, of Legislative Decree 38/2005, the Consolidated Financial Statements are prepared using the Euro as the accounting currency and the amounts, in line with the instructions issued by the Bank of Italy, unless otherwise indicated, are expressed in thousands of Euro, rounding off as appropriate in accordance with regulatory provisions.

These Consolidated Financial Statements were prepared with the intention to provide clear information and they truth and fair represent the financial position, the income and the cash flow of the Banca Popolare di Vicenza Group.

In the preparation of the Consolidated Financial Statements, general reporting standards have been adopted, as detailed below, prescribed by IAS 1 "Presentation of financial statements" and the accounting standards illustrated in part A.2 of these Explanatory notes, in compliance with the general provisions included in the "Framework for the Preparation and Presentation of Financial Statements" (the "Framework") prepared by the International Accounting Standards Board, with particular regard to the fundamental principle of the prevalence of substance over form, and to the concept of the relevance and significance of the information.

The general reporting standards prescribed by IAS 1 are summarised below.

Going concern

These Consolidated Financial Statements were prepared on a going concern basis.

In this regard, the joint co-ordination committee for IAS/IFRS application between the Bank of Italy, CONSOB and ISVAP (Italy's insurance industry regulator) issued its document no. 2 on 6 February 2009 entitled "Disclosures in financial reports on the going concern assumption, financial risks, tests of assets for impairment and uncertainties in the use of estimates". This document requires management to carry out a detailed review in relation to the going concern presumption, in accordance with the requirements of IAS 1.

In particular, paragraphs 23-24 of IAS 1 establish that: "*When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern*".

The **specific situation of the Banca Popolare di Vicenza Group**, particularly with regard to its economic and financial situation, which shows as at 31 December 2016 a failure to comply with the ECB's capital requirements under the 2016 SREP Decision, requires a careful evaluation of the going concern requirements and, within this framework, of the existence of realistic alternatives to winding up.

The loss of €1.9 billion recorded in 2016 must be considered in light of the corporate restructuring process that the new Board of Directors is implementing and that has affected the provisioning policies of these Financial statements.

In effect, the negative result for the year is largely attributable (i) to **increased hedging on non-performing loans**, also due to implementation of the impairments required by the ECB during two recent audits on credit and counterparty risk; (ii) to **impairments on securities and investments** primarily related to withdrawal by Cattolica Assicurazioni and further write-downs on the Luxembourg funds; (iii) **provisions for risks and charges** mainly related to litigation risks on BPVi shares and the costs related to the Settlement Offer, and (iv) the **reversal of part of the previously allocated deferred tax assets**.

The negative result for 2016 is also partly due to the negative performance of commercial operations, affected by the reputational impacts that have hit the Group starting from the second half of 2015, consequent to the emergence of the phenomenon of the loans correlated with the purchase of shares and other critical issues that were the subject of the ECB's audits, which entailed a further reduction in volumes (after the strong decline recorded in 2015) and a rise in the cost of funding.

As a result of the loss for the period, at the end of 2016 the CET1 ratio and pro-forma TCR (i.e. taking into account the payment of €310 million completed by the Atlante Fund on 5 January 2017) stand at 8.21% and 9.61% respectively (7.47% and 8.88% considering only the first tranche of the Atlante Fund's payment made before 31 December 2016) against a SREP minimum CET1 ratio requirement at 31 December 2016 of 10.25% (7.75% excluding the "capital conservation buffer"). In this regard, it should be noted that following the 2016 SREP, the new capital requirements to be complied with **from 31 March 2017** are as follows: **8.75%** CET1 ratio, **10.25%**Tier 1 ratio and **12.25%** Total Capital. As the Bank does not currently have Tier 1 instruments, **the minimum CET1 ratio requirement under 2016 SREP is 10.25%**.

The above-mentioned capital ratios are compared against the minimum capital requirements under article 92 of Regulation (EU) no. 575/2013 for banking activities, namely 4.5% minimum CET1, 6% Tier 1, and 8% of Total Capital Requirement (TCR).

Along with the negative evolution in the financial position, 2016 also saw a deterioration in the Group's liquidity position, with a liquidity coverage ratio at the end of the year of 37.9% against a regulatory requirement of 70 percent.

Within this framework, the Board of Directors has taken actions to restore and preserve a financial position consistent with the ECB requirements; these actions are included in the reference information base used for assessing the existence of the going concern assumption in accordance with the accounting standards recalled above.

With regard to the foregoing, the Bank's Board of Directors believes that, for the purpose of determining the existence of the going concern assumption, the following facts are relevant:

(a) following 2016 SREP, in February 2017 the Bank completed the revision of the 2017-2021 Business Plan, which provides for merger with the Veneto Banca Group as well as a capital strengthening action to be realistically completed during the second half of 2017, and (i) a reduction in the Bank's risk profile, with specific reference to credit risk and legal risk (mainly in connection with to the litigation with shareholders), (ii) recovery of operational efficiency, and (iii) commercial development, to be carried out among other things by restoring trust relationships with customers/shareholders and facilitating customers' access to the Bank through improved multichannel services. The 2017-2021 Business Plan was prepared in full agreement and coordination with the Atlante Fund, which holds 99.3% of the Bank's share capital and which supported the Bank in 2016 and the early months of 2017 with capital injections totalling €1.8 billion;

(b) the Bank has requested and obtained access to a State guarantee on bond issues totalling €3 billion and, on 20 February 2017, placed state-guaranteed bonds for a total of €1.25 billion, thus restoring the Bank's liquidity ratios;

(c) on 9 January 2017 the Bank initiated a Settlement Offer with the aim to reduce and limit the legal and reputational risks arising from past operations on BPVi shares, thus helping to strengthen the solidity and economic viability of the Bank's business over time and to restore a relationship of trust with its traditional customer base and with the reference area - all to be achieved within a time limit consistent with the Bank's strategic objectives. The Settlement Offer ended on 28 March 2017. Data and evidence concerning acceptance of the Offer will be reviewed in the next few days, in order to certify the number of participants, the quantity of shares included in the Offer and the total amount of the compensation to be paid, if any. This will allow the Board of Directors to evaluate the final results of the initiative and decide, bearing in mind the overall interest of the Bank, whether or not to waive the condition precedent set out in the Offer Regulations (which states that payment of compensation is subject to the fact that the Offer is accepted by at least 80% of the holders of the shares included in the scope of the Offer. This condition is set in favour of the Bank, which may choose to waive it, if it deems it appropriate);

(d) by notice dated 1 March 2017, the ECB requested the Bank to prepare a plan for the preservation and strengthening of its capital, containing a description of actions taken or planned in order to meet supervisory capital ratios on an individual basis, irrespective of the proposed merger with the Veneto Banca Group and pending the implementation of the capital strengthening transactions outlined in the 2017-2021 Business Plan;

(e) in response to the ECB's notice of 1 March 2017, on 16 March 2017 the Bank sent to the Authority a letter confirming its intention to implement the 2017-2021 Business Plan and announcing its application with the Italian government to obtain extraordinary and temporary financial support (see paragraph (f) below). The Bank also transmitted to the ECB its budget for the first half of 2017, describing the actions it intends to undertake in the first 6 months of the year to ensure that the Bank maintains its capital and financial balance, pending implementation of the planned capital strengthening measures during 2017 and authorisation to finalise the merger with the Veneto Banca Group;

(f) having reviewed the viable alternatives, on 17 March 2017 the Bank informed the Ministry of Economy and Finance, the Bank of Italy and the ECB of its intention to apply for extraordinary and temporary financial support from the Italian government (known as "precautionary recapitalisation"), pursuant to Law Decree no. 237/2016 as amended and converted into Law no. 15 on 17 February 2017, once the ECB provides guidance on capital shortfall. The purpose of this is to meet, on a precautionary and temporary basis, the capital requirement set out in the 2017-2021 Business Plan and to comply with the regulatory constraints during the time required to implement the actions envisaged for this purpose in the 2017-2021 Business Plan.

Although the Bank believes, on the basis of analyses carried out to the best of its knowledge, that it fulfils law requirements to obtain precautionary recapitalisation, to date several factors exist which create uncertainty on whether, to what extent and how soon the Bank will actually be able to obtain support from the government, and therefore meet its temporary capital needs through this measure.

These uncertainties are such as to raise serious doubts on whether the ongoing concern requirement will continue to be met, in consideration, among others, of the following factors: (i) the fact that approval of the precautionary recapitalisation by the State, for applicant banks that meet the requirements under the aforementioned law, is subject to the binding opinion of the European Commission's Directorate-General for Competition (**DG Comp**) responsible for State aid matters, which could also impose limits on the amount of the recapitalisation; (ii) interpretative uncertainties related to the reference regulatory framework, which has been recently introduced and has not yet been actually applied; (iii) the decisions that the Supervisory Authority could make with regard to the Bank's current and future financial position (which may include the adoption of extraordinary measures, such as the resolution instruments provided for in Legislative Decree no. 180 of 16 November 2015 transposing Directive 2014/59/EU (Bank Recovery and Resolution or BRRD Directive).

Despite the uncertainties outlined above, the Financial Statements as at 31 December 2016 were prepared based on a going concern assumption. The Bank's Board of Directors of the Bank has concluded that, in light of the overall situation as outlined above, the actions taken and underway, and in view of the status of the discussions initiated with the institutions in connection with the foregoing, the uncertainties expressed above, though they may raise significant doubts regarding the going concern assumption, are not such as to suggest that there are currently no realistic alternatives to liquidation.

However, in a constantly changing scenario such as the one that the Bank is facing, in which there is no certainty that the "precautionary recapitalisation" will be approved by the European Commission and that action can be taken in a time frame compatible with the progressive deterioration of the Bank's financial position (a scenario made even more uncertain by recent changes to the reference regulatory framework, the absence of any guidance from the Supervisory Authority concerning the 2017-2021 Business Plan and the proposed merger with the Veneto Banca Group, and the lack of a clear intention of the Atlante Fund shareholder to provide further capital support to the Bank), the Board of Directors, taking into account the significant reduction in deposits and the progressive deterioration of the liquidity situation resulting from delays in the recapitalisation process, the approval of the merger and the consequent bail-in concerns, reserves the right to update, just before the Shareholders' Meeting to approve the Financial Statements to be held on 28 April 2017, the analysis and evaluation of the uncertainties outlined above and their relevance to the going concern assumption on which the draft financial statements are based, and to make and communicate any different decision in this regard before the aforesaid Meeting.

Relevance, significance and aggregation

Each relevant class of items, however similar they may be, shall be reported distinctly in the financial statements. Items with dissimilar nature or destination may be aggregated only if they are not significant. The presentation and classification of the items of the Consolidated Financial statements complies with the provisions set out in Bank of Italy Circular no. 262 which bindingly establishes financial statement formats and the procedures for their completion, as well as the content of the Explanatory notes.

In accordance with the provisions of the aforesaid Circular no. 262, statements of financial position, income statements and comprehensive income statements comprise line items (indicated by numbers), lines (indicated by letters) and additional information details (the "of which" portions of line items and lines). The line items, the lines and their information details make up the financial statement accounts. New items may be added to the aforesaid statements, provided their content is not associated to any of the items already included in the statements and only if the amounts are relevant. The lines provided by the statements may be grouped when one of the two following conditions is met: a) the amount of the lines is irrelevant; b) grouping enhances the clarity of the financial statements; in this case, the explanatory notes contain distinctly the lines to be grouped.

In this regard, the Group, in preparing the Consolidated Financial statements at 31 December 2016, did not apply the aforesaid provisions that allow to add new items or to group them. Line items in the statement of financial position, the income statement, the statement of comprehensive income and the tables included in the Explanatory notes are not presented if their balance is zero in both years.

Offsetting

Unless otherwise provided or expressly allowed by international reporting standards or by an interpretation thereof or by the provision of the aforementioned Bank of Italy Circular no. 262, assets and liabilities as well as costs and revenues may not be mutually offset.

Uniformity of presentation

The standards for the presentation and classification of Financial statement items are kept constant from one period to the other in order to assure the comparability of information, unless differently required by an international accounting standard or by an interpretation or if the need emerges of making the representation of the information more appropriate in terms of significance. If feasible, the change is adopted retroactively and the nature, the reason and the amount of the items affected by the change are indicated.

Comparative information

For all amounts posted in the Consolidated Financial Statements of the current year, unless otherwise prescribed or allowed by an international accounting standard, comparative information with respect to the previous year is provided and, when relevant for comprehension of the financial statements for the reference year, also comparative information about comments and descriptive information. If changes were made to the presentation or classification of line items, the comparative amounts are reclassified as well, unless reclassification is not feasible. Non-comparability and adjustment, or its impossibility, are pointed out and commented on in the explanatory notes.

In this regard, it is pointed out that, in accordance with Bank of Italy Circular no. 262 of 22 December 2005 (as amended), "financial assets measured at fair value" include the equity investments held indirectly through mutual funds managed by the subsidiary Nem Sgr which, in accordance with the exemption provided by IAS 28, paragraph 19, are recorded at fair value in the financial statements. At 31 December 2015, these items had instead been posted among "equity investments". Said change represents a simple "reclassification" within the share capital and does not have any impact on the Group's total assets and equity. Consequently, the income statement items recognising the related costs/income changed as well.

Risks and uncertainties related to the use of estimates and to the possible developments of complaints and disputes promoted by Bank shareholders in relation to the investment in BPVi shares

As required by the aforementioned joint Bank of Italy/IVASS/CONSOB document, **accounting estimates have been made in support of the carrying amounts for the more significant items requiring measurement** in the financial statements at 31 December 2016, as required by prevailing accounting standards. This process, which largely involved estimating the future recoverability of amounts recognised in the financial statements in accordance with current regulations, **was performed on a going concern basis** without considering forced-sale values. **In this regard, please refer to the Board of Directors' going concern assessment**

Estimates have been primarily used for determining the fair value of financial instruments and equity investments, for the valuation of loans, for determining other provisions for risks and charges and for quantifying current and deferred taxes and estimating the recoverability of deferred tax assets.

The outcome of this work supports the carrying amount of these items at 31 December 2016.

This valuation process was nevertheless particularly complex due to the specific situation of the Banca Popolare di Vicenza Group and to the current macroeconomic and market conditions, which continue to be characterised by high levels of volatility in all financial and non-financial parameters used for measurement purposes, and to the consequent **difficulty in making short-term or other forecasts for the evolution of operating results and for such financial and non-financial parameters,** which have a significant influence on estimated values. The parameters and the information used to verify the values and the evaluation processes mentioned in the previous paragraphs are therefore significantly influenced by the Group's specific situation and by its possible evolution, as well as by the particularly uncertain macroeconomic and market environment, which could lead to rapid changes, not foreseeable today, with consequent effects, which may be significant, on the values reported in the Financial Statements at 31 December 2016**. The Directors have formulated their best estimates on the basis of available information.**

Moreover, with regard to loans, the Group has already recognised in the half-year financial statements as at 30 June 2016 all valuation differences emerged from the **ECB inspection started last May and ended in early September 2016** concerning management and valuation processes and the internal control system on credit and counterparty risks. However, **uncertainties remain regarding the possible future impacts of more conservatives policies**, processes and procedures associated with credit and counterparty risk (as resulting from the planned revision) whose application to the entire loan portfolio will presumably have a significant negative impact, which cannot currently be determined, on the financial and economic situation of the BPVi Group, already in 2017.

In addition, with regard to the **inspection** concerning "Credit and Counterparty risk management and risk control system" with specific reference to the **scope of the so-called loans "related"** to the purchase/subscription of BPVi shares, although no documents have yet been formalised in relation to the results of the inspection, the Bank has recognised the main differences communicated by the inspection team with respect to the classification of loans from performing to impaired and to impairment adjustments. **The requests to classify loans already identified as impaired under non-performing can only be implemented in the financial statements for 2017 and are still under analysis**; given the magnitude of the total amount involved in the aforesaid analysis, it cannot be excluded that non-performing loans will significantly increase already in the first half of 2017.

With specific reference to the quantification of **deferred tax assets and liabilities** and to the estimated recoverability of deferred tax assets (DTA), the Group has performed a probability test in accordance with IAS 12, in order to assess the probability of realising sufficient future taxable income to absorb the DTAs that can be recognised at 31 December 2016. It should be noted that **the elements considered in running the probability test contain several elements of uncertainty,** including but not limited to: *i)* risk that **changes to tax regulations** may in the future limit the possibility to recognise the tax losses incurred by the Group, reduce the tax rates with a consequent reduction in the amount of the recoverable DTA or entail even significant impacts on the taxable income of upcoming years; *ii)* **risk that the future economic results** (and the consequent future taxable income) generated by the Group **are lower than those considered in the probability test. The occurrence of the aforesaid circumstances could lead in upcoming years even to significant adjustments in the accounting values of the deferred tax assets recorded in the consolidated Financial Statements at 31 December 2016.**

In addition, as described in the specific section of the Report on Operations dedicated to the inspections conducted by the Supervisory Authorities, the Group, with the support of legal, accounting and tax advisors of high standing, has continued in 2016 to **update the analysis of the criticality profiles that emerged from the ECB's inspections**, in particular with reference to the phenomenon of **"related" financing** and more in general to **the Bank's transactions involving shares**, in order to identify the legal profile of the various situations, and assess the related risks and potential impacts on income and the financial position. **The complex estimates pertaining to such risks have been calculated to the best of the information currently available**, and taking into account the applicable accounting principles. The results of the analyses carried out to date and of the related assessments are reflected in the financial statements at 31 December 2016 through adjustments to loans and specific provisions for risks and charges, and are also discussed in the section entitled "Inspections by the Supervisory Authorities and related penalty proceedings" in the Report on Operations.

In this regard, it should be noted that **the allocations to the provisions for risks and charges** made in view of the **risks pertaining to complaints and disputes regarding the Bank's transactions involving shares** and the critical profiles described above, **supplemented to take into account the outcome of the Settlement Offer** made to the shareholders, **are subject to the variables and the uncertainty factors that are typical of any process involving complex estimates and valuations**. More specific and in-depth activities analyses concerning these risks will continue throughout 2017, and **it cannot be excluded, also in light of the evolution of the litigation and claims of customers and the outcome of the Settlement Offer referred to above, that the future assessments and estimates of the risks associated with these profiles may differ from those performed and recognised in the financial statements at 31 December 2016**. This would entail in the future **the need for the Bank to make additional provisions**, with significant negative effects on the economic and financial situation of the BPVi Group. **Nor can it be excluded that, despite the positive result of the aforementioned Settlement Offer made by the Bank to its shareholders, the risk exists that further claims or lawsuits may be brought by Bank shareholders** in relation to their investment in, or failure to dispose of, BPVi shares, which may result in the need to make further provisions or could expose the Bank to additional potential liabilities in addition to those reflected in the provisions made in the financial statements as at 31 December 2016, with significant negative effects on the economic and financial situation of the BPVi Group, its business and its market positioning.

Lastly, as has already been described in the aforesaid section of the Report on Operations pertaining to the inspections, it is pointed out that **the Bank is the recipient of certain penalty proceedings initiated by the different Supervisory Authorities** (ECB, Bank of Italy, Consob and AGCM), in some of which it is directly liable and in others it is jointly and severally liable for the violations allegedly perpetrated by the members of the corporate Bodies and by some of the Bank's executives and employees, even after they relinquished their office and/or their functions. With respect to some of these proceedings, the Bank has already received the imposition of penalty (AGCM) or penalty proposal (ECB and CONSOB), in response to which it has recognised the relevant expense in the income statement or allocated the appropriate funds to the provision for risks and charges in the Financial statements as at 31 December 2016 (in relation to potential charges for which it is directly responsible). **As to proceedings for which the Authority has not yet imposed a possible penalty, it cannot be excluded that such proceedings may result in potential liabilities** for the Bank, which currently can only be **considered possible, but cannot be estimated**.

Section 3 - Scope of consolidation and methodology

The Consolidated Financial Statements of the Banca Popolare di Vicenza Group include the financial and operating results at and for the period ended at 31 December 2016 of the Parent Bank Banca Popolare di Vicenza, its direct and indirect subsidiaries, companies under joint control and associated companies. As required by IAS/IFRS, the scope of consolidation also includes companies whose activities are dissimilar to those of the rest of the Group. Companies with individual and cumulative financial statement values that are irrelevant to the Group's consolidated financial statements are not included in the scope of consolidation. Equity investments in these companies were valued at cost.

Subsidiaries are defined as investments in companies and investments in entities over which the Group exercises control in accordance with IFRS 10. More specifically, "*an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee*". The power requires that the investors have rights that grant it the ability to direct the relevant activities that significantly affect the investee's returns. The power is based on an ability that need not necessarily be exercised in practice. Control is analysed continuously. The Investor must re-determine if it controls an investee when facts and circumstances indicate that there are changes in one or more elements of control.

Joint operations are defined as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. These parties are defined parties to the joint arrangement. The participants in the Joint Operation have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. These parties are defined as joint venturers. The joint venturers have rights to the net assets of the arrangement.
Associated companies are defined as all those companies not controlled by Banca Popolare di Vicenza over which the Parent Bank, directly or indirectly, is able to exercise significant influence. Such influence is presumed to exist for those companies in which the Group holds at least 20% of the voting rights, or in which it is able to participate in the determination of financial and operating policies as a consequence of specific legal arrangements.

With regard to the consolidation methods used, subsidiaries are consolidated on a line-by-line basis, while associated companies and joint ventures are accounted for using the equity method.

Line-by-line consolidation: under this method, the assets, liabilities, "off-balance sheet" transactions, income and expenses of Group companies are combined on a "line-by-line" basis. Following the allocation of the minority interest in equity and the results for the period to separate captions, the carrying amount of investments is eliminated against the Group's interest in their equity at the time of acquisition or initial consolidation; any differences are allocated, as far as possible, to the assets and liabilities of the consolidated companies concerned and residual amounts are recognised as "goodwill".

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions and, consequentially, any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the subsidiary.

Consolidation with the Equity method: under this method, equity investments are initially recognised at cost and subsequently adjusted to reflect changes in the Group's interest in their equity. Differences between the cost of an investment and the Group's interest in its equity at the acquisition or initial consolidation date are reflected in its carrying amount, if they cannot be attributed to specific assets or liabilities.

Equity investments classified as “non-current assets held for sale and discontinued operations” in compliance with IFRS 5 are carried at the lower of their book or fair value, net of selling costs.

Dividends distributed within the Group are reversed back to reserves.

Receivables, payables, income and expenses arising from transactions between Group companies are eliminated, except where insignificant.

The statements of financial position and income statements used for line-by-line consolidation purposes are those approved by the Boards of Directors of the individual companies at 31 December 2015; financial statements prepared under IAS/IFRS were used directly while, for companies that prepared their financial statements under Italian GAAP and accounting principles applicable to mutual fund reports, statements of financial position and income statements were prepared in accordance with the accounting policies adopted by the Parent Bank.

Investments in companies carried at equity, whose financial statements were approved by their respective Boards of Directors after the date of the present consolidated financial statements, are stated with reference to the equity reported in their latest approved financial statements or interim report.

The data used for Cattolica Life, Berica Vita and ABC Assicura were derived from the statements of financial position and income statements prepared by the three investees to be incorporated in the consolidated financial statements of the Parent Bank Cattolica Assicurazioni at 31 December 2016. However, in this regard it should be noted that the contribution of the aforesaid associates to the BPVi Group’s 2016 operating results reflects the last quarter of 2015 and all of 2016, compared to twelve months of 2015 (last quarter of 2014 and first nine months of 2015), as the aforementioned associates approved their financial statements for the year 2015 after the Parent Bank Banca Popolare di Vicenza approved its separate and consolidated Group financial statements.

With reference to Società Cattolica di Assicurazione, it should be noted that since 24 October 2016 Banca Popolare di Vicenza has no longer had a significant influence over the investee, and therefore the entire stake held in Cattolica Assicurazioni has been reclassified from “Equity investments” to “Financial assets available for sale”. Consequently, the latter's contribution of the consolidated financial statements refers to the last quarter of 2015 and the first nine months of 2016 (last quarter of 2014 and first nine months of 2015 in the 2015 consolidated financial statements).

It should be noted that as at 31 December 2016 the “Jade Equity Fund” is recorded on the basis of the last management report dated 19 October 2016, prepared on the occasion of a distribution of proceeds from the disposal of some assets. In addition, the equity investment held in the company Magazzini Generali Merci e Derrate SpA, classified among bad loans, was entirely written off in 2014.

The scope of consolidation does not include any investments in companies under joint control.

Lastly, the income statements of companies joining or leaving the scope of consolidation in the period (or whose method of consolidation changed during the period) are consolidated from the date of acquisition or until the date of disposal of the interest held.

1. *Equity investments in fully owned subsidiaries*

Name	Headquarters	Registered office	Nature of holding (1)	Type of investment		Majority of voting rights % (2)
				Holder	% interest held	
1. BANCA POPOLARE DI VICENZA SpA	VICENZA	VICENZA	Parent Bank			
2. BANCA NUOVA SpA	PALERMO	PALERMO	1	B. Pop. Vicenza	100.00	100.00
3. FARBANCA SpA	BOLOGNA	BOLOGNA	1	B. Pop. Vicenza	70.77	70.77
4. IMMOBILIARE STAMPA SCpA	VICENZA	VICENZA	1	B. Pop. Vicenza B.Nuova Servizi Bancari	99.92 0.04 0.04	99.92 0.04 0.04
5. BPV FINANCE INTERNATIONAL Plc	DUBLINO	DUBLINO	1	B. Pop. Vicenza	100.00	100.00
6. NEM SGR SpA	MILANO	VICENZA	1	B. Pop. Vicenza	100.00	100.00
7. BPVI MULTICREDITO SpA	VICENZA	VICENZA	1	B. Pop. Vicenza	100.00	100.00
8. PRESTINUOVA SpA	ROMA	ROMA	1	B. Pop. Vicenza	100.00	100.00
9. SERVIZI BANCARI SCpA	VICENZA	VICENZA	1	B. Pop. Vicenza B.Nuova Farbanca Prestinuova	96.00 1.00 1.00 1.00	96.00 1.00 1.00 1.00
10. SAN MARCO SRL	CORTINA D'AMPEZZO (BL)	CORTINA D'AMPEZZO (BL)	1	B. Pop. Vicenza	99.97	99.97
11. HDS SPA	STRADELLA (PV)	STRADELLA (PV)	1	Nem Imprese II	100.00	100.00
12. NEM IMPRESE	MILANO	VICENZA	1	B. Pop. Vicenza	95.00	95.00
13. NEM IMPRESE II	MILANO	VICENZA	1	B. Pop. Vicenza Nem Sgr	99.42 0.58	99.42 0.58
14. INDUSTRIAL OPPORTUNITY FUND	MILANO	VICENZA	1	B. Pop. Vicenza Nem Sgr	98.59 1.41	98.59 1.41

Key:
(1) Nature of holding:
1 = majority of voting rights at ordinary shareholders' meeting
2 = dominant influence at ordinary shareholders' meeting
3 = agreements with other shareholders
4 = other forms of control
5 = coordinated control under article 26.1 of Legislative Decree 87/92
6 = coordinated control under article 26.2 of Legislative Decree 87/92
7 = joint control

The percentage interest in equity also reflects the voting rights at Ordinary Shareholders' Meetings.

2. *Significant judgements and assumptions used in determining the consolidation area*

In accordance with the provisions of IFRS 10 "Consolidated Financial Statements", compliance with the standard's requirements was verified in order to determine the consolidation area.

Under IFRS 10, an investor controls an investee if:

- it has power over the investee;
- it is exposed to variable returns from its involvement with the investee;
- it has the ability to use its power over the investee to affect the amount of the investee's returns.

Power is defined by the same standard as the exercise of existing rights that give the ability to direct the investee's relevant activities. Relevant activities are the activities that significantly affect the investee's returns.

Under IFRS 10, the factors to be considered in determining the existence of control include:

- the investment entity's purpose and design;
- which are its relevant activities and how decisions concerning such activities are made;
- whether the investor's rights give it the ability to direct the relevant activities.

Verifying purpose and design requires an analysis of the investee's governance, in order to understand which are the relevant activities and how they are governed, i.e. who has the power to direct them. Therefore, the purpose of this analysis is to understand whether the investee's governance occurs through the exercise of voting rights in Shareholders' Meetings or other corporate bodies, or through other means specified in the investee's incorporation documents.

Purpose and design considerations should also include any forms of involvement in the decisions taken at the time of the investee's incorporation. Although involvement in the investee's incorporation does not constitute in itself evidence of control, it may indicate that the investor had the opportunity to obtain sufficient rights to gain power over the investee.

The identification of relevant activities requires an analysis of the company's core business in order to identify the activities it carries out, and in particular the activities that most affect the entity's variable returns.

Once purpose and design have been analysed and relevant activities have been identified, it is necessary to understand the rights that the investor can exercise in order to actually direct these relevant activities.

These rights, which are influenced by the entity's governance mechanisms, include:

- the investment entity's voting rights (or potential voting rights);
- right to appoint, reappoint or remove the investee's
- key management personnel who have the ability to direct the relevant activities;
- right to appoint or remove another entity that carries out the relevant activities;
- right to instruct the investment entity to initiate transactions to the investor's benefit, or to prohibit any change to such transactions;
- other rights (e.g. the right to make decisions as specified in a management agreement) giving the holder of such rights the ability to direct the relevant activities.

Therefore, for the purposes of determining whether control exists it is necessary to consider the possible existence of potential voting rights incorporated in the agreements entered into, as well as their substantive nature, i.e. the ability to exercise such rights in practice. For this purpose, the judgement that is provided should take into account all existing facts and circumstances, and specifically the identification of any financial, legal and/or operational barriers that may prevent the exercise of these rights.

In particular, at the time of first-time adoption of IFRS 10, an assessment was conducted to verify the existence of the control requirement, which concerned investment entities and other entities with which the Group has contractual relationships of various nature. In detail, analysis macro-areas involved Bancassurance companies, mutual funds, equities classified as "Financial assets available for sale", vehicle companies and receivables. With reference to the latter, checks were conducted on contractual and non-contractual terms and conditions (such as pledges, covenants, etc.) laid out in connection with the granting of new loans and the restructuring of existing loans, which could create the conditions for de facto control under IFRS 10 over the borrower.

The assessment carried out by the Group regarding the impact of the aforesaid new standard revealed a marginal expansion of the scope of consolidation, which now includes the special purpose vehicles related to the securitisations originated within the Group (the underlying assets and liabilities are already included in the Group's scope) and the Funds Nem Imprese, Nem Imprese II and Industrial Opportunity managed by the subsidiary Nem Sgr, which therefore are consolidated on a line-by-line basis.

It also emerged that the Parent Bank has a significant influence over the Giada Equity Fund; this investment is therefore accounted for under the equity method.

No impact on the BPVi Group from the new IFRS 11 regarding Joint arrangements (Joint Ventures and Joint Operations) was observed.

No changes impacting the scope of consolidation occurred in 2016.

3. Equity investments in fully owned subsidiaries with significant non-controlling interests

3.1 Third-party interests, availability of third-party voting rights and dividends distributed to third parties

Name	Minority interests %	Voting rights of third parties%(1)	Dividends distributed to third parties
1. Farbanca SpA	29.23	29.23	805

(1) Availability of voting rights at the ordinary shareholders' meeting.

3.2 Subsidiaries with significant non-controlling interests: accounting information

Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and Intangible assets	Financial liabilities	Net Equity	Net interest income	Net interest and other banking income
1. Farbanca SpA	619,435	23	581,776	126	553,639	62,131	14,351	16,541

Name	Operating costs	Profit (loss) on current operations before income taxes	Profit (loss) from current operations after tax	Profit (loss) from disposal groups, net of tax	Net income (loss) for the year (1)	Other components of income without release to the income statement net of tax (2)	Total comprehensive income (3) = (1) + (2)
1. Farbanca SpA	(5,361)	7,028	4,766	-	4,766	(5)	4,761

4. *Significant restrictions*

There are no significant restrictions under IFRS 12, paragraph 13 to be reported.

5. *Other information*

There is no other information worthy of disclosure.

Section 4 – Subsequent events

With regard to the requirements of IAS 10, without prejudice to the information presented in the Report on Operations and in the Explanatory Notes concerning, among other, the going concern assumption, in the period from 31 December 2016 (reporting date) and the date of approval, there are no significant events affecting to any appreciable extent the Group's balance sheet, income statement and financial position.

For the sake of completeness, the main events occurred in the period from the end of the financial year 2016 to the date of approval of the draft financial statements by the Board of Directors are described below.

- **1 January 2017:** effective **from 1 January 2017**, Banca Popolare di Vicenza S.p.A., Banca Nuova S.p.A. and Farbanca S.p.A. have carried out a **securitisation transaction** (hereinafter referred to as the "Transaction") - under Law No. 130/99 ("Securitisation Law") - with the company Ambra SPV S.r.l. Through the Transaction, BPVI, Banca Nuova and Farbanca **assigned and transferred for consideration**, without recourse and in bulk, the **pecuniary claims arising from unsecured and mortgage loans, credit lines and other contractual relationships of various types and technical forms, payable by debtors classified as *"non-performing"*** and present in the portfolio of each Assignor Bank as at 30 November 2016, worth a total of Euro 4.3 billion in gross book value. The securitisation transaction, which in this first phase is **fully retained by the Originators**, was instrumental in supporting the Group's liquidity profile through the granting of a bridge loan. As regards administration, management, collection and debt recovery within the framework of the securitisation transaction described above, the company Ambra has appointed Banca Popolare di Vicenza S.p.A., Banca Nuova S.p.A. and Farbanca to S.p.A. as Interim Servicers. The Transaction was announced by notice published in the Official Journal of the Italian Republic on 14 January 2017.

- **5 January 2017:**
  - Following the **commitment** (communicated on 21 December 2016) to make a payment of Euro 310 million to the Bank by 5 January 2017 for a future capital increase by Quaestio Capital Management Sgr on behalf of the Atlante Fund, on 5 January 2017 **the second tranche of said payment was finalised,** amounting to Euro 146.3 million (the first tranche of Euro 163.7 million *was* paid on 30 December 2016).
  - The Board of Directors of Banca Popolare di Vicenza unanimously approved **the inclusion within the Bank's senior management of Gabriele Piccini and Enrico Maria Fagioli Marzocchi**. As Substitute Deputy General Manager, Mr. Piccini will be responsible for the commercial area with the role of ***Chief Commercial Officer*** (CCO) of the Bank;
    As Deputy General Manager, Mr. Fagioli Marzocchi has been appointed to coordinate the Bank's General Affairs and Equity Investments Department, the Finance Division and the Financial Statements and Planning Division with the role of ***Chief Financial Officer*** (CFO).

- **9 January 2017:** The Board of Directors of Banca Popolare di Vicenza approved the initiation of a **settlement programme for its shareholders** who invested in BPVi shares over the last 10 years. The Settlement Offer provides for **payment of Euro 9 for each share** purchased through a Banca Popolare di Vicenza Group bank from 1 January 2007 to 31 December 2016 (net of any sales), in exchange for the shareholder's waiver of any claim relating to investment in (or non-disposal of) Banca Popolare di Vicenza shares, which in any case will remain the property of the shareholder. For additional information, please refer to the chapter 'Claims on BPVi shares and settlement programmes for BPVi shareholders' and the Offer Regulations in the www.popolarevicenza.it/azionisti website.

- **18 January 2017:** The **employment relationship with Mr. Iacopo De Francisco** has been terminated by mutual agreement. Mr. De Francisco had served as Substitute Deputy General Manager since June 2015.

- **19 January 2017**: the **European Commission has concluded that the application submitted by the Bank to obtain measures in support of liquidity are in line with EU State Aid Regulations**, and therefore the Bank can be authorised to issue additional state-guaranteed debt in accordance with Legislative Decree No. 237 of 23 December 2016. In its positive opinion, the Commission notes that the requested support should be considered as intended for a specific purpose, proportionate, and limited in time and objectives.

- **27 January 2017:** The Board of Directors of Banca Nuova acknowledged the resignation of Iacopo De Francisco from the office of Director of the Bank, and approved the appointment by cooptation, pursuant to article 2386 of the Italian civil code, of Gabriele Piccini (Substitute Deputy General Manager and Chief Commercial Officer of the parent company Banca Popolare di Vicenza S.p.A.).

- In early **February 2017**, the parent company BPVi underwent an additional on-site inspection by the ECB concerning "Credit and counterparty risk management and risk control system" with specific reference to the scope of the loans "related" to the purchase/subscription of BPVi shares.

- **1 February 2017**: Banca Popolare di Vicenza **received from the Ministry of Economy and Finance a decree containing the measure to grant a State guarantee on new bond issues** in accordance with Law Decree no. 237/2016.

- **3 February 2017:** Banca Popolare di Vicenza carried out a state-guaranteed bond issue in accordance with Law Decree no. 237/2016, amounting to **a total nominal amount of Euro 3.0 billion, coupon 0.5%, maturity date 3 February 2020** (ISIN: IT0005238859). The issue has been entirely subscribed by the issuer and will be sold on the market or used as collateral to secure loan transactions. On the same day, the rating agency **DBRS** assigned the above-mentioned bond issue a long-term rating of **BBB (high) with a 'stable' trend**. In view of the unconditional and irrevocable guarantee by the Italian State, the rating is in line with those of the Republic of Italy.

- **6 February 2017:** the rating agency **Fitch** has assigned a long-term rating of **BBB+** to the state-guaranteed bond issue of Euro 3.0 billion nominal value, coupon 0.5%, maturity date 3 February 2020 (ISIN: IT0005238859) issued on 3 February 2017 in accordance with Law Decree no. 237/2016. In view of the unconditional and irrevocable guarantee by the Italian State, the rating and trend are in line with those of the Republic of Italy.

- **20 February 2017**: **the placement with institutional investors of the Italian state-guaranteed bond issue** of Euro 1.25 billion was successfully completed. The placed bond is part of the state-guaranteed issue that had been carried out and entirely subscribed by the Bank on 3 February 2017 amounting to Euro 3 billion nominal value in accordance with Law Decree no. 237/2016.

- **7 March 2017**: Banca Popolare di Vicenza decided to **establish a reserve totalling Euro 30 million in support of shareholders who are in difficult conditions**. The procedures to apply for support from the aforesaid reserve were disclosed on 13 March 2017 (the terms and conditions to participate in the Welfare Initiative are stated in the Welfare Initiative Regulations, available at the websites and the branch offices of BPVi Group banks).

- **10 March 2017**: the Board of Directors of **Prestinuova** voted to appoint **Fabio Cassi** as **Chairman of the Board of Directors** and **Rodolfo Pezzotti as new General Manager**. In addition, the Shareholders' Meeting of Prestinuova appointed Roberto Cagnina and Basilio Pigato as new directors.

- **13 March 2017**: the Bank received from the ECB a draft notice reporting the results of the inspection started on 30 May 2016 and ended on 9 September 2016, on the Bank's management and valuation processes and the internal controls system relating to credit and counterparty risks.

- **16 March 2017: Francesco Micheli resigned from the Board of Directors of Banca Popolare di Vicenza**, effective from the end of March 2017.

- **17 March 2017**: the rating agency Fitch Ratings cut **the long-term rating of Banca Popolare di Vicenza** to **"CCC"** and **the short-term rating** to **"C"**. For both ratings, the outlook has been downgraded to Rating Watch Evolving (RWE). At the same time, the **Viability Rating** was downgraded to **"CC"**. The ratings of subordinated debt and the state-guaranteed bond were confirmed at "CC" and "BBB+" respectively.

- **17 March 2017**: **Banca Popolare di Vicenza informed the MEF, Bank of Italy and the ECB of its intention to apply for extraordinary and temporary financial support from the Italian government** ("precautionary recapitalisation"), in accordance with Law Decree no. 237/2016 as amended and converted into law no. 15 on 17 February 2017.

- **23 March 2017**: the Board of Directors decided to proceed with the request for an additional state-guaranteed bond issue in accordance with Law Decree no. 237/2016 up to Euro 2.2 billion with a three-year duration.

- **24 March 2017**: the rating agency **DBRS placed the ratings of Banca Popolare di Vicenza under review with negative implications (UR-Neg)**. Long and short-term ratings are currently B (high) and R-4 respectively. The rating of the state-guaranteed bond was confirmed at BBB (high) with stable outlook. Subordinated debt is not subject to rating by DBRS.

- **28 March 2017**: **The Settlement Offer for BPVi shareholder was completed.** Based on the preliminary data reviewed by the Board of Directors, the Offer was accepted by 66,712 shareholders (or **71.9%**), holders of **68.7%** of the shares included in the scope of the Offer. Deducting shares that could not be located and those that had already been the subject of specific analysis, the percentage of participating shareholders is **72.9%,** or **70.3%** of BPVi shares included in the scope of the settlement offer.

- **28 March 2017**: The Board of Directors acknowledged the resignation of Marco Bolgiani from Director of Banca Popolare di Vicenza, notified yesterday and effective immediately.

Section 5 – Other matters

Statutory audit of Consolidated Financial Statements

The Consolidated financial statements have been audited by PricewaterhouseCoopers S.p.A., an independent firm of auditors, under the engagement for external audit conferred for the years 2016 to 2024 by resolution of the shareholders on 7 July 2016. The financial statements are also accompanied by the attestation of the Financial Reporting Manager, as required by art. 154-bis, par. 5, of Legislative Decree 58/98 (Italy's Financial Markets Act – TUF) as amended by Decree no. 195/2007 implementing the Transparency Directive.

A.2 – PART RELATING TO THE PRINCIPAL FINANCIAL STATEMENT LINE ITEMS

The accounting standards adopted in the preparation of the consolidated financial statements as at 31 December 2016 are as follows.

ASSETS

1. Financial assets held for trading

Classification

This line item comprises financial instruments held for trading[25] and derivative contracts with a positive fair value that are not designated as effective hedging instruments. Such financial instruments must not carry any clause restricting their trading.

Derivative contracts include embedded derivatives which are attached to a primary financial instrument, known as the "host contract" when they have been recognised separately from the host and forward transactions in currencies, securities, goods and precious metals. An embedded derivative is recognised separately from the host contract when all of the following conditions are satisfied:

- its economic characteristics and risks are not closely related to those of the "host" contract;
- the separate embedded instrument meets the definition of a derivative;
- the hybrid instrument is not measured at fair value through the income statement.

Financial instruments are designated as financial assets held for trading upon initial recognition, except if former hedging derivatives with a positive fair value at the reporting date are reclassified as "financial assets held for trading" after a hedging relationship has become ineffective.

Recognition

The initial recognition of financial assets held for trading takes place: i) on the settlement date for debt securities, equity instruments and units in mutual funds and sicavs, and ii) on the subscription date for derivative contracts.

Financial assets held for trading are initially recognised at their fair value, whereas transaction costs or income are immediately recorded in the income statement, even if directly attributable to the instrument concerned.

The initial fair value of a financial instrument is usually the cost incurred in buying it.

Measurement and recognition of income and expense

After initial recognition, financial assets held for trading are stated at fair value and their changes are recorded in the income statement.

For details on the methods used to identify fair value, see section A.4 "Information about fair value" below.

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[25] Positions held for trading are those intentionally acquired for the purpose of sale in the near term and/or to benefit, in the near term, from differences between the purchase and sale price, or from other changes in price or interest rates. "Positions" are those held on own account and those arising from customer services or from market making.

Gains and losses realised on sale or redemption and unrealised gains and losses deriving from changes in the fair value of financial assets held for trading are booked to "net trading income" in the income statement, except for any gains or losses on rating or valuation relating to derivative contracts linked to the "fair value option", which are booked to "net change in financial assets and liabilities at fair value".

The profits and losses recognised in "Net trading income" in the income statement also include the differentials collected and paid on trading derivatives, and those accruing up to the reporting date, while differentials relating to derivative contracts associated with financial assets and liabilities at fair value and/or with financial assets and liabilities classified in the trading book are recognised in "interest income" or "interest expense" depending on whether they are positive or negative, respectively.

Derecognition

Financial assets held for trading are derecognised when the contractual rights over the related cash flows expire or when the financial asset is transferred together with substantially all the contractual risks and benefits associated with its ownership.

2. Financial assets available for sale

Classification

This line item comprises monetary financial instruments that are not classified in the other categories envisaged by IAS 39. It nonetheless includes:

- debt securities and loans for which the holder may not recover substantially all the initial investment, other than because of deterioration in the issuer's creditworthiness;
- equities not listed in an active market;
- unharmonised mutual funds;
- junior asset-backed securities (ABS) issued by SPVs as part of own or third-party securitisations, unless classified as "Financial assets at fair value";
- securities repurchased from customers following complaints/litigation.

Financial instruments are designated to this category upon initial recognition, or following reclassifications allowed by paragraphs 50 to 54 of IAS 39, as amended by Regulation (EC) No. 1004/2008 of the European Commission issued on 15 October 2008.

Recognition

Financial assets available for sale (AFS) are initially recognised on the settlement date, on the basis of their fair value, as uplifted by any directly-attributable acquisition costs/revenues. Costs and revenues with the above characteristics are excluded if they are reimbursable by the borrower or represent normal internal administrative costs.

The initial fair value of a financial instrument is usually the cost incurred in buying it.

Measurement and recognition of income and expense

Subsequent to initial recognition, AFS financial assets are stated at fair value; the profits or losses deriving from any changes in fair value are recorded in a specific equity reserve, recognised in the statement of comprehensive income, until the financial assets concerned are derecognised or a permanent impairment of value is recognised.
For details on the methods used to identify fair value, see section A.4 "Information about fair value" below.

These assets are reviewed at the end of each reporting period for objective evidence of any impairment in accordance with paragraph 58 et seq. of IAS 39. Such objective evidence in the case of equities quoted in an active market includes a significant or prolonged reduction in fair value below acquisition cost. In particular, as stated in the Group's policy for identifying evidence of impairment of securities classified as financial assets available for sale, a significant reduction in fair value is defined as more than 50% and a prolonged reduction in fair value is defined as an unbroken period of more than 30 months. Any losses identified are charged to the income statement as "net impairment adjustments to financial assets available for sale". This amount also includes reclassification to the income statement of fair value gains/losses previously recognised in the specific equity reserve. If, in a subsequent period, the fair value of the financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss must be reversed, with the amount of the reversal recognised in the same line of the income statement as the original impairment in the case of monetary items (e.g. debt securities) or in equity in the case of non-monetary items (e.g. equities). Write-backs cannot exceed the cost/amortised cost that the instrument would have had in the absence of earlier write-downs.

If a financial asset classified in this line item has been reclassified to another category, the related reserve accumulated up to the date of the reclassification is maintained in equity until such time that the financial instrument in question is sold, if a non-monetary item is involved; on the other hand, if a monetary item is involved, the reserve is amortised in the income statement (as "interest income and similar revenues") over the residual useful life of the financial instrument to which it refers.

The interest income on these financial assets is calculated using the effective interest method, with the associated income recognised in "interest income and similar revenues" in the income statement.

Gains and losses on the disposal or redemption of such financial assets are booked to the income statement as "gains (losses) on disposal or repurchase of: financial assets available for sale" and include any reversal to profit or loss of fair value gains/losses previously recognised in the specific equity reserve.

Derecognition

Financial assets available for sale are derecognised when the contractual rights over the related cash flows expire or when the financial asset is transferred together with substantially all the contractual risks and benefits associated with its ownership.

3. Financial assets held to maturity

Classification

This line item reports non-structured debt securities, listed in an active market, with fixed maturity and fixed or determinable payments, which the Group has the positive intention and ability to hold until maturity.

Financial instruments are designated as financial assets held to maturity upon initial recognition or following reclassification in accordance with paragraphs 50 to 54 of IAS 39, as amended by Regulation (EC) 1004/2008 of the European Commission issued on 15 October 2008.

Recognition

Financial assets held to maturity are initially recognised on the settlement date, on the basis of their fair value, as uplifted by any directly-attributable acquisition costs/revenues. Costs and revenues with the above characteristics are excluded if they are reimbursable by the borrower or represent normal internal administrative costs.

The initial fair value of a financial instrument is usually the cost incurred in buying it.

Measurement and recognition of income and expense

Subsequent to initial recognition, financial assets held to maturity are measured at amortised cost.

The interest income on these financial assets is calculated using the effective interest method, with the associated income recognised in "interest income and similar revenues" in the income statement. Gains and losses on the disposal or redemption of such financial assets are booked to the income statement as "gains (losses) on disposal or repurchase of: financial assets held to maturity".

An impairment test is carried out at the reporting date to check for objective evidence of any loss in value. Any losses identified are charged to the income statement as "net impairment adjustments to financial assets held to maturity". If the reasons for such losses cease to apply due to events arising subsequent to the write-down, the related write-backs are credited to the same income statement line item. Write-backs cannot exceed the cost/amortised cost that the instrument would have had in the absence of earlier write-downs.

Derecognition

Financial assets held to maturity are derecognised when the contractual rights over the related cash flows expire or when the financial asset is transferred together with substantially all the contractual risks and benefits associated with its ownership.

4. Loans and receivables

4.1. Loans and advances to banks

This line item comprises monetary financial assets with banks, whether disbursed directly or purchased from third parties, which carry fixed or determinable payments and are not listed in an active market (current accounts, guarantee deposits, debt securities, etc.).
This balance also includes amounts due from Central Banks, other than unrestricted deposits which are classified as "cash and cash equivalents".

Details of the recognition, measurement, derecognition and recording of these loans can be found in the subsequent note 4.2 on "loans and advances to customers".

4.2. Loans and advances to customers

Classification

Loans and advances to customers include non-structured monetary financial assets with customers, whether disbursed directly or purchased from third parties, which carry fixed or determinable payments and are not listed in an active market (current accounts, mortgage loans, other kinds of loans, debt securities etc.).

Financial instruments are designated as loans and advances to customers upon initial recognition, or following reclassifications allowed by paragraphs 50 to 54 of IAS 39, as amended by Regulation (EC) 1004/2008 of the European Commission issued on 15 October 2008.

Recognition

The initial recognition of a loan takes place on the grant date or, in the case of debt securities, on the settlement date, with reference to the fair value of the financial instrument, increased by any directly-attributable acquisition costs/revenues.

Costs and revenues with the above characteristics are excluded if they are reimbursable by the borrower or represent normal internal administrative costs.

The initial fair value of a financial instrument is usually equal to the amount disbursed or the cost incurred in buying it.

Measurement and recognition of income and expense

Subsequent to initial recognition, loans and advances to customers are measured at amortised cost. This is their initially-recorded value as decreased/increased by repayments of principal, write-downs/write-backs and the amortisation – determined using the effective interest method – of the difference between the amount paid out and that repayable on maturity, which typically represents costs/income directly attributable to the individual loans.
The effective interest rate is the rate that discounts the flow of estimated future payments over the expected duration of the loan so as to obtain exactly the net book value at the time of initial recognition, which includes directly-related transaction costs/revenues and all fees paid or received between the contracting parties. This financial method of accounting distributes the economic effect of costs/income over the expected residual life of each loan.

Estimates of the flows and the contractual duration of the loan take account of all contractual clauses that could influence the amounts and due dates (such as early repayments and the various options that can be exercised), but without considering any expected losses on the loan.
The amortised cost method is not applied to short-term loans, since the discounting effect would be negligible, and these are therefore stated at cost. The same measurement criterion is applied to loans without a fixed repayment date or which are repayable upon demand.

At every reporting date an analysis is performed to identify any problem loans for which there is objective evidence of possible impairment. This category includes loans classified as "bad loans", "unlikely to pay" or "past due", as defined by the supervisory regulations (Circular 272 of 30 July 2008 and subsequent amendments).

The adjustment to the value of each loan represents the difference between its amortised cost (or cost for short-term and demand loans) at the time of measurement and the discounted value of the related future cash flows, determined using the original effective interest rate.

Key elements in determining the present value of future cash flows comprise the estimated realisable value of loans, also taking account of any available guarantees, the expected timing of recoveries and the forecast loan-recovery costs. Cash flows relating to loans due to be recovered in the short term (12/18 months) are not discounted.

The approach taken for case-by-case determination of the recoverable value of non-performing loans depends on their amount, applying the following criteria:

- up to Euro 25,000: the positions are analysed case-by-case but are not discounted, since they are frequently not taken to court, but sold after the usual attempts to obtain recovery on an amicable basis; these loans generally remain in this category for not more than 12/18 months, representing the short term;
- from Euro 25,000 to Euro 150,000: the positions are analysed on a case-by-case basis to estimate the amount recoverable, which is discounted over the average recovery period, based on past experience and statistics;
- amounts exceeding Euro 150,000 are analysed on a case-by-case basis to estimate the amount recoverable, which is discounted over the likely recovery period, as determined by the competent corporate functions.

"Unlikely to pay" includes non-performing exposures which, under the previous regulations on "Credit quality", were classified as:

- "watchlist" loans (subjective and objective), for which recovery is deemed improbable without recourse to actions such as the enforcement of guarantees,
- "restructured" loans, referring to exposures to parties with one or more credit facilities that meet the definition of "non-performing exposures with forbearance measures" pursuant to Annex V, Part 2, paragraph 180 of the EBA ITS.

In particular:

- "Unlikely to pay - former watchlist loans" exceeding Euro 150,000 are analysed on a case-by-case basis to estimate the amount recoverable, which is discounted over the likely average recovery period, based on past experience and statistics. The remaining positions of this type under Euro 150,000 are assessed on a collective basis using the Loss Given Default (LGD) parameter (differentiated according to the amounts concerned) determined on a historical-statistical basis, which includes within it both the Danger Rate factor (probability of classification as non-performing) and the discounting effect connected with the average recovery periods of the exposures.

- "Unlikely to pay - former restructured loans" are valued on a case-by-case basis, also recognising any "implied" loss arising from the restructuring of the position. If the case-by-case analysis does not uncover evidence of loss, the exposures are assessed on a collective basis using the Loss Given Default (LGD) parameter (differentiated according to the amounts concerned) determined on a historical-statistical basis, which includes within it both the Danger Rate factor (probability of classification as non-performing) and the discounting effect connected with the average recovery periods of the exposures.

Past-due exposures are written down on a collective basis. This test is performed by grouping loans into categories that reflect a similar degree of credit risk. The related loss percentages are then determined using the Loss Given Default (LGD) parameter (differentiated according to amounts concerned) determined on a historical-statistical basis, which includes within it both the Danger Rate factor (probability of classification as non-performing) and the discounting effect connected with the average recovery periods of the exposures.

Loans for which no objective evidence of loss has been individually identified, i.e. performing loans, are tested for impairment on an overall basis. This test is performed by grouping loans into categories that reflect a similar degree of credit risk. The related loss percentages are then estimated with reference to past records, in order to measure the inherent loss for each category of loan.

Estimated future cash flows are determined using PD - Probability of Default - and LGD - Loss Given Default - parameters differentiated by homogeneous credit category and determined on a historical-statistical basis. The LGD parameter includes within it both the Danger Rate factor (probability of classification as non-performing) and the discounting effect connected with the average recovery periods of the exposures.

The expected loss (equal to gross value x PD x LGD) is adjusted for the Loss Confirmation Period (LCP), which expresses the average delay between the deterioration of the debtor's financial conditions ("incurred loss") and the actual classification of individual exposures as defaulted, for various categories of homogeneous loans; its purpose is to "adjust" PD, which is typically expressed on an annual time span.

No write-downs are recorded in relation to loans represented by "repurchase agreements" and securities lending, as well as loans to Central Counterparties.

Provisions made for a non-performing loan are only reversed if the credit quality has improved to the extent that timely recovery of the principal and interest, with respect to the original terms for the loan contract, is reasonably certain, or if the amount actually recovered exceeds the recoverable amount estimated previously. Only for non-performing loans, write-backs also include the positive effect of discounting adjustments made due to the progressive reduction in the estimated time required to recover the related loans.

Adjustments, net of previous provisions and the partial or total recovery of amounts previously written down, are recorded in the "net impairment adjustments to loans and advances" line item of the income statement.

Derecognition

Loans and advances are derecognised as assets when they are deemed to be unrecoverable or are transferred together with substantially all the related risks and benefits.

5. Financial assets designated at fair value

Classification

This line item comprises monetary financial instruments of a structured kind (meaning that one or more embedded derivatives is present) and/or those related to trading derivatives entered into with an external counterparty for the purposes of transferring the risks of the financial asset held (under the so-called "fair value option", or FVO), unless classified as "Financial assets held for trading".

In particular, the FVO is used when it eliminates or significantly reduces accounting imbalances deriving from the inconsistent recognition of financial instruments that are related (natural hedges) or covered by derivative contracts which, due to difficulties and complexities, cannot be recognised as hedges.

Investments in associates held indirectly through mutual funds are measured at fair value in accordance with the derogation provided by IAS 28, par. 19, are recorded at fair value in the financial statements. For fair value determination, the investments being solely in companies not listed on an active market, reference was made to the policies used by investment schemes which provide a valuation at historical purchase cost, adjusted to reflect deterioration in each investee's balance sheet, results of operations and financial position if applicable, or events that can permanently affect the investee's prospects and the estimated realisable value.

Financial instruments are designated as financial assets designated at fair value upon initial recognition. They cannot be reclassified subsequently.

Recognition, measurement, derecognition and recording of income and expense

The principles applying to the recognition, measurement, derecognition and recording of income and expense relating to financial assets designated at fair value are the same as those relating to "financial assets held for trading".

Gains and losses realised on sale or redemption and unrealised gains and losses deriving from changes in the fair value of financial assets/liabilities at fair value are classified as "net change in financial assets and liabilities at fair value" in the income statement.

6. Hedging transactions

Classification

Hedging transactions are intended to neutralise possible losses on certain elements or groups of elements due to a given risk (e.g. a rise in interest rates), via the generation of profits from the hedging instruments if the events associated with that risk should actually occur.

Hedging transactions are conducted solely in the form of derivative contracts with counterparties outside of the Group to whom the risk is transferred. The use of internal deals is therefore not permitted.

At the time that a hedging transaction is arranged, it is classified as one of the following types of hedge:

- fair value hedge of a given asset or liability: the objective is to hedge the exposure to changes in fair value of an item caused by one or more risks;
- cash flow hedge attributable to a particular asset or liability: the objective is to hedge the exposure to changes in the future cash flows associated with an item caused by given risks;
- hedge of the effects of an investment denominated in foreign currency: the objective is to hedge the risks associated with investing in a foreign operation denominated in foreign currency.

Hedging transactions can refer to individual financial instruments and/or groups of financial assets/liabilities.

The transaction is classified as a hedge if it has been formally designated as such, there is a documented relationship between the hedged instrument and the hedging instrument, and it is highly effective both at the start of the hedge and throughout its life.

A hedge is considered highly effective if changes in the fair value of the instrument being hedged or of the related expected cash flows are offset by those of the hedging instrument. More precisely, the hedge is effective when changes in the fair value (or cash flows) of the hedging instrument neutralise the changes in the hedged instrument, deriving from the risk being hedged, within an interval of 80%-125%.

The effectiveness of the hedge is assessed at the start of the hedge and throughout its life and, in particular, on each reporting date, using:

- prospective tests that justify the adoption of hedge accounting by showing the expected effectiveness of the hedge in future periods;
- retrospective tests that show the effectiveness of the hedge during the reference period.

If the tests do not confirm the effectiveness of the hedge, the hedge accounting described above is terminated and the related derivative contract is reclassified among the "financial assets (liabilities) held for trading". In addition, hedging transactions are no longer classified as such if:

- the hedge ceases;
- the transaction expires, is sold, terminated or exercised;
- the hedged item is sold, expires or is redeemed;
- the hedge no longer meets the criteria to qualify for hedge accounting.

Recognition

Hedging derivatives are initially recognised at fair value on their subscription date.

Measurement and recognition of income and expense

Subsequent to initial recognition, hedging derivatives are stated at fair value on the basis described below:

- in the case of fair value hedges, changes in the value of the hedged item (but only for the portion attributable to the hedged risk) and the hedging instrument are reflected in the income statement. In this way, changes in the fair value of the hedged item are substantially offset against the opposite changes in the fair value of the hedging instrument. Any difference, representing the ineffective portion of the hedge, therefore represents the net effect of the hedge on profit or loss, which is booked to "Net hedging gains (losses)";
- in the case of future cash flow hedges, changes in the fair value of the hedging transaction are recorded in equity, to the extent that the hedge is effective, and are only released to the income statement when the related cash flows are actually generated by the hedged item. Any change in hedge fair value attributable to the total or partial effectiveness of the hedging relationship is recorded in the income statement as "other operating charges/income";
- hedges of investments denominated in foreign currency are recorded in the same way as future cash flow hedges.

Hedging contract differentials are booked to "interest income" or "interest expense" depending on whether they are positive or negative.

Derecognition

Hedging transactions are derecognised on disposal if all the risks and benefits associated with them are substantially transferred as a result.

7. Equity investments

Classification

This line item includes investments in associated companies and joint ventures.

Recognition

Investments in associated companies and joint ventures are carried at equity in accordance with IAS 28. Under this method, equity investments are initially recognised at cost and subsequently adjusted to reflect changes in the Group's interest in their equity. Differences between the cost of an investment and the equity of the investee at the acquisition or initial consolidation date are reflected in its carrying amount, if they cannot be attributed to specific assets or liabilities.

Measurement

Subsequent to acquisition, the value of investments in associated companies, in entities over which the Group exercises significant influence and joint ventures is adjusted to reflect changes in the Group's interest in their equity value.

Equity method investments are tested for impairment by estimating their recoverable amount, which takes into account the present value of the future cash flows to be generated by them, including their final disposal value and/or other factors.

Any resulting impairment adjustments, being the difference between the carrying amount of the investments concerned and their recoverable value, are charged to "Profit (loss) from equity method investments" in the income statement.
If the reasons for such impairment cease to apply due to events subsequent to its recognition, the write-down is reversed through the income statement in the same line item as above, but for no more than the amount of the original impairment loss.

Derecognition

Equity method investments are derecognised on expiry of the contractual rights over the related financial flows, or when the investment is sold with the transfer of substantially all the related risks and benefits of ownership.

Recognition of income and expense

In accordance with IAS 28, the Group's interest in the results of associated companies, entities subject to significant influence and joint ventures is recognised in "Profit (loss) from equity method investments" in the income statement.

8. Property, plant and equipment

Classification

This line item comprises the fixed assets held for the generation of income, for rent or for administrative purposes, such as land, business property, investment property, installations, furniture, furnishings, all types of equipment and works of art.

Property, plant and equipment also include leasehold improvements, if they can be separated from the related assets. If these items are expected to generate future benefits, but are not functionally and operationally independent, they are classified as "other assets" and depreciated over the expected useful life of the improvements or the residual lease period, whichever is shorter.

Amounts paid in advance to acquire and restructure assets not yet used for productive purposes are capitalised, but not depreciated.

Property, plant and equipment held "for business purposes" is defined as that held for supplying services or for administrative purposes, while "investment property" is defined as that held to earn rentals and/or for capital appreciation.

Recognition

Property, plant and equipment are initially recorded at cost, including all directly attributable costs of bringing them to working condition.

Expenditure that improves an asset or increases the future economic benefits expected from the asset is allocated to the asset concerned and depreciated over its remaining useful life.

Measurement and recognition of income and expense

Subsequent to initial recognition, property, plant and equipment held "for business purposes" are stated at cost, net of accumulated depreciation and any impairment losses, consistent with the "cost model" described in paragraph 30 of IAS 16. Property, plant and equipment are systematically depreciated over their useful lives on a straight-line basis, except for:

- land, whether acquired separately or included in the value of buildings, which is not depreciated since it has an indefinite useful life. With regard to free-standing properties, the value of the land is separated from the value of the related buildings by reference to internal and/or independent expert appraisals, unless this information is directly available from the purchase contract;
- works of art, which are not depreciated since they normally have an indefinite useful life and their value is likely to increase over time;
- investment properties, which are stated at fair value in accordance with IAS 40.

The depreciation charge for assets acquired during the period is determined on a daily basis from the time they enter into service. The depreciation charge for assets sold and/or disposed during the period is determined on a daily basis up to the date of transfer and/or disposal.
At each reporting date, if there is evidence that the value of an asset, other than investment property, may be impaired, its carrying value is compared with its recoverable value, being either its fair value net of any selling costs or its value in use, represented by the present value of the future cash flows to be generated by the asset, whichever is greater. Any adjustments are recorded as "net adjustments to property, plant and equipment" in the income statement.
If the reasons for recognising an impairment loss cease to apply, the consequent write-back cannot cause the value of the asset to exceed its net book value (after depreciation) had no impairment losses been recognised in prior periods.

"Investment properties" covered by IAS 40 are stated at the market value determined by independent appraisals, with changes in their fair value recorded in "net gains (losses) arising on fair value adjustments to property, plant and equipment and intangible assets" in the income statement.

Derecognition

Property, plant and equipment are derecognised upon disposal or when they are retired from use on a permanent basis and no economic benefits are expected from their disposal.

9. Intangible assets

Classification

This line item reports non-monetary assets without physical form that have the following characteristics:

- identifiability;
- control over the assets concerned;
- existence of future economic benefits.

If any one of these characteristics is absent, the related purchase or internally-generated cost is expensed in the period incurred.
Intangible assets include, in particular, software applications used over a number of years, "intangibles" associated with the valuation of customer relationships identified on allocation of the purchase price paid for lines of business, and other identifiable intangible assets representing legal or contractual rights.

This line item also includes goodwill, representing the positive difference between the purchase cost and the fair value of assets and liabilities acquired as a result of business combinations. In particular, an intangible asset is recorded as goodwill when the positive difference between the fair value of the net assets acquired and their purchase cost (including related charges) represents their ability to generate future earnings. If this difference is negative (badwill) or if the goodwill is not justified by the ability of the acquired assets/liabilities to generate future earnings, the difference is recorded directly in the income statement.

With reference to the goodwill recognised upon changes in a parent's ownership interest in subsidiaries already under control, the changes of a parent's ownership interest in a subsidiary (that do not result in loss of control) are accounted for as "equity transactions". As a result, the difference between the additional purchase consideration (for a company in which a controlling interest is already held) and the corresponding share of equity will be accounted for directly as a decrease in equity.

Recognition

Intangible assets are initially recorded at cost, including any directly-related charges.

Measurement

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any impairment losses, in accordance with the "cost model" described in paragraph 74 of IAS 38.

Intangible assets with a finite useful life are amortised systematically on a straight-line basis over their estimated useful lives.

The amortisation charge for assets acquired during the period is determined on a daily basis from the time they enter into service. The amortisation charge for those sold and/or disposed during the period is determined on a daily basis up to the date of transfer and/or disposal.

If there is evidence that the value of an intangible asset may be impaired, its carrying amount is compared with its recoverable value. Any adjustments are recorded in "net adjustments to intangible assets" in the income statement.

If the reasons for such impairment losses cease to apply due to events arising subsequent to the write-down, the appropriate write-backs are credited to the same income statement line item. Such write-backs cannot cause the value of the asset to exceed its net book value (after amortisation) had no impairment losses been recognised in prior periods.

Assets with an indefinite useful life, such as goodwill, are not amortised but their carrying value is tested periodically for impairment, as required by IAS 36. Any impairment losses, representing the difference between the carrying value of the asset and its recoverable value, are charged to "adjustments to goodwill" in the income statement. Impairment losses recognised for goodwill cannot be reversed in later periods.

Derecognition

Intangible assets are derecognised from the statement of financial position if no future economic benefits are expected, or on disposal.

10. Non-current assets held for sale and discontinued operations and liabilities associated with discontinued operations

Classification

These line items comprise all non-current assets/liabilities and discontinued operations held for sale, as defined by IFRS 5, i.e. those "individual assets/liabilities" or "groups of assets/liabilities" held for sale whose carrying amount will be recovered principally via sale rather than continuous use. This category also includes "discontinued operations" which, by convention, are also referred to as "groups of assets/liabilities held for sale".

Measurement

Non-current assets/liabilities (or discontinued operations) held for sale are measured at the lower of their carrying amount or their fair value, net of selling costs, except for the following assets which continue to be valued in accordance with the related accounting policies:

- deferred tax assets;
- assets deriving from employee benefits;
- financial instruments;
- investment property.

Recognition of income and expense

Income (interest income, dividends, etc.) and charges (interest expense, depreciation, etc.) relating to individual non-current assets (or discontinued operations) held for sale and the related liabilities are classified in the normal line items, while the income (interest income, dividends, etc.) and charges (interest expense, depreciation, etc.) relating to discontinued operations are classified, net of the related current and deferred taxation, in "profit (loss) from non-current assets held for sale, net of tax" in the income statement. The depreciation of depreciable assets ceases in the period in which they are classified as non-current assets held for sale.

11. Current and deferred taxation

Income taxes, calculated in accordance with current fiscal legislation, are recorded in the income statement on an accrual basis in line with the costs and revenues that generated them, except for those relating to items debited or credited directly to equity; for consistency, the tax on such items is also booked to equity.

Income taxes reported in the income statement represent a prudent estimate of the current tax charge and the related changes in deferred tax assets and liabilities. In particular, deferred tax assets and liabilities are determined with reference to temporary differences between the book value of assets and liabilities and their tax bases.

Deferred tax assets are recognised if they are likely to be recoverable, determined with reference to the Group's ongoing ability to generate taxable income.

Deferred tax assets and liabilities are recorded in the statement of financial position as, respectively, "tax assets" and "tax liabilities", on an open account basis without offset.

In the case of current taxes, payments on account for individual taxes are offset against the related tax payable, with positive balances reported as "current tax assets" and negative balances as "current tax liabilities".

In accordance with paragraph 52b of IAS 12, no provision for deferred tax liability has been recorded in relation to the reserves and revaluation surpluses that are in suspense for tax purposes, since their distribution is not envisaged; in this regard, the Group has not carried out, and has no short or medium-term plans to carry out, any activities which could give rise to the payment of deferred taxes.

LIABILITIES AND EQUITY

12. Provisions for risks and charges

12.1 Pensions and similar commitments

IAS 19 classifies pension funds as post-employment benefits, making a distinction between defined contribution plans and defined benefit plans. The company pension fund for employees of the former subsidiary Cariprato (absorbed into the Parent Bank Banca Popolare di Vicenza effective 1 January 2010) is split into two sections:

1) a capitalisation section, qualifying as a defined contribution plan, for which the Bank only has the obligation to pay an annual amount calculated on the basis of salary paid to fund participants. This section is not recognised in the statement of financial position, in compliance with IAS 19. The costs of the annual payment by the Group are recognised in the income statement;

2) a supplementary section, qualifying as a defined benefit plan, which is recognised in provisions for risks and charges in the statement of financial position. The benefits are assured by the return on the investments and by the mathematical reserve, calculated annually by an independent actuary.

12.2 Other provisions

In accordance with IAS 37, the provisions for risks and charges reflect known obligations (legal or constructive) deriving from past events, the settlement of which is likely to involve the use of economic resources whose timing and extent are uncertain, on condition that a reliable estimate can be made of the amount needed to settle them at the end of the reporting period. Where the effect of the time value of money is material because the liability's settlement date is deferred, the provisions are discounted using current market rates.

Provisions are re-examined at each reporting period and adjusted to reflect the best current estimate. These are recorded in the appropriate line items of the income statement, depending on the "nature" of the expense. In particular, provisions for future personnel expenses in connection with bonuses and other incentive schemes are classified in "payroll costs", provisions for tax risks and charges are classified in "income taxes" and provisions for potential losses not directly attributable to specific line items in the income statement are reported in "net provisions for risks and charges".

13. Payables and debt securities in issue

Classification

Amounts due to banks and amounts due to customers include the various forms of interbank and customer funding (current accounts, restricted and unrestricted deposits, loans, repurchase agreements, etc.), while debt securities in issue report all the liabilities in respect of the Group's own issues (savings certificates, certificates of deposit, bonds not classified as "financial liabilities at fair value", etc.)

All the financial instruments issued are reported in the financial statements net of any amounts repurchased, and include those which have expired at the reporting date but which have not yet been repaid.

Recognition

These financial liabilities are initially recorded on receipt of the amounts collected or on the issue of the debt securities.
They are initially recognised at the fair value of the liabilities, as uplifted for any directly-attributable acquisition costs/revenues. Costs and revenues with the above characteristics are excluded if they are reimbursable by the borrower or represent normal internal administrative costs.

The initial fair value of a financial liability usually corresponds to the amount received.
If the conditions set out in IAS 32 and 39 are satisfied, any derivatives embedded in the above financial liabilities are separated and accounted for separately.

Measurement

Following initial recognition, the above financial liabilities are stated at amortised cost using the effective interest method, except that short-term liabilities continue to be stated at nominal value since the effect of discounting is negligible.

Derecognition

Financial liabilities are derecognised when they expire or are settled. Derecognition also applies when issued securities are repurchased, even if such acquisition is only temporary. Any differences between the book value of the derecognised liability and the amount paid are recorded as "gains (losses) on disposal or repurchase of financial liabilities" in the income statement. If, subsequent to repurchase, the securities are placed back in the market, this transaction is treated as a new issue and the liabilities are recorded at the new placement price.

14. Financial liabilities held for trading

Classification

This line item reports short positions arising from trading activities and derivatives not designated as effective hedging instruments that have a negative fair value.

Derivative contracts include embedded derivatives which are attached to a primary financial instrument, known as the "host contract" when they have been recognised separately from the host and forward transactions in currencies, securities, goods and precious metals.

An embedded derivative is recognised separately from the host contract when all of the following conditions are satisfied:

- its economic characteristics and risks are not closely related to those of the "host" contract;
- the separate embedded instrument meets the definition of a derivative;
- the hybrid instrument is not measured at fair value through the income statement.

If the fair value of a derivative contract subsequently becomes positive, it is recorded as a financial asset held for trading.
Financial instruments are designated as financial liabilities held for trading upon initial recognition, except if former hedging derivatives with a negative fair value at the reference date are reclassified as "financial liabilities held for trading" after a hedging relationship has become ineffective. They cannot be reclassified subsequently.

Recognition, measurement, derecognition and recording of income and expense

The recognition, measurement, derecognition and recording of the effects on the income statement of the above financial liabilities are described in the earlier paragraph on "financial assets held for trading".

15. Financial liabilities designated at fair value

Classification

This line item reports bonds issued that are related to trading derivatives entered with an external counterparty for the purposes of transferring one or more risks associated with the liability issued (fair value option).

Financial instruments are designated as financial liabilities designated at fair value upon initial recognition. They cannot be reclassified subsequently.

Recognition, measurement, derecognition and recording of income and expense

The recognition, measurement, derecognition and recording of the effects on the income statement of the above financial liabilities are described in the earlier paragraph on "financial assets designated at fair value".

16. Transactions in foreign currency

Foreign currency assets and liabilities include not only those denominated in a currency other than the euro, but also those that carry financial indexation clauses linked to the euro exchange rate against a specific currency or a specific basket of currencies.

Foreign currency assets and liabilities are split between monetary and non-monetary items for currency translation purposes.

Recognition

Foreign currency transactions are initially recognised in euro, by translating the foreign currency amount using the spot exchange rate prevailing on the date of the transaction.

Measurement

At the end of each reporting period:

- foreign currency monetary items are translated using the year-end closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of the prior period, are recorded in the income statement for the period under "net trading income", or if such differences relate to financial assets/liabilities accounted for under the fair value option permitted by IAS 39, under "net changes in financial assets and liabilities at fair value".

When gains or losses on non-monetary items are recognised in equity, the exchange differences on them are also recognised in equity in the same period. Similarly, when gains or losses on non-monetary items are recognised in the income statement, the exchange differences on them are also recognised in the income statement in the same period.

17. Other information

17.1 Provision for severance indemnities

According to IFRIC, the provision for severance indemnities is a "post-employment benefit" qualifying as a "defined benefit plan", the value of which according to IAS 19 must be determined on an actuarial basis. As a consequence, the year-end actuarial valuation of this line item is carried out with reference to earned benefits using the Projected Unit Credit Method. This method involves the projection of future payments with reference to past trends and statistical analyses and probabilities, adopting suitable demographic techniques. This makes it possible to calculate the severance indemnities accruing at a specific date on an actuarial basis, distributing the cost over the entire remaining service of the current workforce, and no longer presenting them as a cost payable as if the business were to cease trading on the reporting date. The provision for severance indemnities has been valued by an independent actuary using the method outlined above.

17.2 Repurchase agreements and securities lending

"Repurchase agreements", which obligate the buyer to resell/repurchase the assets of the transaction (e.g., securities) and "securities lending" wherein the collateral is represented by cash that returns to be fully available to the bearer, are treated as loans against securities and, therefore, the amounts received and paid are recorded as payables and loans. In particular, the aforesaid "repurchase agreements" and "securities loans" completed for funding purposes are recognised in the financial statements as payables for the amount received, while when completed for lending purposes they are recognised as receivables for the amount paid. These transactions do not determine movements in the securities portfolio. Accordingly, the cost of borrowing and income from lending are recorded as interest in the income statement.

A.3 - INFORMATION ABOUT TRANSFERS BETWEEN FINANCIAL-ASSET PORTFOLIOS

The market turmoil experienced in the second half of 2008 and the reduced liquidity of certain financial instruments meant that it has no longer been possible to pursue in the near term the original intent when classifying them as financial assets held for trading, since such instruments will now have to be held in the medium/long-term or until maturity. In view of this state of affairs, in 2008 the Group took up the reclassification option for financial instruments permitted by the amendments to IAS 39 "Financial instruments: recognition and measurement" and to IFRS 7 "Financial instruments: disclosures" contained in the "Reclassification of Financial Assets" published by the IASB on 13 October 2008 and endorsed by the European Commission on 15 October 2008 with Regulation EC 1004/2008.

The disclosures required by IFRS 7 par. 12A (b) and (e) relating to the above reclassifications will now be provided.

A.3.1 – Reclassified financial assets: book value, fair value and effect on comprehensive income

This table reports the disclosures required by paragraph 12A b) and e) of IFRS 7.

Type of financial instrument	Origination portfolio	Destination portfolio	Book value at 31/12/2015	*Fair value* at 31/12/2015	Income components in the absence of transfers (before tax)		Income components booked during the year (before tax)	
					Valuation	Other	Valuation	Other
Debt securities	Financial assets available for sale	Loans and receivibles	11,883	10,277	(547)	297	-	297
		Total	**11,883**	**10,277**	**(547)**	**297**	**-**	**297**

A.3.2 – Reclassified financial assets: effect on comprehensive income prior to transfer

No financial assets were reclassified during the year. The disclosures required by paragraph 12A (d) of IFRS 7 are therefore omitted.

A.3.3 – Transfer of financial assets held for trading

No financial assets were reclassified during the year. The disclosures required by paragraph 12A (c) of IFRS 7 are therefore omitted.

A.3.4 – Effective interest rate and forecast cash flows from reclassified assets

No financial assets were reclassified during the year. The disclosures required by paragraph 12A (f) of IFRS 7 are therefore omitted.

A.4 - INFORMATION ABOUT FAIR VALUE

Qualitative information

A.4.1 Levels of fair value 2 and 3; valuation techniques and inputs used

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market, at current market conditions (i.e. a closing price), irrespective of whether the price is directly observable or is estimated using a valuation technique.
In the case of financial instruments listed in active markets, the fair value is determined on the basis of the most advantageous market prices to which the Group has access (using the official or other equivalent price on the last trading day of the period in question). In this regard, a financial instrument is considered to be listed in an active market if the transactions related to the financial instruments take place frequently enough and with sufficient volumes to provide information useful to determine the price on a continuous basis.
In the absence of an active market, fair value is determined using valuation techniques generally accepted in financial practice aimed at estimating the price at which an orderly sale of an asset or transfer of a liability between market participants would take place at the measurement date, at current market conditions. These valuation techniques call for the use of:

- the latest NAV (Net Asset Value) published by the management companies of open-ended harmonised funds (UCITS - Undertakings for Collective Investment in Transferable Securities), Hedge Funds and SICAVs;
- the prices of similar financial instruments traded in active markets; the prices of identical financial instruments traded on markets (stock exchanges and/or Multilateral Trading Facilities) that do not qualify as active markets; price indications that can be inferred from info providers such as Bloomberg and Reuters, or otherwise observable in the market (e.g. the Bank of Italy's valuation determined by law or the value of shares established by the Stockholders' Meeting for co-operative banks);
- fair value obtained from valuation models (e.g. Discounted Cash Flow, Dividend Discount Model, multiples method and option pricing models), which estimate all of the possible factors that condition the fair value of a financial instrument (cost of money, credit risk, liquidity risk, volatility, exchange rates, prepayment rates, etc.) based on observable market data, also for similar instruments, at the valuation date. If there are no market references for one or more risk factors, we use internal parameters based on past experience and statistics (the valuation models are reviewed periodically to ensure that they are still completely reliable);
- price indications provided by the issuer, adjusted if necessary to take into account counterparty and/or liquidity risk, e.g. the unit value communicated by the management company for types of mutual funds other than those mentioned in point one, and the redemption value determined according to the issue regulations for insurance contracts;
- the value shown in independent appraisals;
- for equity instruments, where the valuation techniques mentioned above are not applicable: *i)* the transaction prices directed on the same security or on similar securities observed within a reasonable timescale with respect to the valuation date; *ii)* the value corresponding to the portion of equity held as shown in the company's latest approved financial statements; *iii)* the cost, adjusted if necessary to take account of material impairment, where the fair value cannot be reliably determined.

Given these considerations and in compliance with IFRS 13, the Group classifies fair value measurements according to a hierarchy (the Fair Value Hierarchy) that reflects the reliability of the inputs on which the measurements are based. This hierarchy consists of the following levels:

- Level 1: listed prices (unadjusted) in active markets that the entity can access at the measurement date for identical financial instruments;
- Level 2: prices obtained from measurement methods based on parameters that are directly or indirectly observable on the market for identical or similar financial instruments. This definition includes: *i)* the prices of similar financial instruments traded in active markets; *ii)* the prices of identical financial instruments traded in non-active markets; *iii)* price indications inferred from info providers or otherwise observable in the market; *iv)* price indications obtained from valuation models that can replicate the prices that occur in active markets, by mainly using data observable on the market at the valuation date; *v)* for mutual fund units characterised by significant levels of transparency and liquidity, the net asset value (NAV) communicated by the fund administrators;
- Level 3: prices obtained from measurement methods based mainly on parameters that are directly or indirectly observable on the market for identical or similar financial instruments. This definition includes: *i)* prices provided by the issuer counterparty, except for the cases of NAVs attributable to Fair Value lever 2; *ii)* price indications obtained with internal valuation models which mainly use data that are not observable on the market; *iii)* valuations derived from independent appraisals; *iv)* for unlisted equity instruments, valuations based on instruments corresponding to the fraction of equity held in the company or derived from direct transactions observed in a reasonable timescale on identical or similar financial instruments. Also included are the financial instruments kept at cost.

The Group assigns the maximum priority to prices quoted on active markets, which it identified with the definitions of "Regulated Market" and "Organised Trading Facilities", as set out in Legislative Decree no. 58/98 and in Consob Regulation no. 11768 of 23 December 1998, as amended. These include, in particular, the markets operated by Borsa Italiana, by MTS, as well as the regulated markets of Switzerland, USA and the EU (CESR). A "regulated market" is considered to be an "active" market only if the transactions related to the financial instruments take place often and frequently enough to provide information useful to determine the price on a continuous basis. This is done on the basis on the number and type of contributors, the frequency with which the price and deviations are updated, the presence of an acceptable Bid-Ask spread and the depth of the book. Furthermore, the prices must be immediately executable on the markets to which the Group has access.

In the absence of an active market, the Group chooses to adopt valuation methods that, in line with market best practices, can capture the specificity of the financial instrument to be valuated, and at the same time express a fair value applicable on the market, which maximises the use of the observable inputs considered relevant and minimised the use of non-observable inputs. In general, the Group adopts a valuation technique with the aim to estimate the fair value at which an orderly sale of an asset or transfer of a liability between market participants would take place at the measurement date, at current market conditions. Consequently, mark-to-market methods are preliminarily used. These methods are based on prices and other relevant information generated from market transactions observable in non-active markets for identical financial instruments and/or observable in active and non-active markets for similar financial instruments; only at a later time are internal models certified by the Risk Management Function used (Discounted Cash Flow, Dividend Discount Model, multiples method and option pricing models). The valuation technique is determined at the time of the financial instrument's initial recognition. More specifically, the selected technique is calibrated so that, upon initial recognition, the result of the selected valuation technique allows to obtain again the entry price; this ensures that the valuation technique reflects current market conditions and helps determine the possible need for corrections or adjustments. It is the Risk Management Function's responsibility to carry out periodic reviews of the adequacy of the selected valuation technique in light of market conditions, developments in the financial industry, availability of new information and absence of previously used information. For this purpose, therefore, it is possible to change the valuation technique initially identified if it is no longer suited to determine a fair value which reflects a price that is tradable on the market.

to measure own bond issues, special Discounting Cash Flow-type models are used that call for the discounting of expected cash flows through the use of a discount curve representing both the funding spread, established by the issuer in the primary market, and any change in the issuer's creditworthiness during the life of the loan. The funding spread is made equal to the cost of the borrowing determined with the activation of the "hedge" or, in want thereof, based on the spread with which the "hedge" could have been stipulated when the bond was issued. The spread representative of the change in creditworthiness is determined only if a specialised agency reports a change in the Bank's rating after the issue date of the individual bond. This change is assumed to be equal to the average cumulative probabilities of default for issuers in the financial sector having the same rating as the Bank (pre- and post-downgrade) identifiable from the report published annually by the rating agency Standard & Poor's. The change of the above PD is then converted into a credit spread equivalent and applied to the individual bond issues.

To determine the fair value of OTC derivatives, the valuation techniques employed use predominantly material inputs based on observable market parameters (Interest rate curve, Volatilities, Credit curve, Spot price, etc.) obtained every day from the Reuters info provider. The adjustment applied to contracts with Corporate and Retail customers that present a positive market value for the Bank is determined on the basis of EL (Expected Loss), obtained by multiplying the probability of default associated to the counterparty according to the internal rating system and estimated over a time horizon equal to the remaining life of each derivative, by the LGD (Loss Given Default) of unsecured loans. No value adjustment attributable to the counterparty risk arising out of the positive market value for the Group (CVA), or arising from a negative market value for the Group (DVA), is instead introduced to the OTC derivative instruments traded with market counterparties with which are concluded specific bilateral offsetting agreements secured by "credit support annex" agreements that regulate the financial guarantees in cash collateral subject to daily marginalisation. A similar treatment is also observed for the transactions entered into materially with central counterparties or with investee companies of the Group that result in exclusive control, a situation of significant influence or of joint ventures.

The fair value of investment property is derived from appraisals performed by outside companies. Fair value determinations made this way are assigned a Fair Value Hierarchy level 3.

For "Loans and advances to banks" and for "Amounts due to banks" of short duration (coming due within 12 months), by convention, the book value is assumed to be the fair value, whereas the corresponding medium-long term items are measured based on the discounted cash flow technique prescribed by contract through the use of risk free curves adjusted if necessary to take into account the credit risk of the counterparty or of the bank itself. Fair value determinations made this way are assigned a Fair Value Hierarchy level 3.

For "Loans and advances to customers" of short duration (coming due within 12 months), by convention, the book value is assumed to be the fair value. The valuation of medium term loans and advances corresponds to the sum of the future cash flows prescribed by contract, including interest, discounted with reference to a risk-free rate curve. The expected nominal cash flows are adjusted for expected losses using the probability of default (PD) and of loss-given-default (LGD) parameters attributed to the specific class of risk and determined with reference to past experience

and statistics. Fair value determinations made this way are assigned a Fair Value Hierarchy level 3.
Conversely, for debt securities classified in this line item, reference is made to the fair value determination method described above for similar financial instruments measured at fair value on a recurring basis.

For “Amounts due to customers” of short duration (coming due within 12 months) by convention, the book value is assumed to be the fair value. The measurement of the medium-long term liabilities other than bonds issued already illustrated are measured based on the discounted cash flow technique prescribed by contract, adjusted to take into account the banks own credit risk if necessary. Fair value determinations made this way are assigned a Fair Value Hierarchy level 3.

For “Debt securities in issue” other than own bond issues, by convention the book value is assumed to be the fair value. Conversely, for own bond issues reference is made to the fair value determination method described above for similar financial instruments measured at fair value on a recurring basis.

A.4.2 Valuation processes and sensitivity

The table below provides indications regarding the valuation techniques used for the Bank's cash financial assets stated at fair value on a recurrent basis and classified in the Fair Value Hierarchy level 2.

Assessment techniques used (in thousands of euro)	**Total**	**Assessment techniques**		
		Listed prices in inactive markets	**Other observable prices**	**internal models**
Financial assets held for trading	**116,661**	**53,226**	**-**	**63,435**
- Debt securities	116,201	52,766	-	63,435
- Equities	460	460	-	-
Financial assets designated at fair value	**2,193**	**-**	**-**	**2,193**
- Debt securities	2,193	-	-	2,193
Financial assets available for sale	**182,559**	**151,041**	**19,235**	**12,283**
- Debt securities	13,942	1,743	-	12,199
- Equities	166,677	147,358	19,235	84
- Mutual funds	1,940	1,940	-	-

"Other observable prices" relate to the Bank of Italy's valuation determined by law (Euro 17,175 thousand) and, for the remaining portion, primarily to the valuation of certain equity interests held in Italian co-operative banks based on the value of the shares as established by the Stockholders' Meeting.

Conversely, the "internal models" have been used for the valuation of a limited number of partially structured illiquid debt securities, for which the prices observed on the market were not considered sufficiently reliable.

It should be noted that "Tier 2 equities" in "Financial assets available for sale" include, as to Euro 146,312 thousand, shares held in the capital of Cattolica Assicurazioni, which were reclassification during the year from "equity investments" to "Financial assets available for sale", as it was deemed that the Parent company no longer had a significant influence over Cattolica as defined in paragraph 9 of IAS 28. Cattolica shares, though listed on the MTA operated by Borsa Italiana, have been classified as level 2 in the fair value hierarchy and a price equal to the bid recorded on the last trading day, as the volumes traded in the ten business days prior to the measurement date are not sufficient to cover the possible disposal of 50% of the aforesaid investment.

The Fair Value Hierarchy level 2 also includes own bond issues for which the Group used the fair value option as well as OTC derivative contracts. With regard to exposures in OTC derivatives (almost entirely attributable to transactions with central counterparties and the market) and the relevance that these have on the items recognised at fair value on a recurring basis, the different valuation models in use are in line with market best practices and provide pricing consistent with that applied, in accordance with the agreements in place, by the different market counterparties with which the Group operates (including central counterparties), when determining the daily margining of changes in the market value of the financial instruments in place.

Lastly, financial instruments measured at fair value on a recurring basis and classified in Level 3 of the hierarchy envisaged by IFRS 13, because no market prices are available for them, these mainly consist of equities and mutual fund units. For these investments, no quantitative fair value sensitivity analysis with respect to changes in non-observable inputs was performed because, as shown in the table below, the relevant fair value was obtained from third-party sources without making any adjustment (e.g. NAV, redemption values, external appraisals, etc.), or is the result of a model whose inputs are specific to the entities being assessed (e.g. valuations made based on public information from the financial statements) and for which alternative values cannot reasonably be expected.

Assessment techniques used (in millions of euro)	Total	Assessment techniques					
		Internal model	Net Assets Value	Recent transactions	Equity	External appraisals	Cost
Financial assets held for trading	**1,707**	**1,707**	**-**	**-**	**-**	**-**	**-**
- Debt securities	1,357	1,357	-	-	-	-	-
- Equities	350	350	-	-	-	-	-
Financial assets designated at fair value	**33,500**	**3,766**	**-**	**-**	**-**	**-**	**29,734**
- Debt securities	3,766	3,766	-	-	-	-	-
- Equities	29,734	-	-	-	-	-	29,734
Financial assets available for sale	**351,726**	**94,843**	**94,007**	**22,961**	**104,403**	**26,989**	**8,523**
- Debt securities	10,622	10,619	-	-	-	-	3
- Equities unlisted	153,175	-	2,657	10,606	104,403	26,989	8,520
- Mutual funds	159,142	84,224	62,563	12,355	-	-	-
- Loans (capitalization certificates)	28,787	-	28,787	-	-	-	-

"Net Assets Value" also includes capitalisation certificates held and measured based on the redemption value reported by the issuer. "Recent transactions" refers both to transactions carried out by investee companies and to trading of equities between stockholders observed over a reasonable period of time. Instruments kept at "cost" refer mainly (Euro 37.8 million) to unlisted equities held through funds managed by the subsidiary Nem Sgr, which are subject to line-by-line consolidation (Nem Imprese, Nem Imprese II and Industrial Opportunity Fund), for which reference was made to the policies used by investment schemes which provide a valuation at historical purchase cost, adjusted to reflect deterioration in each investee's balance sheet, results of operations and financial position if applicable, or events that can permanently affect the investee's prospects and the estimated realisable value[26].

Among the instruments measured with internal models are:

- two bonds subscribed during the year as part of the restructuring of receivables due from the issuer (Euro 3,766 thousand) that at maturity are convertible, at the initiative of the issuer and/or of the Parent Bank, into shares of the same issuer which are currently not listed;
- the junior security (Euro 10,619 thousand) deriving from the own securitisation called "Berica Residential Mbs 1", not "reinstated" in the financial statements because it was carried out before 1 January 2004, whose fair value was made equal to the nominal value because the expectation is that, based on the definitive data of the securitisation at 31 December 2016 and given the short residual duration of the securitisation, the exposure will be repaid in full;
- exposure to the Optimum Multistrategy I (Euro 32,993 thousand) and Optimum Multistrategy II (Euro 51,231 thousand) funds, for which, with the assistance of an external company, an

26 In accordance with the provisions promulgated by the Bank of Italy ("Regulation on the collective management of assets" promulgated with the Instruction of 19 January 2015, Title V, Chapter IV, Section II, Paragraph 2.4.6.) on the criteria for the measurement of equity investments in unlisted entities.

update was performed on the valuations carried out internally when preparing the 2015 financial statements, which were based on that relied on the estimated realisable value of the individual underlying assets.

Lastly, the following are also classified in Fair Value Hierarchy Level 3: i) property held for investment, whose fair value is determined on the basis of independent appraisals to be updated annually; ii) back to back swap subscribed within the scope of the "Berica Residential Mbs1" securitisation transaction and measured on the basis of the present value of the cash flows expected from the financial instrument; iii) Cattolica Assicurazioni's right to sell to BPVi the equity investments held by the latter in Berica Vita, Cattolica Life and ABC Assicura, which were measured on the basis of an internal model used to determine the fair value of the 3 unlisted insurance companies according to their respective embedded value/equity.

Given the above, for most of the financial instruments classified at level 3 in the hierarchy set forth by IFRS 13 "passive" measurement techniques were used (NAV or redemption values reported by the various management companies, values derived from the company's equity or from independent appraisals obtained by the Group, etc.) which do not use financial models based on market data and, therefore, any fair value sensitivity breakdown would have little meaning.

A.4.3 Fair value hierarchy

During the year, the Group approved the update to its Fair Value Policy, aimed at acknowledging the findings communicated by the ECB following the inspection conducted in 2015 in the market risk area. Compared with the previous version, this inspection introduced, among other things, additional controls on the volume of transactions and the presence of contributors in active markets.

A.4.4 Other information

There is no other information worthy of disclosure.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Financial assets and liabilities at fair value on a recurrent basis: breakdown by fair value levels

Financial assets/liabilities at fair value	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	1,434	2,062,650	1,707	29,110	3,379,147	355
2. Financial assets designated at fair value	-	2,193	33,500	-	4,411	3,431
3. Financial assets available for sale	3,728,961	182,559	351,726	5,250,409	62,428	412,981
4. Hedging derivatives	-	27,907	-	-	33,024	-
5. Property, plant and equipment	-	-	138,904	-	-	131,441
6. Intangible assets	-	-	-	-	-	-
Total	**3,730,395**	**2,275,309**	**525,837**	**5,279,519**	**3,479,010**	**548,208**
1. Financial liabilities held for trading	-	1,374,116	81,187	70	2,771,663	253
2. Financial liabilities designated at fair value	-	287,056	-	-	471,516	-
3. Hedging derivatives	-	875,430	-	-	887,624	-
Total	**-**	**2,536,602**	**81,187**	**70**	**4,130,803**	**253**

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

During 2016, the company reclassified from level 1 to level 2 of the hierarchical scale under IFRS 13, certain securities for a total value of Euro 19,802 thousand (including bonds for Euro 17.430 thousand, equity for Euro 432 thousand and mutual fund units for Euro 1,940 thousand, book values at 31 December 2016), all traded on regulated markets which, however, were not considered active because the trading volumes observed for the individual financial instruments were not adequate to the exposures held by the Group. Additionally, the following were reclassified from level 2 to level 3 of the hierarchy under IFRS 13: a mini-bonds listed under "financial assets held for trading" (book value at 31 December 2016 Euro 1,357 thousand) estimated on the basis of an internal model; and some mutual fund units (book value Euro 226 thousand at 31 December 2016), due to insufficient levels of transparency and liquidity.

OTC derivatives with customers with a positive fair value have been adjusted for a total of Euro 4 million, to take account of the related counterparty risk (CVA). Conversely, no adjustment of value for DVA is applied to OTC derivative contracts with customers with a negative fair value.

A.4.5.2 – Annual changes in financial assets at fair value on a recurring basis (level 3)

	FINANCIAL ASSETS					
	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**355**	**3,431**	**412,981**	**-**	**131,441**	**-**
2. Increases	**5,535**	**45,075**	**59,331**	**-**	**11,985**	**-**
2.1. Purchases	4,810	3,955	43,870	-	-	-
2.2. Profits booked to:	-	9,941	15,221	-	-	-
2.2.1. Income statement	-	9,941	4,043	-	-	-
- of which: realized gains	-	335	-	-	-	-
2.2.2. Equity	X	X	11,178	-	-	-
2.3. Transfers from other levels	707	-	232	-	-	-
2.4. Other increases	18	31,179	8	-	11,985	-
3. Decreases	**4,183**	**15,006**	**120,586**	**-**	**4,522**	**-**
3.1. Sales	3,274	11,331	52,763	-	-	-
3.2. Reimbursements	-	-	3,947	-	-	-
3.3. Losses booked to:	909	3,675	63,876	-	2,375	-
3.3.1. Income statement:	909	3,675	62,582	-	2,375	-
- of which: realized losses	906	544	62,514	-	2,375	-
3.3.2. Equity	X	X	1,294	-	-	-
3.4. Transfers to other levels	-	-	-	-	2,147	-
3.5. Other decreases	-	-	-	-	-	-
4. Closing balance	**1,707**	**33,500**	**351,726**	**-**	**138,904**	**-**

"Other increases" include equity investments held indirectly through funds managed by the subsidiary Nem Sgr, which at 31 December 2015 were posted under "Equity investments" and in 2016 were reclassified as "Financial assets designated at fair value" on the basis of the derogation provided by IAS 28, paragraph 19.

A.4.5.3 – Annual changes in financial liabilities at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**253**	**-**	**-**
2. Increases	**80,934**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses booked to:	80,934	-	-
2.2.1. Income statement	80,934	-	-
- of which: realized losses	80,934	-	-
2.2.2. Equity	X	X	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**-**	**-**	**-**
3.1. Reimbursements	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits booked to:	-	-	-
3.3.1. Income statement:	-	-	-
- of which: realized gains	-	-	-
3.3.2. Equity	X	X	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**81,187**	**-**	**-**

The “capital losses” referred to in line item 2.2.1 refer almost entirely to the valuation of the put option held by Cattolica on the insurance companies Berica Vita, Cattolica Life and ABC Assicura.

A.4.5.4 Financial assets and liabilities at fair value on a recurrent basis: breakdown by fair value levels

Financial assets/liabilities not valued at fair value or at fair value on non- recurrent basis	31/12/2016				31/12/2015			
	Book value	**L1**	**L2**	**L3**	**Book value**	**L1**	**L2**	**L3**
1. Financial assets held to maturity	1,067,948	1,055,730	-	-	-	-	-	-
2. Loans and advances to banks	2,120,451	-	4,621	2,120,449	2,150,149	-	6,324	2,150,150
3. Loans and advances to customers	22,558,843	-	46,728	24,253,512	25,178,117	-	54,017	28,065,930
4. Investiment property	-	-	-	-	-	-	-	-
5. Non-current assets held for sale	-	-	-	-	-	-	-	-
Total	**25,747,242**	**1,055,730**	**51,349**	**26,373,961**	**27,328,266**	**-**	**60,341**	**30,216,080**
1. Due to banks	9,173,919	-	-	9,173,919	9,973,459	-	-	9,973,459
2. Due to customers	14,388,985	-	-	14,388,985	16,272,137	-	-	16,263,198
3. Debt securities	4,118,256	-	4,059,793	79,484	5,199,085	-	5,342,218	131,616
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**27,681,160**	**-**	**4,059,793**	**23,642,388**	**31,444,681**	**-**	**5,342,218**	**26,368,273**

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

A.5 – "DAY ONE PROFIT/LOSS" DISCLOSURE

During the year, the Group did not undertake any transactions involving the recognition of "day one profit/loss".

PART B – INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1

Cash and cash equivalents – Line item 10

1.1 Cash and cash equivalents: breakdown

	31/12/2016	31/12/2015
a) Cash	158,780	173,506
b) Unrestricted deposits with central banks	-	-
Total	**158,780**	**173,506**

SECTION 2

Financial assets held for trading – Line item 20

2.1 Financial assets held for trading: breakdown by type

Items/Amounts	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	1,013	116,201	1,357	28,097	106,055	-
1.1 Structured securities	-	73,280	-	12,954	66,105	-
1.2 Other debt securities	1,013	42,921	1,357	15,143	39,950	-
2. Equities	311	460	350	991	2,715	355
3. Mutual funds	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**1,324**	**116,661**	**1,707**	**29,088**	**108,770**	**355**
B. Derivatives						
1. Financial derivatives	110	1,945,989	-	22	3,270,377	-
1.1 dealing	110	1,907,518	-	22	3,206,925	-
1.2 connected with the fair value option	-	38,471	-	-	63,452	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 dealing	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**110**	**1,945,989**	**-**	**22**	**3,270,377**	**-**
Total (A+B)	**1,434**	**2,062,650**	**1,707**	**29,110**	**3,379,147**	**355**

Structured securities mainly refer to bonds with payoffs linked to options on interest rate and inflation on baskets of shares and stock indexes and on currencies.

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items / Amounts	31/12/2016	31/12/2015
A. CASH ASSETS		
1. Debt securities	**118,571**	**134,152**
a) Governments and Central Banks	1,036	1,037
b) Other public entities	-	-
c) Banks	93,237	78,211
d) Other issuers	24,298	54,904
2. Equities	**1,121**	**4,061**
a) Banks	229	7
b) Other issuers:	892	4,054
- insurance companies	350	355
- financial companies	298	527
- non-financial companies	244	3,172
- other	-	-
3. Mutual funds	**-**	**-**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total A	**119,692**	**138,213**
B. DERIVATIVES		
a) Banks		
- fair value	1,522,382	2,831,107
b) Customers		
- fair value	423,717	439,292
Total B	**1,946,099**	**3,270,399**
Total (A+B)	**2,065,791**	**3,408,612**

There are no "Equities" issued by parties classified as bad loans or unlikely to pay.

The Group uses bilateral offsetting arrangements relating to operations in over-the-counter derivatives with principal market counterparties, mainly Banks, giving the option to offset creditor positions against debtor positions in the event of counterparty default. For the purpose of mitigating credit risk further, specific Credit Support Annex contracts have been entered with the Group's most frequent counterparties with the aim of regulating the provision of cash collateral financial guarantees. Exposures in derivative instruments towards customers also include transactions carried out with financial companies, habitual market counterparties of the Group in these transactions.

SECTION 3

Financial assets designated at fair value – Line item 30

3.1 Financial assets designated at fair value: breakdown by type

Items / Amounts	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	2,193	3,766	-	4,411	3,431
1.1 Structured securities	-	2,193	3,766	-	4,411	3,431
1.2 Other debt securities	-	-	-	-	-	-
2. Equities	-	-	29,734	-	-	-
3. Mutual funds	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**-**	**2,193**	**33,500**	**-**	**4,411**	**3,431**
Cost	**-**	**-**	**-**	**-**	**-**	**-**

Debt securities refer to three convertible bonds for which the Group invoked the "fair value option", of which two were subscribed as part of the restructuring of receivables due from the issuers.

Equities refer to investments in associates held indirectly through mutual funds, which are measured at fair value in accordance with the derogation provided by IAS 28, par. 19. These investments, classified at 31 December 2015 as "Equity investments", were reclassified in this item during the year.

3.2 Financial assets designated at fair value: breakdown by debtor/issuer

Items/Amounts	**31/12/2016**	**31/12/2015**
1. Debt securities	**5,959**	**7,842**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	5,959	7,842
2. Equities	**29,734**	**-**
a) Banks	-	-
b) Other issuers:	29,734	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	29,734	-
- other	-	-
3. Mutual funds	**-**	**-**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	**35,693**	**7,842**

SECTION 4

Financial assets available for sale – Line item 40

4.1 Financial assets available for sale: breakdown by type

Items/Amounts	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Debt securities	3,711,299	13,942	10,622	5,231,159	35,660	10,663
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	3,711,299	13,942	10,622	5,231,159	35,660	10,663
2. Equities	17,662	166,677	153,176	17,106	21,009	138,137
2.1 Carried at fair value	17,662	166,677	144,656	17,106	21,009	129,479
2.2 Carried at cost	-	-	8,520	-	-	8,658
3. Mutual funds	-	1,940	159,141	2,144	5,759	236,261
4. Loans	-	-	28,787	-	-	27,920
Total	**3,728,961**	**182,559**	**351,726**	**5,250,409**	**62,428**	**412,981**

Line 1. comprises (Euro 12,199 thousand) a senior tranche of ABS securities issued within the scope of transactions originated by primary Italian players in the consumer credit sector, as well as the junior tranche (Euro 10,619 thousand) deriving from the Berica Residential Mbs 1 securitisation, not reinstated in the financial statements because it was initiated before 1 January 2004.

"Tier 2 equities" include, as to Euro 17,175 thousand, shares held in the capital of the Bank of Italy, and as to Euro 146,312 thousand, the equity investment in Cattolica Assicurazioni, which were reclassified during the year from "Equity investments" to "Financial assets available for sale", as it was deemed that BPVi no longer had a significant influence over Cattolica as defined in paragraph 9 of IAS 28.

"Equities carried at cost" refer to certain individually immaterial equity interests, whose fair value cannot be reliably or verifiably determined and so are reported at cost, as adjusted for any impairment.

Line 4. "Loans" consists of the capitalisation certificates.

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Amounts	31/12/2016	31/12/2015
1. Debt securities	**3,735,863**	**5,277,482**
a) Governments and Central Banks	3,711,524	5,231,514
b) Other public entities	2	5
c) Banks	1,496	11,517
d) Other issuers	22,841	34,446
2. Equities	**337,515**	**176,252**
a) Banks	26,703	26,105
b) Other issuers:	310,812	150,147
- insurance companies	146,312	-
- financial companies	62,613	59,434
- non-financial companies	101,887	90,713
- other	-	-
3. Mutual funds	**161,081**	**244,164**
4. Loans	**28,787**	**27,920**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	28,787	27,920
Total	**4,263,246**	**5,725,818**

"Debt securities" are mainly connected to the Group's investments in Italian government securities, some of which are backed by micro hedges against interest rate risk and inflation, both as fair value hedges and cash flow hedges.

"Equities" include equity interests issued by parties classified as unlikely to pay for Euro 18,011 thousand.

"Mutual funds" refer to investments in funds with underlying fund units (Euro 84,224 thousand), in real estate funds (Euro 34,081 thousand) and for the remainder to closed-end funds reserved for private equity institutional investors, which mainly invest in non-financial companies and companies not listed on active markets.

4.3 Financial assets available for sale with micro hedges

Assets hedged	31/12/2016	31/12/2015
1. Debt securities	2,893,000	3,893,000
2. Equities	-	-
3. Mutual funds	-	-
4. Loans	-	-
Total	**2,893,000**	**3,893,000**

Assets hedged refer to inflation linked BTP government securities that had been micro hedged against interest rate and inflation risk both with cash flow hedging (nominal amount Euro 2,193 million) and with fair value hedging (nominal amount Euro 700 million).

The tests carried out at year end confirmed the effectiveness of the hedges. In particular, the net effect of changes in the fair value of the hedged assets, limited to the hedged risks under fair value hedging, and of the related hedging derivatives, was a negative amount of Euro 605 thousand, recorded under "Net hedging gains (losses)" of the income statement.

SECTION 5

Financial assets held to maturity – Line item 50

5.1 Financial assets held to maturity: breakdown by type

Items/Amounts	31/12/2016				31/12/2015			
	BV	FV			BV	FV		
		L1	L2	L3		L1	L2	L3
1. Debt securities	1,067,948	1,055,730	-	-	-	-	-	-
- structured	-	-	-	-	-	-	-	-
- other	1,067,948	1,055,730	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-	-

Key
FV = Fair value
BV = Book value

The item includes government bonds reclassified during the year from "Financial assets available for sale" to "Financial assets held to maturity". This reclassification was carried out in light of the changes introduced by the ECB Regulation (EU) no. 2016/445 relating to the treatment of revaluation reserves relating to exposures to central Governments (Government bonds) classified as "Financial assets available for sale", and of the publication on 29 November 2016 in the Official Journal of the European Community of Commission Regulation (EU) no. 2016/2067 approving IFRS 9. Effective from 1 January 2018, IFRS 9 will replace international accounting standard (IAS) 39, with the aim to control the volatility of Own Funds pending a more comprehensive and in-depth analysis on the breakdown of the Government bond portfolio among the different accounting categories, also in light of the introduction of IFRS 9.

5.2 Financial assets held to maturity: debtors/issuers

Items/Amounts	31/12/2016	31/12/2015
1. Debt securities	**1,067,948**	**-**
a) Governments and Central Banks	1,067,948	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	**1,067,948**	**-**
Total fair value	**1,055,730**	**-**

5.3 Financial assets held to maturity with micro hedges

The Group does not have any financial assets held to maturity with micro hedges.

SECTION 6

Loans and advances to banks – Line item 60

6.1 Loans and advances to banks: breakdown by type

Type of transaction/Amounts	31/12/2016				31/12/2015			
	Book value	FV			Book value	FV		
		L1	L2	L3		L1	L2	L3
A. Deposits with central banks	**506,150**				**108,522**			
1. Time deposits	-	X	X	X	-	X	X	X
2. Compulsory reserve	506,150	X	X	X	108,522	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Loans and advances to banks	**1,614,301**				**2,041,627**			
1. Loans:	1,614,301				2,041,627			
1.1 Current accounts and sight deposits	131,860	X	X	X	184,128	X	X	X
1.2. Time deposits	1,211	X	X	X	1,314	X	X	X
1.3 Other loans	1,481,230	X	X	X	1,856,185	X	X	X
- Repurchase agreements	426,683	X	X	X	677,359	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	1,054,547	X	X	X	1,178,826	X	X	X
2. Debt securities	-				-			
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	-	X	X	X	-	X	X	X
Total	**2,120,451**	**-**	**4,621**	**2,120,449**	**2,150,149**	**-**	**6,324**	**2,150,150**

At 31 December 2016, there are no net no-performing loans to banks.

Line A.2. shows the balance of the “management account” with Bank of Italy and includes the reserve subject to maintenance and the “mobilisable” part of this reserve of the Parent Bank and subsidiary Banks.

6.2 Loans and advances to banks with micro hedges

There are no loans and advances to banks with micro hedges.

6.3 Finance leases

There are no finance leases with banks.

SECTION 7

Loans and advances to customers – Line item 70

7.1 Loans and advances to customers: breakdown by type

Type of transaction/Amounts	31/12/2016						31/12/2015					
	Book value			*Fair value*			Book value			*Fair value*		
	Performing loans	Non performing loans – Purchased	Non performing loans – Other	L1	L2	L3	Performing loans	Non performing loans – Purchased	Non performing loans – Other	L1	L2	L3
Loans												
1. Current accounts and sight deposits	1,947,693	-	1,419,074	X	X	X	2,801,868	-	1,291,076	X	X	X
2. Repurchase agreements	-	-	-	X	X	X	-	-	109,833	X	X	X
3. Mortgages	11,899,549	-	3,047,996	X	X	X	12,934,362	-	3,233,765	X	X	X
4. Credit cards, personal loans and wage assignments	464,044	-	20,314	X	X	X	507,502	-	19,952	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	2,751,180	-	670,181	X	X	X	3,239,713	-	661,979	X	X	X
Debt securities												
8. Structured securities	-	-	1,321	X	X	X	17,376	-	3,588	X	X	X
9. Other debt securities	336,031	-	1,460	X	X	X	357,103	-	-	X	X	X
Total	**17,398,497**	**-**	**5,160,346**	**-**	**46,728**	**24,253,512**	**19,857,924**	**-**	**5,320,193**	**-**	**54,017**	**28,065,930**

Loans and advances to customers are reported in the financial statements at amortised cost, less specific and portfolio write-downs recognised in accordance with IAS 39.

The item includes Euro 8,767.4 million (Euro 8,283.9 million at 31 December 2015), of which non-performing loans amounting to Euro 499.8 million (Euro 410.8 million at 31 December 2015), assets sold but not derecognised relating to the mortgages sold as part of securitisations originated by the Group which, since they do not satisfy IAS 39 requirements for derecognition, have been "reinstated" in the financial statements.

"Other loans" in line 7. report Euro 331.6 million (Euro 360.8 million at 31 December 2015) for the difference between the reinstatement of assets sold under self-securitisations and the accompanying elimination of the corresponding liability for the asset-backed securities subscribed under these loans.

The same line also includes operating receivables from customers for the performance of financial services and guarantee deposits carried out as part of securitisations originated by the Group.

Line 9 "Other debt securities" includes ABS securities issued as part of transactions originated by third parties, totalling Euro 271,395 thousand. For further details please refer to Part E, paragraph *C.4 "Banking group - Non consolidated special purpose vehicles for securitisation"* in Section C. "Securitisations" of these Explanatory notes.

7.2 Loans and advances to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2016			31/12/2015		
	Performing loans	Non performing loans		Performing loans	Non performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities	**336,031**	**-**	**2,781**	**374,479**	**-**	**3,588**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	336,031	-	2,781	374,479	-	3,588
- non-financial companies	51,809	-	2,781	80,448	-	3,588
- financial companies	284,222	-	-	294,031	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**17,062,466**	**-**	**5,157,565**	**19,483,445**	**-**	**5,316,605**
a) Governments	3	-	2	4	-	-
b) Other public entities	43,324	-	32,304	47,716	-	36,397
c) Other issuers	17,019,139	-	5,125,259	19,435,725	-	5,280,208
- non-financial companies	8,000,080	-	3,654,153	9,520,442	-	3,837,795
- financial companies	1,047,658	-	189,611	1,140,606	-	279,598
- insurance companies	9,261	-	-	14,927	-	-
- other	7,962,140	-	1,281,495	8,759,750	-	1,162,815
Total	**17,398,497**	**-**	**5,160,346**	**19,857,924**	**-**	**5,320,193**

7.3 Loans and advances to customers with micro hedges

To manage exposure to the interest rate risk of the value of the banking book, the Bank activated hedges of floating rate mortgage loans with maximum rate, for a total nominal amount of Euro 947.1 million at 31 December 2016.

7.4 Finance leases

There are no finance leases with customers.

SECTION 8

Hedging derivatives – Line item 80

8.1 Hedge derivatives: breakdown by hedge type and levels

	***Fair Value* 31/12/2015**			**NV 31/12/2015**	***Fair Value* 31/12/2014**			**NV 31/12/2014**
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	**-**	**27,907**	**-**	**1,134,982**	**-**	**33,024**	**-**	**1,258,239**
1) Fair value	-	27,907	-	1,134,982	-	33,024	-	1,258,239
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
A. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**27,907**	**-**	**1,134,982**	**-**	**33,024**	**-**	**1,258,239**

Key: NV = notional value; L1: Level 1; L2: Level 2; L3: Level 3

At 31 December 2016, this line item reports derivatives with a positive fair value, taken out to hedge interest rate risk relating to specific fixed-rate and floating-rate with maximum rate mortgage books recorded under "Loans and advances to customers" and individual own bond issues classified as "Debt securities in issue".

8.2 Hedge derivatives: breakdown by hedged portfolios and hedge type

Transactions/Type of hedge	*Fair value*						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available for sale	-	-	-	-	-	X	-	X	X
2. Loans and advances	17,306	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**17,306**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	10,601	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	**10,601**	**-**	**-**	**X**	**-**	**-**	**-**	**-**	**X**
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

To represent the aforesaid hedging transactions, the Group opted for the "Micro Fair Value Hedge" accounting model for those relating to own-issue bonds, while it used the "Macro Fair Value Hedge" model for those relating to mortgage loans, with the consequent recognition of the revaluations of the hedged assets in Asset line item 90 "Remeasurement of financial assets backed by macro hedges".

SECTION 9

Remeasurement of financial assets backed by macro hedges – Line item 90

9.1 Remeasurement of hedged assets: breakdown by hedged portfolios

Type of transaction/Amounts	31/12/2016	31/12/2015
1. Positive fair value	**-**	**59,415**
1.1 in specific portfolios:	-	59,415
a) loans and advances	-	59,415
b) financial assets available for sale	-	-
1.2 aggregate	-	-
1. Negative fair value	**(17,372)**	**(13,228)**
1.1 in specific portfolios:	(17,372)	(13,228)
a) loans and advances	(17,372)	(13,228)
b) financial assets available for sale	-	-
1.2 aggregate	-	-
Total	**(17,372)**	**46,187**

This line item reports fair value changes in floating-rate mortgage loans with maximum rate classified as "Loans and advances to customers" that are hedged by Interest Rate Caps in order to manage exposure of banking book value to interest rate risk.

The Group has accounted for these hedges in the financial statements using the Macro Fair Value Hedging accounting model. Consequently, the write-back/write-down of hedged assets in compliance with IAS 39 is reported in this line item, with the matching entry recognised in "Net hedging gains (losses)" (income statement line item 90), together with the results of measuring the associated hedging derivatives.

9.2 Assets backed by macro hedges of interest rate risk

Hedged assets	31/12/2016	31/12/2015
1. Loans and advances	947,146	1,167,550
2. Financial assets available for sale	-	-
3. Portfolio	-	-
Total	**947,146**	**1,167,550**

The amounts shown in the table above refer to the remaining balance of principal due to expire of the hedged assets.

SECTION 10

Equity method investments – Line item 100

10.1 Equity investments: disclosures

Name	Registered Office	Headquarters	Type of relationship	Type of investment		Voting rights %
				Holder	% held	
A. Associated companies subject to significant influence						
B. Firms under significant influence						
1. Cattolica Life Ltd	Dublin	Dublin	2	B. Pop. Vicenza	40.00	40.00
2. Berica Vita SpA	Vicenza	Verona	2	B. Pop. Vicenza	40.00	40.00
3. ABC Assicura SpA	Verona	Verona	2	B. Pop. Vicenza	40.00	40.00
4. Popolare Assessoria e Consultoria Ltda (1)	Saint Paul Brazil	Saint Paul Brazil	2	B. Pop. Vicenza	99.00	99.00
5. Sec Servizi SCpA	Padova	Padova	2	B. Pop. Vicenza B.Nuova Farbanca Prestinuova	47.95 1.66 0.10 0.10	47.95 1.66 0.10 0.10
6. Giada Equity Fund	Treviso	Treviso	2	B. Pop. Vicenza	56.67	56.67
7. Magazzini Generali Merci e Derrate SpA	Vicenza	Vicenza	2	B. Pop. Vicenza	25.00	25.00

(1) Though 99%-owned, the company was carried at cost in consideration of its immaterial nature with respect to the values in the Group's consolidated financial statements.

The percentage interest in equity also reflects the voting rights at the Shareholders' Meetings.
In 2016, the equity investment in Cattolica Assicurazioni was reclassified from "Equity investments" to "Financial assets available for sale", as it was deemed that BPVi no longer had a significant influence over Cattolica as defined in paragraph 9 of IAS 28.

In addition, the equity method investment held in the company Magazzini Generali Merci e Derrate SpA, classified among bad loans, was entirely written off in 2014.

The scope of consolidation does not include any investments in companies under joint control.

10.2 Significant equity method investments: book value, fair value and collected dividends

10.3 Significant equity method investments: accounting information

There are no significant equity investments at 31 December 2016. Therefore, these table have not been completed.

10.4 Non-significant equity method investments: accounting information

Name	Investments' book value	Total assets	Total liabilities	Total earnings	Total profit or loss after tax from continuing operations	Profit (Loss) after tax from discontinued operations	Net profit or loss for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Associated companies subject to significant influence									
B. Firms under significant influence									
1. Cattolica Life Dac	11,351	725,693	702,271	150,904	814	-	814	-	814
2. Berica Vita SpA	33,561	1,269,051	1,194,891	196,060	8,972	-	8,972	-	8,972
3. ABC Assicura SpA	6,903	59,619	44,076	15,151	282	-	282	-	282
4. Magazzini Generali Merci e Derrate SpA	-	5,185	8,401	179	(2,224)	-	(2,224)	-	(2,224)
5. Popolare di Vicenza Assessoria e Consultoria Ltda	10	14	-	592	(38)	-	(38)	-	(38)
6. Sec Servizi SCpA	12,953	64,036	38,031	121,129	-	-	-	321	321
7. Giada Equity Fund	1,079	8,452	2,367	1,704	(668)	-	(668)	-	(668)

The amounts refer to the latest available financial statements or statement of financial position.

10.5 Equity investments: annual changes

	31/12/2016	31/12/2015
A. Opening balance	**492,736**	**494,857**
B. Increases	**2,015**	**14,501**
B.1 Purchases	-	2,000
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other changes	2,015	12,501
C. Decreases	**428,894**	**16,622**
C.1 Sales	-	-
C.2 Adjustments	229,915	10,982
C.3 Other changes	198,979	5,640
D. Closing balance	**65,857**	**492,736**
E. Total revaluations	**-**	**-**
F. Total adjustments	**267,009**	**37,094**

"Other changes" reported in lines B.4 and C.3 include the effects of equity accounting for companies over which significant influence is exercised.

Line C.3 also includes, as to Euro 153,490, the cancellation of the equity investments Cattolica Assicurazioni, reclassified from "Equity investments" to "Financial assets available for sale", as it was deemed that BPVi no longer had a significant influence over Cattolica as defined in paragraph 9 of IAS 28, and as to Euro 31,179, the reclassification of investments in associates held indirectly through mutual funds which, based on the derogation provided by IAS 28, para. 19, are recognised in the financial statements at fair value, reclassified under "Financial assets designated at fair value".

Line C.2. "Adjustments" refers to impairment of the investment in Cattolica Assicurazioni, carried out, already in the half-year financial statements as at 30 June 2016, by aligning the book value to the respective fair value, taken to be equal to the official market price at 30 June 2016.

Concerning the equity investment in the insurance companies Cattolica Life Dac, Berica Vita SpA and ABC Assicura SpA, it should be pointed out that the impairment test carried out at 31 December 2016 did not identify the existence of any impairment loss indicators. The information and parameters used to evaluate the equity method investments are influenced by the uncertainty of the macroeconomic and market environment, which may evolve in unforeseen ways.

10.6 Judgements and assumptions used in determining the existence of joint control or significant influence

See Section 3 "Scope of consolidation and methodology" in Part A of these Explanatory Notes.

10.7 Commitments relating to equity investments in companies under joint control

There are no equity investments in companies under joint control.

10.8 Commitments relating to equity method investments in companies subject to significant influence

At the reporting date, Cattolica Assicurazioni has the right to sell to BPVi the 60% equity investment held by Cattolica in Berica Vita, Cattolica Life and ABC Assicura.

10.9 Significant restrictions

There are no significant restrictions relating to equity investments in companies subject to significant influence.

10.10 Other information

There is no other information worthy of disclosure.

SECTION 11

Technical reserves borne by reinsurers – Line item 110

There are no amounts to be shown.

SECTION 12

Property, plant and equipment – Line item 120

12.1 Property, plant and equipment used for business purposes: breakdown of assets carried at cost

Assets/Values	31/12/2016	31/12/2015
1. Owned asstes	**430,246**	**455,775**
a) land	84,004	83,264
b) buildings	255,857	272,529
c) furniture	13,287	17,165
d) IT equipment	3,233	4,649
e) other	73,865	78,168
2. Purchased under finance leases	**8,720**	**11,037**
a) land	-	-
b) buildings	8,720	11,037
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
Total	**438,966**	**466,812**

Property, plant and equipment for business purposes are systematically depreciated in each year on a straight-line basis using rates that reflect the residual useful lives of the related assets.

The value of land associated with free-standing property has been separated from the value of the building and is not depreciated since it has an indefinite useful life, as do works of art.

12.2 Investment property: breakdown of carried at cost

There is no investment property carried at cost.

12.3 Property, plant and equipment used for business purposes: breakdown of revalued assets

There is no revalued property, plant and equipment used for business purposes.

12.4 Investment property: breakdown of assets carried at fair value

Assets/Values	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets	**-**	**-**	**138,904**	**-**	**-**	**131,441**
a) land	-	-	47,779	-	-	48,868
b) buildings	-	-	91,125	-	-	82,573
2. Assets acquired through finance leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**138,904**	**-**	**-**	**131,441**

Investment property is stated at the market value determined by independent appraisals, with changes in their fair value recorded in "net gains (losses) arising on fair value adjustments to property, plant and equipment and intangible assets" in the income statement. The above appraisals are updated on an annual basis, at 31 December of each year.

12.5 Property, plant and equipment used for business purposes: annual changes

	Land	Buildings	Furniture	IT equipment	Other	Total
A. Opening gross amount	**83,264**	**396,165**	**113,925**	**88,042**	**183,388**	**864,784**
A.1 Total net reductions in value	-	112,599	96,760	83,393	105,220	397,972
A.2 Opening net amount	**83,264**	**283,566**	**17,165**	**4,649**	**78,168**	**466,812**
B. Increases	**743**	**3,612**	**326**	**872**	**2,790**	**8,343**
B.1 Purchases	-	1	318	872	2,426	3,617
B.2 Capitalized improvement expenditure	-	1,966	-	-	-	1,966
B.3 Writebacks	-	150	-	-	-	150
B.4 Fair value increases booked to:	-	91	-	-	-	91
a) equity	-	91	-	-	-	91
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate adjustments	-	-	-	-	-	-
B.6 Transfers from investment property	743	1,404	-	-	-	2,147
B.7 Other changes	-	-	8	-	364	372
C. Decreases	**3**	**22,601**	**4,204**	**2,288**	**7,093**	**36,189**
C.1 Sales	-	-	42	8	256	306
C.2 Depreciation	-	11,588	4,074	2,196	6,757	24,615
C.3 Impairment writedowns booked to:	1	8,563	-	-	-	8,564
a) equity	-	-	-	-	-	-
b) income statement	1	8,563	-	-	-	8,564
C.4 Fair value increases booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate adjustments	-	-	-	-	-	-
C.6 Transfers to:	2	2,450	-	-	-	2,452
a) investment property	2	2,450	-	-	-	2,452
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	88	84	80	252
D. Closing net amount	**84,004**	**264,577**	**13,287**	**3,233**	**73,865**	**438,966**
D.1 Total net reductions in value	1	132,750	100,834	85,589	111,977	431,151
D. Closing gross amount	**84,005**	**397,327**	**114,121**	**88,822**	**185,842**	**870,117**
E. Carried at cost	-	-	-	-	-	-

Line C.3 shows the impairment write-downs of properties for business use recognised under income statement item 200 “Net adjustments to property, plant and equipment”.

12.6 Investment property: annual changes

Assets/Values	Total	
	Land	Buildings
A. Opening balance	**48,868**	**82,573**
B. Increases	**2**	**11,983**
B.1.Purchases	-	-
B.2 Capitalized improvement expenditure	-	1,695
B.3 Positive changes in *fair value*	-	-
B.4 Writebacks	-	-
B.5 Positive exchange rate adjustments	-	-
B.6 Transfers from property, plant and equipment used for business purposes	2	2,450
B.7 Other changes	-	7,838
C. Decreases	**1,091**	**3,431**
C.1 Sales	-	-
C.2 Depreciation	-	-
C.3 Negative changes in *fair value*	348	2,027
C.4 Impairment writedowns	-	-
C.5 Negative exchange rate adjustments	-	-
C.6 Transfers to:	743	1,404
a) property used for business purposes	743	1,404
b) non-current assets held for sale	-	-
C.7 Other changes	-	-
D. Closing balance	**47,779**	**91,125**
E. Measurement at *fair value*		

The "Opening balances" of "Land" and "Buildings" in line A. have been restated to align the relevant accounting balance with the appraisals of two free-standing buildings.

Lines B.3 and C.3 show the changes in the fair value of investment property recognised under income statement item 250 "Net gains (losses) arising on fair value adjustments to property, plant and equipment and intangible assets".

12.7 Commitments to purchase property, plant and equipment

There are no commitments at the reporting date for the purchase of property, plant and equipment that warrant disclosure.

SECTION 13

Intangible assets – Item 130

13.1 Intangible assets: breakdown by type of asset

Assets/Values	31/12/2016		31/12/2015	
	Finite life	**Indefinite life**	**Finite life**	**Indefinite life**
A.1 Goodwill	X	**6,223**	X	**6,223**
A.1.1 attributable to the group	X	6,223	X	6,223
A.1.2 attributable to minority interests	X	-	X	-
A.2 Other intangible assets	**8,337**	**-**	**4,703**	**-**
A.2.1 Carried at cost:	8,337	-	4,703	-
a) Other intangible assets internally generated	-	-	-	-
b) Other assets	8,337	-	4,703	-
A.2.2 Carried at fair value:	-	-	-	-
a) Other intangible assets: generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**8,337**	**6,223**	**4,703**	**6,223**

It should be noted that goodwill at 31 December 2016 consisted of the difference in consolidation relating to the subsidiary Farbanca SpA. The impairment test performed at the end of the year on the aforesaid goodwill confirmed the adequacy of its carrying value.

The other intangible assets classified in line A.2 "Other intangible assets" mainly refer to proprietary software and user licenses.

Disclosure about impairment testing of goodwill and intangible assets with an indefinite useful life (IAS 36, par. 134-137)

IAS 36 defines the principles for accounting for and providing disclosures on the impairment of certain asset types, including goodwill. It describes the principles that a company should follow to ensure that the carrying amount of its assets does not exceed the recoverable amount.

IAS 36 defines the recoverable amount as the higher of:

- Fair value less costs of disposal - value understood as the amount that can be obtained, net of disposal costs, from the sale of an asset in an orderly transaction between market participants;
- Value in use - equal to the present value of future cash flows that the company expects to raise from continuous use of a specific asset or a CGU.

IAS 36 requires a comparison to be made between the carrying amount of goodwill and its recoverable amount (impairment test) any time it is believed that the asset may have undergone impairment (trigger events) and in any case at least once per year, when the annual financial statements are drafted.

The verification of the existence of trigger events and impairment testing must relate to a specific asset or a Cash Generating Unit. A CGU is the smallest identifiable group of assets generating cash inflows largely independent of the cash inflows generated by other assets, or groups of assets with respect to which the Group prepares independent reporting of results through management reporting systems. The recoverable amount of goodwill is estimated with reference to the CGUs since goodwill is not capable of generating independent cash flows.

In relation to the provisions of IAS 36, on the basis of the considerations set forth above, the goodwill resulting from the Group's consolidated financial statements underwent impairment testing at 31 December 2016. The analysis included the following activities:

1) Identification of CGUs and allocation of goodwill;
2) Determination of the recoverable amount of the CGUs;
3) Impairment test results.

1) Identification of CGUs and allocation of goodwill

At 31 December 2016, the following CGUs were tested to verify the sustainability of the carrying amount of goodwill, goodwill arising on consolidation classified in goodwill, and goodwill arising on application of the equity method allocated to equity investments:

- Farbanca CGU (same as the legal entity);
- Cattolica Life CGU (same as the legal entity).

The Prestinuova CGU was also analysed, as goodwill is included among the company's asset items. This goodwill is not shown in the consolidated financial statements.

In checking the consistency of the assumption that the legal entities were the CGUs to be tested for impairment, reference was made to the principles set out in IAS 36, also taking into account the fact that, amongst the various justifications, the long-term and annual system of management reporting to the Group's Board of Directors is organised by legal entity, and that bank branches acquired in the past are now fully integrated within the individual banks and individual legal entities are given responsibility for achieving results, and there is such a significant loss of income streams in those branches that the earnings of individual business units acquired in the past are no longer autonomous and perfectly independent of those from other groups of assets.

In addition to the above, 2016 saw the acquisition of 100% of HDS S.p.A. through the Nem Imprese II Fund managed by Nem Sgr S.p.A. (a subsidiary 100% owned by BPVi); as a result of this transaction, a consolidation difference of Euro 2.5 million was recorded as goodwill.

The following table reports the value of goodwill and the equity differences recognised under Equity method investments of the companies over which significant influence is exercised at 31 December 2016, as resulting from checks on the sustainability of the carrying amount performed during the year:

	Goodwill arising on consolidation	**Goodwill arising on application of the equity method**
Farbanca	6,223	-
Cattolica Assicurazioni	2,498	-
Cattolica Life	-	2,121
ABC Assicura	-	417
Total	**8,721**	**2,538**

2) Determination of the recoverable amount of the CGUs

In performing impairment tests on the Farbanca, Cattolica Life and Prestinuova CGU, and in determining the recoverable amount (inferable from their value in use), Banca Popolare di Vicenza was supported by a leading consulting firm.

Only the value in use was determined for the aforementioned CGUs since, due to the substantial lack of comparable transactions in the last 5 years, a fair value determined based on M&A transaction multiples would not be significant. In addition, consistently with the previous years, it was decided not to apply Stock Market multiples.

In any event, this approach is consistent with IAS 36, which prescribes that the book value of a CGU shall be compared with the higher amount between the value in use and the market/sale value, and the latter is deemed not suitable for the reasons set out above.

In accordance with the best doctrine and most commonly used valuation practices to determine the overall value of the economic capital of company financial companies, the determination of the value in use of the Farbanca, Cattolica Life and Prestinuova GCUs was based on the application of the following methodologies:

- Dividend Discount Model - DDM, in the Excess Capital version, for the Farbanca and Prestinuova CGUs;
- earnings model for the CGU Cattolica Life CGU.

The Excess Capital variant of the DDM method determines the value in use as the sum of the present value of the maximum dividend that may be distributed in the explicit planning period, in compliance with the target capitalisation requirements assumed for valuation purposes, and the Terminal Value, calculated based on the normalised net income expected for the last year of explicit projection, plus the long-term growth rate ("g").

With regard to impairments tests on the book value of goodwill at 31 December 2016, for the Farbanca CGU the DDMs in the Excess Capital version were developed on the basis of the 2016-2020/21 projections, developed by the Management according to the strategic guidelines contained in the new 2016-2020/21 Business Plan and a 2% growth rate, equal to the long-term growth target set by the European Central Bank.

The earnings model determines the value of a company's capital as the algebraic sum of the discounted value of net earnings that can be generated on an explicit projection horizon, plus the Terminal Value as defined above.

In applying this method to the determination of the value in use of the Cattolica Life CGU, the flow estimates taken as reference were calculated by applying a normalised average profitability coefficient to the new production forecasts developed by the Management for the 2016-2020 period. The Terminal Value was calculated as described above.

The valuation of the company HDS S.p.A. was carried out using the equity method, given the impossibility of using other valuation methods.

With the awareness that although the macroeconomic indicators are showing signs of partial recovery, there is still much uncertainty, and as required by regulations, the results were tested for their sensitivity to changes in specific parameters in the economic and financial forecasts.

2.a Valuation parameters

In line with the approach adopted for previous impairment tests, to apply the Excess Capital variant of the DDM method and the earnings method, the cost of capital (K_e) was estimated based on the Capital Asset Pricing Model (CAPM) determined as follows:

$$K_e = i + \beta * MRP$$

Where:

i: risk-free rate;

β: beta coefficient, measuring the volatility of an asset's return in relation to the market;

MRP: Market Risk Premium, i.e. the compensation for an investment whose risk exceeds the one expressed by a risk-free asset.

In this case, at 31 December 2016:

- the rate i was determined taking as a reference the gross average return of ten-year Italian treasury notes in the 1 July 2016 - 31 December 2016 time interval (six-month average), and is assumed to be 1.47%.
- β is determined based on historical data relating to listed companies identified as comparable. In particular, the observation period for calculation of the coefficient is 5 years from 31 December 2016 and the reporting frequency is weekly;

- the MRP is assumed to be 5.6%, in line with valuation practices (source: *Paper* by Pablo Fernandez, Alberto Ortiz and Isabel F. Acin of May 9, 2016).

Overall K_e, determined according to the method adopted in recent years, is 8.6% for the CGU Farbanca.

With regard to the Cattolica Life CGU, the value of K_e resulting from the application of CAPM (using a β of 1.1) stands at 7.9%. It was deemed appropriate to add to this value an add-on of 200 bps, in order to reflect, on a prudential basis, the environment of uncertainty created by the current situation with Cattolica Assicurazioni Soc. Coop.

The factors determining the cost of capital (K_e) and the growth rate (g) used in the valuations of the CGUs as at 31 December 2016.

CGU	Gross free risk	Beta	*Risk Premium*	*Add on*	Capital cost KE	g
CGU Farbanca	1,5%	1,3	5,6%	-	8,6%	2.0%
CGU Cattolica Life	1,5%	1,1	5,6%	2.0%	9,9%	2.0%

2.b Development of forecast data for the impairment test at 31 December 2016

At 31 December 2016, the point of departure for the DDM for the determination of the value in use of CGUs was the preliminary data at 31 December 2016 and the 2016-2020/21 projections developed by the Management based on the strategic guidelines contained in the 2016-2010/21 Business Plan.

As part of the impairment test analysis, the projections were determined on the basis of the data shown below, taking into account for all CGUs a market rate scenario that is consistent with the forecasts published by Prometeia for the 2017-2019 period, and the annual spreads implicit in the yield curve surveyed at the end of December 2016, for the two subsequent years.

Farbanca CGU

The assumptions for the operating volumes for the forecast years (2016-2021) are that:

- net loans will grow at an average rate of +6.1% (+6.8% in the 2016-2019 period).
- the average change in direct funding in the 16-21 period is +9.5%, mainly as a result of intercompany bond issues.

With regard to income statement line items:

- net interest income was determined based on the expected growth of lending and deposit volumes. Rates and spreads were estimated on the basis of the rate scenario used. To support growth in lending and to maintain financial balance and compliance with the Group's treasury rules, it was assumed that bonds entirely subscribed by BPVi would be issued on an annual basis. Overall, the 16-21 CAGR of the net interest income is +7.3%;
- the evolution in net fee and commission income is higher than the growth forecast by the reference scenario (CAGR 16-21 +2.7%, CAGR 16-19 +3.4%)
- adjustments to loans were assumed to converge gradually towards a cost of credit of approximately 0.60% in 2021. The evolution of the cost of credit is consistent with the average portfolio PDs expected over the Plan period and the specific transition matrices of Farbanca;
- payroll costs, considering personnel management policies, show a total 16-21 CAGR of -2.7%;

- the other administrative costs record an overall CAGR for 16-21 of -0.7%;
- income taxes were calculated according to current tax laws and regulations.

Cattolica Life CGU

The projection of the Company's earnings flows was estimated by applying normalised average earnings to the new production forecasts developed by the BPVi Management for the 2017-2020 period.

3) Impairment test results

At 31 December 2016, the average value in use of the Farbanca and Cattolica Life CGUs was higher than the value to be tested, while for the company HDS S.p.A. the value determined was equal to the latter's equity; therefore, the difference in consolidation for this company was reduced to zero.

With the awareness that although the macroeconomic indicators are showing signs of partial recovery, there is still much uncertainty, and as required by regulations, the valuations at 31 December 2016 were tested for their sensitivity to changes in specific parameters in the economic and financial forecasts, with regard to:

a. cost of capital Ke (+/- 0.25%) and growth rate g (+/- 0.25%),
b. growth rate g set at 1.5%;
c. for the CGU Farbanca only +/- 0.5% change (in terms of 2016-2021 CAGR) of the banking income associated with a +/-0.05% change in the cost of credit in the last year of the Plan.

Based on the sensitivity analyses conducted, it emerged that for the other CGUs analysed the estimated minimum recoverable value expressed by the range is still higher than the value to be tested.

For completeness of information, it is recalled that the difference in consolidation (Euro 5,840 thousand) related to the acquisition of a controlling interest in San Marco Srl, obtained by converting part of the Parent Bank's mortgage credit into share capital of the company, was fully adjusted in the half-year report as at 30 June 2016.

It is worth recalling that the assessments made for the purposes of the impairment test were particularly complex in consideration of the macroeconomic and market environment, and by the consequent difficulty and uncertainty tied to long-term income forecasts, which has a predominant effect on the value in use when the Excess Capital variant of the DDM method and the earnings methods are used.

Therefore, the estimates, projections and parameters used for the impairment tests could evolve in different directions in the future from those assumed, possibly to a significant extent.

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**1,152,818**	**-**	**-**	**40,135**	**-**	**1,192,953**
A.1 Total net reductions in value	1,146,595	-	-	35,432	-	1,182,027
A.2 Opening net amount	**6,223**	**-**	**-**	**4,703**	**-**	**10,926**
B. Increases	**8,338**	**-**	**-**	**7,820**	**-**	**16,158**
B.1 Purchases	8,338	-	-	7,649	-	15,987
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Writebacks	X	-	-	-	-	-
B.4 Fair value increases booked to:		-	-	-	-	-
a) equity	X	-	-	-	-	-
b) income statement	X	-	-	-	-	-
B.5 Positive exchange rate adjustments	-	-	-	-	-	-
B.6 Other changes	-	-	-	171	-	171
C. Decreases	**8,338**	**-**	**-**	**4,186**	**-**	**12,524**
C.1 Sales	-	-	-	28	-	28
C.2 Adjustments	8,338	-	-	4,158	-	12,496
- Amortization	X	-	-	4,158	-	4,158
- Writedowns	8,338	-	-	-	-	8,338
+ equity	X	-	-	-	-	-
+ income statement	8,338	-	-	-	-	8,338
C.3 Fair value increases booked to:		-	-	-	-	-
a) equity	X	-	-	-	-	-
b) income statement	X	-	-	-	-	-
C.4 Transfers to discontinued operations due for disposal	-	-	-	-	-	-
C.5 Negative exchange rate adjustments	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Closing net amount	**6,223**	**-**	**-**	**8,337**	**-**	**14,560**
D.1 Total net value adjustments	1,154,933	-	-	39,590	-	1,194,523
E. Closing gross amount	**1,161,156**	**-**	**-**	**47,927**	**-**	**1,209,083**
F. Carried at cost	-	-	-	-	-	-

Key:
DEF: definite life
INDEF: indefinite life

The opening balance of "Other intangible assets" does not include those assets which had been fully depreciated at the end of the prior year.

Line B.1 "Purchases" refers to goodwill (consolidation differences) recognised during the year as a result of the acquisition by the parent company of a controlling interest in the company HDS S.p.A., by the NEM Imprese II (Euro 2,498 thousand) and in the company San Marco S.r.l. (Euro 5,840 thousand). Please note that this goodwill was fully impaired during the reporting period and posted to the income statement under item 260 "Adjustments to goodwill", as stated in line item C.2 "Value adjustments: impairments".

13.3 Other information

It is reported that:

- no intangible assets have been revalued under paragraph 124 b) of IAS 38;
- there are no intangible assets that have been acquired under government concession;
- no intangible assets have been given as security against the Bank's debts;
- there are no commitments for the purchase of intangible assets that warrant disclosure;
- there are no intangible assets under finance leases.

As for the allocation of goodwill between cash-generating units, reference should be made to the information contained in the specific paragraph earlier in the present Section.

SECTION 14

Tax assets and liabilities – Asset line item 140 and Liability line item 80

14.1 Deferred tax assets: breakdown

Deferred tax assets	31/12/2016	31/12/2015
Deferred tax assets through the income statement	**679,743**	**1,102,356**
- Tax losses	21,226	221,015
- of which DTA convertible Law 214/2011	-	*1,328*
- Goodwill subject to impairment and franking	154,843	261,282
- of which DTA convertible Law 214/2011	*153,424*	*259,329*
- Adjustments to loans to customers	290,784	447,064
- of which DTA convertible Law 214/2011	*289,814*	*445,665*
- Provisions for risks and charges	186,857	141,159
- Other	26,033	31,836
Deferred tax assets through equity	**220,085**	**252,658**
- Revalutations of financial asset available for sale	-	1,035
- Hedging derivatives (CFH) of assets/liabilities at fair value	219,696	248,549
- Hedging derivatives (CFH) of assets/liabilities at amortized cost	129	1,190
- Actuarial variations of defined benefit pension plans	218	403
- Other	42	1,481
Total	**899,828**	**1,355,014**

14.2 Deferred tax liabilities:

Deferred tax liabilities	31/12/2016	31/12/2015
Deferred tax liabilities through the income statement	**24,411**	**29,769**
- Goodwill (depreciation)	-	-
- Gains in installments	1,239	2,412
- Other	23,172	27,357
Deferred tax liabilities through equity	**243,803**	**283,778**
- Revalutations of financial asset available for sale	224,185	261,648
- Profit (loss) from CFH discontinuing	12,694	13,996
- HTM Reserves	718	-
- Other	6,206	8,134
Total	**268,214**	**313,547**

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

	31/12/2016	31/12/2015
1. Opening balance	**1,102,356**	**769,201**
2. Increases	**96,603**	**477,852**
2.1 Deferred tax assets recorded during the year	95,222	477,376
a) relating to prior years	24	-
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) other	95,198	477,376
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1,381	476
3. Decreases	**519,216**	**144,697**
3.1 Deferred tax assets reversing during the year	250,172	10,242
a) reversals	29,872	9,576
b) written down as no longer recoverable	219,351	-
b) due to changes in accounting policies	-	-
d) other	949	666
3.2 Reduction in tax rates	-	-
3.3 Other decreases	269,044	134,455
a) trasformation in tax credits pursuant to Law 214/2011	262,682	133,683
b) other	6,362	772
4. Closing balance	**679,743**	**1,102,356**

14.3.1 Change in deferred tax assets per Italian Law 214/2011 (through the income statement)

	31/12/2016	31/12/2015
1. Opening balance	**706,322**	**734,435**
2. Increases	**49**	**106,275**
3. Decreases	**263,133**	**134,388**
3.1 Reversals	281	316
3.2 Trasformation in tax credits	262,682	133,683
a) resulting from operating losses	261,354	125,176
b) arising from tax losses	1,328	8,507
3.3 Other decreases	170	389
4. Closing balance	**443,238**	**706,322**

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

	31/12/2016	31/12/2015
1. Opening balance	**29,769**	**43,563**
2. Increases	**4,351**	**2,382**
2.1 Deferred tax liabilities recorded during the year	2,495	2,382
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	2,495	2,382
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1,856	-
3. Decreases	**9,709**	**16,176**
3.1 Deferred tax liabilities eliminated during the year	3,215	16,163
a) reversals	3,215	16,163
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	854	-
3.3 Other decreases	5,640	13
4. Closing balance	**24,411**	**29,769**

14.5 Change in deferred tax assets (through equity)

	31/12/2016	31/12/2015
1. Opening balance	**252,658**	**97,878**
2. Increases	**121**	**186,473**
2.1 Deferred tax assets recorded during the year	84	186,473
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
d) other	84	186,473
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	37	-
3. Decreases	**32,694**	**31,693**
3.1 Deferred tax assets reversing during the year	32,689	31,693
a) reversals	10,649	31,659
b) written down as no longer recoverable	22,040	-
b) due to changes in accounting policies	-	-
d) other	-	34
3.2 Reduction in tax rates	4	-
3.3 Other decreases	1	-
4. Closing balance	**220,085**	**252,658**

14.6 Change in deferred tax liabilities (through equity)

	31/12/2016	31/12/2015
1. Opening balance	**283,778**	**136,765**
2. Increases	**753**	**189,805**
2.1 Deferred tax liabilities recorded during the year	740	189,804
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	740	189,804
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	13	1
3. Decreases	**40,728**	**42,792**
3.1 Deferred tax liabilities eliminated during the year	37,948	42,792
a) reversals	37,795	42,792
b) due to changes in accounting policies	-	-
c) other	153	-
3.2 Reduction in tax rates	1,962	-
3.3 Other decreases	818	-
4. Closing balance	**243,803**	**283,778**

Disclosure about deferred taxes

With respect to Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) recorded in the financial statements at 31 December 2016, as detailed in the tables of the Section in question, the following information is provided.

Concerning deferred taxes recorded as offsetting entries against equity, the total amount of deferred tax liabilities (Euro 243,803 thousand) is higher than the amount of the deferred tax assets (Euro 220,085 thousand). Moreover, a significant portion of the deferred tax assets recorded as offsetting entries against equity (Euro 219,696 thousand, i.e. more than 99% of deferred tax assets recorded as offsetting entries against equity) refers to the capital losses recorded in the dedicated equity reserve in relation to the change in the fair value of cash flow hedge derivatives used as micro hedges of the inflation risk of Italian government bonds recorded under "Financial assets available for sale". The aforesaid deferred tax assets are balanced by the deferred tax liabilities recorded as offsetting entries against equity in view of the capital gain recognised on Government bonds micro hedged against the inflation risk through the aforesaid cash flow hedge derivatives.

Therefore, in relation to deferred tax assets recorded as offsetting entries against equity it seems reasonable to expect that the related deductible temporary differences will be reversed and/or deleted in the same years when the taxable temporary differences are expected to be released and/or zeroed, with a balanced effect on the taxable income of future years. For this reason, the conditions prescribed by IAS 12 for recording the aforementioned deferred tax assets are deemed to exist.

With regard to deferred tax assets recorded as offsetting entries in the income statement, the following information is provided:

- Euro 443,238 thousand (approximately 65% of total deferred tax assets recorded as offsetting entries in the income statement) consist of IRES and IRAP DTAs that fulfil the requirements of Italian Law no. 214/2011. These DTAs are convertible into tax credits if the Bank incurs an operating loss or a tax loss, within the limits set by the provisions in force;
- Euro 21,226 thousand relates to DTAs recorded for 2015 and 2016 IRES tax losses brought by the subsidiary Banca Nuova under the national tax consolidation regime, as well as to the "ACE excess" due to the aforesaid subsidiary pursuant to article 1(4) of Law Decree No. 201/2011, which in accordance with applicable legislation can be used to offset future years' earnings, without time limits;
- Euro 215,279 thousand refer to DTAs (both IRES and IRAP), relating to cases other than the above ones. The most significant amount of the IRES DTAs (Euro 165,071 thousand) refers to the deferred tax assets recorded in view of provisions for risks and charges allocated in relation to the Settlement Offer made by the Bank to its Shareholders as well as to the legal risks connected with "BPVi capital transactions" and with the other critical issues emerged in the course of the ECB's inspection.

It is recalled that Law no. 208 of 28 December 2015 provides, effective from the tax period following the current one at 31/12/2016, for the reduction of the IRES rate from 27.5% to 24% and the simultaneous introduction of a 3.5% additional IRES tax for credit and financial institutions (excluding mutual fund managers). Consequently, Group companies other than credit and financial institutions adjusted IRES DTAs taking into account the IRES rate reduction from 27.5% to 24%.

It should also be noted that the Parent company, as consolidating company of the Group's tax consolidation, opted for payment of the annual guarantee fee pursuant to Law Decree no. 59 of 3 May 2016 (as amended and converted by Law no. 119 of 30/06/2016 and subsequently amended by Law no. 15 of 17/02/2017), in order to maintain the requirements to convert DTAs into tax credits in accordance with Law No. 214/2011. Consequently, for the aforesaid eligible DTAs, as specified in the joint document by Bank of Italy/IVASS/CONSOB of 15 May 2012, the probability test is deemed to be automatically met because it is certain that they will be entirely recovered under any circumstance.

With regard to IRES DTAs, other than those per Law no. 214/2011, the considerations on the basis of which the conditions for recording them according to IAS 12 are deemed to be met are described below. In particular, in the verification prescribed by the aforementioned accounting standard for recording the DTA, the following elements were taken into account:

- the Board of Directors approved the stand-alone income and financial projections for the years 2017-2021, consistent with the Business Plan in support of the proposed merger with Veneto Banca S.p.A.;
- for the purposes of the probability test, the taxable income of future years was estimated on the basis of the income statements forecast by the aforesaid stand-alone income and financial projections. Taxable income was estimated at national tax consolidation level taking into account all Group companies that exercised the option envisaged in articles 117 et seq of the Consolidated Income Tax Law;
- for Group companies under the national tax consolidation regime and falling within the category of credit and financial institutions, for the purposes of the additional 3.5% tax, future income was estimated separately for each company, as the additional tax is paid on an individual basis;
- according to article 84 of the Consolidated Income Tax Act, the IRES tax loss may be computed as a reduction of the income of the tax periods of future years, without time limits;
- current legislation requires financial intermediaries to convert the DTAs referred to in Law no. 214/2011 into tax credits if the Bank incurs an operating loss or a tax loss, within the limits set by the provisions in force;
- in estimating the recoverability of DTAs, the lookout-period approach was used assuming a ten-year time horizon. To this end, it was assumed that the profit for the years after the last one in the time horizon (years 2017 to 2021) considered by the stand-alone income and financial projections is at least equal to the last explicit year of these projections.

Based on the above elements, the assessments made led to believe that future taxable income will likely be available in view of which it will be possible to use the IRES DTAs. In this regard, it should be noted that on the basis of the analyses carried out, recovery of IRES DTAs recorded in the financial statements (net of DTLs) would occur within the time horizon assumed for the purposes of the aforesaid lookout-period approach.

With regard to IRAP deferred tax assets recorded as offsetting entries in the income statement. it should be pointed out that over 97% of IRAP DTAs (Euro 68,142 thousand) refer to "DTAs per Law no. 214/2011", for which - as specified above - the probability test is deemed to be automatically met because it is certain that they will be entirely recovered in all circumstances. The remaining DTAs, amounting to Euro 1,799 thousand, refer to deferred tax assets relating to subsidiaries for which the estimated IRAP taxable value of production is always positive and sufficient to reabsorb the IRAP DTAs expiring in the years covered by the stand-alone income and financial projections approved by the Board of Directors.

Additionally, in relation to the probability test results with regard to compliance with the ten-year DTA recoverability horizon assumed for the purposes of the lookout-period approach, at Group level at 31 December 2016 no IRES DTAs have been recorded for a total amount of Euro 531.2 million, related to tax losses (realised by the Parent company in the years 2015 and 2016), which according to the current legislation can be deducted from future year earnings without any time limit, and other IRES deferred tax assets totalling Euro 46.2 million (of which Euro 20.7 million may be recorded as offsetting entries in the income statement and Euro 25.5 million may be recorded as offsetting entries against equity).

Lastly, it should be pointed out that the elements considered above for probability test purposes present the following reasons for uncertainty:

- risk that changes to tax regulations, not foreseeable today, may in the future limit the possibility to recognise the IRES tax loss, reduce the tax rates with a consequent reduction in the amount of the recoverable DTA or entail even significant impacts on the taxable income of upcoming years;
- risk that, for any reason not currently foreseeable, the economic results (and the consequent future taxable income) are lower than those estimated by stand-alone income and financial projections for the years 2017-2021.

The occurrence of the aforesaid circumstances could lead in upcoming years even to significant adjustments in the accounting values of the deferred tax assets recorded in the Financial Statements.

14.7 Other information

Current tax assets at 31 December 2016 totalled Euro 135,841 thousand (Euro 101,607 thousand at 31 December 2015).

In compliance with the Bank of Italy Circular no. 262 of 22 December 2005 as amended, "Tax assets" (asset line item 140) and "Tax liabilities" (liability line item 80) in the statement of financial position only include those tax assets and liabilities (current and deferred) recognised in accordance with IAS 12 (governing income taxes), while other tax credit/debit balances are reported in "Other assets" (asset line item 160) and "Other liabilities" (liability line item 100) of the statement of financial position.

In compliance with IAS 12, payments on account for individual taxes have been offset against the related tax payable, with net positive balances reported as "Tax assets: a) current" and net negative balances as "Tax liabilities: a) current".

SECTION 15

Non-current assets held for sale and associated liabilities – Asset line item 150 and liability line item 90

This Section has not been completed since the Group does not have any non-current assets held for sale and discontinued operations and associated liabilities within the meaning of IFRS 5.

SECTION 16

Other assets – Line item 160

16.1 Other assets: breakdown

	31/12/2016	31/12/2015
1. Miscellaneous debits in transit	13,045	11,279
2. Miscellaneous security transactions	647	1,210
3. Amounts recorded on the last day of the year	228,989	172,488
4. Checks drawn on third parties sent for collection	5,242	4,074
5. Accrued income and prepaid expenses not allocated to specific accounts	3,544	4,000
6. Leasehold improvements	7,159	11,123
7. Items awaiting allocation	1,865	1,140
8. Other fiscal items	81,511	97,506
9. Other miscellaneous items	104,374	194,344
10. Differences on elimination	2,622	4,415
Total	**448,998**	**501,579**

"Leasehold improvements" consist of improvement expenditure that cannot be separated from the assets themselves, meaning that it cannot be separately recognised in property, plant and equipment. These costs are amortised over the period they are expected to benefit or the residual duration of the lease, whichever is shorter.

"Amounts recorded on the last day of the year" refer to items almost all of which settled in the first few days of the new year.

Tax liabilities in the table, in compliance with the Bank of Italy Circular no. 262 of 22 December 2005, as amended, report the tax liabilities that do not fall under the scope of IAS 12 (governing income taxes).

LIABILITIES AND EQUITY

SECTION 1

Due to banks – Line item 10

1.1 Due to banks: breakdown by type

Type of transaction/Members of the group	31/12/2016	31/12/2015
1. Due to central banks	**6,436,479**	**6,651,137**
2. Due to other banks	**2,737,440**	**3,322,322**
2.1 Current accounts and sight deposits	560,525	280,879
2.2 Time deposits	89,924	650,714
2.3 Loans	2,003,604	2,203,483
2.3.1 repurchase agreements	1,907,855	1,528,535
2.3.2 other	95,749	674,948
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	83,387	187,246
Total	**9,173,919**	**9,973,459**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	**9,173,919**	**9,973,459**
Total *fair value*	**9,173,919**	**9,973,459**

Under line item 1. "Due to central banks" shows refinancing operations in which the Group participated by forming a pool of assets eligible as collateral. In particular, at 31 December 2016, a refinancing operation for Euro 4,686 million, called TLTRO II Series (Targeted Longer Term Refinancing Operation) is under way, carried out by participating in the June 2016 auction, as well as an ordinary refinancing operation for Euro 1,750 million by participating in the weekly auctions of the ECB (so-called MRO). Lastly, during 2016, the TLTRO I operations carried out in 2014 (Euro 1,249 million) and in 2015 (Euro 600 million) were extinguished early.

Line 2.3.1 also includes funding "repurchase agreements" using securities obtained under lending "repurchase agreements".

1.2 Details of Line item 10 "Due to banks": subordinated debt

There is no subordinated debt with banks.

1.3 Details of Line item 10 "Due to banks": subordinated debt

There is no structured debt with banks.

1.4 Due to banks with micro hedges

There are no amounts due to banks with micro hedges.

1.5 Finance lease payables

There are no finance leases with banks.

SECTION 2

Due to customers – Line item 20

2.1 Due to customers: breakdown by type

Type of transaction/Members of the group	31/12/2016	31/12/2015
1. Current accounts and sight deposits	9,471,900	11,414,960
2. Time deposits	1,759,376	1,710,223
3. Loans	762,833	850,590
3.1 repurchase agreements	131,488	-
3.2 other	631,345	850,590
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	2,394,876	2,296,364
Total	**14,388,985**	**16,272,137**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**14,388,985**	**16,263,198**
Total *Fair value*	**14,388,985**	**16,263,198**

"Other payables" at 31 December 2016 include Euro 2,275.1 million (Euro 2,052.1 million at 31 December 2015) in liabilities for assets sold but not derecognised, as the matching entry to the mortgages sold under certain securitisations originated by the Group which do not qualify for derecognition under IAS 39 and so have been "reinstated" in the financial statements under Assets, line item 70 "Loans and advances to customers".

2.2 Details of Line item 20 "Due to customers": subordinated debt

There is no subordinated debt with customers.

2.3 Details of Line item 20 "Due to customers": structured debt

There is no structured debt with customers.

2.4 Due to customers with micro hedges

There are no amounts due to customers with micro hedges.

2.5 Finance lease payables

Time distribution of residual debt to lease companies

	31/12/2016	31/12/2015
up to 1 year	237	227
1 to 5 years	1,047	1,006
over 5 years	1,714	1,992
Total	**2,998**	**3,225**
surrender value	720	720
Total	**3,718**	**3,945**

Asset	Residual debt	Residual debt
Buildings	3,718	3,945
Total	**3,718**	**3,945**

In 2011, the subsidiary Immobiliare Stampa took over the finance lease agreement pertaining to a high-value building, located in Venice, paying Euro 6,691 thousand. The principal value of the residual payments of the lease agreement, expiring in July 2027, amounts to Euro 3,718 thousand at 31 December 2016.

SECTION 3

Debt securities in issue – Line item 30

3.1 Debt securities in issue: breakdown by type

	31/12/2016				31/12/2015			
	Book value	*Fair value*			Book value	*Fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities	**4,118,256**	**-**	**4,059,793**	**79,484**	**5,199,085**	**-**	**5,342,218**	**131,616**
1. Bonds	4,038,772	-	4,059,793	-	5,067,469	-	5,342,218	-
1.1 structured	87,206	-	87,206	-	85,272	-	86,925	-
1.2 other	3,951,566	-	3,972,587	-	4,982,197	-	5,255,293	-
2. other securities	79,484	-	-	79,484	131,616	-	-	131,616
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	79,484	-	-	79,484	131,616	-	-	131,616
Total	**4,118,256**	**-**	**4,059,793**	**79,484**	**5,199,085**	**-**	**5,342,218**	**131,616**

Line 1.1 "Structured bonds" is related to a bond issue convertible into ordinary shares of the Parent Bank.

Line 1.2 "Other bonds" also includes repurchase agreements with underlying own issue securities amounting to Euro 96,357 thousand (Euro 335,555 thousand at 31 December 2015).

Line 2.2 "Other securities" comprises certificates of deposit and own cheques in circulation.

3.2 Details of Line item 30 "Debt securities in issue": subordinated securities

	31/12/2016	**31/12/2015**
Debt securities in issue	645,393	713,437

More information about subordinated liabilities can be found in Part F, Section 2 of these Explanatory notes.

3.3 Details of Line item 30 "Debt securities in issue": securities backed by micro hedges

Type of security/Amounts	31/12/2016	31/12/2015
A. Securities		
1. Bonds	85,544	264,505
1.1 structured	-	-
1.2 other	85,544	264,505
2. other securities	-	-
2.1 structured	-	-
2.2 other	-	-
Total	**85,544**	**264,505**

The amounts shown in the table above refer to the nominal value of fixed-rate bonds subject to micro hedges.

SECTION 4

Financial liabilities held for trading – Line item 40

4.1 Financial liabilities held for trading: breakdown by type

Type of transaction/ Members of the group	31/12/2016					31/12/2015				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to other banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1. Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	-	1,374,116	81,187	-	-	70	2,771,663	253	-
1.1 Dealing	X	-	1,373,980	81,187	X	X	70	2,771,168	253	X
1.2 Connected with fair value option	X	-	136	-	X	X	-	495	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Dealing	X	-	-	-	X	X	-	-	-	X
2.2 Connected with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**1,374,116**	**81,187**	**X**	**X**	**70**	**2,771,663**	**253**	**X**
Total (A+B)	**X**	**-**	**1,374,116**	**81,187**	**X**	**X**	**70**	**2,771,663**	**253**	**X**

Key:
FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
NV = Nominal or notional value
L1= Level 1
L2= Level 2
L3 = Level 3

It should be noted that the amount related to financial derivatives indicated in Level 3 at 31/12/2016 is almost fully to be attributed to the valuation of the put option held by Cattolica Assicurazioni which give to said company the same right to sell to BPVi the 60% share held in the capital of the insurance companies Berica Vita, Cattolica Life and ABC Assicura.

There are no derivatives with underlying own liabilities.

4.2 Details of Line item 40 "Financial liabilities held for trading": subordinated liabilities

There are no subordinated liabilities.

4.3 Details of Line item 40 "Financial liabilities held for trading": structured debt

There is no structured debt.

SECTION 5

Financial liabilities designated at fair value – Line item 50

5.1 Financial liabilities designated at fair value: breakdown by type

Type of transaction/Amounts	31/12/2016					31/12/2015				
	NV	Fair value			FV*	NV	Fair value			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
2. Due to customers	**-**	**-**	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
3. Debt securities	**281,236**	**-**	**287,056**	**-**	**289,938**	**460,123**	**-**	**471,516**	**-**	**476,100**
3.1 Structured	26,263	-	26,299	-	X	33,322	-	33,490	-	X
3.2 Other	254,973	-	260,757	-	X	426,801	-	438,026	-	X
Total	**281,236**	**-**	**287,056**	**-**	**289,938**	**460,123**	**-**	**471,516**	**-**	**476,100**

Key:
FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
NV = Nominal value
L1 = Level 1, L2 = Level 2, L3 = Level 3

This line item includes own bonds correlated with derivative contracts that hedge interest rate risk, valued by applying the fair value option, as set forth in IAS 39 (so called "*natural hedge*").

Structured securities relate mainly to liabilities containing an optional part linked to the performance of interest rates.

5.2 Details of Line item 50 "Financial liabilities designated at fair value": subordinated liabilities

There are no subordinated financial liabilities designated at fair value.

SECTION 6

Hedging derivatives - Line item 60

6.1 Hedging derivatives: breakdown by types of hedge and levels

	Fair Value 31/12/2016			NV 31/12/2016	Fair Value 31/12/2015			NV 31/12/2015
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	**-**	**875,430**	**-**	**4,346,679**	**-**	**887,624**	**-**	**4,375,835**
1) Fair value	-	141,228	-	2,066,195	-	117,137	-	459,935
2) Cash flows	-	734,202	-	2,280,484	-	770,487	-	3,915,900
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**875,430**	**-**	**4,346,679**	**-**	**887,624**	**-**	**4,375,835**

Key: NV = nominal value, L1 = Level 1, L2 = Level 2, L3 = Level 3

This line item reports derivatives with a negative fair value, taken out to hedge interest rate risk on specific debt securities under "Financial assets available for sale" and on on-demand items (current accounts and demand deposits) of "Due to customers".

6.2 Hedging derivatives: breakdown by hedged portfolios and types of hedging

Transactions/Type of hedge	*Fair value*						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available for sale	134,263	-	-	-	-	X	733,752	X	X
2. Loans and advances	-	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**134,263**	**-**	**-**	**-**	**-**	**-**	**733,752**	**-**	**-**
1. Financial liabilities	6,965	-	-	X	-	X	450	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	**6,965**	**-**	**-**	**X**	**-**	**-**	**450**	**-**	**X**
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

To represent the aforesaid hedging transactions, the Group opted for the "Micro Fair Value Hedge" accounting model for those relating to investments in debt securities, while it used the "Macro Fair Value Hedge" model for those relating to on-demand items recorded under "Due to customers", with the consequent recognition of the revaluations of the hedged liabilities under Liabilities, line item 70 "Remeasurement of financial liabilities backed by macro hedges".

SECTION 7

Remeasurement of financial liabilities backed by macro hedges – Line item 70

7.1 Remeasurement of hedged financial liabilities

Fair value adjustment of hedged financial liabilities/ Members of the Group	31/12/2016	31/12/2015
1. Positive changes to financial liabilities	-	-
2. Negative changes to financial liabilities	(6,808)	-
Total	**(6,808)**	**-**

This item includes the changes in fair value referring to on-demand items (current accounts and demand deposits) recorded under "Due to customers", backed by macro hedges.

The Group has accounted for these hedges in the financial statements using the Macro Fair Value Hedging accounting model. Consequently, the write-back/write-down of hedged assets in compliance with IAS 39 is reported in this line item, with the matching entry recognised in "Net hedging gains (losses)" (income statement line item 90), together with the results of measuring the associated hedging derivatives.

7.2 Financial liabilities backed by macro hedges covering interest rate risk: breakdown

Hedged financial liabilities	31/12/2016	31/12/2015
1. Due to customers	1,366,195	-
Total	1,366,195	**-**

The amounts shown in the table above refer to the residual debt under liabilities, backed by hedges.

SECTION 8

Tax liabilities – Line item 80

Current tax liabilities at 31 December 2016 totalled Euro 1,165 thousand (Euro 3,456 thousand at 31 December 2015).

Deferred tax liabilities are discussed in Section 14 of the Assets.

In compliance with IAS 12, payments on account for individual taxes have been offset against the related tax payable, with net positive balances reported as “Tax assets: a) current” and net negative balances as “Tax liabilities: a) current”.

It should be noted that, in compliance with the Bank of Italy Circular no. 262 of 22 December 2005 as amended, “Tax assets” (asset line item 140) and “Tax liabilities” (liability line item 80) in the statement of financial position only include those tax assets and liabilities (current and deferred) recognised in accordance with IAS 12 (governing income taxes), while other tax credit/debit balances are reported in “Other assets” (asset line item 160) and “Other liabilities” (liability line item 100) of the statement of financial position.

SECTION 9

Liabilities associated with non-current assets held for sale – Line item 90

This Section has not been completed since the Group does not have any liabilities associated with non-current assets held for sale.

SECTION 10

Other liabilities – Line item 100

10.1 Other liabilities: breakdown

	31/12/2016	31/12/2015
1. Miscellaneous security transactions	22,530	27,177
2. Employee salaries and contributions	37,122	39,149
3. Due to suppliers	55,027	28,784
4. Transactions in transit	306,672	178,429
5. Adjustments for non-liquid balances relating to the portfolio	116,004	242,918
6. Allowance for risks on guarantees and commitments	11,291	10,746
7. Accrued expenses and deferred income not allocated to specific accounts	6,749	6,059
8. Other fiscal items	45,847	17,630
9. Other miscellaneous items	208,501	166,879
Total	**809,743**	**717,771**

"Transactions in transit" refer to positions taken in the last few days of the year, almost all of which settled in the first few days following the reference date of the financial statements.

Tax liabilities in the table, in compliance with the Bank of Italy Circular no. 262 dated 22 December 2005, as amended, report the tax assets that do not fall under the scope of IAS 12 (governing income taxes).

SECTION 11

Provision for severance indemnities – Line item 110

11.1 Provision for severance indemnities: changes during the year

	31/12/2016	31/12/2015
A. Opening balance	**72,585**	**80,132**
B. Increases	**3,916**	**1,424**
B.1 Provisions	1,231	1,398
B.2 Other increases	2,685	26
C. Decreases	**3,520**	**8,971**
C.1 Payments made	3,448	3,519
C.2 Other decreases	72	5,452
D. Closing balance	**72,981**	**72,585**

According to IFRIC, the provision for severance indemnities is a "post-employment benefit" qualifying as a "defined benefit plan", the value of which according to IAS 19 must be determined on an actuarial basis. As a consequence, the year-end valuation of this amount was carried out by an independent actuary using the projected unit credit method with reference to earned benefits. This method involves the projection of future payments with reference to past trends and statistical analyses and probabilities, adopting suitable demographic techniques. This makes it possible to calculate the severance indemnities accruing at a specific date on an actuarial basis, distributing the cost over the entire remaining service of the current workforce, and no longer presenting them as a cost payable as if the business were to cease trading on the reporting date.

Line B.1 "Provisions" includes, in addition to the actual provisions for the year determined in accordance with current laws and with the National Collective Labour Agreement, also the adjusting effect of the actuarial measurement recognised in the income in accordance with IAS 19.

Line B.2 "Other increases" includes the effect of the actuarial measurement, recognised as a balancing entry of the specific equity valuation reserve, in accordance with IAS 19.

The actuarial valuation of the employee severance indemnities performed in accordance with the method indicated above, brought to light a deficit in the payable, determined in accordance with current laws and with the National Collective Labour Agreement, compared to the result of the actuarial valuation of Euro 5,016 thousand (against a deficit totalling Euro 2,708 thousand at 31 December 2015).

11.2 Other information

The demographic and financial assumptions used to value the provision for severance indemnities at 31 December 2016 compared to those at 31 December 2015 are shown below.

Mortality rate	RG48	RG48
Disability	INPS tables by age and gender	INPS tables by age and gender
Age of retirement	Achievement of compulsory general insurance requirements	Achievement of compulsory general insurance requirements

Financial assumptions	**31/12/2016**	**31/12/2015**
Annual discounting rate	1.36%	2.03%
Annual inflation rate	1.50%	1,50% 2016
		1,80% 2017
		1,70% 2018
		1,60% 2019
		2,00% from 2020 onawards
Rate of severance indemnity increase	2.625%	2,625% 2016
		2,850% 2017
		2,775% 2018
		2,700% 2019
		3,00% from 2020 onawards

Annual frequency of turnover and severance indemnity advances	**31/12/2016**	**31/12/2015**
Advances (main rate)	1.00%	1.00%
Turnover (main rate)	1.00%	1.00%

SECTION 12

Provision for risks and charges – Line item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts	31/12/2016	31/12/2015
1. Post-retirement benefits	4,858	4,829
2. Other provisions for risks and charges	807,746	543,248
2.1 legal disputes	56,624	40,477
2.2 personnel expenses	20,425	1,267
2.3 other	730,697	501,504
Total	**812,604**	**548,077**

"Post-retirement benefits" refer to the Supplementary Section of the Pension Fund, a defined benefit plan of the former subsidiary Cariprato, merged into Banca Popolare di Vicenza on 31 December 2010, more details of which can be found in note 12.3 below. The Capitalisation Section of this fund is a defined contribution plan and so is not reported in the statement of financial position, in compliance with IAS 19.

12.2 Provisions for risks and charges: changes during the year

Items/Amounts	Post-retirement benefits	Other provisions	Total
A. Opening balance	**4,829**	**543,248**	**548,077**
B. Increases	**532**	**285,690**	**286,222**
B.1 Provisions	532	284,258	284,790
B.2 Changes due to the passage of time	-	-	-
B.3 Changes due to variations in the discount rate	-	158	158
B.4 Other increases	-	1,274	1,274
C. Decreases	**503**	**21,192**	**21,695**
C.1 Utilizations during the year	503	20,940	21,443
C.2 Changes due to variations in the discount rate	-	-	-
C.3 Other decreases	-	252	252
D. Closing balance	**4,858**	**807,746**	**812,604**

12.3 Defined benefit pension funds

1. Illustration of the characteristics of the provisions and of the related risks

The Bank operates a supplementary pension fund for employees under an agreement signed on 30 June 1998 between Cariprato, merged into BPVi in December 2010, and the employees' unions. This Fund, restricted under article 2117 of the Italian Civil Code and governed by specific regulations, is divided into two Sections:

- the Capitalisation Section, which guarantees supplementary pension benefits on a defined contribution basis, requiring the Bank to pay an annual amount calculated with reference to the taxable base used for determining severance indemnities;
- the defined benefit Supplementary Section, which is described in this note.

The Supplementary Section represents the continuation, under current rules, of the original Fund set up under an in-house agreement dated 27 June 1972 to supplement the benefits payable by INPS. Its participants comprise personnel of the former subsidiary Cariprato who were already pensioners as of 1 July 1998, as well as the employees of the bank at 1 May 1981 who opted to remain in the Supplementary Section on 1 July 1998.
The Fund guarantees pension benefits to members that supplement those paid by INPS under the obligatory national scheme. These benefits can represent up to 75% of the last pensionable salary received (after 35 years of service).

At 31 December 2016, the Supplementary Section's participants comprise 1 employee still in service and 55 employees entitled to supplementary or substitute benefits greater than zero.

2. Change in the year of the net defined benefit liabilities (assets) and of the rights to reimbursement

The opening and closing balances of the present value of the defined benefit obligation are reconciled below, indicating the effects of changes during the year:

Description	**Mathematical reserve**
Mathematical reserve at 31/12/2015	**4,829**
Net earnings of the Fund	121
Benefit paid	(503)
Payments made	3
Actuarial loss - 2016	408
Mathematical reserve at 31/12/2016	**4,858**

At 31 December 2016, the size of the Fund was aligned to the mathematical reserve calculated on the same date, since the Bank, in accordance with Article 8 of the Fund Regulations, had settled the deficit of Euro 532 thousand (versus a deficit of Euro 116 thousand in the previous year) resulting from the actuarial valuation.

The Fund's assets, all invested in cash and cash equivalents with Banca Popolare di Vicenza, increased from Euro 4,829 thousand at 31 December 2015 to Euro 4,858 thousand at 31 December 2016. The decreases during the year derive from the payment of Euro 503 thousand in pensions, whilst the increases refer to the payment, for Euro 532 thousand, made to settle the Fund deficit and make its size match the mathematical reserve.

3. Disclosures on the fair value of plan assets

The present value of the defined benefit obligation and the fair value of the plan assets and the plan's surplus or deficit are presented for the current year and four previous ones:

year	Present value	Fair value of assets	Surplus or (Deficit)
2012	5,923	5,838	(85)
2013	5,682	5,268	(414)
2014	5,253	5,042	(211)
2015	4,829	4,713	(116)
2016	4,858	4,326	(532)

At 31 December 2016, the Bank allocated a provision of Euro 532 thousand to make the size of the Fund match the Mathematical Reserve.

There are no differences between the present value of plan assets and the assets and liabilities reported in the statement of financial position since all the fund's resources are invested in liquid assets.

4. Description of principal actuarial assumptions

The amount of the supplementary Fund in relation to the obligations to its participants is reviewed once a year by an independent actuary.
The principal actuarial assumptions adopted for the latest calculation of the mathematical reserve at 31 December 2016 are set out below.
This valuation was made using the demographic, economic and financial assumptions described below.

Demographic assumptions

The following criteria were adopted:

- *probability of death of current employees and pensioners*: the mortality rates of the Italian population published by ISTAT in 2014 were applied;
- *probability of termination of service for absolute and permanent disability:* probabilities adopted by the Treasury Ministry's Pension Institutes, published in the report of 1969, reduced to 75% of the original amount, were applied;
- *retirement age*: it was assumed that active employees who do not "die in service" or "retire for intervening disability" stop working as soon as they reach the minimum pensionable age/length of service established by INPS current retirement legislation in Italy. No person may receive benefits unless they also qualify for a pension payable by INPS;
- *calculation of indirect expenses and reversibility*: the calculation refers to the composition of the average surviving family unit, depending on the employee's sex and age upon death, and the number of years since death. The probabilities of marriage (by sex and age) and the probabilities of fertility (by age of the female and by order of birth of the children) were taken from the ISTAT "Marriage tables" (1971) and from the ISTAT "Female fertility survey" (1974), with appropriate adjustments to take account of social changes of the past twenty years. In order to take account of the changes introduced by Law 335/1995 on the accumulation of surviving spouse pensions and beneficiary income, the pension payable by INPS to surviving spouses has been reduced to 66% (based on information obtained in relation to a major bank);
- *types of remuneration:* these were taken, with suitable standardisation, from actual statistics relating to the staff of a bank at 31 December 1995, broken-down based on the following four categories: managers and officers, male middle managers and clerical staff, female middle managers and clerical staff, subordinate and auxiliary staff. Due to the limited number of employees of Cassa, the data which can be directly identified by examining its experience is immaterial.

Economic and financial assumptions

The following rates have been adopted:

- technical discounting rate: 0.39%;
- annual inflation rate: 1.50%;
- annual rate of salary increases: 1%.

The technical rate was chosen based on the consideration that the financial average duration of outflows, starting from 31 December 2016, calculated according to the assumptions adopted for the previous Financial Statement, is 6.9 years.

5. Information on amount, timing and uncertainty of cash flows

On the basis of assumptions reported in the earlier paragraph, the calculation of charges the Fund must deal with in the future gave the following results.

Pensioners

Average present value of integrated pension (Euro)			
	Males	**Females**	**Total**
direct	23,323,513	1,523,094	24,846,607
indirect and survivors' pensions	-	4,191,569	4,191,569
total	23,323,513	5,714,663	29,038,176

Average present value of INPS pension (Euro)			
	Males	**Females**	**Total**
direct	19,762,491	1,332,613	21,095,104
indirect and survivors' pensions	-	3,129,343	3,129,343
total	19,762,491	4,461,956	24,224,447

Average present value of supplementary pension (Euro)			
	Males	**Females**	**Total**
direct	3,561,022	190,482	3,751,504
indirect and survivors' pensions	-	1,062,227	1,062,227
total	3,561,022	1,252,709	4,813,731

Active

Average present value of treatments accrued (Euro)		
integrated pension	**pension INPS**	**supplementary pension**
728,041	683,600	44,441

As regards timing, for the 55 pensioners, the average age is around 78 years for males and 81 years for females.
As regards the current female employees, it was assumed they will continue to keep up the same percentage of work activity in the future as they have done up till now (the employees are holding part time employment contracts).

6. Multi-employer plans

This paragraph has not been completed, since there is just one employer.

7. Defined benefit plans that spread risks among entities under common control

This paragraph has not been completed since there are no risks spread among entities under common control.

12.4 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2016	31/12/2015
1. Legal disputes	**56,624**	**40,477**
1.1 Civil litigation	51,022	36,462
1.2 Bankruptcy claims	5,602	4,015
2. Personnel expenses	**20,425**	**1,267**
2.1 Bonus system and other personnel charges	20,425	1,267
3. Other	**730,697**	**501,504**
3.1 Financed capital and letters of commitment to buy back	266,477	352,561
3.2 Complaints and disputes on BPVi shares (incl. settlement offer to Shareholders)	424,036	136,398
3.3 other	40,184	12,545
Total	**807,746**	**543,248**

The provision for legal disputes relates to contingencies associated with claims against the Bank and from the liquidators of bankrupt companies.

The provision for employment costs refers to potential lawsuits related to employees. More specifically, it refers to the charges related to the Solidarity Fund executed in December with the Trade Unions.

The other funds under lines 3.1 and 3.2 refer to "BPVi capital transactions" and apply to legal risks related to other critical issues that emerged during the ECB's inspection of 2015, as well as following internal audits carried out as described in the paragraph "Inspections" of the Report on Operations. Line 3.2 includes the allocations made to keep into account the outcome of the settlement offer made to the Shareholders of the Parent Bank (including the Welfare Initiative targeting the shareholders under difficult living conditions), the terms and conditions of which are described in the specific paragraph of the Report on Operations.

The lawsuit for bankruptcy claims and litigation against the Bank (other than cases relating to the transactions on BPVi capital) has been discounted to present value, while the other provisions refer to contingencies that are likely to be settled within the next 12/18 months. Consequently, these liabilities have not been discounted since the effect would not be significant.

SECTION 13

Technical reserves – Line item 130

There are no amounts to be shown.

SECTION 14

Redeemable shares – Line item 150

This Section has not been completed because the Group has not issued any redeemable shares.

SECTION 15

Group equity – Line items 140, 160, 170, 180, 190, 200 and 220

15.1 "Capital stock" and "Treasury shares": breakdown

Items/Amounts	**31/12/2016**	**31/12/2015**
- Total number of shares	15,100,587,829	100,587,829
- Nominal value	-	Euro 3.75

Following the by-laws amendments approved by the Shareholders' Meeting of 7 July 2016, the shares of the Bank have no nominal value.

15.2 Capital stock – Number of shares issued by the parent bank: changes during the year

Items/Amounts	Ordinary	Other
A. Shares issued at the beginning of the year	**100,587,829**	**-**
- fully paid	100,587,829	-
- not fully paid	-	-
A.1 Treasury shares (-)	407,527	-
A.2 Outstanding shares: opening balance	**100,180,302**	**-**
B. Increases	**15,000,000,000**	**-**
B.1 New issues	15,000,000,000	-
- payment:	15,000,000,000	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrant	-	-
- other	15,000,000,000	-
- bonus:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**258,533**	**-**
C.1 Elimination	-	-
C.2 Purchase of treasury shares	258,533	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	**15,099,921,769**	**-**
D.1 Treasury shares (+)	666,060	-
D.2 Shares at the end of the year	15,100,587,829	-
- fully paid	15,100,587,829	-
- not fully paid	-	-

The "New issues – against payment" of line B.1 refers to the completion of the capital increase operation which took place in May 2016, fully subscribed by Atlante Fund/Quaestio Sgr SpA.

Line C.2 "Purchase of Treasury shares" refers to the shares resulting from the settlement agreement entered into with the Athena Fund.

15.3 Share capital: other information

As a result of bonus issues in previous years, capital stock includes the following revaluation reserves in suspense for tax purposes:

- Reserve under Law 74 dated 11.02.1952 for Euro 24 thousand;
- Reserve under Law 72 dated 19.03.1983 for Euro 13,005 thousand;
- Reserve under Law 576 dated 02.12.1975 for Euro 553 thousand;
- Reserve under Law 218 dated 30.07.1990 for Euro 30,582 thousand;
- Reserve under Law 408 dated 29.12.1990 for Euro 12,834 thousand;
- Reserve under Law 413 dated 30.12.1991 for Euro 28,054 thousand.

15.4 Reserves from earnings: other information

See the corresponding section of the Notes to the Financial Statements of the Parent Bank.

15.5 Other information

As is better described in the "Inspections" paragraph of the Report on Operations, the review of the capital carried out by the ECB brought to light a correlation between acquisitions/subscriptions of BPVi shares and loans disbursed to certain Members/Shareholders. In this regard it is pointed out that the equity reserves are subject to a restriction making them non-distributable pursuant to Art. 2358, paragraph 6 of the Italian Civil Code, in the amount of Euro 255 million.

In addition to the amount mentioned above there is another non-distributable equity reserve pursuant to Art. 2358, paragraph 6 of the Italian Civil Code in the amount of Euro 40 million relating to two "ordinary" share capital increase transactions to expand the shareholder base, which offered new Shareholders the possibility of subscribing BPVi shares with resources deriving from a loan granted by the Bank, in compliance with the provisions of Art. 2358 of the Italian Civil Code.

SECTION 16

Minority interests – Line item 210

16.1 Breakdown of line item 210 "Minority interests"

Entity name	31/12/2016	31/12/2015
Investments in consolidated firms with significant minority interests		
1. Farbanca SpA	18,159	17,572
Other investments		
1. Nem Imprese	481	479
2. Servizi Bancari SCpA	9	9
Total	**18,649**	**18,060**

16.2 Capital instruments: breakdown and changes during the year

This Section has not been completed since there are no equity instruments pertaining to minority interests included in equity.

OTHER INFORMATION

1. Guarantees given and commitments

Operations	31/12/2016	31/12/2015
1) Financial guarantees	289,440	873,404
a) Banks	11,565	27,568
b) Customers	277,875	845,836
2) Commercial guarantees	449,459	552,886
a) Banks	30,107	38,872
b) Customers	419,352	514,014
3) Irrevocable commitments to make loans	400,506	952,802
a) Banks	841	5,242
i) certain to be called on	841	5,242
ii) not certain to be called on	-	-
b) Customers	399,665	947,560
i) certain to be called on	6,386	3,126
ii) not certain to be called on	393,279	944,434
4) Commitments underlying credit derivatives: protection sold	-	-
5) Assets lodged to guarantee the commitments of third parties	-	9,397
6) Other commitments	185,819	19,732
Total	**1,325,224**	**2,408,221**

2. Assets pledged to guarantee own liabilities and commitments

Portfolio	31/12/2016	31/12/2015
1. Financial assets held for trading	49,699	61,196
2. Financial assets designated at fair value	-	-
3. Financial assets available for sale	3,742,063	4,745,765
4. Financial assets held to maturity	1,034,169	-
5. Loans and advances to banks	1,014,809	1,089,726
6. Loans and advances to customers	11,271,272	9,869,960
7. Property, plant and equipment	240,772	18,887

The assets pledged as security shown in the table refer mainly:

- for assets held for trading, to own securities pledged in repurchase agreements;
- for financial assets available for sale, to securities transferred in the pooling of assets pledged as security for refinancing operations carried out with the ECB, as well as those pledged in repurchase agreements or deposited to secure own liabilities;
- for loans and advances to banks, to cash collateral in view of the exposures deriving from operations involving OTC derivatives and/or Repo/bond buy/sell back, regulated by international standards (CSA/GMRA) subscribed on existing ISDA contracts with the various counterparties that regulate such operations;
- for loans and advances to customers, to the securitised loans reported for an amount proportional to the portion of the related ABS securities placed directly on the market or subscribed by the Group and subsequently re-employed in funding operations, such as repurchase agreements for funding and/or refinancing with the ECB. Also included are the loans in place with customers and connected with financing obtained from multilateral development banks and from other institutional counterparties as well as those transferred into the pooling of assets pledged as security for refinancing operations carried out with the ECB;
- for property, plant and equipment to a pool of properties encumbered by a mortgage in favour of holders of a debenture loan issued by the Parent Bank at the end of the year, to a property under a financial lease and to a property purchased in the previous years, encumbered by a mortgage in favour of third parties.

Lastly, for a total of Euro 610.9 million, also guarantees not recorded in the financial statements and received within security lending and/or repurchase agreement transactions were pledged as security for own liabilities. They were transferred into the pooling of assets pledged as security for refinancing operations with the ECB or re-employed in repurchase agreement transactions.

3. Information on operating leases

There are no material operating leases.

4. Composition of investments for unit-linked and index-linked policies

The Group does not have any unit-linked and index-linked policies.

5. Administration and trading on behalf of third parties

Type of service	31/12/2016	31/12/2015
1. Orders executed on behalf of customers	**343,539**	**814,937**
a) purchases	251,856	698,806
1. settled	250,606	692,206
2. unsettled	1,250	6,600
b) sales	91,683	116,131
1. settled	90,396	115,315
2. unsettled	1,287	816
2. Portfolio management	**105,229**	**161,039**
a) individual	46,987	61,616
b) collective	58,242	99,423
3. Custody and administration of securities	**24,623,904**	**28,395,061**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	-	-
1. securities issued by consolidated companies	-	-
2. other securities	-	-
b) third party securities in custody (excluding portfolio management): other	10,988,924	14,837,475
1. securities issued by consolidated companies	2,578,433	3,615,563
2. other securities	8,410,491	11,221,912
c) third-party securities on deposit with third parties	10,539,084	14,395,926
d) own securities on deposit with third parties	13,634,980	13,557,586
4. Other transactions	**-**	**-**

6. *Financial assets offset in the financial statements, or subject to framework offsetting agreements or similar agreements.*

7. Financial liabilities offset in the financial statements, or subject to framework offsetting agreements or similar agreements.

The Group has no outstanding financial assets and liabilities that are offset in accordance with IAS 32 par. 42. The related tables are therefore omitted.

It should be noted that the Group uses bilateral offsetting arrangements relating to operations in over-the-counter derivatives with principal market counterparties, mainly Banks, giving the option to offset creditor positions against debtor positions in the event of counterparty default. These agreements have not entailed the offsetting of assets against liabilities in the financial statements.

8. Securities lending

The fair value at 31 December 2016 of the securities received in securities loans with customers is set out below. The transactions are without cash guarantee or with cash guarantee that is not within the full availability of the lender. Therefore, they are not included among the assets and liabilities of the Statement of Financial Position.

	Fair value	
Type	**Financial companies**	**Non-financial institutions**
Debt securities	7,832	53,828
Other debt securities	6,355	4,146
Total	**14,187**	**57,974**

All borrowed securities were pledged to guarantee own financing transactions of the Eurosystem.

9. Disclosure on joint operations

The Group does not own any joint operations.

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

SECTION 1

Interest – Line items 10 and 20

1.1 Interest income and similar revenues: breakdown

Items/technical forms	Debt securities	Loans	Other transactions	**Total 31/12/2015**	**Total 31/12/2014**
1. Financial assets held for trading	4,086	-	8,557	12,643	37,033
2. Financial assets designated at fair value	92	-	-	92	92
3. Financial assets available for sale	111,907	941	-	112,848	81,731
4. Financial assets held to maturity	953	-	-	953	1,306
5. Loans and advances to banks	-	12,807	-	12,807	5,164
6. Loans and advances to customers	8,918	668,438	-	677,356	836,487
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	390	390	223
Total	**125,956**	**682,186**	**8,947**	**817,089**	**962,036**

The line item at issue includes late-payment interest collected on loans referring to loans and advances to customers classified under bad loans for Euro 86.4 thousand (Euro 111.5 thousand at 31 December 2015). Late-payment interest on loans and advances to customers classified under bad loans and not yet collected, was fully adjusted.

1.2 Interest income and similar revenues: differentials relating to hedging transactions

There are no amounts to be shown.

1.3 Interest income and similar revenues: other information

1.3.1 Interest income on foreign currency financial assets

	31/12/2016	**31/12/2015**
a) on foreign currency assets	6,079	7,889

1.3.2 Interest income on finance leases

There was no interest income on finance leases.

1.4 Interest expense and similar charges: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2015**	**Total 31/12/2014**
1. Due to central banks	(1,618)	X	-	(1,618)	(2,134)
2. Due to banks	(62,304)	X	-	(62,304)	(38,852)
3. Due to customers	(135,577)	X	-	(135,577)	(150,181)
4. Debt securities in issue	X	(170,512)	-	(170,512)	(211,513)
5. Financial liabilities held for trading	-	(439)	-	(439)	(1,406)
6. Financial liabilities designated at fair value	-	(12,574)	-	(12,574)	(36,223)
7. Other liabilities and provisions	X	X	-	-	-
8. Hedging derivatives	X	X	(54,014)	(54,014)	(17,847)
Total	**(199,499)**	**(183,525)**	**(54,014)**	**(437,038)**	**(458,156)**

1.5 Interest expense and similar charges: differentials relating to hedging transactions

	31/12/2016	**31/12/2015**
A. Positive differentials relating to hedging transactions	13,983	27,415
B. Negative differentials relating to hedging transactions	(67,997)	(45,262)
C. Balance (A-B)	**(54,014)**	**(17,847)**

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on foreign currency liabilities

	31/12/2016	**31/12/2015**
a) on foreign currency liabilities	(437)	(1,141)

1.6.2 Interest expense on finance leases

	31/12/2016	**31/12/2015**
a) on finance leases	(91)	(165)

SECTION 2

Commissions – Line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/ Amounts	31/12/2016	31/12/2015
a) guarantees given	9,498	12,610
b) derivatives on loans	-	-
c) management, dealing and consultancy services:	78,908	138,856
1. trading in financial instruments	179	1,114
2. foreign currency trading	1,275	1,994
3. portfolio management	484	805
3.1. individual	484	805
3.2. collective	-	-
4. custody and administration of securities	1,890	2,090
5. custodian bank	-	-
6. placement of securities	34,125	57,761
7. acceptance and transmission of orders	4,865	9,193
8. advisory services	2,638	2,897
8.1. for investments	-	-
8.2. for financial structure	2,638	2,897
9. distribution of third party services	33,452	63,002
9.1. portfolio management	446	371
9.1.1. individual	1	1
9.1.2. collective	445	370
9.2. insurance products	14,096	33,757
9.3. other products	18,910	28,874
d) collection and payment services	35,348	38,916
e) servicing for securitization transactions	655	2,439
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) multilateral trading systems management	-	-
i) provision and management of current accounts	110,163	127,843
j) other services	31,385	37,497
Total	**265,957**	**358,161**

2.2 Fee and commission expense: breakdown

Services/Amounts	**31/12/2016**	**31/12/2015**
a) guarantees received	(983)	(828)
b) derivatives on loans	-	-
c) management and dealing services:	(10,235)	(14,895)
1. trading in financial instruments	(2,608)	(2,699)
2. trading in foreign currency	(48)	(236)
3. portfolio management	(57)	(126)
3.1. own portfolio	(57)	(126)
3.2. third-party portfolio	-	-
4. custody and administration of securities	(274)	(84)
5. placement of financial instruments	(766)	(690)
6. door-to-door distribution of financial instruments, products and services	(6,482)	(11,060)
d) collection and payment services	(8,378)	(10,709)
e) other services	(16,053)	(9,304)
Total	**(35,649)**	**(35,736)**

SECTION 3

Dividend and similar income – Line item 70

3.1 Dividend and similar income: breakdown

Items/Income	31/12/2016		31/12/2015	
	Dividends	**Income from mutual funds**	**Dividends**	**Income from mutual funds**
A. Financial assets held for trading	97	-	706	-
B. Financial assets available for sale	3,843	415	7,450	11,923
C. Financial assets designated at fair value	1,021	-	-	-
D. Equity method investments	-	X	10,535	X
Total	**4,961**	**415**	**18,691**	**11,923**

SECTION 4

Net trading income – Line item 80

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B) - (C+D)]
1. Financial assets held for trading	**2,643**	**1,013**	**(2,302)**	**(2,599)**	**(1,245)**
1.1 Debt securities	2,640	672	(2,051)	(1,435)	(174)
1.2 Equities	3	339	(251)	(1,164)	(1,073)
1.3 Mutual funds	-	2	-	-	2
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**113**	**-**	**-**	**113**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	113	-	-	113
2.3 Other	-	-	-	-	-
3. Other assets and financial liabilities: exchange differences	**X**	**X**	**X**	**X**	**7,124**
4. Derivatives	**831,655**	**2,769,213**	**(684,281)**	**(3,009,367)**	**(95,983)**
4.1 Financial derivatives:	831,655	2,769,213	(684,281)	(3,009,367)	(95,983)
- On debt securities and interest rates	831,498	2,766,153	(603,423)	(3,004,552)	(10,324)
- On equities and equity indices	157	3,060	(80,858)	(4,815)	(82,456)
- On currency and gold	X	X	X	X	(3,203)
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**834,298**	**2,770,339**	**(686,583)**	**(3,011,966)**	**(89,991)**

Trading profits (losses) and valuation gains (losses) relating to financial derivatives are presented on a gross basis for each individual financial instrument. Capital losses of Euro 80.9 million on derivative instruments based on equity securities refer to the valuation of the put options held by Cattolica Assicurazioni on the insurance companies Berica Vita, Cattolica Life and ABC Assicura which recognise to Cattolica Assicurazioni the right to sell to the Parent Bank 60% of the capital share held in these companies.

SECTION 5

Net hedging gains (losses) – Line item 90

5.1 Net hedging gains (losses): breakdown

Income items / Amounts	31/12/2016	31/12/2015
A Income relating to:		
A.1 Fair value hedges	115,896	187,714
A.2 Hedged financial assets (fair value)	94,538	28,454
A.3 Hedged financial liabilities (fair value)	12,363	7,933
A.4 Cash-flow hedges	28,470	79,151
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activities (A)	**251,267**	**303,252**
B. Charges from:		
B.1 Fair value hedges	(233,495)	(187,613)
B.2 Hedged financial assets (fair value)	(2,453)	(51,447)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedges	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activities (B)	**(235,948)**	**(239,060)**
C. Net hedging gains (losses) (A - B)	**15,319**	**64,192**

As at 31 December 2016, there are hedges of interest rate risk on specific floating rate with maximum rate mortgage portfolios classified as “Loans and advances to customers”, on certain debt securities classified as "Financial assets available for sale”, on individual own-issue bonds recorded among “Securities in issue” and on demand items (current accounts and demand deposit liabilities) under “Due to customers”.

The measurements carried out at the end of the year, in accordance with IAS 39, confirmed the effectiveness of existing hedges and led to the recording, in the line item in question, of a net expense of Euro 891 thousand, which represents partial ineffectiveness, which in any case remains within the range allowed by IAS 39.

The line item includes Euro 18,328 thousand in net income related to the early termination of certain hedges on debt securities recorded under “Financial assets available for sale” and net expenses of Euro 8,965 thousand related to the termination of the hedges on fixed rate mortgages.

SECTION 6

Gains (losses) on disposal or repurchase – Line item 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Items/income items	31/12/2016			31/12/2015		
	Profits	**Losses**	**Net profit (loss)**	**Profits**	**Losses**	**Net profit (loss)**
Financial assets						
1. Loans and advances to banks	-	-	-	25	(180)	(155)
2. Loans and advances to customers	3,750	(11,153)	(7,403)	7,481	(11,046)	(3,565)
3. Financial assets available for sale	39,363	(621)	38,742	231,605	(1,483)	230,122
3.1 Debt securities	13,667	(604)	13,063	20,964	(836)	20,128
3.2 Equities	19,569	(17)	19,552	202,076	(72)	202,004
3.3 Mutual funds	6,127	-	6,127	8,565	(575)	7,990
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	997	-	997
Total assets	**43,113**	**(11,774)**	**31,339**	**240,108**	**(12,709)**	**227,399**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	1,932	-	1,932
3. Debt securities in issue	18,777	(370)	18,407	7,286	(3,132)	4,154
Total liabilities	**18,777**	**(370)**	**18,407**	**9,218**	**(3,132)**	**6,086**

Gains and losses under "Loans and advances to customers" refer primarily to the disposal of some receivables carried out during the period.

The gains and losses from "Financial assets available for sale" include the "release" to income of the positive and negative valuation reserves, recorded separately under equity of the financial statements of the previous year, as a result of selling assets during the year.

SECTION 7

Net change in financial assets and liabilities designated at fair value – Line item 110

7.1 Net change in financial assets and liabilities designated at fair value: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Net profit (loss) [(A+B) - (C+D)]
1. Financial assets	**335**	**9,606**	**(2,855)**	**(3,131)**	**3,955**
1.1 Debt securities	335	-	(2,313)	-	(1,978)
1.2 Equities	-	9,606	(542)	(3,131)	5,933
1.3 Mutual funds	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**2,547**	**1,695**	**(916)**	**(450)**	**2,876**
2.1 Debt securities	2,547	1,695	(916)	(450)	2,876
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets & liabilities: exchange differences	X	X	X	X	**-**
4. Credit and financial derivatives	**1,922**	**543**	**(6,415)**	**(2,429)**	**(6,379)**
Total	**4,804**	**11,844**	**(10,186)**	**(6,010)**	**452**

Trading profits (losses) and valuation gains (losses) relating to financial derivatives are presented on a gross basis for each individual financial instrument.

The net losses recorded in the line item in question on financial liabilities include the pull to par effect connected to the reduction, due to the passing of time, in profits deriving from the change in the Parent Bank's creditworthiness recorded in previous years on its bonds measured at fair value.

SECTION 8

Net impairment adjustments – Line item 130

8.1 Net impairment adjustments to loans and advances: breakdown

Transactions/Income items	Adjustments			Writebacks				31/12/2016	31/12/2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks	(61)	-	-	-	-	-	-	**(61)**	**(237)**
- Loans	(61)	-	-	-	-	-	-	**(61)**	**(237)**
- Debt securities	-	-	-	-	-	-	-	**-**	**-**
B. Loans to customers	(7,909)	(1,173,232)	(15,954)	57,885	69,982	-	-	**(1,069,228)**	**(1,333,126)**
Purchased non performing loans									
- Loans	-	-	X	-	-	X	X	**-**	**-**
- Debt securities	-	-	X	-	-	X	X	**-**	**-**
Other loans	(7,909)	(1,173,232)	(15,954)	57,885	69,982	-	-	**(1,069,228)**	**(1,333,126)**
- Loans	(7,909)	(1,169,942)	(11,675)	57,885	69,982	-	-	**(1,061,659)**	**(1,328,629)**
- Debt securities	-	(3,290)	(4,279)	-	-	-	-	**(7,569)**	**(4,497)**
C. Total	**(7,970)**	**(1,173,232)**	**(15,954)**	**57,885**	**69,982**	**-**	**-**	**(1,069,289)**	**(1,333,363)**

Key:
A = interest B = other

8.2 Net impairment adjustments to financial assets available for sale: breakdown

Transactions/Income items	Adjustments		Writebacks		31/12/2016	31/12/2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	(8)	-	-	**(8)**	**(4)**
B. Equities	-	(9,260)	X	X	**(9,260)**	**(10,870)**
C. Mutual funds	-	(54,961)	X	-	**(54,961)**	**(149,353)**
D. Loans to banks	-	-	-	-	**-**	**-**
E. Loans to customers	-	-	-	-	**-**	**-**
F. Total	**-**	**(64,229)**	**-**	**-**	**(64,229)**	**(160,227)**

Key:
A = interest B = other

Impairment adjustments to equities relate primarily to some stocks listed on an active market which exceeded the materiality and/or durability threshold set forth in the internal policy for "identifying impairment losses on financial assets available for sale" and to certain equity interests held in unlisted companies for which an impairment loss was deemed to exist. It should be noted that the above mentioned line includes also the write-down, amounting to Euro 942 thousand, of the share indirectly held in CaRiCesena S.p.a. through the Voluntary form established by the Interbank Deposit Protection Fund (F.I.T.D.) of which the BPVi Group is part. The value adjustments for impairment of mutual fund units relate, for Euro 50,481 thousand, to the Luxembourg Optimum Multistrategy I and Optimum Multistrategy II Funds which, with the assistance of an external company, were updated to the presumed realisable value of the underlying single assets.

8.3 Net impairment adjustments to financial assets held to maturity: breakdown

This table has not been completed because the Group did not recognise net impairment losses on financial assets held to maturity.

8.4 Net impairment adjustments to other financial transactions: breakdown

Transactions/Income items	Adjustments			Writebacks				31/12/2016	31/12/2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	(16)	(1,543)	-	-	-	-	996	**(563)**	**12,194**
B. Derivatives on loans	-	-	-	-	-	-	-	**-**	**-**
C. Commitments to disburse funds	-	-	-	-	-	-	-	**-**	**-**
D. Other transactions	-	-	-	-	-	-	-	**-**	**-**
E. Total	**(16)**	**(1,543)**	**-**	**-**	**-**	**-**	**996**	**(563)**	**12,194**

Key:
A = interest B = other

"Adjustments" are connected with the valuation of the guarantees issued by the Group.

SECTION 9

Net premium income – Line item 150

There are no amounts to be shown.

SECTION 10

Other insurance income (charges) – Line item 160

There are no amounts to be shown.

SECTION 11

Administrative costs –Line item 180

11.1 Payroll costs: breakdown

Type of expense/Segments	31/12/2016	31/12/2015
1) Employees	**(405,461)**	**(399,638)**
a) wages and salaries	(274,442)	(278,795)
b) social security contributions	(72,322)	(73,549)
c) severance indemnities	(23)	(24)
d) pension costs	(662)	(659)
e) provision for severance indemnities	(1,231)	(1,398)
f) provision for pensions and similar commitments:	(710)	(946)
- defined contribution	(586)	(755)
- defined benefit	(124)	(191)
g) payments to external supplementary pension funds:	(21,011)	(24,474)
- defined contribution	(21,011)	(24,474)
- defined benefit	-	-
h) costs deriving from equity-settled payment arrangements	-	-
i) other personnel benefits	(35,060)	(19,793)
2. Other personnel	**(121)**	**(1,791)**
3. Directors and Statutory Auditors	**(6,302)**	**(8,095)**
4. Retired personnel	**(866)**	**(850)**
Total	**(412,750)**	**(410,374)**

These costs also include provisions for future expenses relating to the employees, in compliance with IAS standards which require costs to be classified by the "nature" of the expense. In particular, line 1 i) includes the allocation of Euro 20.4 million in relation to the employee solidarity fund under the agreement executed last December with the trade unions.

11.2 Average number of employees by grade

	31/12/2016	31/12/2015
1. Employees	**5,139**	**5,258**
a) Managers	99	99
b) Middle managers	2,232	2,280
c) Other employees	2,808	2,879
2. Other personnel	**8**	**15**
Total	**5,147**	**5,273**

The average number of employees is calculated as the weighted average number of employees (with permanent and other employment contracts, including staff from other non-Group companies who are seconded to Group companies and excluding Group company employees who are seconded to other non-Group companies), where the weighting is given by the number of months worked in the year.

"Other employees" includes staff working under contracts other than permanent employment ones, such as temporary or project contracts.

11.3 Defined benefit pension funds: costs and income

At 31 December 2016, the Parent Bank, in accordance with Article 8 of the Fund Regulations, had settled the deficit of Euro 532 thousand resulting from the actuarial valuation, realigning the size of the Fund to the mathematical reserve calculated on the same date.

The above mentioned cost has been recorded for Euro 124 thousand under income statement line "150 a) Payroll costs" and for Euro -408 thousand under line item 40 "Actuarial gains (losses) on defined-benefit plans" of the statement of comprehensive income.

11.4 Other employee benefits

There are no other employee benefits worthy of disclosure under IAS 19, paragraphs 131, 141 and 142.

11.5 Other administrative costs: breakdown

	31/12/2016	31/12/2015
1. Indirect taxes	**(111,485)**	**(123,827)**
1.1. FITD/BRRD contributions	(57,748)	(58,108)
1.2. other indirect taxes	(53,737)	(65,719)
2. Non-professional products and services	**(98,981)**	**(112,915)**
2.1. postage, telephone charges	(9,619)	(11,972)
2.2. security and valuables transportation	(6,725)	(7,916)
2.3. electricity, heating and water	(7,274)	(8,592)
2.4. transport	(4,293)	(3,206)
2.5. hire of programs and microfiches	(2,778)	(5,096)
2.6. data processing	(62,780)	(69,430)
2.7. stationery and printing	(1,773)	(1,960)
2.8. cleaning of premises	(3,739)	(4,743)
3. Professional services	**(57,910)**	**(45,362)**
4. Rentals	**(31,172)**	**(36,499)**
4.1. rent of buildings	(30,001)	(35,215)
4.2. machine lease installments	(1,171)	(1,284)
5. Maintenance of furniture and installations	**(9,140)**	**(10,827)**
6. Insurance premiums	**(3,704)**	**(2,989)**
7. Other expenses	**(33,527)**	**(31,776)**
7.1. surveys, searches and subscriptions	(5,921)	(6,726)
7.2. membership fees	(3,787)	(4,510)
7.3. advertising and entertainment	(7,406)	(9,247)
7.4. other miscellaneous expenses	(16,413)	(11,293)
Total	**(345,919)**	**(364,195)**

SECTION 12

Net provisions for risks and charges – Line item 190

12.1 Net provisions for risks and charges: breakdown

	31/12/2016	31/12/2015
a) Provisions for legal disputes and other charges	(24,526)	(16,032)
b) Provision for other risks and charges	(240,915)	(497,028)
Total	**(265,441)**	**(513,060)**

SECTION 13

Net adjustments to property, plant and equipment – Line item 200

13.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Writebacks (c)	**Net result (a + b - c)**
A. Property, plant and equipment				
A.1 Owned	(24,239)	(6,623)	150	**(30,712)**
- for business purposes	(24,239)	(6,623)	150	**(30,712)**
- for investment purposes	-	-	-	**-**
A.2 Held under finance leases	(376)	(1,941)	-	**(2,317)**
- for business purposes	(376)	(1,941)	-	**(2,317)**
- for investment purposes	-	-	-	**-**
Total	**(24,615)**	**(8,564)**	**150**	**(33,029)**

Impairment adjustments refer to the write-down of certain business properties carried out in order to adjust their carrying amount to the appraisal prepared by a third-party independent expert.

SECTION 14

Net adjustments to intangible assets – Line item 210

14.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortization (a)	Impairment adjustments (b)	Writebacks (c)	**Net result (a + b - c)**
A. Intangible assets				
A.1 Owned	(4,158)	-	-	**(4,158)**
- internally generated	-	-	-	**-**
- other	(4,158)	-	-	**(4,158)**
A.2 Held under finance leases	-	-	-	**-**
Total	**(4,158)**	**-**	**-**	**(4,158)**

SECTION 15

Other operating charges/income – Line item 220

15.1 Other operating charges: breakdown

	31/12/2016	31/12/2015
1. Amortization of leasehold improvements	(4,917)	(5,320)
2. Other charges	(14,263)	(25,140)
Total	**(19,180)**	**(30,460)**

The amount in line 1. relates to the amortisation of leasehold improvements that cannot be separated from the related assets and which, accordingly, are not reported separately under property, plant and equipment. These costs are amortised over the period they are expected to benefit or the residual duration of the lease, whichever is shorter.

It must be noted that the line “Other charges”, at 31 December 2015, includes re-crediting to customers during 2015 referring to the reversal of commissions and expense reimbursements charged in past years.

15.2 Other operating income: breakdown

	31/12/2016	31/12/2015
1. Expenses recovered from third parties on current and savings accounts	16,332	19,719
2. Property rental income	5,146	5,136
3. Recovery of stamp duty and other indirect taxes	39,642	56,146
4. Other income	42,287	15,622
Total	**103,407**	**96,623**

Line “Other income” includes the charge-back of legal expenses for credit recovery on non-performing loans.

SECTION 16

Profit (Loss) from equity investments - Line item 240

16.1 Profit (Loss) from equity investments: breakdown

Income item/Segments	31/12/2016	31/12/2015
1) Companies under joint control		
A. Income	**-**	**-**
1. Revaluations	-	-
2. Profit from disposals	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Charges	**-**	**-**
1. Writedowns	-	-
2. Impairment writedowns	-	-
3. Loss from disposals	-	-
4. Other charges	-	-
Net profit (loss)	**-**	**-**
2) Companies subject to significant influence		
A. Income	**17,102**	**20,172**
1. Revaluations	-	-
2. Profit from disposals	-	-
3. Writebacks	-	-
4. Other income	17,102	20,172
B. Charges	**(230,308)**	**(13,840)**
1. Writedowns	-	-
2. Impairment writedowns	(229,915)	(10,982)
3. Loss from disposals	-	-
4. Other charges	(393)	(2,858)
Net profit (loss)	**(213,206)**	**6,332**
Total	**(213,206)**	**6,332**

"Other income" and "Other charges" refer to the results for the year of equity method investments consolidated using the equity method.

The "Impairment write-downs" of line B.2 refer to the write-downs of Cattolica Assicurazioni, reclassified during the year from the line item "Investments" to the item "Financial assets available for sale" since a significant influence of BPVi on Cattolica, pursuant to par. 9 of IAS 28, ceased to exist.

SECTION 17

Net gains (losses) arising on fair value adjustments to property, plant and equipment and intangible assets - Line item 250

17.1 Net gains (losses) arising on adjustments to the fair value (or restated value) of property, plant and equipment and intangible assets: breakdown

Assets/Income item	Revaluations (a)	Writedowns (b)	Exchange differences		Net profit (loss) (a-b+c-d) at 31/12/2015	Net profit (loss) (a-b+c-d) at 31/12/2014
			Positive (c)	Negative (d)		
A. Property, plant and equipment	**-**	**(2,375)**	**-**	**-**	**(2,375)**	**(4,715)**
A.1 Owned:	-	(2,375)	-	-	(2,375)	(4,715)
- For business purposes	-	-	-	-	-	-
- For investment purposes	-	(2,375)	-	-	(2,375)	(4,715)
A.2 Held under finance lease:	-	-	-	-	-	-
- For business purposes	-	-	-	-	-	-
- For investment purposes	-	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	-	-
B.1 Owned:	-	-	-	-	-	-
B.1.1 Internally generated	-	-	-	-	-	-
B.1.2 Other	-	-	-	-	-	-
B.2 Held under finance lease	-	-	-	-	-	-
Total	**-**	**(2,375)**	**-**	**-**	**(2,375)**	**(4,715)**

Revaluations/write-downs refer to changes in the fair value of property owned for investment purposes.

SECTION 18

Adjustments to goodwill – Line item 260

18.1 Adjustments to goodwill: breakdown

	31/12/2016	**31/12/2015**
a) Adjustments to goodwill	(8,338)	(323,639)

"Adjustments to goodwill" refers to the impairment of the goodwill recorded on the subsidiaries HDS SpA and San Marco Srl following verification of the adjustment of the book value in compliance with the provisions of IAS 36.

SECTION 19

Gains (losses) on disposal of investments – Line item 270

19.1 Gains (losses) on disposal of investments: breakdown

Income item/Segments	31/12/2016	31/12/2015
A. Buildings	**-**	**27**
- Profit from disposals	-	27
- Loss from disposals	-	-
B. Other assets	**(210)**	**(71)**
- Profit from disposals	42	47
- Loss from disposals	(252)	(118)
Net profit (loss)	**(210)**	**(44)**

The profits and losses reported above relate to the sale and/or retirement of certain property, plant and equipment and intangible assets.

SECTION 20

Income taxes on current operations – Line item 290

20.1 Income taxes on current operations: breakdown

Income item/Segments	31/12/2016	31/12/2015
1. Current income taxes (-)	(4,700)	4,789
2. Change in prior year income taxes (+/-)	1,116	635
3. Reduction in current taxes (+)	-	-
3.bis. Reduction in current taxes for tax credits pursuant to Law 214/2011	262,682	133,683
4. Change in deferred tax assets (+/-)	(417,632)	333,451
5. Change in deferred tax liabilities (+/-)	1,574	13,781
6. Income taxes for the year (-) (-1+/-2+3+3 bis+/-4+/-5)	**(156,960)**	**486,339**

The positive change of current taxes of the earlier years refers to surplus provisions set aside for income taxes in earlier years.

The net change in deferred tax assets for the year was negative by Euro 417,632 thousand and it is equal to the imbalance between the positive change connected with the deferred tax assets recognised in the year and the negative change connected with the decreases in the deferred tax assets recorded in previous years.

The deferred tax assets recognised in the year amounted to Euro 95,222 thousand; their main components are described in detail below:

- Euro 14,458 thousand refers to prepaid taxes recorded following the IRES tax loss attributable to the tax consolidation carried out by the subsidiary Banca Nuova, as well as to the "ACE surplus" referring to said subsidiary pursuant to art. 1, paragraph 4 of Legislative Decree no. 201/2011 which, based on current legislation, can be used to offset future income without time limits;
- Euro 80,764 thousand refer to the deferred tax assets recorded in relation to temporary differences deductible in upcoming years. The most significant amount of this positive change refers to the deferred tax assets, amounting to Euro 63,833 thousand, recorded in relation to allocations to provisions for risks and charges recognised during the period following the settlement offer to the Shareholders and in view of the legal risks connected with the "BPVi capital transactions" and with the other critical issues emerged in the course of the ECB's inspection.

The decrease in prepaid taxes amounted to a total of Euro 512,854 of which:

- Euro 262,682 thousand refer to the transformation in receivables for current taxes of a portion of the prepaid taxes recorded in the financial statements at 31 December 2015, following the loss of the 2015 period, pursuant to the law no. 214/2011;
- Euro 219,351 thousand refer to the cancellation of IRES prepaid taxes recorded on the tax loss of 2015 and the IRAP prepaid taxes recorded in the previous periods;
- Euro 30,821 thousand refer to the reclassification of the prepaid taxes recorded in the previous periods or to other changes.

With regard to the existence of the requirements for recording the deferred tax assets, please refer to Part B, Section 13.7 of these Explanatory Notes.

SECTION 21

Profit (Loss) from disposal groups, net of tax – Line item 310

This Section has not been completed since the Group does not have any assets held for sale.

SECTION 22

Net income (loss) attributable to Minority interests – Line item 330

22.1 Breakdown of line item 330 "Net income (loss) attributable to Minority interests"

	31/12/2016	31/12/2015
Consolidated investments with significant minority interests		
1. Farbanca SpA	1,393	848
Other investments		
1. Nem Imprese	2	(33)
Total	**1,395**	**815**

SECTION 23

Other information

There is no other information worthy of disclosure in addition to that established by international financial reporting standards and by the instructions in Bank of Italy Circular no. 262 of 22 December 2005 and subsequent revisions.

SECTION 24

Earnings per share

The disclosure required by IAS 33 (paragraphs 68, 70 a), b), c), and d) and 73 will now be provided.

24.1 Average number of ordinary shares on dilution of capital stock

	31/12/2016	31/12/2015
Weighted average number of ordinary shares	9,977,059,246	97,105,531
Dilution adjustment	-	-
Weighted average number of ordinary shares (fully diluted)	9,977,059,246	97,105,531

The weighted average number of ordinary shares outstanding is calculated with reference to the number of ordinary shares outstanding at the start of the year, as adjusted by the number of ordinary shares cancelled or issued during the year multiplied by the number of days such shares were in circulation in proportion to the total number of days in the year. Treasury shares are not included in the total number of shares outstanding.

At 31 December 2016 there are no dilution adjustments. In this regard, it should be noted that the potential dilutive effects associated with the "Loyalty Bonus" provided as part of the capital increase made by the Bank in 2014 were not taken into account.

The weighted average number of ordinary shares (fully diluted) is calculated by adding to the weighted average number of ordinary shares outstanding the additional ordinary shares that would have been outstanding had all potential ordinary shares with a dilutive effect been converted. Since at 31 December 2016 there are no dilutions adjustments, the weighted average of ordinary shares on dilution of capital stock matches with the weighted average of ordinary shares.

24.2 Other information

	31 December 2016			31 December 2015		
	Share of profit (Euro)	Weighted average number of ordinary shares	EPS (Euro)	Share of profit (Euro)	Weighted average number of ordinary shares	EPS (Euro)
Basic earnings/losses per share	(1,902,374)	9,977,059,246	(0.191)	(1,406,994)	97,105,531	(14.489)
Diluted earnings/losses per share	(1,902,374)	9,977,059,246	(0.191)	(1,406,994)	97,105,531	(14.489)

Basic earnings/losses per share are determined by dividing the results attributable to the holders of the Parent Bank's ordinary equity instruments (the numerator) by the weighted average number of ordinary shares outstanding during the year (the denominator).

Diluted earnings/losses per share are determined by adjusting both the profit attributable to the holders of ordinary equity instruments and the weighted average number of shares outstanding, to take account of the potential dilution associated with bonds convertible into ordinary shares issued by the Parent Bank, still in existence at the reference date.

Since at 31 December 2016 there are no dilutive effects, the diluted earnings/loss per share coincide with the basic earnings/losses per share.

PART D – CONSOLIDATED COMPREHENSIVE INCOME

Statement of consolidated comprehensive income

	Line items	Gross amount	Income tax	Net amount
10.	**Net income (loss) for the year**	**(1,744,019)**	**(156,960)**	**(1,900,979)**
	Other components of income without release to the income statement			
20.	Property, plant and equipment	139	(32)	107
30.	Intangible assets	-	-	-
40.	Defined-benefit plans	(2,558)	(187)	(2,745)
50.	Non-current assets held for sale and discontinued operations:	-	-	-
60.	Portion of valuation reserves of equity method investments carried at equity	(68)	21	(47)
	Other components of income with release to the income statement			-
70.	Hedges of foreign investments:	-	-	-
	a) changes in fair value	-	-	-
	b) release to the income statement	-	-	-
	c) other changes	-	-	-
80.	Exchange differences:	-	-	-
	a) changes in fair value	-	-	-
	b) release to the income statement	-	-	-
	c) other changes	-	-	-
90.	Cash-flow hedges:	29,888	(29,913)	(25)
	a) changes in fair value	(456,435)	130,914	(325,521)
	b) release to the income statement	488,161	(161,435)	326,726
	c) other changes	(1,838)	608	(1,230)
100.	Financial assets available for sale:	(126,700)	35,766	(90,934)
	a) changes in fair value	346,959	(37,688)	309,271
	b) release to the income statement	(473,665)	73,452	(400,213)
	- impairment writedowns	(84)	6	(78)
	- profits/losses on disposals	(473,581)	73,446	(400,135)
	c) other changes	6	2	8
110.	Non-current assets held for sale and discontinued operations:	-	-	-
	a) changes in fair value	-	-	-
	b) release to the income statement	-	-	-
	c) other changes	-	-	-
120.	Portion of valuation reserves of equity method investments carried at equity	(31,934)	9,890	(22,044)
	a) changes in fair value	(31,934)	9,890	(22,044)
	b) release to the income statement	-	-	-
	- impairment writedowns	-	-	-
	- gains/losses on disposal	-	-	-
	c) other changes	-	-	-
130.	**Total other components of income**	**(131,233)**	**15,545**	**(115,688)**
140.	**Comprehensive income (Lines 10+110)**	**(1,875,252)**	**(141,415)**	**(2,016,667)**
150.	Comprehensive income attributable to minority interests	(2,055)	661	(1,394)
160.	**Comprehensive income attributable to the parent bank**	**(1,877,307)**	**(140,754)**	**(2,018,061)**

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICY

SECTION 1

Risks of the Banking Group

Introduction

The current regulations for internal controls define the Internal Control System (ICS) as a fundamental element of the comprehensive bank governance system; it ensures that activities are carried out in accordance with corporate strategies and policies and in compliance with the standards of sound and prudent management.

The controls involve, with different roles, the Corporate bodies, the Governance Committees and all Group personnel and they are an integral part of day to day activities. These "controls" must be identified with the goal of mitigating the inherent risks existing in corporate processes and, consequently, assuring the correct execution of corporate operations.
The Internal Controls structure comprises the following three tiers:

- line controls, whose purpose is to ensure the correct execution of operations, also by applying a control involving a check of the regular execution of the processes. They are carried out by the operating structures themselves (e.g. hierarchical, system-wide and sampling controls) also through different units reporting to the heads of the operating structures, or performed within the back office activities; insofar as possible, they are included in IT procedures. Line controls, be they carried out by real persons or through IT procedures, can be further distinguished into:
  a) First level line controls: these are carried out directly by those who perform a certain activity, or by the IT procedures supporting that activity;
  b) Second level line controls: they are carried out by persons who do not actually perform the operations but are tasked with supervising them (risk owners). In particular, the latter are divided into:
    - Second level - functional controls: carried out by corporate structures separate from the operating structures; they include the functional controls carried out within the scope of specialist back-office or support activities (e.g., controls carried out by back office units on Network operations);
    - Second level - hierarchical controls: carried out by corporate roles hierarchically above those responsible for the operation (e.g. controls carried out by Network Managers on operations performed by the operators reporting hierarchically to them).
- risk management controls (or second level controls) for the purpose of ensuring, inter alia:
  a) the correct implementation of the risk management process;
  b) compliance with the operating limits assigned to the various Functions;
  c) the corporate operations' compliance with regulations.
  The Functions tasked with performing these controls are separate from the productive functions; they contribute to the definition of the risk governance policies and of the risk management process. Specifically, these controls are carried out by the Corporate risk management Control Functions, as defined by the Bank of Italy (Compliance, Risk Management, Anti-Money Laundering and Validation) and by the Functions that, according to provisions of law, regulations, articles of association or self-regulation, have prevalent control duties (Financial Reporting Manager).
  These controls have the following objectives:

  - to contribute to the definition of methodologies for the measurement of risk, to check compliance with the limits assigned to the various operational functions and to check the consistency of the transactions carried out by each production unit with the assigned risk/return targets (**Risk Management**),
  - to concur in monitoring the performance and stability of the first pillar internal risk management systems used to calculate capital requirements (**Validation**);
  - to concur in the definition of methods for measuring/assessing the risk of non-compliance with regulations, verifying that corporate processes are capable of preventing the violation of externally imposed regulations (laws, regulations, etc.) and voluntarily adopted regulations (codes of conduct, codes of ethics, etc.) (**Compliance**);
  - to concur in the prevention of risks connected with use of the financial system for the purpose of laundering the revenues from criminal activities and financing terrorism, in accordance with the reference regulations (Italian Legislative Decree no. 231/07) (**Anti-money laundering**);
  - to certify corporate accounting information in accordance with legal requirements (**Financial Reporting Manager**);
- the Internal Audit activity (third level): serves the purpose of identifying violations of procedures and regulations, as well as periodically assessing the completeness, functionality, adequacy (in terms of efficiency and effectiveness) and the reliability of the Internal Control System. Another purpose of the activity performed by the Internal Audit Function is to bring potential improvements to the attention of the corporate Bodies, with particular reference to risk governance policies, to the risk management process and to risk measurement and control instruments. Based on the results of its own controls, the Internal Audit Function submits intervention requests to corporate structures.

The aforesaid levels of control (line, risk management, internal audit) constitute a single integrated system activated by different Functions, but complementary in its aims, in the characteristics of its approach and in the operating rules.

With particular reference to the Risk Management Function, it should be pointed out that, in compliance with the model applied by the Banca Popolare di Vicenza Group, the Parent Bank's Risk Management Offices carry out these activities centrally on a Group level. This Function reports hierarchically to the Managing Director of the Parent Bank and functionally to the Board of Directors of the Parent Bank through the Risk Committee. It is the duty of the Risk Management Function, inter alia, to:

- develop and/or maintain, in a systematic and continuous way, the risk management models and instruments used also in light of regulatory changes and indications having an impact on risk management activities;
- define and develop models and tools for the measurement and control of risks at Group level, including those connected with advanced approaches;
- coordinate the collection, from all Group Banks and Companies, of the information that need to be entered into Group's risk management system, overseeing and promoting the actions aimed at filling any gaps noted;
- measure the Group's exposure to the different risk profiles, verifying their compliance with the limits established by the Body with management function, providing the corporate Bodies and Functions with reports about the different risk profiles;

- propose to the Parent Bank's strategic supervision Body the Risk Appetite Framework parameters (objectives, tolerance and capacity), continuously verifying its adequacy after its passage through the Control and Risk Committee and coordinating, when necessary, with other competent functions;
- participate in the internal committees that involve risk assumption/management processes at the individual level and at the Group level.

In addition, the Risk Management Function is responsible for managing the assessment of the internal capital levels adjusted to address all the risks associated with the activities carried out (ICAAP), in compliance with the legislation that came into force on 1 January 2007, originated in the Second Pillar of Basel II, subsequently revised with Basel III. It should be emphasised that the preparation of the ICAAP Report is one of the best opportunities to disseminate the risk culture within the Group, starting with the Board of Directors, that approves the Report itself and that every quarter receives updates on the main content thereof, and continuing on to the various functional units involved.

Another opportunity to disseminate the risk culture occurs when defining the so-called Risk Appetite Framework in a Statement, approved as a minimum on an annual basis by the Board of Directors and continuously monitored by the competent structures. It should be emphasised that most of the Group's activity, from the process of defining operational and strategic planning goals to daily operations, takes place in compliance with the system of risk objectives (appetite) and limits (tolerance, capacity and risk) defined within the Risk Appetite Framework. The Risk Appetite Statement for 2016 was also adopted by the subsidiaries, together with the regulations for risk management, each in reference to the main risk profiles as resulting from the ICAAP process.

Consistent with the described setting, also personnel training keeps into consideration risk-related issues: in 2015, the number of days dedicated to training on risk (including issues such as safety, anti-money laundering, protection of the investors), also including issues concerning credit in general, represented about 40% of the total.

1.1 Credit risk

QUALITATIVE INFORMATION

Credit Risk is the risk of losses due to non-performance by the counterparty (specifically the obligation to repay loans) or, more broadly, the failure of customers or their guarantors to meet their obligations.

The credit exposure risks also include the "Country Risk" (i.e. the risk of losses caused by events occurring in a country other than Italy; the country risk concept is broader than sovereign risk because it refers to all exposures, regardless of the nature of the counterparties, be they natural persons, entities, banks or public administrations) and the "Transfer Risk" (i.e. the risk that the Group, exposed to a party that finances itself in a currency other than the one in which its main sources of income are denominated, realises losses due to the debtor's difficulty in reconverting its own currency into the currency of the exposure).

Lending by the BPVi Group has always aimed to support both the borrowing needs of households and the development and consolidation of businesses, especially small and medium-sized firms, which typify the local economies where the Group's banks operate.

In keeping with prior years, the lending policy adopted by the Group's different businesses seeks to respond to the needs of individuals and firms, while paying particular attention to the difficult economic situation, credit risk and an adequate level of guarantees.

With reference to "individual" customers, the development of activities has focused on the longer-term segment with the granting and/or renegotiation of home mortgages and personal loans either directly via the Group's banks or via other companies.

Development activities in relation to "small businesses" have mainly focused on short-term lending, where the risk is spread widely, using technical forms that are supported by underwriting syndicates wherever possible. Medium-term lending has been expanded to medium and large businesses, with a special focus on those with secured guarantees. In all cases, special care has been taken in the selection of the economic sectors from which borrowers come, in order to give preference to lower risk activities. Sector analysis has become increasingly important in the credit management process and involves the examination of internal data and external data provided by specialist Italian companies.

The Group is not active in the field of credit derivatives.

It should also be noted that the public disclosure set forth in Pillar 3 is published on the web site of the parent bank, Banca Popolare di Vicenza (www.popolarevicenza.it) in the "*Investor Relations*" section.

2. Credit risk management policies

2.1 Organisational Aspects

The Group's regulations for the Management of Credit, contained in its Credit Manual, establish a prudent approach to risk assessment. At the preliminary stage, borrowers are required to provide all the documentation needed for an adequate assessment of their credit rating. Such documentation must allow assessment of whether the amount requested, the technical form of the loan and the project to be financed are all consistent; it must also allow the characteristics and qualities of borrowers to be identified, having regard for all forms of relationship with them.

The risks associated with individual customers from the same Group must be considered separately. If there are legal or economic relations between individual customers, these parties form a unit in risk terms and represent a Group (economic group or risk group).

When granting and/or renewing lines of credit, it is necessary to verify the exposure by the entire BPVi Group to borrowers and to any groups to which they belong.
Pricing and/or income from the relationship cannot be a factor when evaluating credit rating and agreeing upon a loan.

The preliminary process depends on the type of customer concerned. For "individual" customers and small businesses, the granting or otherwise of credit for relatively small amounts is dealt with at the branch or District level. This follows a simplified process using internal rating models, an IT tool that checks credit rating at the time new lines of credit are granted, using both internal and external sources of information. For better control over the process of granting credit to "individual" customers and small businesses, stricter limits have been introduced on decision-making powers, identified on the basis of the risk profile attributed to the counterparty by the internal rating system.

The granting of credit to companies/entities follows a more complex process: proposed lending to such customers must be supported by a technical opinion from Business Centres or Head Office credit analysts depending on the amount of credit requested.

Account managers monitor and administer loans day by day and are responsible for their granting. If customer risk increases, the operating objective is to contain the bank's risk by promptly adopting all the necessary measures.
The Group has adopted a process which, as far as property securing loans is concerned, constantly checks and updates its estimated value, also by using statistical methods based on geo-referenced systems.

2.2 Management, measurement and monitoring systems

The credit process is organised as follows:

- Granting of credit, which involves: investigation, assessment, decision, formalisation of the credit and any guarantees;
- Management of credit, which involves: uses, monitoring, facility revision, management of anomalies;
- Management of bad loans and recovery of loans.

The BPVi Group within the scope of its processes to assess customer ratings, and to grant and monitor credit, uses an internal rating system developed within the A-IRB (Advanced Internal Rating Based) project, the purpose of which is to validate the internal credit risk models, and which has led to the implementation of the **New Rating System** (models, processes, procedures, regulations) for all segments (Large Corporate, Sme Corporate, Sme Retail, Small Business and Private) with consequent activation of the **New Rating Assignment Procedure** throughout the Group's sales Network. In the first quarter of 2016, the organisational and IT activities preparatory to the April 2016 production of the following models were concluded:

- rating models for estimating the probability of default (PD), improved with respect to those already in use in the Group starting from 2014;
- internal Loss Given Default (LGD) model, replacing the one in force starting from the second half of 2014;
- internal Exposure at Default (EAD) model to quantify any expected change in the margins granted and unused by the counterparties.

In the second half of 2016, recalibration activities were carried out concerning the PD and LGD models in order to also incorporate the data of the 2015 period into the estimates.

Please note that the ratings represent a summary assessment of the credit quality of the customer expressed as a probability that the counterparty may become insolvent within 12 months. Rating models cover the types of counterparties with which the Group operates structurally and to which it is most exposed, i.e. non-financial companies, small businesses and individuals, the remaining customers being a marginal fraction of the entire portfolio. The adoption of the new rating system has been accompanied both by a more structured and comprehensive preparatory phase of the credit process, and a new procedure for assigning the rating. In addition, the calculation of the Risk Adjusted Pricing was automated, using the developed AIRB metrics. Considering the activities carried out on the models and on the organisational and IT aspects, the A-IRB Project is concluded and said activities are now part of the ordinary management of the Bank.

After introducing such internal ratings into the credit management process, a series of "Lending Policies" were defined and approval limits were revised according to the level of counterparty risk.

The "Lending Policies" govern the way in which the Group means to assume credit risk with customers, by fostering balanced growth in loans to counterparties with higher "credit ratings" and regulating/limiting the granting of credit to riskier customers.

This also includes the regulations for "critical sectors", i.e. the sectors that, based on assessments made on data outside and inside the Bank, exhibit such systemic risk elements that companies in the sectors should be more carefully scrutinised when granting and managing credit. Credit to companies in these sectors is regulated by more stringent limits than ordinary ones, with a restriction of decision-making powers and inhibiting growth-oriented lending policies. The definition of the scope of critical sectors is revised annually by the Risk Management Department, with the collaboration of the Loan Division, considering the probability of default, the deterioration rate and market indicators.

The Credit Management application (GdC) plays an important role in the monitoring and management of borrowers, allowing account managers to check on changes in the credit status of customers and quickly identify any deterioration in the standing of borrowers. This instrument was developed with the objective of implementing an advanced credit portfolio management model based on predefined strategies (objectives, actions and timelines) that are consistent with the customer's risk level.

In order to improve the management of customers who show early signs of distress, within the Loan Division of the Parent Bank, an Anomalous Loan Department was created for the purpose of providing support to account managers for specific anomalous positions, reviewing the effectiveness of actions taken and spreading a general culture focused on safeguarding against credit risk and reducing it.

Within the scope of the credit risk monitoring and management activities, a specific management reporting process has been set up; in particular, on a quarterly basis the loans portfolio's risk Profile Report is prepared; it provides a fundamental information support for the Risk Committee: the reporting contains detailed credit risk reports at the consolidated and individual levels (portfolio distribution by administrative statuses, rating classes and expected losses, transition matrices, deterioration rates), with analyses differentiated by Group banks, management segments, industry and technical forms.

Also available is an instrument for reporting to the network, characterised by various views of the loans portfolio, with different hierarchical levels of aggregation (branch, district/business centre, General Management at a single bank or group levels) and visibility.

Lastly, in compliance with the Bank of Italy's instructions relating to Basel II and "groups of connected customers", the Bank uses rules relating to the management of economic groups to increase the level of objectivity and process repetition regarding their composition.

2.3 Credit risk mitigation techniques

The credit risk associated with individual counterparties or groups is mitigated by obtaining security (pledges, mortgages and special privileges) and/or personal guarantees (sureties, endorsements, credit mandates and letters of patronage). For internal purposes, the degree of mitigation attributed to each guarantee is governed by specific regulations that take account of the different types of the acquired guarantees.

The value of property is periodically reassessed and updated on the basis of the statistical databases of a primary operator in the industry and the initiatives directed at renewing the appraisals are activated.

Analysis of these guarantees does not reveal a special degree of concentration within the various technical forms of cover/guarantee since, except with regard to general sureties, they are essentially "specific" to each position. In addition, overall, there are no contractual restrictions that might undermine the legal validity of the guarantees obtained.

2.4 Non-performing financial assets

The main instrument used for the recognition of non-performing loans is the aforementioned GDC (Management of Credit) procedure, based on the Early Warning anomalies reporting system, which classifies customers in increasing risk statuses.
Non-performing loans not classified as bad loans are monitored not only by the commercial network but also by specific organisational units, whose mission is to "prevent default". These units, which report hierarchically and functionally to the Loan Division, operate at Head Office and in the Districts and/or Business Centres responsible for the branch network.

Account managers are required to adopt an operational approach aimed at eliminating anomalies and limiting risks.

Concerning positions within the category of "unlikely to pay", two situations are distinguished:

- The first one regards the positions for which, as a result of recognised financial hardships, a measure of forbearance was granted, i.e. a change, favourable to the debtor, to the conditions relative to the original ones (forborne exposure). This category includes the

positions involved in debt restructuring in its various forms, including restructuring agreements under art. 67 or art. 182 of the bankruptcy law. For them, management is addressed to verifying compliance with the agreed restructuring plan.
Forborne exposures also include positions not involved in debt restructuring processes defined within the bankruptcy law, but which, starting from a previous default state, were subjected to measures such as the suspension of payment of the instalment or of the principal amount. In this case, the management entails punctual monitoring of the situation, in particular of the absence of overdrafts exceeding thirty days on the ratio to be measured or on ratios connected thereto, especially starting from the time when the effectiveness of the suspension measure expires.

- The second situation pertains to the positions that, according to the previous regulatory dispositions, would have been classified as “watchlist loans”: for them, the activity gives priority to friendly, even if gradual, recovery of credit or at least to the mitigation of any negative effects in the event of default.

The classification of exposures as “bad loans” is based on the criteria laid down in the supervisory regulations. Accordingly, this category comprises loans to parties that are insolvent or in similar circumstances, even if not confirmed by a judge, the recovery of which is the subject of court action or other suitable measures.

Management of bad loans and recovery of loans is the responsibility of specific units within the Loan Division and the Legal Department.

These units consist of internal lawyers and personnel who carry out administrative and accounting activities in relation to the bad loans concerned. The accounting processes adopt an IT procedure used by all the companies belonging to the Sec Servizi consortium.

Recovery activities are carried out on a pro-active basis, with a view to optimising the legal procedures and maximising the outcome in economic and financial terms. In particular, when evaluating the steps to take, internal lawyers prefer to take out-of-court action with recourse to settlements that accelerate recoveries and contain the level of costs incurred. Where this route is not applicable, and especially with regard to larger amounts and when higher recoveries can be expected, external lawyers are instructed to take legal action since this represents both a method of putting legitimate pressure on the debtor and a way to resolve disputes.

Small loans that are uncollectible or difficult to collect are generally grouped together and sold without recourse, given that legal action would be uneconomic in cost/benefit terms.

For financial reporting purposes, bad loans are analysed on a case-by-case basis to determine the provisions required to cover expected losses. The extent of the loss expected from each relationship is determined with reference to the solvency of the debtor, the nature and value of the guarantees obtained and the progress made by recovery procedures. Estimates are always made on a prudent basis, taking into account the actual realisation values deriving from the personal and/or corporate capital of the debtor and of the guarantors; moreover, in accordance with the international accounting standards (IAS 39), the assessment includes the effects of discounting. Discounting is effected, for each position, on the basis of the original rate of the individual loan.

This complex evaluation process is facilitated by subdividing the total loan book into similar categories and years of origin, taking account of the realisable value of the personal and/or corporate assets of the debtor and the guarantors.

Lastly, the proper performance of the task of administering and evaluating bad loans is assured by both periodic Internal Audit Department and by external verification activities, carried out by the Board of Statutory Auditors and the Independent Auditors.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 PERFORMING AND NON-PERFORMING EXPOSURES: SIZE, ADJUSTMENTS, TRENDS, ECONOMIC AND TERRITORIAL DISTRIBUTION

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/Quality	Bad loans	Unlikely to Pay	Non performing past due exposures	Performing past due exposures	Other performing exposures	**Total**
1. Financial assets available for sale	-	-	-	-	3,764,650	**3,764,650**
2. Financial assets held to maturity	-	-	-	-	1,067,948	**1,067,948**
3. Loans and advances to banks	-	-	-	-	2,120,451	**2,120,451**
4. Loans and advances to customers	2,022,598	3,070,482	67,266	624,868	16,773,629	**22,558,843**
5. Financial assets designated at fair value	-	-	-	-	5,959	**5,959**
6. Financial assets being sold	-	-	-	-	-	**-**
Total at 31/12/2016	**2,022,598**	**3,070,482**	**67,266**	**624,868**	**23,732,637**	**29,517,851**
Total at 31/12/2015	**1,889,258**	**3,295,539**	**135,457**	**737,991**	**26,583,265**	**32,641,510**

For the "Loans and advances to customers" portfolio, for performing exposures, the breakdown of past-due loans is provided below.

Portfolio/Age of the past-due exposures	Until 3 months			for more than 3 months until 6 months			For more than 6 months until 1 year			For more than 1 year			Total		
	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure
Loans and advances to customers	425,365	(5,414)	419,951	114,448	(1,281)	113,167	72,566	(1,100)	71,466	20,421	(137)	20,284	632,800	(7,932)	624,868

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

Portfolio/Quality	Non perfoming exposures			Performing exposures			**Total (net exposure)**
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets available for sale	-	-	-	3,764,650	-	3,764,650	**3,764,650**
2. Financial assets held to maturity	-	-	-	1,067,948	-	1,067,948	**1,067,948**
3. Loans and advances to banks	-	-	-	2,120,451	-	2,120,451	**2,120,451**
4. Loans and advances to customers	9,799,623	(4,639,277)	5,160,346	17,545,203	(146,706)	17,398,497	**22,558,843**
5. Financial assets designated at fair value	-	-	-	X	X	5,959	**5,959**
6. Financial assets being sold	-	-	-	-	-	-	**-**
Total at 31/12/2016	**9,799,623**	**(4,639,277)**	**5,160,346**	**24,498,252**	**(146,706)**	**24,357,505**	**29,517,851**
Total at 31/12/2015	**8,963,219**	**(3,642,965)**	**5,320,254**	**27,460,247**	**(146,833)**	**27,321,256**	**32,641,510**

Portfolio/Quality	Low credit standing assets		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	(867)	1,527	2,063,143
2. Hedging derivatives	-	-	27,907
Total at 31/12/2016	**(867)**	**1,527**	**2,091,050**
Total at 31/12/2015	**(979)**	**10,928**	**3,426,647**

A.1.3 Banking group - Cash and off-balance sheet exposures to banks: gross values, net values and bands of past due loans

Type of exposure/Amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Non performing exposures				Performing exposures			
	Until 3 months	for more than 3 months until 6 months	For more than 6 months until 1 year	For more than 1 year				
A. CASH EXPOSURES								
a) Bad loans	-	-	-	-	X	-	X	-
- of which: exposures with forbearance measures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: exposures with forbearance measures	-	-	-	-	X	-	X	-
c) Non performing past due exposures	-	-	-	-	X	-	X	-
- of which: exposures with forbearance measures	-	-	-	-	X	-	X	-
d) Performing past due exposures	X	X	X	X	-	X	-	-
- of which: exposures with forbearance measures	X	X	X	X	-	X	-	-
e) Other performing exposures	X	X	X	X	2,215,184	X	-	2,215,184
- of which: exposures with forbearance measures	X	X	X	X	-	X	-	-
TOTAL A	**-**	**-**	**-**	**-**	**2,215,184**	**-**	**-**	**2,215,184**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	601,029	X	-	601,029
TOTAL B	**-**	**-**	**-**	**-**	**601,029**	**-**	**-**	**601,029**
TOTAL (A + B)	**-**	**-**	**-**	**-**	**2,816,213**	**-**	**-**	**2,816,213**

A.1.4 Banking group - Cash exposures to banks: changes in gross non-performing loans

Categories	**Bad loans**	**Unlikely to pay**	**Non performing past due exposures**
A. Opening gross exposure	**616**	**-**	**-**
of which: sold but not derecognized	-	-	-
B. Increases	**-**	**-**	**-**
B.1 transfers from performing loans	-	-	-
B.2 transfers from other categories of non performing exposure	-	-	-
B.3 other increases	-	-	-
C. Decreases	**616**	**-**	**-**
C.1 transfers to performing loans	-	-	-
C.2 write-offs	616	-	-
C.3 collections	-	-	-
C.4 proceeds from disposals	-	-	-
C.5 losses from disposals	-	-	-
C.6 transfers to other categories of non performing exposure	-	-	-
C.7 other decreases	-	-	-
D. Closing gross exposure	**-**	**-**	**-**
of which: sold but not derecognized	-	-	-

A.1.4 bis Banking group - Cash exposures to banks: changes in gross granted loans broken-down by credit quality

This table has not been completed.

A.1.5 Banking group - Non-performing cash exposures to banks: changes in total write-downs

Categories	**Bad loans**		**Unlikely to pay**		**Non performing past due exposures**	
	Total	of which: exposures with forbearance measures	Total	of which: exposures with forbearance measures	Total	of which: exposures with forbearance measures
A. Opening total adjustments	**555**	**-**	**-**	**-**	**-**	**-**
of which: sold but not derecognized	-	-	-	-	-	-
B. Increases	**61**	**-**	**-**	**-**	**-**	**-**
B.1 adjustments	61	-	-	-	-	-
B.2 loss from disposals	-	-	-	-	-	-
B.3 transfers from other categories of non performing exposure	-	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
C. Decreases	**616**	**-**	**-**	**-**	**-**	**-**
C.1 writebacks on valuation	-	-	-	-	-	-
C.2 writebacks due to collections	-	-	-	-	-	-
C.3 profit from disposals	-	-	-	-	-	-
C.4 write-offs	616	-	-	-	-	-
C.5 transfers to other categories of non performing exposure	-	-	-	-	-	-
C.6 other decreases	-	-	-	-	-	-
D. Total closing adjustments	**-**	**-**	**-**	**-**	**-**	**-**
of which: sold but not derecognized	-	-	-	-	-	-

A.1.6 Banking group - Cash and off-balance sheet exposures to customers: gross values, net values and bands of past due loans

Type of exposure/Amounts	Gross exposure					Specific adjustements	Portfolio adjustements	Net exposure
	Non - performing				Performing			
	Until 3 months	for more than 3 months until 6 months	For more than 6 months until 1 year	For more than 1 year				
A. CASH EXPOSURES								
a) Bad loans	-	105,109	123,195	4,887,914	X	(3,093,620)	X	2,022,598
- of which: exposures with forbearance measures	-	*24,909*	*47,061*	*312,231*	X	*(190,776)*	X	*193,425*
b) Unlikely to pay	1,453,671	135,183	865,709	2,148,612	X	(1,532,693)	X	3,070,482
- of which: exposures with forbearance measures	*736,438*	*46,810*	*274,624*	*812,022*	X	*(463,417)*	X	*1,406,477*
c) Non performing past due exposures	14,310	24,610	26,898	14,412	X	(12,964)	X	67,266
- of which: exposures with forbearance measures	*2,063*	*920*	*1,752*	*4,008*	X	*(956)*	X	*7,787*
d) Performing past due	X	X	X	X	632,800	X	(7,933)	624,867
- of which: exposures with forbearance measures	X	X	X	X	*105,100*	X	*(2,868)*	*102,232*
e) Other performing exposures	X	X	X	X	21,774,798	X	(138,773)	21,636,025
- of which: exposures with forbearance measures	X	X	X	X	*514,050*	X	*(12,582)*	*501,468*
TOTAL A	**1,467,981**	**264,902**	**1,015,802**	**7,050,938**	**22,407,598**	**(4,639,277)**	**(146,706)**	**27,421,238**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non performing	88,710	-	-	-	X	(10,292)	X	78,418
b) Performing	X	X	X	X	1,307,167	X	(999)	1,306,168
TOTAL B	**88,710**	**-**	**-**	**-**	**1,307,167**	**(10,292)**	**(999)**	**1,384,586**
TOTAL (A + B)	**1,556,691**	**264,902**	**1,015,802**	**7,050,938**	**23,714,765**	**(4,649,569)**	**(147,705)**	**28,805,824**

For complete disclosure, cash exposure to customers classified as bad loans including partial write-offs for bankruptcy proceedings in progress at the reporting date ("memorandum accounts") is set out below.

Type of exposure/Amounts	Gross exposure	Specific allowances	Collective allowances for incurred losses but not reported	Net exposure
A. Cash exposures				
a) Bad loans	5,345,109	(3,322,511)	X	2,022,598

A.1.7 Banking group - Cash exposures to customers: changes in gross non-performing loans

Categories	**Bad loans**	**Unlikely to pay**	**Non performing past due exposures**
A. Opening gross exposure	**4,369,420**	**4,438,871**	**154,312**
of which: sold but not derecognized	*215,865*	*269,846*	*14,542*
B. Increases	**1,058,275**	**1,654,650**	**384,675**
B.1 transfers from performing loans	8,767	1,084,146	365,503
B.2 transfers from other categories of non performing exposure	921,957	404,531	11,002
B.3 other increases	127,551	165,973	8,170
C. Decreases	**311,477**	**1,490,346**	**458,757**
C.1 transfers to performing loans	195	138,286	76,374
C.2 write-offs	126,826	17,659	156
C.3 collections	135,428	361,531	17,206
C.4 proceeds from disposals	479	2,405	-
C.5 losses from disposals	8,580	291	-
C.6 transfers to other categories of non performing exposure	39,969	932,500	365,021
C.7 other decreases	-	37,674	-
D. Closing gross exposure	**5,116,218**	**4,603,175**	**80,230**
of which: sold but not derecognized	*212,004*	*394,893*	*15,938*

The above table represents a summary of the changes in gross non-performing loans recorded in the four quarters of the year.

A.1.7 bis Banking group - Cash exposures to customers: changes in gross granted loans broken-down by credit quality

Categories	**Non -performing exposures with forbearace measures**	**Performing exposures with forbearace measures**
A. Opening gross exposure	**1,709,873**	**808,833**
of which: sold but not derecognized	*81,155*	*177,344*
B. Increases	**799,413**	**390,191**
B.1 transfers from performing loans without forbearance measures	55,767	197,027
B.2 transfers from performing loans with forbearance measures	247,146	X
B.3 transfers from non performing loans with forbearance measures	X	65,730
B.4 other increases	496,500	127,434
C. Decreases	**246,448**	**579,874**
C.1 transfers to performing loans without forbearance measures	X	-
C.2 transfers to performing loans with forbearance measures	65,730	X
C.3 transfers to non performing loans with forbearance measures	X	247,146
C.4 write-offs	-	-
C.5 collections	166,329	332,728
C.6 proceeds from disposals	-	-
C.7 bis losses from disposals	-	-
C.8 other decreases	14,389	-
D. Closing gross exposure	**2,262,838**	**619,150**
of which: sold but not derecognized	*144,168*	*197,295*

A.1.8 Banking group - Cash exposures to customers: changes in total write-downs

Categories	Bad loans		Unlikely to pay		Non performing past due exposures	
	Total	of which: exposures with forbearance measures	Total	of which: exposures with forbearance measures	Total	of which: exposures with forbearance measures
A. Opening total adjustments	**2,480,223**	**53,950**	**1,143,332**	**253,483**	**18,855**	**1,121**
of which: sold but not derecognized	*72,846*	*697*	*15,786*	*5,018*	*794*	*52*
B. Increases	**831,597**	**137,395**	**610,948**	**294,057**	**1,234**	**43**
B.1 adjustments	571,368	80,927	608,545	293,609	1,228	43
B.2 loss from disposals	8,580	-	291	-	-	-
B.3 transfers from other categories of non performing exposure	157,387	51,009	-	-	4	-
B.4 other increases	94,262	5,459	2,112	448	2	-
C. Decreases	**218,200**	**569**	**221,587**	**84,123**	**7,125**	**208**
C.1 writebacks on valuation	68,526	269	28,602	6,179	6,908	208
C.2 writebacks due to collections	22,369	101	1,441	21,695	21	-
C.3 profit from disposals	479	-	2,405	-	-	-
C.4 write-offs	126,826	199	17,659	5,240	156	-
C.5 transfers to other categories of non performing exposure	-	-	157,376	51,009	15	-
C.6 other decreases	-	-	14,104	-	25	-
D. Total closing adjustments	**3,093,620**	**190,776**	**1,532,693**	**463,417**	**12,964**	**956**
of which: sold but not derecognized	*80,193*	*3,820*	*41,400*	*10,881*	*1,388*	*304*

A.2 CLASSIFICATION OF EXPOSURES BASED ON EXTERNAL AND INTERNAL RATINGS

A.2.1 Banking group - Breakdown of cash and "off-balance sheet" exposures by external rating class

Exposures	External rating class						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposures	**21,709**	**615,836**	**5,604,910**	**2,392,859**	**987,904**	**209,794**	**19,964,491**	**29,797,503**
B. Derivatives	**-**	**38,981**	**10,746**	**21,069**	**814**	**837**	**318,798**	**391,245**
B.1 Financial derivatives	-	38,981	10,746	21,069	814	837	318,798	391,245
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	**-**	**106,148**	**124,390**	**126,944**	**10,685**	**1,717**	**369,015**	**738,899**
D. Commitments to grant finance	**-**	**16,567**	**85,537**	**47,072**	**23,066**	**4,614**	**230,976**	**407,832**
E. Other	**3,718**	**-**	**8,241**	**-**	**668**	**-**	**435,012**	**447,639**
Total	**25,427**	**777,532**	**5,833,824**	**2,587,944**	**1,023,137**	**216,962**	**21,318,292**	**31,783,118**

For classifying customers by external ratings, the Group uses:

- the ratings provided by DBRS Ratings Limited with regard to the supervisory portfolio "Exposures to or guaranteed by central governments and central banks";
- the ratings supplied by Standard & Poor's Rating Services, Moody's and Fitch Ratings with regard to the "Securitisations" supervisory portfolios;
- the ratings provided by Cerved Group with regard to the "Exposures to companies and other parties".

The mapping tables for the rating classes published by each of the above rating agencies are provided below (source: Bank of Italy).

Credit class	**Risk weighting coefficients**			DBRS Ratings Limited
	Central governments and banks	Supervised intermediaries, public sector entities, territorial entities	Multi-lateral development banks	
1	0%	20%	20%	from AAA to AAL
2	20%	50%	50%	from AH to AL
3	50%	100%	50%	from BBBH to BBBL
4	100%	100%	100%	from BBH to BBL
5	100%	100%	100%	from BH to BL
6	150%	150%	150%	CCC

In accordance with the Circular entitled "New prudential supervisory instructions for banks", the categories "Supervised intermediaries", "Public-sector entities" and "Territorial entities" must make reference to the credit class in which exposures to "Central government" are classified in the country in which these parties are headquartered.

Credit class	Exposures deriving from securitizations	**Ecai**		
		Standard & Poor's	Fitch Ratings	Moody's
1	20%	da AAA a AA-	da AAA a AA-	da Aaa a Aa3
2	50%	da A+ a A-	da A+ a A-	da A1 a A3
3	100%	da BBB+ a BBB-	da BBB+ a BBB-	da Baa1 a Baa3
4	350%	da BB+ a BB-	da BB+ a BB-	da Ba1 a Ba3
5	1250%	B+ and below	B+ and below	B1 and below

Credit class	Companies and other parties	Cerved Group
1	20%	-
2	50%	from A1.1 to A3.1
3	100%	B1.1
4	100%	from B1.2 a B2.2
5	150%	from C1.1
6	150%	from C1.2 to C2.1

A.2.2 Banking group - Breakdown of cash and "off-balance sheet" exposures by internal rating class

Exposures	Internal rating classes													Unrated	**Total**
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8	Class 9	Class 10	Class 11	Class 12	Class 13		
A. Cash exposures	**749,739**	**835,810**	**1,086,350**	**2,443,302**	**2,149,656**	**2,141,620**	**1,761,987**	**907,925**	**559,243**	**218,207**	**100,998**	**58,964**	**308,174**	**8,926,843**	**22,248,818**
B. Derivatives	**5,771**	**1,071**	**58**	**7,351**	**9,206**	**9,148**	**7,481**	**730**	**322**	**1,345**	**13**	**68**	**289**	**78,243**	**121,096**
B.1 Financial derivatives	5,771	1,071	58	7,351	9,206	9,148	7,481	730	322	1,345	13	68	289	78,243	121,096
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Guarantees given	**30,655**	**49,486**	**7,534**	**104,704**	**112,167**	**135,355**	**50,904**	**14,550**	**4,743**	**3,524**	**399**	**1,003**	**5,934**	**176,580**	**697,538**
D. Commitments to grant finance	**7,246**	**20,810**	**11,843**	**33,331**	**32,848**	**69,883**	**47,059**	**14,997**	**4,951**	**191**	**668**	**121**	**14,417**	**122,692**	**381,057**
E. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**793,411**	**907,177**	**1,105,785**	**2,588,688**	**2,303,877**	**2,356,006**	**1,867,431**	**938,202**	**569,259**	**223,267**	**102,078**	**60,156**	**328,814**	**9,304,358**	**23,448,509**

The Group uses internal ratings, split into 13 classes of decreasing credit quality (with class 1 representing the least risky customers and class 13 the most risky), solely for managing customer credit risk. Non-performing assets are all classified as "Unrated".
It should be noted that in 2016, the internal rating model was subject to a recalibration of the different scores which contribute to the final rating of the model and was implemented based on loans valuation. Pending such activity, the definition of the above mentioned rating scale was refined.

The models developed by the Group cover the types of counterparty with whom it operates structurally and to whom it is most exposed (Individuals, Small Business, Small Corporate, Mid Corporate and Corporate). This table therefore does not include exposures arising from treasury activity (loans and advances to Banks) or investment activity (debt securities, equities, mutual funds, derivatives with institutional counterparties).

The internal ratings are not used for calculating capital adequacy requirements.

A.3 DISTRIBUTION OF GUARANTEED EXPOSURES BY TYPE OF GUARANTEE

A.3.1 Banking group – Guaranteed exposures to banks

	Amount of net exposure	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Guarantees				
							Other derivatives								
		Buildings	Buildings financial leasing	Securities	Other secured guarantees	CLN	Governments and central banks	Other public entities	Banks	Other issuers	Govern-ments and central banks	Other public entities	Banks	Other issuers	
1. Guaranteed cash exposures:	**435,386**	**-**	**-**	**434,688**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**698**	**-**	**435,386**
1.1 fully guaranteed	435,386	-	-	434,688	-	-	-	-	-	-	-	-	698	-	435,386
- of which: non performing exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non performing exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed "off-balance sheet" exposures:	**3,945**	**-**	**-**	**-**	**3,945**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,945**
2.1 fully guaranteed	3,945	-	-	-	3,945	-	-	-	-	-	-	-	-	-	3,945
- of which: non performing exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non performing exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Banking group – Guaranteed exposures to customers

	Amount of net exposure	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Guarantees				
							Other derivatives								
		Buildings	Buildings financial leasing	Securities	Other secured guarantees	CLN	Governments and central banks	Other public entities	Banks	Other issuers	Govern-ments and central banks	Other public entities	Banks	Other issuers	
1. Guaranteed cash exposures:	**16,128,570**	**12,926,025**	**-**	**209,026**	**115,881**	**-**	**-**	**-**	**-**	**-**	**-**	**137,617**	**5,076**	**2,375,261**	**15,768,886**
1.1 fully guaranteed	15,027,837	12,608,424	-	139,117	82,686	-	-	-	-	-	-	62,156	4,049	2,131,405	15,027,837
- of which: non performing exposure	3,519,801	2,930,650	-	18,705	11,661	-	-	-	-	-	-	3,790	252	554,743	3,519,801
1.2 partially guaranteed	1,100,733	317,601	-	69,909	33,195	-	-	-	-	-	-	75,461	1,027	243,856	741,049
- of which: non performing exposure	455,739	197,576	-	23,859	11,057	-	-	-	-	-	-	8,486	393	121,055	362,426
2. Guaranteed "off-balance sheet" exposures:	**304,563**	**103,292**	**-**	**17,072**	**27,573**	**-**	**-**	**-**	**-**	**-**	**-**	**271**	**1,713**	**115,884**	**265,805**
2.1 fully guaranteed	124,183	1,788	-	9,548	20,273	-	-	-	-	-	-	271	1,213	91,090	124,183
- of which: non performing exposure	8,778	825	-	1,300	1,555	-	-	-	-	-	-	-	-	5,098	8,778
2.2 partially guaranteed	180,380	101,504	-	7,524	7,300	-	-	-	-	-	-	-	500	24,794	141,622
- of which: non performing exposure	19,535	2,384	-	1,942	564	-	-	-	-	-	-	-	-	9,315	14,205

The 4th revision of Circular no. 262 of the Bank of Italy changed the procedures for representing the guarantees in the above table, providing that their value may be no higher than the book value of the guaranteed exposures.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT

B.1 Banking group - Distribution by sector of cash and "off-balance sheet" exposures to customers (book value)

Exposures/Counterparts	Governments			Other public entities			Financial companies		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures									
A.1 Bad loans	-	-	X	-	-	X	36,996	(87,517)	X
- of which: exposures with forbearance measures	-	-	X	-	-	X	136	(29,548)	X
A.2 Unlikely to pay	-	-	X	31,486	(22,898)	X	152,459	(223,669)	X
- of which: exposures with forbearance measures	-	-	X	31,486	(22,898)	X	67,531	(49,645)	X
A.3 Non performing past due exposures	2	-	X	818	-	X	156	(35)	X
- of which: exposures with forbearance measures	-	-	X	-	-	X	-	-	X
A.4 Other performing exposures	4,780,511	X	-	43,326	X	-	1,365,929	X	(18,594)
- of which: exposures with forbearance measures	-	X	-	-	X	-	427	X	(5)
TOTAL A	**4,780,513**	**-**	**-**	**75,630**	**(22,898)**	**-**	**1,555,540**	**(311,221)**	**(18,594)**
B. "Off-balance sheet" exposures									
B.1 Bad loans	-	-	X	-	-	X	-	(10)	X
B.2 Unlikely to pay	-	-	X	-	-	X	212	-	X
B.3 Other non perfoming exposures	-	-	X	-	-	X	-	-	X
B.4 Other performing exposures	1,284	X	-	7,324	X	(2)	111,797	X	(38)
TOTAL B	**1,284**	**-**	**-**	**7,324**	**-**	**(2)**	**112,009**	**(10)**	**(38)**
Total (A + B) at 31/12/16	**4,781,797**	**-**	**-**	**82,954**	**(22,898)**	**(2)**	**1,667,549**	**(311,231)**	**(18,632)**
Total (A + B) at 31/12/15	**5,234,925**	**-**	**-**	**94,121**	**(17,361)**	**(2)**	**2,498,411**	**(270,628)**	**(14,822)**

Exposures/Counterparts	Insurance companies			Non-financial institutions			Other issuers		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures									
A.1 Bad loans	-	-	X	1,466,194	(2,440,387)	X	519,408	(565,716)	X
- of which: exposures with forbearance measures	-	-	X	147,302	(141,346)	X	45,987	(19,882)	X
A.2 Unlikely to pay	-	-	X	2,149,697	(793,567)	X	736,840	(492,559)	X
- of which: exposures with forbearance measures	-	-	X	1,104,596	(344,883)	X	202,864	(45,991)	X
A.3 Non performing past due exposures	-	-	X	41,043	(7,120)	X	25,247	(5,809)	X
- of which: exposures with forbearance measures	-	-	X	3,010	(522)	X	4,777	(434)	X
A.4 Other performing exposures	38,153	X	-	8,069,142	X	(94,076)	7,963,831	X	(34,036)
- of which: exposures with forbearance measures	-	X	-	380,169	X	(12,807)	223,104	X	(2,638)
TOTAL A	**38,153**	**-**	**-**	**11,726,076**	**(3,241,074)**	**(94,076)**	**9,245,326**	**(1,064,084)**	**(34,036)**
B. "Off-balance sheet" exposures									
B.1 Bad loans	-	-	X	4,242	(2,772)	X	24	(3)	X
B.2 Unlikely to pay	-	-	X	68,689	(2,165)	X	4,329	(5,341)	X
B.3 Other non perfoming exposures	-	-	X	823	(1)	X	99	-	X
B.4 Other performing exposures	47,572	X	(70)	919,083	X	(869)	58,400	X	(20)
TOTAL B	**47,572**	**-**	**(70)**	**992,837**	**(4,938)**	**(869)**	**62,852**	**(5,344)**	**(20)**
Total (A + B) at 31/12/16	**85,725**	**-**	**(70)**	**12,718,913**	**(3,246,012)**	**(94,945)**	**9,308,178**	**(1,069,428)**	**(34,056)**
Total (A + B) at 31/12/15	**90,607**	**-**	**(74)**	**14,891,029**	**(2,543,340)**	**(100,349)**	**10,284,093**	**(819,379)**	**(33,577)**

B.2 Banking group - Geographical distribution of cash and "off-balance sheet" exposures to customers (book value)

Exposures/Geographical area	ITALY		OTHER EU COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Bad loans	2,021,197	(3,080,297)	1,255	(12,640)	146	(683)	-	-	-	-
A.2 Unlikely to pay	3,056,580	(1,462,675)	11,173	(69,844)	2,727	(173)	-	-	2	(1)
A.3 Non performing past due exposures	64,130	(12,720)	22	(7)	15	(2)	-	-	3,099	(235)
A.4 Other performing exposures	21,849,775	(143,980)	388,051	(2,465)	9,325	(84)	4,455	(52)	9,286	(125)
TOTAL	**26,991,682**	**(4,699,672)**	**400,501**	**(84,956)**	**12,213**	**(942)**	**4,455**	**(52)**	**12,387**	**(361)**
B. "Off-balance sheet" exposures										
B.1 Bad loans	4,266	(2,785)	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	73,230	(7,506)	-	-	-	-	-	-	-	-
B.3 Other non perfoming exposures	922	(1)	-	-	-	-	-	-	-	-
B.4 Other performing exposures	1,118,555	(999)	26,781	-	43	-	-	-	81	-
TOTAL	**1,196,973**	**(11,291)**	**26,781**	**-**	**43**	**-**	**-**	**-**	**81**	**-**
Total at 31/12/2015	**28,188,655**	**(4,710,963)**	**427,282**	**(84,956)**	**12,256**	**(942)**	**4,455**	**(52)**	**12,468**	**(361)**
Total at 31/12/2014	**32,601,625**	**(3,727,863)**	**415,390**	**(67,599)**	**41,573**	**(1,134)**	**8,718**	**(2,778)**	**25,880**	**(158)**

B.3 Banking group - Geographical distribution of cash and "off-balance sheet" exposures to banks (book value)

Exposures/Geographical area	ITALY		OTHER EU COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	794,786	-	1,394,696	-	3,407	-	16,846	-	5,449	-
TOTAL	**794,786**	**-**	**1,394,696**	**-**	**3,407**	**-**	**16,846**	**-**	**5,449**	**-**
B. "Off-balance sheet" exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non perfoming exposures	-	-	-	-	-	-	-	-	-	-
B.4 Other performing exposures	218,450	-	68,785	-	3,165	-	20,195	-	3,505	-
TOTAL	**218,450**	**-**	**68,785**	**-**	**3,165**	**-**	**20,195**	**-**	**3,505**	**-**
Total at 31/12/2016	**1,013,236**	**-**	**1,463,481**	**-**	**6,572**	**-**	**37,041**	**-**	**8,954**	**-**
Total at 31/12/2015	**1,068,896**	**-**	**1,961,364**	**(555)**	**13,474**	**-**	**37,198**	**-**	**13,663**	**-**

B.4 Significant exposures

	31/12/2016
a) Book value	10,252,073
b) Weighted value	2,146,254
c) Number	10

On the basis of current supervisory instructions, a "Significant exposure" is one whose amount is equal to or greater than 10% of the admissible Capital (equal to the Group's own funds).

The "Significant exposures" relate to the exposure to the Italian State (nominal value of Euro 4,999.7 million and weighted value of Euro 183 thousand) connected mainly to direct and indirect investments in Government bonds as well as to exposures to worldwide bank groups (total nominal value of Euro 4,520.7 million and weighted value of Euro 1,924.6 million). It should be noted that, at 31 December 2016, no exposure exceeded the limit set forth in article 395 of the Regulation (EU) no. 575/2013 (CRR).

C. SECURITISATIONS

C.1 SECURITISATIONS

QUALITATIVE INFORMATION

Objectives, strategies and processes underlying securitisations

The Banca Popolare di Vicenza Group has identified securitisations as the main source of collection to meet funding requirements. All these securitisations form a strategic part of the Group's expectations of further growth in the mortgage sector and the general process of expanding bank lending, which requires adequate liquidity to be raised in advance to meet future loan applications. More specifically, the securitisations carried out met the following objectives:

– to free up resources on the asset-side of the statement of financial position, whilst improving the treasury position;
– to reduce maturity mismatching between deposits and long-term lending;
– to reduce the ratio of long-term lending to total lending.

These are also the purposes of "self-securitisations", carried out with the intent of having available usable securities for funding activities with the European Central Bank or with major market counterparties.

At the date of the financial statements, the following seventeen securitisations existed:

- Berica Residential MBS 1 Srl;
- Berica 5 Residential MBS Srl;
- Berica 6 Residential MBS Srl;
- Berica 8 Residential MBS Srl;
- Berica 9 Residential MBS Srl;
- Berica 10 Residential MBS Srl;
- Berica ABS Srl;
- Berica ABS 2 Srl;
- Berica PMI Srl;
- Piazza Venezia Srl;
- Berica ABS 3 Srl;
- Berica ABS 4 Srl;
- Berica PMI 2 Srl;
- Adriano SPV
- Berica Funding Srl;
- Piazza Venezia 2 Srl;
- Berica ABS 5 Srl.

The above securitisations, carried out pursuant to Law 130/1999, except for the securitisation called Adriano SPV, originated by the subsidiary Prestinuova only, are all of a multioriginator nature and include, in addition to the Parent Bank, also the subsidiaries Banca Nuova e Farbanca (for the Piazza Venezia and Piazza Venezia 2 securitisations) in addition to the former subsidiary Cassa di Risparmio di Prato S.p.A., merged by incorporation on 31 December 2010.

With the only exception of the securitisation called Berica Residential MBS 1 S.r.l., the Group owns pro rata the junior securities issued within the aforesaid transactions and therefore the related receivables are "reinstated" in the financial statements.

As regards the last three securitisations, these were carried out in 2016. These are securitisations of a multioriginator nature, completed with the assignment of mortgages portfolios (Berica Funding srl and Berica ABS 5 srl) by the Bank and by the subsidiary Banca Nuova, and with the assignment of commercial and unsecure mortgages in favour of small and medium sized corporations (Piazza Venezia 2 S.r.l.) in addition to the Bank, the subsidiary Banca Nuova and also the subsidiary Farbanca. As for the Berica Funding srl and Piazza Venezia 2 srl, the special purpose vehicle has already issued the ABS, subscribed by the originators in proportion to the loans assigned, while the securitisation, called Berica ABS 5 srl, is currently still in the warehousing phase since the related ABS have not yet been issued by the special purpose vehicle.

It should also be noted that on 1 February 2016, Prestinuova has transferred an additional Euro 102 million of payables to the special purpose vehicle Adriano SPV Srl with the concurrent subscription of an additional Euro 2.1 million in junior securities.

The details are provided below:

"Berica Funding S.r.l." Securitisation

- Vehicle company:	**Berica FUNDING 2016 srl**
- Date of sale of loans:	01/01/2016
- Type of loans sold:	Mortgage loans
- Quality of loans sold:	Performing loans
- Guarantees on loans sold:	First mortgage
- Geographical area of loans sold:	Italy
- Economic status of debtors sold:	Individuals
- Number of loans sold:	**13,605**
of which: Banca Popolare di Vicenza	11,895
of which: Banca Nuova	1,710
- Price of loans sold:	**1,277,279,036**
of which: Banca Popolare di Vicenza	1,131,982,560
of which: Banca Nuova	145,296,476
- Value of loans sold:	**1,276,764,244**
of which: Banca Popolare di Vicenza	1,131,510,284
of which: Banca Nuova	145,253,960
- Interest accrued on loans sold:	**514,792**
of which: Banca Popolare di Vicenza	472,276
of which: Banca Nuova	42,516

With the aforesaid securitisation, the Funding securities, as set out below, were issued; they were subscribed on the date of issue by the originators in proportion to the transferred receivables portfolio. In detail:

- Euro 892,500 thousand in unrated senior notes (of which Euro 790,900 thousand subscribed by BPVi and Euro 101,600 subscribed by Banca Nuova) with yield tied to the 3-month Euribor plus 125 bps;

- Euro 119,200 thousand in unrated mezzanine notes (of which Euro 105,700 thousand subscribed by BPVi and Euro 13,500 subscribed by Banca Nuova) with yield tied to the 3-month Euribor plus 200 bps;
- Euro 79,800 thousand in unrated mezzanine notes (of which Euro 70,800 thousand subscribed by BPVi and Euro 9,000 subscribed by Banca Nuova) with yield tied to the 3-month Euribor plus 250 bps;
- Euro 185,265 thousand in unrated junior notes (of which Euro 164,111 thousand subscribed by BPVi and Euro 21,154 subscribed by Banca Nuova) with yield tied to the 3-month Euribor plus 300 bps.

"Piazza Venezia 2 S.r.l." Securitisation

- Vehicle company:	**PIAZZA VENEZIA 2 srl**
- Date of sale of loans:	01/02/2016
- Type of loans sold:	Unsecured loans and mortgage loans in favor of small and medium- size companies
- Quality of loans sold:	Performing loans
- Guarantees on loans sold:	First and second mortgage
- Geographical area of loans sold:	Italy
- Economic status of debtors sold:	Companies
- Number of loans sold:	**1,277**
of which: Banca Popolare di Vicenza	738
of which: Banca Nuova	181
of which: Farbanca	358
- Price of loans sold:	**357,816,317**
of which: Banca Popolare di Vicenza	198,593,846
of which: Banca Nuova	16,588,555
of which: Farbanca	142,633,915
- Value of loans sold:	**356,958,704**
of which: Banca Popolare di Vicenza	197,826,061
of which: Banca Nuova	16,566,617
of which: Farbanca	142,566,026
- Interest accrued on loans sold:	**857,613**
of which: Banca Popolare di Vicenza	767,785
of which: Banca Nuova	21,939
of which: Farbanca	67,889

With the aforesaid securitisation, the Piazza Venezia 2 securities, as shown below, were issued and were subscribed on the date of issue by the originators in proportion to the transferred receivables portfolio. In detail:

- Euro 261,900 thousand in unrated senior notes (of which Euro 104,719 thousand subscribed by BPVi, Euro 12,100 subscribed by Banca Nuova, and Euro 104,600 subscribed by Farbanca) with yield tied to the 6-month Euribor plus 150 bps;
- Euro 95,058 thousand in unrated junior notes (of which Euro 52,626 thousand subscribed by BPVi, Euro 4,466 subscribed by Banca Nuova, and Euro 37,966 subscribed by Farbanca) with yield tied to the 6-month Euribor.

"Berica ABS 5 S.r.l." Securitisation

- Vehicle company:	**BERICA ABS 5 srl**	
- Date of sale of loans:		01/12/2016
- Type of loans sold:	Mortgage loans	
- Quality of loans sold:	Performing loans	
- Guarantees on loans sold:	First mortgage	
- Geographical area of loans sold:	Italy	
- Economic status of debtors sold:	Individuals	
- Number of loans sold:		**5,305**
of which: Banca Popolare di Vicenza		4,226
of which: Banca Nuova		1,079
- Price of loans sold:		**618,601,757**
of which: Banca Popolare di Vicenza		503,839,652
of which: Banca Nuova		114,762,106
- Value of loans sold:		**618,517,631**
of which: Banca Popolare di Vicenza		503,769,166
of which: Banca Nuova		114,748,466
- Interest accrued on loans sold:		**84,126**
of which: Banca Popolare di Vicenza		70,486
of which: Banca Nuova		13,640

For each own securitisation, the originator Banks have signed specific servicing contracts with the respective vehicle companies for the coordination and supervision of the management, administration and collection of the securitised loans, as well as for recovery activities in the event of borrower default. These contracts require the payment of an annual servicing fee as well as recompense for each position requiring recovery activities. The function of servicer is carried out by specific structures within the company, whose work has been duly organised and is checked by the Bank's internal auditors, who verify the propriety and conformity of its conduct with respect to the terms of the servicing contract.

"Adriano SPV S.r.l." Securitisation

- Vehicle company:	**Adriano SPV srl**	
- Date of sale of next tranche of loans:	01/02/2016	
- Type of loans sold:	Wage assignments	
- Quality of loans sold:	Performing loans	
- Guarantees on loans sold:	Insurance against risk of death and lost of work	
- Geographical area of loans sold:	Italy	
- Economic status of debtors sold:	Individuals	
- Number of loans sold:		**6,662**
- Price of loans sold:		**102,247,010**
- Value of loans sold:		**101,718,262**
- Interest accrued on loans sold:		**520,836**

With the aforesaid securitisation with additional disposal of loans and advances, the ABS securities, shown below, were issued. In detail:

- Euro 99,700 thousand in unrated senior notes with a yield tied to the 3-month Euribor plus 175 bps;
- Euro 2,100 thousand in unrated junior notes entirely subscribed by PrestiNuova, with 10 bps yield.

In the case of the Berica PMI 2, Berica Funding, Piazza Venezia, Piazza Venezia 2 and Berica ABS 5 securitisations, since the first four transactions are self-securitisations (the originator banks have subscribed all issued asset-backed securities in proportion to the size of the loan portfolio sold) and the fifth one, as described in the previous point, is in the warehousing phase, they do not fall under the disclosure requirements applying to the present Section.

Servicer and arranger activities

For all the securitisations, the originator Banks have signed specific servicing contracts with the respective vehicle companies for the coordination and supervision of the management, administration and collection of their specific securitised loans, as well as for recovery activities in the event of borrower default.
These contracts require the payment of an annual servicing fee as well as recompense for each position requiring recovery activities. The function of servicer is carried out by specific specially organised structures within the company, whose work is subject to control by internal auditors, who verify the propriety and conformity of their conduct with respect to the terms of the servicing contract.
Lastly, the originator Banks also act as the administrative servicer for all the above securitisations, receiving a contractually-agreed fee from the special purpose vehicles for providing this service.

Accounting treatment of outstanding positions relating to securitisations

With regard to the above securitisations, for the first securitisation, set up before 1 January 2004, the securitised assets were not reinstated on the first-time adoption of IAS-IFRS, as allowed by par. 27 of IFRS 1.

As for the other securitisations, arranged subsequent to 1 January 2004, since they do not meet the derecognition requirements of IAS 39, the portion of residual securitised assets relating to loans sold by the Group was reinstated at the statement of financial position date and the corresponding asset-backed securities were eliminated.

In particular, the securitised assets and related liabilities have been “reinstated” in the statement of financial position, with the residual securitised loans reported in the asset line item “Loans and advances to customers” and the associated liabilities in the liability line item “Due to customers”, while the corresponding portion of asset-backed securities relating to these securitisations has been eliminated from the Group’s portfolio. If said elimination results in a negative imbalance, said amount is recorded under “Loans and advances to customers”.

“Interest income and similar revenues” and “interest expense and similar charges” arising during the year in relation to the above assets and liabilities have been recognised, and an overall assessment of the reinstated securitised loans has also been performed with any write-downs reported in “net impairment adjustments to: loans and advances”. The securitised assets reported in the statement of financial position have been valued using the same principles as for the Group’s own assets.

Internal systems for the measurement and control of risk

The residual risk for each Bank in relation to the total insolvency of borrowers represents, for the own securitisations not “reinstated”, the value of the junior notes (highest degree of subordination) held.

The Group’s banks monitor changes in the key credit and financial variables relating to each securitisation.

With a view to controlling risk, special attention is focused on the performance of the trigger ratios, of performance indicators on default and delinquent loans, as well as the performance of the excess spread that represents the return on the junior notes held by the Group in the portfolio. The Board of Directors of each bank receives a summary and detailed statement about the securitisations at least every six months.

Concurrently with the issue of the ABS, several back-to-back swaps were arranged in the form of Interest Rate Swaps (IRS), in order to shield the special purpose vehicle (SPV) from interest rate risk.

These instruments are measured at fair value, as discussed below, and are included in the periodic Asset & Liability Management (ALM) analysis which is performed every quarter.
As regards the organisational structure which oversees the securitisations, the Parent Bank, through a dedicated operating unit, monitors the trend in securitisations originated by the Banca Popolare di Vicenza Group.

Rating agencies

The following rating agencies were engaged to perform due diligence work on the above transactions and assign ratings to the related Asset-Backed Securities:

- Berica Residential MBS 1 Srl: Standard & Poor’s and Fitch Ratings;
- Berica 5 Residential MBS Srl: Standard & Poor’s and Fitch Ratings;
- Berica 6 Residential MBS Srl: Standard & Poor’s, Fitch Ratings and Moody’s Investors Service Inc.;
- Berica 8 Residential MBS Srl: Fitch Ratings and Moody’s;
- Berica 9 Residential MBS Srl: Fitch Ratings and Moody’s;
- Berica 10 Residential MBS Srl: Moody’s and DBRS;
- Berica ABS Srl: Moody’s and DBRS;
- Berica ABS 2 Srl: Fitch Ratings and DBRS;
- Berica PMI Srl: Fitch Ratings and DBRS;
- Piazza Venezia Srl: Fitch Ratings;
- Berica ABS 3 Srl: Fitch Ratings and DBRS;
- Berica ABS 4 Srl: Fitch Ratings and DBRS.

QUANTITATIVE INFORMATION

C.1 Banking group - Exposures deriving from the principal "own" securitisations analysed by type of asset securitised and type of exposure

Type of asset securitized/Exposure	Cash exposures						Guarantees given						Credit lines					
	Senior		*Mezzanine*		*Junior*		*Senior*		*Mezzanine*		*Junior*		*Senior*		*Mezzanine*		*Junior*	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns /writebacks	Book value	Writedowns /writebacks	Book value	Writedowns /writebacks	Book value	Writedowns /writebacks	Book value	Writedowns /writebacks	Book value	Writedowns /writebacks
A. Fully derecognized																		
- mortgages	12,543	-	20,017	-	11,010	(856)	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognized																		
C. Not derecognized																		
- mortgages	30,860	-	588,061	-	1,564,615	-	-	-	-	-	-	-	-	-	-	-	-	-
- Unsecured loans and mortgage loans in favor of small and medium- size companies	-	-	-	-	590,868	-	-	-	-	-	-	-	-	-	-	-	-	-
- Assignments of one-fifth of salary	-	-	-	-	42,100	-	-	-	-	-	-	-	-	-	-	-	-	-

C.2 Banking group - Exposures deriving from the principal "third-party" securitisations analysed by type of asset securitised and type of exposure

Type of asset securitized/Exposure	Cash exposures						Guarantees given						Credit lines					
	Senior		*Mezzanine*		*Junior*		*Senior*		*Mezzanine*		*Junior*		*Senior*		*Mezzanine*		*Junior*	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns /writebacks	Book value	Writedowns /writebacks	Book value	Writedowns /writebacks	Book value	Writedowns /writebacks	Book value	Writedowns /writebacks	Book value	Writedowns /writebacks
- performing and not performing receivables of Palermo Chamber of Commerce (annual fees)	2,693	-	6,803	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- performing and non perfoming receivables of Impresa Spa (technical reserves)	133,201	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- loans agricultural and zootechnics	61,871	(13,152)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- credit for consuption	12,199	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- technical reserves arising from contracts originated by the public administration	12,527	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- other loans	42,101	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Banking group - Holdings in special purpose vehicles for securitisation

Securitization/SPV	Registered office	Consolidation	Assets			Liabilities		
			Loans and advances	Debt securities	Other	Senior	Mezzanine	Junior
Berica Residential MBS 1 S.r.l.	Vicenza	No	80,252	-	15,525	37,200	35,308	10,526
Berica 5 Residential MBS S.r.l.	Vicenza	No	154,614	-	18,575	85,119	43,932	34,293
Berica 6 Residential MBS S.r.l.	Vicenza	No	343,106	-	178,361	-	362,899	1,000
Berica 8 Residential MBS S.r.l.	Vicenza	No	465,002	-	90,649	288,846	-	174,950
Berica 9 Residential MBS S.r.l.	Vicenza	No	533,911	-	63,366	-	324,940	193,200
Berica 10 Residential MBS S.r.l.	Vicenza	No	519,546	-	44,228	-	300,300	184,382
Berica ABS S.r.l.	Vicenza	No	765,711	-	31,742	232,346	110,000	327,468
Berica ABS 2 S.r.l.	Vicenza	No	514,795	-	45,826	14,661	280,100	179,959
Berica ABS 3 S.r.l.	Vicenza	No	633,002	-	29,275	395,564	93,900	115,012
Berica ABS 4 S.r.l.	Vicenza	No	730,225	-	30,558	432,969	107,100	82,400
Berica PMI S.r.l.	Vicenza	No	593,764	-	42,761	-	-	588,027
Adriano Spv S.r.l.	Milan	No	246,154	-	39,253	216,306	-	42,100

C.4 Banking group - Non-consolidated special purpose vehicles for securitisation

The table below shows the information required by paragraph 26 of IFRS 12 for exposures in debt securities held by the Group at 31 December 2015 relating to third-party securitisations.
The Group did not sponsor special purpose vehicles for securitisation.

Isin Code	Description	Tranche	Maturity	Geographical distribution	Securitized assets	Rating	Book value	Maximum exposure to the risk of loss	Assets' accounting portfolio
IT0004678949	KALOS FIN 3% .MEZ.21	mezzanine	31/12/2021	Italy	Annual fees Chamber of Commerce	n.a.	3,343	3,343	Loans and advances to customers
IT0004792195	PROSPERO FIN.2,5% 22	mezzanine	31/12/2022	Italy	Annual fees Chamber of Commerce	n.a.	3,460	3,460	Loans and advances to customers
IT0004991425	NAUSICAA SPV SRL C.A	senior	31/12/2024	Italy	Annual fees Chamber of Commerce	n.a.	2,693	2,693	Loans and advances to customers
IT0004999675	TRITONE SPV 2% 14-35	senior	31/12/2035	Italy	Loans	n.a.	27,707	27,707	Loans and advances to customers
IT0005041279	TAMIGI SPV 3,15% CLA	senior	30/07/2040	Italy	Technical Reserves	n.a.	21,279	21,279	Loans and advances to customers
IT0005144172	RENO SPV 3,00% CL.A	senior	30/11/2040	Italy	Technical Reserves	n.a.	40,103	40,103	Loans and advances to customers
XS1177802102	COMPARMENT ATENA	senior	30/05/2025	Luxembourg	Commercial loans	n.a.	12,527	12,527	Loans and advances to customers
IT0005022915	BNT PORTFOLIO TV 42	one tranche	09/02/2042	Italy	Loans agricultural and zootechnics	n.a.	61,871	61,871	Loans and advances to customers
IT0005092470	QUARZO CL.A TV 15-30	senior	15/11/2030	Italy	Credit for consuption	n.a.	12,199	12,199	Financial assets available for sale
IT0005074601	EGEO SRL 2,00% CL.A	senior	31/12/2027	Italy	Technical Reserves	n.a.	34,617	34,617	Loans and advances to customers
IT0005211559	DRINA SPV SRL CL.A	senior	31/07/2040	Italy	Technical Reserves	n.a.	23,026	23,026	Loans and advances to customers
IT0005185282	ATLANTICA SRL CL.A	senior	30/07/2026	Italy	Technical Reserves	n.a.	14,176	14,176	Loans and advances to customers
XS1089898230	ZENONE 5,50% CL A 25	senior	30/09/2025	Luxembourg	Loans	n.a.	14,394	14,394	Loans and advances to customers
						Total	**271,395**	**271,395**	

C.5 Banking group - Servicer activities - own securitisations: collection of securitised loans and redemption of securities issued by the special purpose vehicle for securitisation

Servicer	SPV	Securitized assets 31/12/2016		Loans collected during the year		Percentage of securities redeemed 31/12/2016					
						Senior		*Mezzanine*		*Junior*	
		Non performing loans	Performing loans	Non performing loans	Performing loans	Non performing assets	Performing assets	Non performing assets	Performing assets	Non performing assets	Performing assets
BPVi/Banca Nuova	Berica Residential MBS 1 S.r.l.	-	77,698	-	16,951	0.00%	90.21%	0.00%	33.33%	0.00%	55.82%
BPVi/Banca Nuova	Berica 5 Residential MBS S.r.l.	-	148,463	-	19,892	0.00%	86.53%	0.00%	0.00%	0.00%	3.13%
BPVi/Banca Nuova	Berica 6 Residential MBS S.r.l.	-	343,106	-	110,250	0.00%	100.00%	0.00%	71.31%	0.00%	78.26%
BPVi/Banca Nuova	Berica 8 Residential MBS S.r.l.	-	465,002	-	118,633	0.00%	76.33%	0.00%	0.00%	0.00%	0.00%
BPVi/Banca Nuova	Berica 9 Residential MBS S.r.l.	-	533,911	-	108,122	0.00%	65.13%	0.00%	0.00%	0.00%	0.00%
BPVi/Banca Nuova	Berica 10 Residential MBS S.r.l.	-	519,546	-	88,344	0.00%	60.38%	0.00%	0.00%	0.00%	0.00%
BPVi/Banca Nuova	Berica ABS S.r.l.	-	765,711	-	115,647	0.00%	67.40%	0.00%	0.00%	0.00%	0.00%
BPVi/Banca Nuova	Berica ABS 2 S.r.l.	-	514,795	-	98,109	0.00%	59.07%	0.00%	0.00%	0.00%	0.00%
BPVi/Banca Nuova	Berica ABS 3 S.r.l.	-	633,002	-	163,092	0.00%	52.65%	0.00%	0.00%	0.00%	0.00%
BPVi/Banca Nuova	Berica ABS 4 S.r.l.	-	730,225	-	129,016	0.00%	31.72%	0.00%	0.00%	0.00%	0.00%
BPVi/Banca Nuova	Berica PMI S.r.l.	-	593,764	-	180,111	0.00%	100.00%	0.00%	0.00%	0.00%	0.00%
Prestinuova	Adriano Spv S.r.l.	-	246,154	-	82,967	0.00%	41.12%	0.00%	0.00%	0.00%	0.00%

C.6 Banking group - Consolidated special purpose vehicles for securitisation

It must be noted that the prerequisites of "control" under the new accounting standard IFRS 10 exist with regards to the special purpose vehicles used by the Group in its securitisation transactions. For these companies, however, the decision was made not to proceed with the corresponding consolidation in consideration of the fact that all financial statement values are irrelevant with respect to those of the Group and that the securitised assets are already included in the Group financial statements, since the prerequisites set forth[27] in IAS 39 for "derecognition" do not apply to the various transactions carried out.

[27] With the exception of the Berica Residential Mbs 1 transaction which was carried out before 1 January 2004, and for which the securitised assets were not "reinstated" on the first-time adoption of IAS-IFRS, as allowed by IAS 1.

D. DISCLOSURE ON STRUCTURED ENTITIES (OTHER THAN SPECIAL PURPOSE VEHICLES FOR SECURITISATION)

D.1 Consolidated structured entities

The BPVi Group's scope of consolidation includes among its "subsidiaries" the three mutual funds managed by the subsidiary Nem Sgr named "Nem Imprese", "Nem Imprese II" and "Industrial Opportunity Fund". With reference to these mutual funds, at 31 December 2014 the Parent Bank's residual commitment to make further payments amounts to Euro 60,703 thousand.

For a complete disclosure, it is reported that the "associate" companies over which the Group exercises significant influence includes the Giada Equity Fund.

The risks associated to the Group's investments in the above-mentioned funds are those typical of an investment in private equity funds, mainly consisting of liquidity and market risk.

Key information on the aforesaid funds subject to line-by-line consolidation and on the Giada Equity Fund is provided below.

Industrial Opportunity Fund

The Fund, the investments of which were principally carried out through mezzanine financing transactions also in support of corporate acquisitions with financial partners, typically private equity or industrial funds in companies operating in Italy, started operations on 4 July 2008 and concluded its investment period on 4 July 2016.

Its total net value at 31 December 2016 amounts to Euro 40.7 million, divided into 140 Class A units and 2 Class B units with a nominal value of Euro 500,000 each (entirely held by the Group).

Existing investments amount to Euro 18 million, all relating to unlisted companies, and have been made both through equity and through loans. The operating result of 2016 was negative for Euro 3.7 million due to the value impairment recorded on the assets (Euro -2.4 million) and management and tax charges (Euro -1.5 million), partially offset by interest income pertaining to the period (Euro 0.2 million).

Nem Imprese Fund

The Fund, which invests in the small and medium enterprise sector mainly through minority equity investments, started operations on 13 May 2005 and concluded its investment period on 12 May 2010.

The Fund total net value at 31 December 2016 amounts to Euro 9.8 million, divided into 120 units with a nominal value of Euro 215,000 each (of which 114 held by the Group).

Existing investments amount to Euro 9 million, all relating to unlisted companies, and have been made both through equity and through the granting of a deferred payment against the sale with retention of an investment title. Cash equivalents amounted to Euro 0.2 million. The operating result of 2016 was a positive Euro 69 thousand, referring to interest income on deferred payments (Euro 112 thousand) only partially offset by operating charges and taxes (Euro 43 thousand).

Nem Imprese II Fund

The Fund, which invests in the small and medium enterprise sector mainly through minority equity investments, started operations on 9 February 2010.

The Fund total net value at 31 December 2016 amounts to Euro 27.8 million, divided into 4,600 Class A units and 27 Class B units with a nominal value of Euro 25,000 each (entirely held by the Group).

Existing investments amount to Euro 26.9 million, all relating to unlisted companies, and have been made through equity. Cash equivalents amounted to Euro 0.5 million. The 2016 operating result was positive by Euro 1.2 million due to gains realised from disposal of investments (Euro 9.7 million), dividends collected (Euro 1 million) and the relevant interest income (Euro 0.1 million), only partially offset by impairment adjustments recognised on assets (Euro -7.3 million) and by operating charges and taxes (Euro -2.3 million).

Giada Equity Fund

The Fund, established in September 2002, is a closed-end mutual fund reserved for qualified investors, managed by 21 Investimenti Sgr SpA with a total capital of Euro 75 million, divided into 300 units with a nominal value of Euro 250,000.
The Fund's duration was originally planned for 10 years from the subscription closing date (26 September 2002), but was extended by two years and subsequently by an additional year to 26 September 2015 in order to complete the disposal of investments. In the course of 2015, the Management Company with the consent of the subscribers amended the management regulations, setting the end date of the Fund's duration at 25 September 2017 (without the option of further extensions).
The Fund carried out 17 investment transactions calling all of the commitments subscribed, amounting to Euro 75.0 million. With reference to disposals, as at 30 June 2016, the Fund had sold 14 investments and distributed to participants a total of Euro 78.4 million or 104.5% of the subscribed capital.

The breakdown of the Fund's total assets at 30 June 2016 was as follows: 17.60% shares and units; 79.81% other unlisted financial instruments (debt securities); 2.59% cash equivalents and other assets.

At 31 December 2016 the Fund contributed to the consolidated income statement with a loss of Euro 393 thousand.

D.2 Structured entities unconsolidated for accounting purposes

D.2.1 Structured entities consolidated for supervisory purposes

The Group does not consolidate structured entities for supervisory purposes other than those consolidated for accounting purposes.

D.2.2 Other structured entities

QUALITATIVE INFORMATION

The disclosures required by paragraph 26, 27(a), 30, 31, B25 and B26 of IFRS 12, concerning the Group's key investments in mutual funds are provided below.

The Group did not sponsor unconsolidated structured entities.

Idea CCR

Idea CCR (*Corporate Credit Recovery*) is a fund managed by IDeA Capital Funds SGR ("IDeA"), developed with the support and the funds of the "*anchor investor*" Bayside Capital, a company of the H.I.G. Group ("H.I.G. Bayside"), the first fund of the Italian DIP (*Debtor-in-Possession*) *Financing* investing in mid-sized Italian companies under financial difficulties to facilitate their business and financial restructuring and consequently help the banks to maximise the repayment of their loans. The Fund is comprised of two sub-funds: Credit sub-fund and New Money sub-fund. Some of the main Italian banks, including BPVi, have contributed to the Credit sub-fund by transferring to the fund their medium and long term impaired loans granted to mid sized Italian companies, in exchange for units of the Fund. The New Money sub-fund has collected, from Italian investors (in addition to DeA Capital S.p.A, the sponsor of the fund, institutional investors and some Family Offices), and from international investors, a commitment to provide financial resources in support of the plan for the relaunch of the companies. This is the framework that has guided the partnership with the American Group H.I.G. Capital which, through its subsidiary Bayside Capital, contributes by 50% to the New Money sub-fund.

Optimum Evolution Funds Sif Sicav

This Fund, reserved for institutional investors and registered with the "Registre de Commerce et des Sociétés" of Luxembourg, was subscribed by Banca Popolare di Vicenza on 28 November 2012 for a total commitment of Euro 100 million fully paid up.
The Fund operates as part of a plafond of investments in funds in order to implement a multi-assets strategy through a wide range of direct and indirect investments in bonds, equities, real estate, hedge funds, funds of funds, private equity, and structured bonds. The Fund may use financial leverage for direct and/or indirect investments in line with the market practices adopted for the different sub-funds.
The Board of Directors is responsible for the fund's management, administration and investments, and is composed of at least three members.
Optimum Asset Management (Luxembourg) S.A., registered with the "Luxembourg trade and companies register", is the Fund management company responsible for asset management, distribution and sale services.
Under the Fund's regulations, the value of each unit is calculated and communicated by the Sgr on a monthly basis.

Optimum Evolution Fund SIF – Multistrategy II

The Fund was subscribed by BPV Finance on 7 August 2013 with a commitment up to Euro 150 million fully paid up.
Optimum Evolution Fund SIF – Multi Strategy II is a specialised investment fund reserved for qualified investors, established in the legal form of a Luxembourg SICAV. It is registered with the Luxembourg "Registre de Commerce et des Societes".
The Fund is managed by Optimum Asset Management (Luxembourg) SA, a company registered with the "Luxembourg trade and companies register" with number B158100 and having its registered office in J.F. Kennedy 46a, Luxembourg.
The Fund pursues a multi-asset investment strategy with the aim to achieve long-term returns, investing in harmonised and non-harmonised fixed-income, equity, real estate and speculative funds, funds of funds, closed-end and open-end funds, listed and unlisted investment vehicles, private equity and structured bond funds.

Agris

Agris Fund is an Alternative Investment Fund, pursuant to art. 12 *bis* of Ministerial Decree n. 228/1999, as amended, managed by Prelios SGR, beginning on 29 December 2015.
The Fund started operations on 29 December 2011 through the assignment of real estate assets mainly for production use by companies operating in the agricultural industry. The purpose of the Fund is a collective investment of capital in real estate, real rights to real estate and shareholdings in real estate companies, and to increase its value over time, from the initial value, as well as to maximise the net operating results for distribution to the participants, deriving from operations and from the disposal of the investments. Currently, the Fund equity is primarily invested in real estate to be used for: warehousing, production, agriculture, commercial and offices.
The duration of the Fund is set, unless in the case of an early liquidation or extension of the duration of the Fund, at a maximum of 2 (two) additional years, until the date of approval of the annual management report of the Fund at 31 December 2024.
On 25 June 2012, BPVi acquired 376 units of the Agris Fund for a total of Euro 19,987 thousand.
The value of each unit is calculated and communicated by the Sgr on a half-year basis.

ILP III S.C.A.

ILP III S.C.A. is a SICAR ("société d'investissement en capital à risque") registered in Luxembourg and dedicated exclusively to investment activities, comparable to a closed-end Fund operating in the private equity sector.
As such, the entity has no operational structure and its business is managed by the advisor J. Hirsh & Co. International Sàrl and by the Luxembourg-based manager ILP III Sàrl.
The total commitment subscribed by investors amounts to Euro 252 million, of which Euro 219 million was called at 31 December 2016.
BPVi subscribed a commitment for a total of Euro 25 million, of which to date approximately Euro 21.9 million has been called, with the aim to achieve satisfactory returns through a vehicle for investing in companies with high growth potential.
The Fund's investment period, originally set to expire on 12 April 2012, has been extended for two years in order to complete ongoing investments.
The value of each unit is calculated and communicated by the Sgr on a half-year basis.

Toscana Venture

Toscana Venture is a closed-end real estate mutual fund reserved for qualified investors, managed by S.I.C.I. S.p.A..
Established in 2003, the Fund focuses on small to medium sized enterprises within the Tuscan regional economic environment, and operates by acquiring portions of the companies' voting right capital and supporting their owners or managers in implementing the business and financial plans.
In 2015, the Fund focused on managing its equity investment portfolio and on seeking the best divestment opportunities.
The Bank subscribed a commitment for up to Euro 7 million, fully called at 31 December 2016, with the aim to achieve satisfactory returns through a vehicle for investing in mostly Italian small to medium sized companies with attractive growth potential.
The value of each unit is calculated and communicated by the Sgr on a half-year basis.

Polis

The Polis Fund is a closed-end alternative investment fund (in liquidation) managed by Polis Fondi S.G.R. p.A., the management of which started on 18 June 2000 with a capital of Euro 258,000,000.
The duration of the fund, originally set at the time of the approval of the statement at 31 December 2012, was extended by three years, until 31 December 2015, in compliance with the rights set out in Management Regulations, and it is currently in liquidation.
At 31 December 2016, the real estate portfolio of the Fund was valued at Euro 107 million.
The Bank has subscribed fund units for about Euro 4.8 million.
The Polis Fund is traded in the Mercato Telematico Azionario (MTA market).

Leopardi

The Leopardi Fund is a closed-end real estate investment fund reserved to qualified investors managed by AEDES Real Estate SGR. The Fund started its activity on 23 December 2014 and is made up of 109,213 units with nominal value of Euro 500,000.
The Fund is primarily made up of immoveable assets and real estate property rights, and by investments in real estate companies; at 30 June 2016, the overall value of the Fund was about Euro 39 million.
The Bank has subscribed fund units for about Euro 2.1 million.
The value of each unit is calculated and communicated by the Sgr on a half-year basis.

Copernico Fund

The Fund was subscribed by BPV Finance on 21 December 2010 for a commitment of up to Euro 10 million fully paid up. On 23 December 2013, BPV Finance made a further investment of Euro 8.2 million. At 31 December 2014 there are no residual payment commitments.
Copernico is a closed-end speculative real estate fund reserved for qualified investors. It is managed by Finanziaria Internazionale Investments Sgr SpA, based in Conegliano (TV). The Company is registered with Bank of Italy's Investment Management Companies Register.
The Fund invests in renewable energy sources with a focus on solar energy through financial lease contracts, real estate rights and real estate equity investments.
In particular, the Copernico Fund invests in companies operating in the real estate sector and that produce electricity from renewable sources or biomass. The investments aim to achieve both a constant cash flow as well as capital gains from the sale of these positions.

Smart Energy Fund

The Fund was subscribed by BPV Finance on 14 November 2014 for a commitment of Euro 5 million, of which Euro 3 million paid up. At 31 December 2016, the residual payment commitment amounted to Euro 2 million.

Finint Smart Energy Fund is a closed-end real estate mutual fund reserved for qualified investors.

It is managed by Finanziaria Internazionale Investments Sgr SpA, based in Conegliano (TV). The Company is registered with Bank of Italy's Investment Management Companies Register.
The Fund invests by acquiring equity in E.S.Co. (Energy Service Companies), through joint ventures or otherwise, in order to create a balanced, diversified portfolio.

Re Energy Capital I

The Fund was subscribed by BPV Finance on 23 December 2010 with a commitment up to Euro 3 million fully paid up.
Re Energy Capital I is a sub-fund of a SICAR (*Societé d'Investissement en Capital à Risque*), under Luxembourg laws and under the control of the Supervisory authority CSSF, reserved for institutional and/or qualified investors. The Fund's purpose is to carry out private equity activities in the sector of renewable energies with a particular focus on photovoltaics.
The strategy of Re Energy Capital I consists of the investment in Special Purpose Vehicles (SPV), specialised in the production of photovoltaic energy sources. The SPV, in turn, collects the income from the sale of energy on the market (market remuneration), both from feed-in tariffs through Conto Energia (national government incentives) granted by the GSE (Gestore Servizi Energetici).
The investments of the sub-fund are geographically concentrated in Italy.

Re Energy Capital II

The Fund was subscribed by BPV Finance on 24 August 2012 with a commitment up to Euro 4 million fully paid up.
Re Energy Capital II is the second sub-fund of Re Energy Capital Sicar and shares its characteristics both in terms of regulations and investment policy. The only difference consists of the fact that this second sub-fund is specialised on smaller photovoltaic plants built on the roofs of commercial and industrial buildings, and on renewable energy produced through biomasses and organic materials.
In addition, while Re Energy I invests in Italian energy plants, Re Energy II invests in SPV in Romania.

QUANTITATIVE INFORMATION

Items/type of structured entity	Assets' accounting portfolio	Total assets (A)	Liabilities' accounting portfolio	Total liabilities (B)	Net book value (C=A-B)	Maximum exposure at loss risk (D)	Difference between exposure at loss risk and book value (E=D-C)
1. SPV							
2. Mutual funds							
OPTIMUM EVOLUTION FUND SIF - MULTI STRATEGY II	Financial assets available for sale	51,231	-	-	51,231	51,231	-
OPTIMUM EVOLUTION FUNDS SIF SICAV	Financial assets available for sale	32,993	-	-	32,993	32,993	-
IDEA CCR CREDITI A1	Financial assets available for sale	20,590	-	-	20,590	20,590	-
AGRIS CLASSE A	Financial assets available for sale	15,574	-	-	15,574	15,574	-
FONDO COPERNICO	Financial assets available for sale	12,355	-	-	12,355	12,355	-
ILP III SICAR C1A	Financial assets available for sale	8,496	-	-	8,496	11,747	3,251
FININT SMART ENERGY	Financial assets available for sale	2,791	-	-	2,791	4,797	2,006
RENERGY CAPITAL SICAR II	Financial assets available for sale	4,349	-	-	4,349	4,349	-
RENERGY CAPITAL SICAR	Financial assets available for sale	2,713	-	-	2,713	2,713	-
TOSCANA VENTURE PT	Financial assets available for sale	2,692	-	-	2,692	2,692	-
POLIS	Financial assets available for sale	1,940	-	-	1,940	1,940	-
RILANCIO E SVILUPPO	Financial assets available for sale	524	-	-	524	1,924	1,400
ATHENS R.E. FUND C1B	Financial assets available for sale	1,747	-	-	1,747	1,747	-
LEOPARDI/DISTR. PORT.	Financial assets available for sale	1,532	-	-	1,532	1,532	-
ALTRE ESPOSIZIONI	Financial assets available for sale	1,554	-	-	1,554	1,711	157
		161,081	-	-	161,081	167,895	6,814

Maximum exposure to the risk of loss was determined by adding the residual commitment to the book value, gross of the negative reserve if any.

E. DISPOSALS

A. Financial assets sold but not derecognised in full

Qualitative information

Financial assets sold but not derecognised and all liabilities relating to assets sold but not derecognised in the tables set out in this section mainly refer to receivables reinstated in the financial statements relating to securitisations set up by the Group, outlined in the previous section C.1 “Securitisations”, as well as to repurchase agreements carried out on property securities.

Quantitative information

E.1 Banking group – Financial assets sold but not derecognised: book value and full value

Technical forms/Portfolio	Financial assets held for trading			Financial assets at fair value			Financial assets available for sale		
	A	B	C	A	B	C	A	B	C
A. Cash assets	**40,953**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	40,953	-	-	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-	-	-	-
3. Mutual funds	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	X	X	X	X	X	X
Total at 31/12/2016	**40,953**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
of which: non performing exposures	-	-	-	-	-	-	-	-	-
Total at 31/12/2015	**60,159**	**-**	**-**	**-**	**-**	**-**	**71,651**	**-**	**-**
of which: non performing exposures	-	-	-	-	-	-	-	-	-

Technical forms/Portfolio	Financial assets held to maturity			Loans and advances to banks			Loans and advances to customers			**Total**	
	A	B	C	A	B	C	A	B	C	31/12/2016	31/12/2015
A. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**7,050,952**	**-**	**-**	**7,091,905**	**6,063,894**
1. Debt securities	-	-	-	-	-	-	-	-	-	40,953	131,810
2. Equities	X	X	X	X	X	X	X	X	X	-	-
3. Mutual funds	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	7,050,952	-	-	7,050,952	5,932,084
B. Derivatives	X	X	X	X	X	X	X	X	X	**-**	**-**
Total at 31/12/2016	**-**	**-**	**-**	**-**	**-**	**-**	**7,050,952**	**-**	**-**	**7,091,905**	**X**
of which: non performing exposures	-	-	-	-	-	-	356,112	-	-	**356,112**	**X**
Total at 31/12/2015	**-**	**-**	**-**	**-**	**-**	**-**	**5,932,084**	**-**	**-**	**X**	**6,063,894**
of which: non performing exposures	-	-	-	-	-	-	338,246	-	-	**X**	**338,246**

Key: A = Financial assets sold and recognised in full (book value); B = Financial assets sold and recognised in part (book value); C = Financial assets sold and recognised in part (full value)

E.2 *Banking group – Financial liabilities relating to financial assets sold but not derecognised: book value*

Liabilities/Assets portfolio	Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Financial assets held to maturity	Loans and advances to banks	Loans and advances to customers	**Total**
1. Due to customers	**-**	**-**	**-**	**-**	**-**	**2,406,630**	**2,406,630**
a) for assets recognized in full	-	-	-	-	-	2,406,630	**2,406,630**
b) for assets recognized in part	-	-	-	-	-	-	**-**
2. Due to banks	**27,086**	**-**	**-**	**-**	**-**	**1,880,769**	**1,907,855**
a) for assets recognized in full	27,086	-	-	-	-	1,880,769	**1,907,855**
b) for assets recognized in part	-	-	-	-	-	-	**-**
3. Debt securities in issue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) for assets recognized in full	-	-	-	-	-	-	**-**
b) for assets recognized in part	-	-	-	-	-	-	**-**
Total at 31/12/2016	**27,086**	**-**	**-**	**-**	**-**	**4,287,399**	**4,314,485**
Total at 31/12/2015	**44,326**	**-**	**432,577**	**-**	**-**	**3,063,968**	**3,540,871**

The amounts "Due to customers" in respect of "Loans and advances to customers" refer to the liabilities associated with receivables sold as part of securitisations originated by the Group, which do not qualify for derecognition under IAS 39 and so are "reinstated" in the financial statements.

E.3 Banking group – Sales with liabilities having recourse exclusively on the sold assets: fair value

The fair value of sales with liabilities having recourse exclusively on the sold assets does not have substantial differences from the book value. Therefore, the table has not been completed.

E.4 Banking group – Covered bond transactions

The Group has not carried out any covered bond transactions.

F. BANKING GROUP - MODELS USED FOR MEASURING CREDIT RISK

Since 2008, Banca Popolare di Vicenza has adopted internal rating models, for the retail segment (private and small business), small corporate segment (from Euro 517 thousand to Euro 2.5 million in turnover), mid corporate segment (from Euro 2.5 to Euro 50 million in turnover), and corporate segment beginning in 2009 (companies with a turnover exceeding Euro 50 million, Financial and Investment Holdings - regardless of the turnover - and parent companies with a group turnover exceeding Euro 50 million).

Subsequently, in 2013, the Board of Directors of the Parent Bank decided to launch the initiative to adopt advanced credit risk measurement methods ("**Internal Ratings Based" system** - **AIRB**) as set forth in the supervisory regulations in compliance with the principles of Basel 2. This project led to the implementation of the **New Rating System** (models, processes, procedures, regulations) for all segments (Large Corporate, Sme Corporate, Sme Retail, Small Business and Private) with consequent activation of the **New Rating Assignment Procedure** throughout the Group's sales Network.

In the first quarter of 2016, the organisational and IT activities preparatory to the April 2016 production of the following models were concluded:

- rating models for estimating the probability of default (PD), improved with respect to those already in use in the Group starting from 2014;
- internal Loss Given Default (LGD) model, replacing the one in force starting from the second half of 2014;
- internal Exposure at Default (EAD) model to quantify any expected change in the margins granted and unused by the counterparties.

In the second half of 2016, recalibration activities were carried out concerning the PD and LGD models in order to also incorporate the data of the 2015 period into the estimates.

Considering the activities carried out on the models and on the organisational and IT aspects, the A-IRB Project is concluded and said activities are now part of the ordinary management of the Bank.

It will be recalled that the SGR monitoring system (Sistema di Gestione dei Rischi or risk management system) has been in use at the Parent Bank since October 2004 and at Banca Nuova since April 2005. It is used mainly to provide early warnings to alert account managers of the existence of problems with certain customers and to make them take corrective action against the higher risk situations, in accordance with precisely defined procedures.

The system underwent a revision in 2009 to make this monitoring tool more effective in quickly identifying anomalies, and involved the definition of a new model and calculation algorithm for performance scoring (called EW = Early Warning), as well as interfacing the system with the internal ratings models.

Within the scope of the AIRB Project, during 2014, this monitoring system was revised, to adjust it to new rating models and, especially, to give greater significance to the latter by means of appropriate risk indicators, in monitoring borrowers.

1.2 – BANKING GROUP - MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – TRADING BOOK FOR SUPERVISORY PURPOSES

QUALITATIVE INFORMATION

A. General aspects

Interest rate risk represents the risk of incurring losses due to adverse trends in the rates of return on debt securities and other interest rate related instruments.

Three types of interest rate risk can be identified:

- **level.** The risk associated with an absolute change in the forward structure of risk-free interest rates (parallel shifts in the yield curve);
- **curve and fundamental.** The first identifies the risk deriving from a relative change in the structure of interest rates. The second derives from the imperfect correlation of the elements of a position, particularly with reference to hedging strategies;
- **credit spread.** Risk deriving from changes in the prices of bonds and credit derivative instruments associated with unexpected changes in the issuer's credit rating.

Price risk represents the risk associated with changes in the value of equity portfolios due to fluctuations in market prices. This risk is distinguished between:

- **generic risk.** Change in the price of an equity instrument following fluctuations in the market concerned;
- **specific risk.** Change in the market price of a specific equity instrument due to revised market expectations about the financial strength or prospects of the issuer.

The investment policy adopted by the Group focuses on optimising operating results and on reducing their volatility.

B. Management and measurement of interest rate risk and price risk

The Board of Directors of the Parent Company is responsible for defining propensity to market risk, and hence implicitly the aforementioned sub-risks that comprise it, and the guidelines for the management of such risk, with the support of the Finance Committee and the corporate Divisions in charge of the operational and strategic management of risk.

Specifically, for market risk management:

- the Board of Directors approves the strategic guidelines and operating limits and is periodically informed (at least once a quarter) about changes in exposure to market risk and its operational management;
- the Finance Committee serves in a consultative role for the Parent Bank's Board of Directors;
- the Finance Division has operational management duties for activities regarding trading in financial instruments, in compliance with the risk limits and powers assigned;
- the Risk Management Department monitors risk limits at the Parent Bank level and at individual Subsidiary levels, and operating limits at the Parent Bank level.

The Board of Directors has resolved that investment strategies must be conducted in compliance with propensity for risk and the risk/return targets agreed in the budget and that the consequent operating limits must be approved on a general or specific basis by the bodies or persons so authorised.
With reference to the trade portfolio, investment strategies have been conducted through market-making/trading by the Finance Division; this activity primarily translates into the process of managing financial instruments held for trading and treasury purposes, also in support of the branch Network's flow business (positions held to create the underlying for repo transactions with customers, secondary markets for issues by the Bank or placed by the Bank etc.).
The control of financial risk management is, therefore, centralised for Group Banks (including BPV Finance Plc) under the Parent Bank's Risk Management Department. This activity involves the daily monitoring of the observance of the VaR limits approved by the Board of Directors, as well as of the operating limits aimed at directing the activities of the single desks.

More specifically, the monitoring of the market risk of the BPVi Group is based on:

- defining a system for delegating powers in line with the risk limits and identifying the related escalation procedures in the event of overruns of these limits;
- controlling observance of the limits and powers.

For the Group's book (HFT), the BPVi Group has defined a risk-based system for delegating powers in line with the risk-appetite targets resolved by the Board of Directors. Specifically, the Board may delegate powers to the Managing Director of the Parent Bank, upon hearing the opinion of the Finance Committee, for the definition of operating powers of the Finance Division.

The Board of Directors approved the following limits for 2016:

- VaR limit: measure of the maximum potential loss over a given period of time for a predefined confidence level;
- capital limit allocated in view of the market risk: it measures the maximum potential loss that the Group is willing to accept concerning the assumption of financial risks within this area.

The Banca Popolare di Vicenza Group has also set out the monitoring of a set of operating limits based on the following indicators:

- ***Sensitivity*** (interest rate risk): change in profit or loss that would occur in the event of a parallel shift in the reference curve by one basis point;
- ***Sensitivity*** (inflation risk): change in profit or loss that would occur in the event of a shift in the reference inflation curve by one basis point;
- ***Vega*** (rate risk): change in profit or loss that would occur in the event of a 1% change in volatility (or in the volatility curves) for the financial instrument;
- ***Vega*** (equity risk): change in profit or loss that would occur in the event of a 1% change in volatility (or in the volatility curves) for the financial instrument;
- ***Vega*** (exchange rate risk): change in profit or loss that would occur in the event of a 1% change in the volatility of the exchange rate;
- ***Delta*** in cash terms (exchange rate risk): cash equivalent position for spot, forward and exchange rate derivative portfolios;
- ***Delta equivalent*** (equity risk): market value of shares and cash equivalent position;
- ***Theta***: change in the profit and loss that would occur over time (on a daily basis);
- ***Duration***: average maturity of the weighted instrument on future flows;
- ***Maximum invested amount*** (position): book value of cash securities/funds (gross of the derivatives' delta) to ensure that assets and liabilities are balanced within the assigned

budget limits. The above limits do not apply to government bonds (or bonds guaranteed by government entities) or supranational bonds of euro-zone members, the United Kingdom and the United States, with the same rating as Italy or higher (if more than one agency has given a rating, the following rule shall apply: if two ratings have been given, the worse of the two shall be selected; if there are more than two ratings, the two best are taken, from which the lower one shall be selected);

- ***Concentration***: maximum limit, in percentage or absolute terms, on an asset that can be held in the portfolio (by instrument or issuer). The above concentration limits do not apply to government bonds (or bonds guaranteed by government entities) or supranational bonds of euro-zone members, the United Kingdom and the United States, with the same rating as Italy or higher (if more than one agency has given a rating, the following rule shall apply: if two ratings have been given, the worse of the two shall be selected; if there are more than two ratings, the two best are taken, from which the lower one shall be selected);
- ***Credit Risk Sensitivity*** (credit risk): change in profit or loss that would occur in the event of a shift in the reference credit curve by one basis point.

Value at Risk (VaR) is a statistical measure that indicates the maximum potential loss on an investment in a given period of time. VaR is calculated by simulating past trends and estimates portfolio risks on the basis of:

- past market movements;
- holding period of 1 day;
- 99% confidence level.

The **VaR limit** refers to overall operations of the Global Markets aggregate, but it entails monitoring the level of risk applying to the individual strategies (desks) identified by the portfolio tree in the Murex application and resolved by the Parent Bank's Board of Directors.

For the purposes of having a standard representation of the underlying risk factors and a consistent method of calculation, the Group uses a **single risk calculation system** based on the **VaR program by Murex**. This has the benefit not only of enabling the use of the same position keeping system for managing and measuring risks, but also of producing important operational synergies. In addition, operational risks have also been reduced as a result of no longer having to replicate in an external system the positions and deals contained in the Group's official system.

The Parent Bank's Risk Management Department is responsible for reporting VaR. This analysis is performed on a daily basis, partly to check that the VaR remains within the parameters established and defined by the Board of Directors in line with the propensity to risk resolved by the Board.
The calculation of VaR concerns the trading book for supervisory purposes of the Parent Company and the HFT and AFS portfolios of the subsidiary BPV Finance Plc.

In addition to monitoring VaR limits, the Risk Management Department carries out back-testing and stress testing on a daily basis.

In order to test the forecasting effectiveness of the results of the VaR, back-testing is carried out which makes it possible to compare the potential loss in time t+1 represented by the VaR estimate calculated at time t through historical simulation, with the P&L data resulting from the revaluation of the positions based on market parameters between time t and time t_{+1}, hypothesising that there are no changes in the portfolio.

The stress test, instead, measures potential vulnerability upon the occurrence of exceptional events that are nonetheless possible. The analysis is carried out on a daily basis and the scenarios used represent 8 levels of extreme, symmetrical variations regarding stock markets, parallel shifts in rate curves, trends in exchange rates, volatility and credit spreads.

In defining stress scenarios, the following assumptions have been made regarding correlation between risk factors:

- rises in the stock market are accompanied by downward movements in government securities, meaning that shares and risk-free rates rise at the same time;
- declines in the stock market are followed by a collapse in the corporate bond market (high correlation between equities and credit spreads), meaning credit spreads rise when stock markets fall.

Apart from the scenarios just described - which simulate a specifically defined hypothetical market situation - two stress tests are also conducted based on actual market crashes in the past, involving the reproduction:

- of the market shifts reported after the World Trade Center Attack on 11 September 2001;
- of the market shifts reported after Lehman Brothers filed for bankruptcy under Chapter 11 on 15 September 2008.

The VaR models are used solely for management control purposes and are not used for the calculation of capital adequacy requirements. The trends in VaR for the Group's trading book are described in point 3 below.

QUANTITATIVE INFORMATION

1. Trading book for supervisory purposes: distribution by residual maturity (repricing date) of cash financial assets and liabilities and financial derivatives

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities	3,124	36,700	43,293	8,047	25,813	-	32	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	3,124	36,700	43,293	8,047	25,813	-	32	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities								
2.1 Repurchase agreements	-	(1,529)	(25,525)	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other	-	52,524	1,097	(56)	521	-	-	-
+ long positions	-	63,505	1,242	25	816	-	-	-
+ short positions	-	(10,980)	(144)	(81)	(294)	-	-	-
3.2 Without underlying security								
- Options	24,258	26,231	(1,472)	(26,883)	(213,007)	75,582	139,901	-
+ long positions	257,167	767,195	536,630	952,601	7,001,730	8,685,537	12,080,802	-
+ short positions	(232,908)	(740,964)	(538,102)	(979,484)	(7,214,738)	(8,609,955)	(11,940,901)	-
- Other	(2,173)	8,182,535	(2,786,353)	(5,965,296)	1,047,849	(772,710)	300,551	-
+ long positions	3,459	26,481,273	2,913,414	4,761,373	15,316,878	4,461,084	6,922,783	-
+ short positions	(5,632)	(18,298,738)	(5,699,766)	(10,726,668)	(14,269,029)	(5,233,794)	(6,622,232)	-

2. Trading book for supervisory purposes: distribution of the exposures in equities and stock indices by principal Country and market of listing

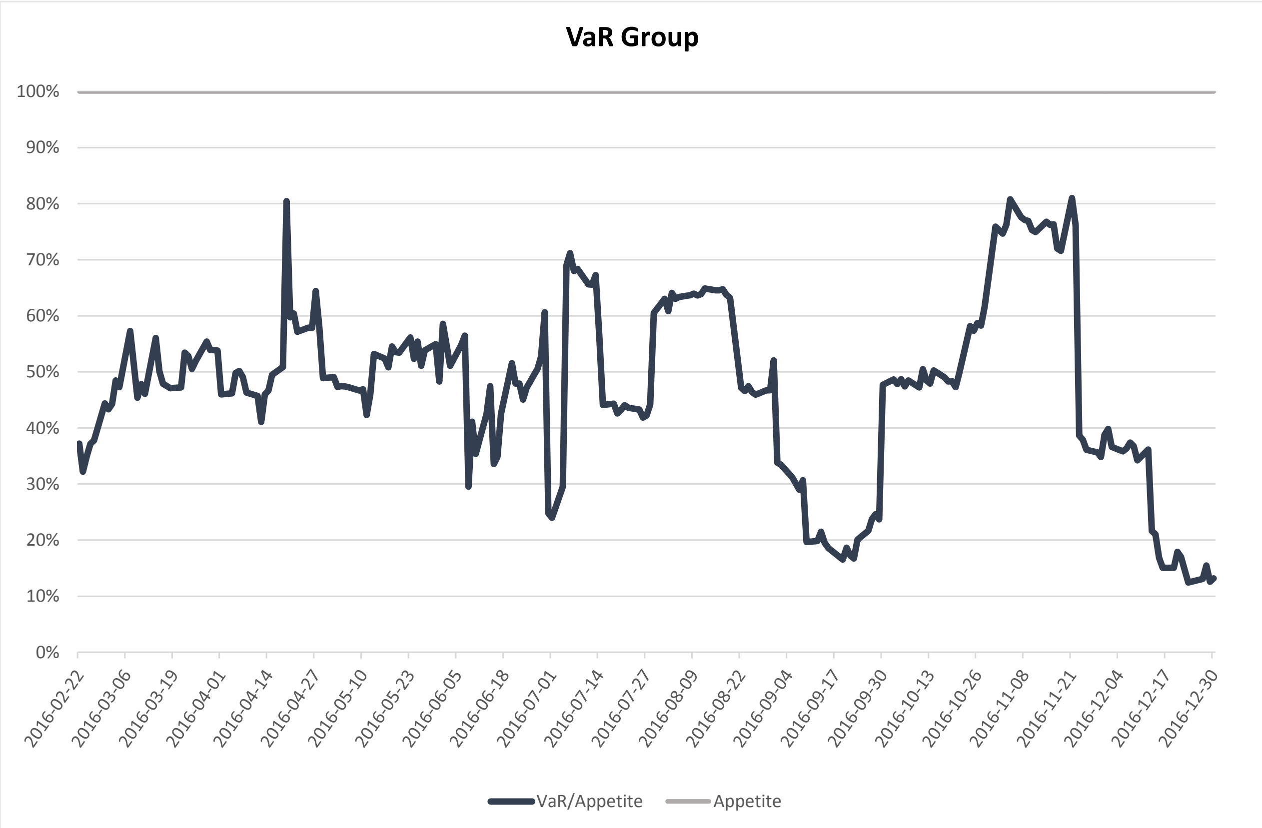
Type of transaction/Listing index	Listed		Unlisted
	Italy	Other Countries	
A. Equities			
- long positions	1,017	105	-
- short positions	-	-	-
B. Transactions not yet settled on equities			
- long positions	-	-	-
- short positions	-	-	-
C. Other derivatives on equities			
- long positions	1,481	-	-
- short positions	-	(7,871)	-
D. Derivatives on equity indices			
- long positions	-	-	-
- short positions	-	-	-

3. Trading portfolio for supervisory purposes: internal models and other methods of sensitivity analysis

Trends in VaR, stress test scenarios and back-testing on the trade portfolios of Banca Popolare di Vicenza Group, the Parent Bank and BPV Finance in 2016 are shown separately below. For the portfolio of the Banca Popolare di Vicenza Group and for the Parent Bank, the results obtained from the back-testing analysis are also shown.

VAR – STRESS TEST SCENARIO – BACK-TESTING OF ENTIRE TRADING BOOK OF BANCA POPOLARE DI VICENZA GROUP

During the period under review, from 22 February to 31 December 2016, the 1-day 99% Value at Risk of the Banca Popolare di Vicenza Group averaged Euro 1.61 million. In terms of the tolerance appetite absorption, set at Euro 2.25 million, this averaged 47.15% (in 2016, the 1-day 99% VaR of the book analysed amounted to Euro 1.82 million, with appetite limit absorption of approximately 80.98%).



STRESS TEST SCENARIO

As mentioned above, the stress test analysis is carried out on a daily basis and the scenarios used represent 8 levels of extreme, symmetrical variations regarding stock markets, parallel shifts in rate curves, trends in exchange rates, volatility and credit spreads.

The changes assumed in each of the eight scenarios for the variables considered are described below.

Variabile	*Scenario*							
	1	2	3	4	5	6	7	8
Equity	-40%	-30%	-20%	-10%	10%	20%	30%	40%
Equity Volatility	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Fx Spot	-40%	-30%	-20%	-10%	10%	20%	30%	40%
FX Volatility	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Swaption Volatility	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Market Rate	-40%	-30%	-20%	-10%	10%	20%	30%	40%
Cap Floor Volatility Smile	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Credit Derivatives Market Rates	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Inflation	-40%	-30%	-20%	-10%	10%	20%	30%	40%

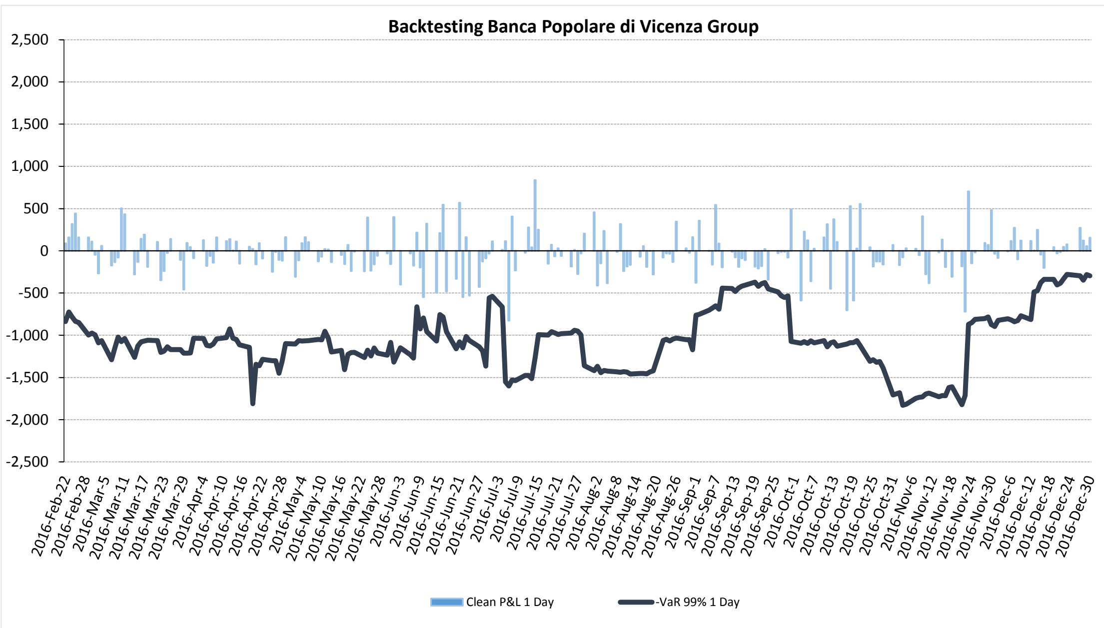
In 2016 (more specifically, from 22 February to 31 December 2016), the maximum theoretical loss of the Banca Popolare di Vicenza Group under stress would have been Euro 10.17 million, while the maximum loss at 31 December 2016 would have reached Euro 0.62 million.

	STRESS GROUP BANCA POPOLARE DI VICENZA									
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9	Scenario 10
Max	141,567	88,497	48,981	19,433	4,714	5,432	8,336	11,398	3,549	408
Min	1,485	68	-662	-740	-3,335	-4,235	-5,924	-6,607	-10,170	-2,392
Media	28,979	16,743	8,152	2,368	540	884	1,528	2,395	-262	-987
Profile at 30/12/2016	23,731	13,338	5,821	1,092	991	2,925	4,777	6,420	-616	-483

In €/000

BACK-TESTING

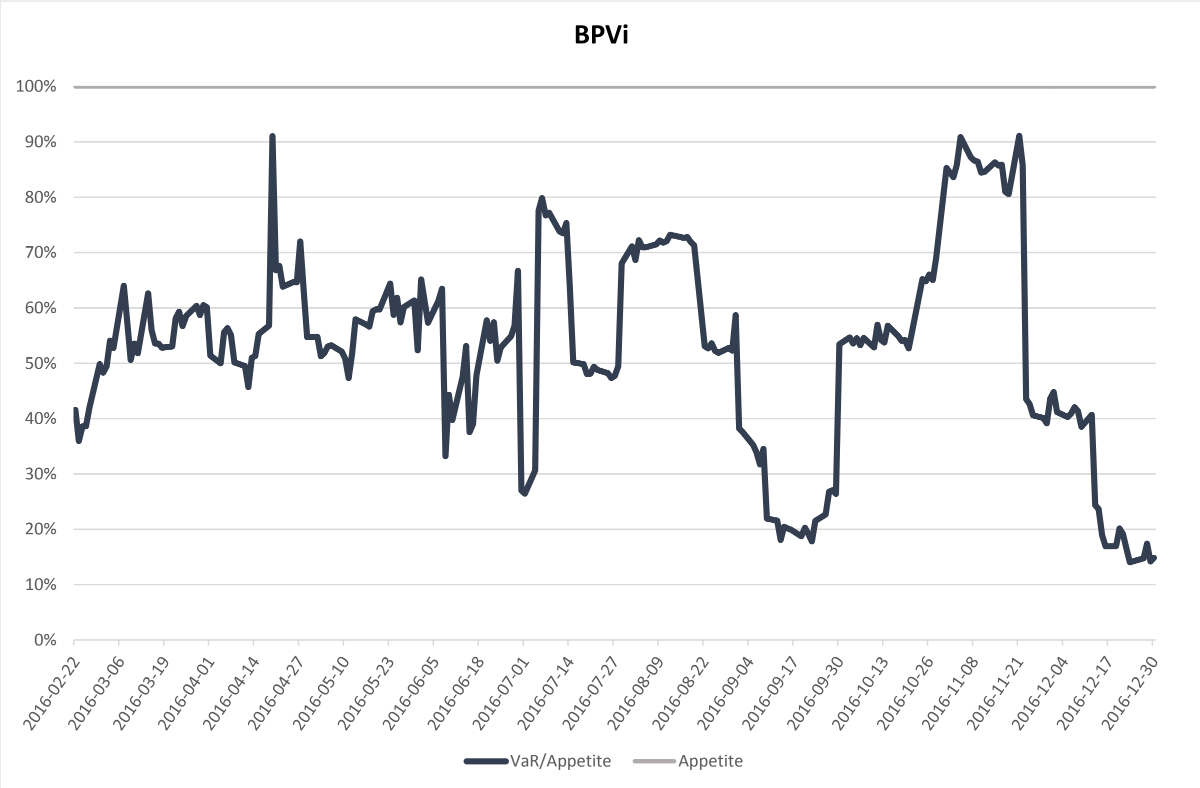
The following chart shows the results of back-testing analysis with reference to the Banca Popolare di Vicenza Group in 2016 (more specifically from 22 February to 31 December 2016).



In 2016 (more specifically from 22 February to 31 December 2016), no negative P&L cases were recorded, exceeding the VaR of the Banca Popolare di Vicenza Group.

VaR – Stress Test Scenario – Back-testing of entire trading book of Banca Popolare di Vicenza

During the period under review, from 22 February to 31 December 2016, the 1-day 99% Value at Risk of the Global Markets aggregate of the BPVi averaged Euro 1.05 million. In terms of the tolerance appetite absorption, set at Euro 2 million, this averaged 52.69% (in 2016, the 1-day 99% VaR of the book analysed amounted to Euro 1.82 million, with appetite limit absorption of approximately 91.11%).



Stress Test Scenario

As mentioned above, the stress test analysis is carried out on a daily basis and the scenarios used represent 8 levels of extreme, symmetrical variations regarding stock markets, parallel shifts in rate curves, trends in exchange rates, volatility and credit spreads.

The changes assumed in each of the eight scenarios for the variables considered are described below.

Variabile	*Scenario*							
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Equity	-40%	-30%	-20%	-10%	10%	20%	30%	40%
Equity Volatility	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Fx Spot	-40%	-30%	-20%	-10%	10%	20%	30%	40%
FX Volatility	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Swaption Volatility	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Market Rate	-40%	-30%	-20%	-10%	10%	20%	30%	40%
Cap Floor Volatility Smile	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Credit Derivatives Market Rates	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Inflation	-40%	-30%	-20%	-10%	10%	20%	30%	40%

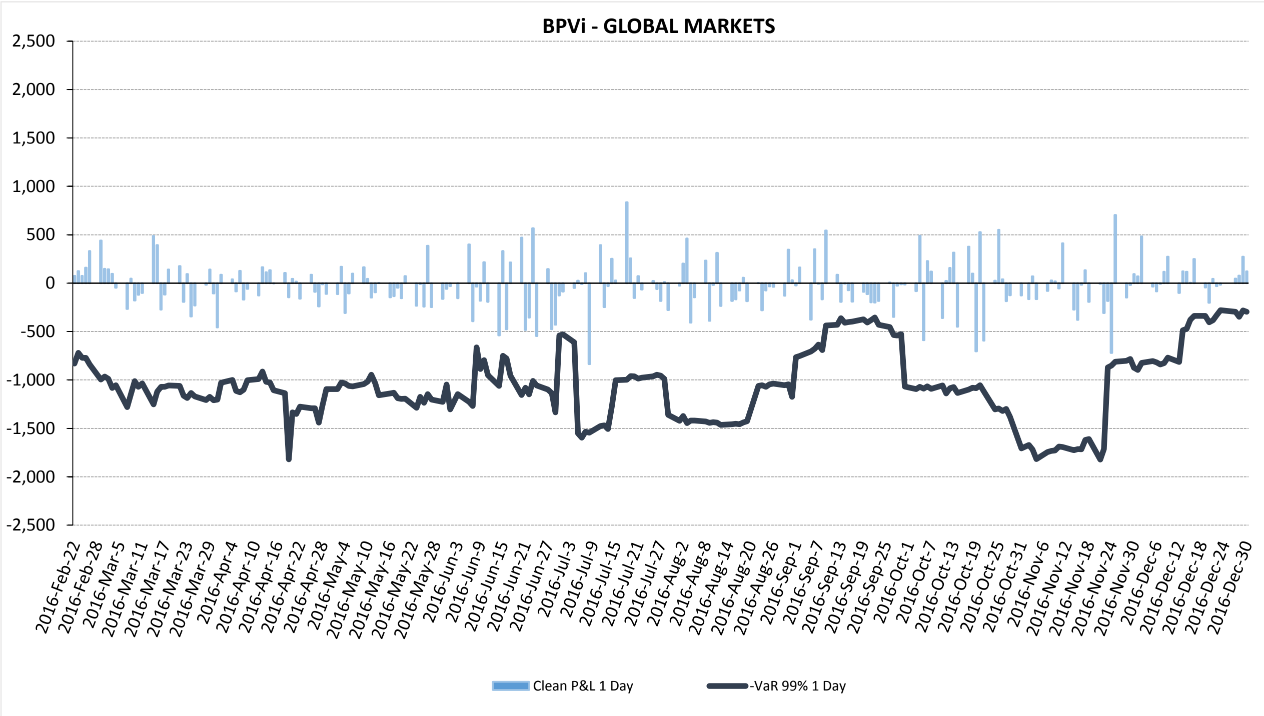
In 2016 (more specifically, from 22 February to 31 December 2016) the theoretical maximum loss of the Global Markets aggregate, in stress situations, would have been Euro 10.11 million, while the maximum loss at 31 December 2016 would have reached Euro 0.62 million.

	BPVi - GLOBAL MARKETS									
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9	Scenario 10
Max	141,688	88,589	49,043	19,464	4,682	5,373	8,236	11,264	3,607	453
Min	1,590	147	-609	-710	-3,363	-4,310	-6,038	-6,761	-10,119	-2,347
Media	29,080	16,819	8,203	2,394	513	831	1,448	2,287	-215	-946
Profile at 30/12/2016	23,731	13,338	5,821	1,092	991	2,925	4,777	6,420	-616	-483

In €/000

BACK-TESTING

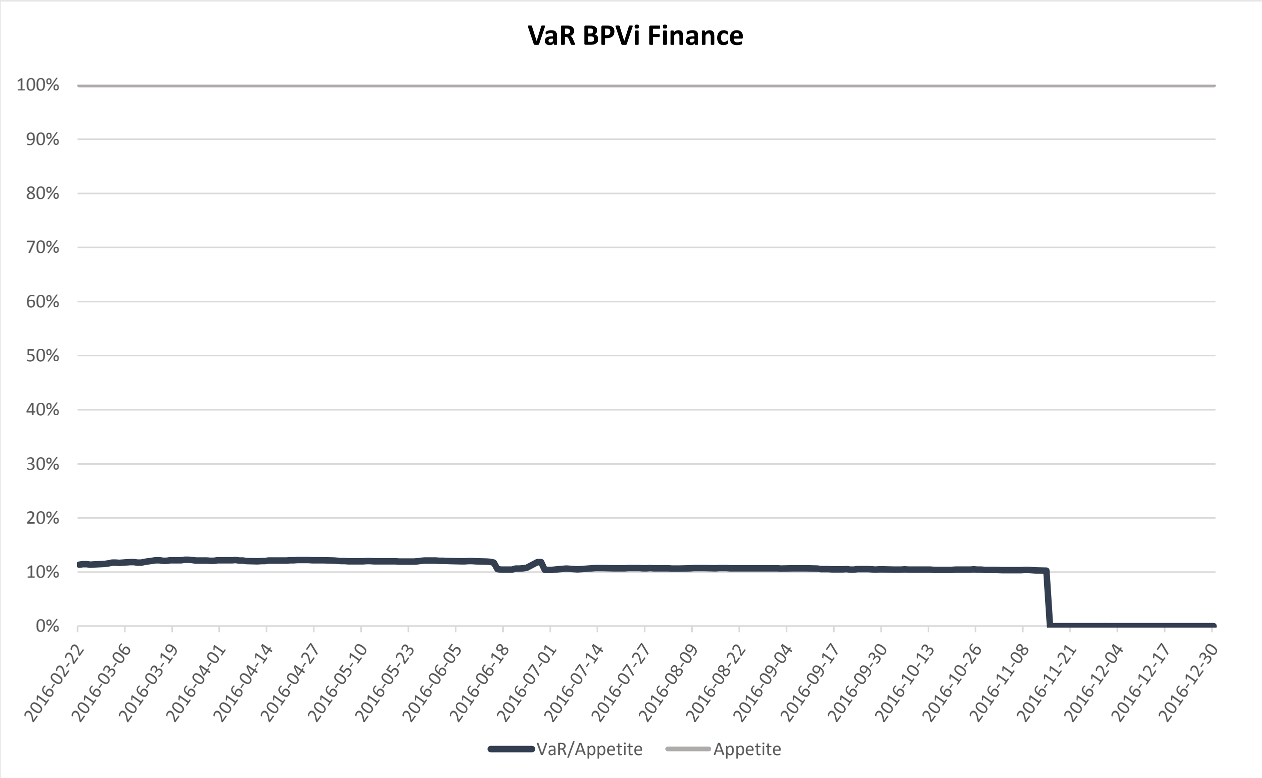
The following chart shows the results of back-testing analysis with reference to the Global Markets aggregate in 2016 (more specifically from 22 February to 31 December 2016).



In 2016 (more specifically from 22 February to 31 December 2016) no negative P&L cases were recorded, exceeding the VaR of the Global Markets aggregate.

VAR – STRESS TEST SCENARIO OF ENTIRE TRADING BOOK OF BPV FINANCE

During the period examined, the 1-day 99% Value at Risk of BPV Finance averaged Euro 24 thousand. In terms of the appetite limit absorption, set at Euro 250 thousand, this averaged 9.53% (in 2016, the 1-day 99% VaR of the book analysed amounted to Euro 31 thousand, with appetite limit absorption of approximately 12.27%).



Noting that stress test scenarios for BPV Finance were produced in line with those applicable to the Parent Bank, the stress tests demonstrated a maximum "theoretical" loss, during the year in question, of Euro 257 thousand, while the hypothetical maximum loss at 31 December 2016 would have been Euro 0.

	STRESS TEST TRADING BOOK									
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9	Scenario 10
Max	0	0	0	0	59	114	166	214	0	0
Min	-257	-190	-125	-61	0	0	0	0	-117	-102
Media	-101	-76	-51	-26	26	53	81	108	-47	-41
Profile at 30/12/2016	0	0	0	0	0	0	0	0	0	0

In €/000

1.2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

The banking book comprises all the positions other than those included in the trading book for supervisory purposes.

The interest rate risk incurred by the BPVi Group in relation to the banking book mainly derives from the activity of transforming maturities. It particularly arises from the mismatch of interest-bearing assets and liabilities in terms of amount, due date and interest rates.

As regards price risk, the banking book comprises minority holdings in equities classified as available for sale (AFS) and mutual funds. Investments in associates and subsidiaries are also included.

The process of measuring and controlling interest rate risk on the banking book, with the aim of effectively managing the medium/long-term economic and financial equilibrium of the BPVi Group, is governed by a specific policy, updated in May 2016.

Responsibility for managing interest rate risk lies with the Parent Bank's Board of Directors, which uses the Finance Committee and relevant company functions for the strategic and operational management of the same both at the level of the Group and of individual legal entities. In particular, the governance of interest rate risk involves the following Parent Bank bodies:

- the Board of Directors approves the strategic guidelines and operating limits and is periodically informed (at least once a quarter) about changes in exposure to interest rate risk and its operational management;
- the Finance Committee serves in a consultative role for the Parent Bank's Board of Directors;
- the Managing Director of the Parent Bank, having heard the opinion of the Finance Committee, having assessed the potential impacts on the Group's multi-year net interest income deriving from the proposed strategies for managing the interest rate risk, formally defines the actions which the Finance Division implements in matters of interest rate risk both in the short and in the medium to long term, observing the guidelines defined by the Board of Directors;
- the Risk Management Function is responsible for reporting and monitoring operating limits, and prepares the topics of discussion for the meetings of the Finance Committee;
- the Finance Division has direct responsibility for the operational management of interest rate risk.

The Asset & Liability Management methods adopted by the Group largely respond to the need to monitor exposure of all interest-earning assets and interest-bearing liabilities to interest rate risk when market conditions change. A report is produced once a month for the purpose of analysing interest rate exposure of both net interest income and the economic value of the banking book.

Interest rate risk is monitored using the following models:

- *repricing gap analysis*: estimates repricing mismatches and expected change in net interest income following a sudden, parallel shock to rate curves (+/-50 bps and +/-100 bps);

- *refixing gap analysis*: estimates refixing mismatches (split by benchmark, such as to ensure monitoring of lags and basis risks) for floating-rate positions;
- *maturity gap analysis fixed rate*: estimates mismatches between fixed-rate statement of financial position items in the banking book, and the corrective effects of any hedging strategies;
- *duration gap analysis* and *sensitivity analysis*: estimates market value, duration, sensitivity, bucket sensitivity of the economic value of the banking book following a sudden, parallel shock to rate curves of +/-100 bps and +/-200 bps.

The analyses performed are static and therefore exclude assumptions about future changes in the structure of assets and liabilities, in terms of volumes and product mix. Sight positions with customers are managed using a specific internal model, which makes it possible to model the stickiness of the rate applied to such transactions, as well as of the duration of such positions. The inclusion of this "behavioural" model in static ALM analyses completes the collection of methods used to estimate the interest rate risk of the banking book, thereby going beyond the assumption of full and immediate repricing of such positions when market rates change and of the assumptions of the Bank of Italy's simplified model.

For 2016, the BPVi Group defined a system of internal limits for monitoring the interest rate risk of the banking book, consistent with the risk-appetite targets set by the Board of Directors.

The variables to be monitored are those generated by the static Asset & Liability Management analyses with the "outlook for current profits" and with the "outlook for market values" approach. The system of limits for 2016 approved by the Board of Directors is structured so as to identify

- a risk capacity limit and risk appetite calculated as a relationship between the change in the economic value of assets and liabilities following an immediate parallel shock to the rate curves of +200 basis points (with respect to the inertia situation), as a percentage of consolidated Own Funds at the measurement date;
- a risk tolerance limit and risk appetite calculated as a ratio of the change in the interest margin, following an immediate parallel shock to the rate curves of +100 basis points (with respect to the inertia situation), to the interest margin, at a consolidated level, at the year end.

Other limits were set to monitor the Net Market Value of the entire portfolio of derivatives concerning:

- the Macro Cash Flow Hedge strategy on homogeneous portfolios of medium-long term floating rate loans;
- the Fair Value Hedge strategy defined on the inelastic sight deposit component with customers (defined through the appropriate statistical behavioural internal model);
- the Fair Value Hedge strategy on homogeneous portfolios of medium-long term floating rate loans.

In addition, the "attention thresholds" were monitored as regards the representation of bucket sensitivity +100 bps (with thresholds declined for each relevant time bucket interval).

The Group's strategic and operating decisions regarding the banking book aim to minimise the volatility in net interest income expected in the gapping period (12 months) or rather to minimise the volatility in total economic value when interest rates change.

B. Fair value hedges

In order to make stable and certain the fair value measurement of some instruments recorded in the financial statements, the Group has defined the Hedge Accounting processes aimed at hedging

homogeneous clusters of medium-long term fixed-rate loans (e.g. mortgages), single loans (e.g. securities) and liabilities (Fair Value Hedge).
In detail, in 2016, the Fair Value Hedge strategies in the Group's books can be classified as follows:

- Active Fair Value Hedge for homogeneous clusters of similar medium to long-term fixed-rate loans;
- Active Fair Value Hedge applied to investments in inflation linked BTP securities;
- Active Fair Value Hedge applied to homogeneous clusters of floating-rate loans with interest rate cap embedded;
- Passive Fair Value Hedge applied to fixed rate bonds of the Bank;
- Passive Fair Value Hedge applied to the anelastic core component of "sight" deposits.

In addition to the above hedge accounting transactions, the Group has defined a strategy in application of the liabilities Fair Value Option aimed at hedging the fixed rate/fixed multicallable step-up bonds of the Bank.

C. Active Cash flow hedges

In order to make stable and certain the future flows of some instruments recorded in the financial statements, the Bank has defined the Hedge Accounting processes aimed at hedging homogeneous clusters of medium-long term floating rate loans (e.g. mortgages), single loans (e.g. securities) and liabilities (Cash Flow Hedge).
In detail, in 2016, the Cash Flow Hedge strategies in the Bank's books can be classified as follows:

- Active Cash Flow Hedge applied to investments in inflation linked BTP-type securities only for the inflation component;
- Active Cash Flow Hedge for homogeneous clusters of medium-long term floating-rate loans;
- Passive Cash Flow Hedge for floating rate notes.

QUANTITATIVE INFORMATION

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities	1,806	3,810,233	4,933	12,378	1,112,836	48,807	157,589	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,806	3,810,233	4,933	12,378	1,112,836	48,807	157,589	-
1.2 Loans to banks	1,145,995	566,964	15,004	1,612	390,876	-	-	-
1.3 Loans to customers	6,211,264	11,105,855	1,209,702	272,783	2,195,357	629,634	624,223	-
- current accounts	2,896,377	2,895	126,833	15,448	291,108	35,349	-	-
- other loans	3,314,887	11,102,960	1,082,869	257,335	1,904,249	594,285	624,223	-
- with early redemption option	1,747,658	10,842,365	287,430	124,534	737,175	366,174	601,514	-
- other	1,567,229	260,595	795,439	132,801	1,167,074	228,111	22,709	-
2. Cash liabilities								
2.1 Due to customers	(10,205,976)	(1,101,446)	(2,402,092)	(296,037)	(377,165)	-	-	-
- current accounts	(9,269,804)	(2,186)	-	(57)	-	-	-	-
- other payables	(936,172)	(1,099,260)	(2,402,092)	(295,980)	(377,165)	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	(936,172)	(1,099,260)	(2,402,092)	(295,980)	(377,165)	-	-	-
2.2 Due to banks	(668,946)	(3,698,256)	(24,363)	(24,363)	(4,694,481)	(36,456)	-	-
- current accounts	(23,328)	-	-	-	-	-	-	-
- other payables	(645,618)	(3,698,256)	(24,363)	(24,363)	(4,694,481)	(36,456)	-	-
2.3 Debt securities	(92,851)	(1,056,482)	(449,903)	(230,132)	(2,236,089)	(263,937)	(5,198)	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	(92,851)	(1,056,482)	(449,903)	(230,132)	(2,236,089)	(263,937)	(5,198)	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options	-	(2)	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	(2)	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options	(11,490)	16	12,692	10,705	32,437	172,803	(217,164)	-
+ long positions	30	11,567	12,739	17,193	2,071,685	4,551,683	7,364,097	-
+ short positions	(11,520)	(11,551)	(47)	(6,488)	(2,039,248)	(4,378,880)	(7,581,261)	-
- other	-	(3,484,042)	75,393	113,028	794,417	2,496,204	5,000	-
+ long positions	-	925,546	217,363	194,770	920,142	2,496,204	5,000	-
+ short positions	-	(4,409,588)	(141,970)	(81,742)	(125,725)	-	-	-
4. Other off-balance sheet operations								
+ long positions	5,778	2,981	52,872	39,694	163,614	65,549	56,537	-
+ short positions	(387,025)	-	-	-	-	-	-	-

2. Banking book: Internal models and other methods of sensitivity analysis

As mentioned earlier, the BPVi Group uses a static ALM model to measure the sensitivity of the banking book's financial and economic equilibrium to changes in interest rates.

The effects of interest rate fluctuations on expected profitability are estimated using the classic textbook approaches:

- the "**outlook for current profits**" approach estimates the impact of interest rate fluctuations on net interest income for the year, over a short-term period;
- the "**outlook for market values**" approach estimates the impact of interest rate fluctuations on the banking book's economic value, over a long-term period.

Stress testing represents the set of qualitative and quantitative techniques used by the Group to assess its vulnerability to adverse market conditions. The Group periodically carries out stress tests to measure and control the interest rate risk of the banking book. Stress tests look at target variables with a view to the "outlook for current profits" and the "outlook for market values". Stress tests are conducted for the following purposes:

- to highlight the risk generated by any mismatches between interest-earning assets and interest-bearing liabilities, and so to clearly define what actions are needed to mitigate and keep interest rate risk within the established limits;
- to produce measures of sensitivity to monitor the operating limits on interest rate risk.

The scenarios used to measure the exposure of the banking book's economic value to risk assume that rate curves shift by +/-50 basis points and +/-100 basis points. The scenarios used to measure the exposure of the banking book's economic value to risk assume that rate curves shift by +/-100 basis points and +/-200 basis points. In each of these scenarios, all the risk factors experience the same shock.

As stated before, the estimates are made under the assumption that the structure of the statement of financial position remains unchanged in terms of volumes and product mix. The stickiness and persistence of sight positions with customers are managed using a specific internal model.

The principal indicators of the banking book's interest rate risk at 31 December 2016 are set out below (in Euro).

Δ MI +50 bp	**euro**	**32,795,601**
	% MI	***8,6%***

ΔVA +100 bp	**euro**	**-171,906,558**
	% PV	***-9.0%***

Δ MI +100 bp	**euro**	**64,867,184**
	% MI	***17,1%***

ΔVA +200 bp	**euro**	**-307,079,286**
	% PV	***-16,1%***

The need to assess the Group's vulnerability to exceptional but plausible events, said scenarios are supplemented by more complex, detailed scenarios, substantially associated with curve steepening, flattening and inversion movements.

1.2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange rate risk

Exchange rate risk represents the risk associated with changes in the value of positions denominated in foreign currencies deriving from unexpected variations in the cross rates. Exchange rate risk is principally generated by the support provided for commercial activity in foreign currencies and by trading in foreign securities.

Automatic network systems interfaced with a single position-keeping system enable the Finance Division to monitor constantly, in real time, the currency flows that are processed instantaneously on the interbank forex market. In addition, a specific unit within the Finance Division is responsible for managing own account positions and products relating to the exchange derivatives needed to meet the various investment and hedging requirements of Group customers.

An advanced position keeping system assures the efficient management of spot and forward flows within a specific framework of limits set by the competent corporate bodies.
During 2015, currency positions generated by the Group's other Banks also started to be managed by these same systems.

B. Hedging of exchange rate risk

Currency investment and hedging of exchange rate risk involve transactions that minimise currency exposure (purchase and sale of currency on the interbank market) as well as management of the derivatives book within precise risk and position limits.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets, liabilities and derivatives

Line items	Currency					
	US Dollars	Sterling	Japanese Yen	Canadian Dollars	Swiss Francs	Other currencies
A. Financial assets	**175,447**	**2,475**	**2,966**	**1,743**	**2,049**	**10,787**
A.1 Debt securities	641	-	-	-	-	-
A.2 Equities	285	-	-	-	-	-
A.3 Loans to banks	9,680	1,341	808	630	686	10,014
A.4 Loans to customers	164,841	1,134	2,158	1,113	1,363	773
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**24,012**	**839**	**483**	**253**	**1,256**	**1,794**
C. Financial liabilities	**(47,342)**	**(1,959)**	**(712)**	**(1,237)**	**(2,805)**	**(5,905)**
C.1 Due to banks	(447)	-	-	(1)	-	-
C.2 Due to customers	(46,895)	(1,959)	(712)	(1,236)	(2,805)	(5,905)
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**(1,318)**	**(4)**	**-**	**(1)**	**-**	**(2)**
E. Financial derivatives	**(165,145)**	**(518)**	**(2,663)**	**(575)**	**(842)**	**17,544**
- Options	182,985	(5,366)	(1,922)	651	-	(180,937)
+ long positions	218,067	169	5,607	2,852	-	10,200
+ short positions	(35,082)	(5,535)	(7,529)	(2,201)	-	(191,137)
- Other derivatives	(348,130)	4,848	(741)	(1,226)	(842)	198,481
+ long positions	334,179	8,568	4,185	5,607	-	336,354
+ short positions	(682,309)	(3,720)	(4,926)	(6,833)	(842)	(137,873)
Total assets	**751,705**	**12,051**	**13,241**	**10,455**	**3,305**	**359,135**
Total liabilities	**(766,051)**	**(11,218)**	**(13,167)**	**(10,272)**	**(3,647)**	**(334,917)**
Net balance (+/-)	**(14,346)**	**833**	**74**	**183**	**(342)**	**24,218**

2. Internal models and other methods of sensitivity analysis

The exchange rate risk generated by the trading book and the banking book is monitored using the VaR model described in detail in section 1.2.1 “Interest rate risk - Trading book for supervisory purposes”, to which reference is made. With regard to the estimation of exchange rate risk, reference is made to the tables included in the quantitative information for that Section.

1.2.4 DERIVATIVE INSTRUMENTS

A. FINANCIAL DERIVATIVES

A.1 Trading book for supervisory purposes: period-end and average notional amounts

Underlyings/Type of derivatives	31/12/2016		31/12/2015	
	OTC	Central counter-parties	*OTC*	Central counter-parties
1. Debt securities and interest rates	**66,164,870**	**440,350**	**111,943,644**	**470,000**
a) Options	6,796,126	-	8,046,151	-
b) Swaps	59,368,744	-	103,897,493	-
c) Forward	-	-	-	-
d) Futures	-	440,350	-	470,000
e) Other	-	-	-	-
2. Equities and equity indices	**2,250**	**11,040**	**32,500**	**10,317**
a) Options	2,250	3,169	32,500	2,746
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	7,871	-	7,571
e) Other	-	-	-	-
3. Currency and gold	**1,495,281**	**-**	**2,014,182**	**-**
a) Options	527,680	-	1,305,293	-
b) Swaps	-	-	-	-
c) Forward	877,455	-	609,240	-
d) Futures	-	-	-	-
e) Other	90,146	-	99,649	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**67,662,401**	**451,390**	**113,990,326**	**480,317**

It should be noted that line 1. b) – "Swap on debit securities and interest rates" includes for Euro 17,783.6 million also derivative contracts that are subject to central clearing at the London Clearing House (LCH), in which the Group is an indirect member through two clearing brokers.

A.2 Banking book: period-end and average notional amounts

A.2.1 For hedging

Underlyings/Type of derivatives	31/12/2016		31/12/2015	
	OTC	Central counter-parties	*OTC*	Central counter-parties
1. Debt securities and interest rates	**5,481,662**	**-**	**5,634,075**	**-**
a) Options	1,040,983	-	967,440	-
b) Swaps	4,440,679	-	4,666,635	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**5,481,662**	**-**	**5,634,075**	**-**

A.2.2 Other derivatives

Underlyings/Type of derivatives	31/12/2016		31/12/2015	
	OTC	Central counter-parties	*OTC*	Central counter-parties
1. Debt securities and interest rates	**541,385**	**-**	**964,830**	**-**
a) Options	223,040	-	260,040	-
b) Swaps	318,345	-	704,790	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	**178,494**	**-**	**-**	**-**
a) Options	178,494	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**719,879**	**-**	**964,830**	**-**

A.3 Financial derivatives: gross positive fair value – breakdown by product

Portfolio/Type of derivatives	31/12/2016		31/12/2015	
	OTC	Central counter-parties	*OTC*	Central counter-parties
A. Trading book	**1,907,518**	**110**	**3,206,925**	**22**
a) Options	84,889	110	78,317	22
b) Interest rate swaps	1,814,159	-	3,120,866	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	8,421	-	6,621	-
f) Futures	-	-	-	-
g) Other	49	-	1,121	-
B. Banking book - hedging	**27,907**	**-**	**33,024**	**-**
a) Options	17,306	-	13,647	-
b) Interest rate swaps	10,601	-	19,377	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**38,471**	**-**	**63,452**	**-**
a) Options	162	-	944	-
b) Interest rate swaps	38,309	-	62,508	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**1,973,896**	**110**	**3,303,401**	**22**

It should be noted that line A. b) – "Interest rate swap" includes for Euro 538,664 thousand also derivative contracts that are subject to central clearing at the London Clearing House (LCH) to which the Group is an indirect member through two clearing brokers.

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

Portfolio/Type of derivatives	31/12/2016		31/12/2015	
	OTC	Central counter-parties	*OTC*	Central counter-parties
A. Trading book	**(1,374,309)**	**-**	**(2,771,423)**	**(68)**
a) Options	(70,433)	-	(76,441)	(68)
b) Interest rate swaps	(1,294,371)	-	(2,689,005)	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	(8,654)	-	(5,918)	-
f) Futures	-	-	-	-
g) Other	(851)	-	(59)	-
B. Banking book - hedging	**(875,430)**	**-**	**(887,624)**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	(875,430)	-	(887,624)	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**(80,994)**	**-**	**(495)**	**-**
a) Options	(80,858)	-	-	-
b) Interest rate swaps	(136)	-	(495)	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**(2,330,733)**	**-**	**(3,659,542)**	**(68)**

It should be noted that line A. b) – "Interest rate swap" includes for Euro 358,207 thousand also derivative contracts that are subject to central clearing at the London Clearing House (LCH) to which the Group is an indirect member through two clearing brokers.

A.5 OTC financial derivatives: trading book for supervisory purposes – notional values, gross positive and negative fair values by counterparty – contracts not forming part of clearing agreements

Contracts not forming part of clearing agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial institutions	Other issuers
1. Debt securities and interest rates							
- Notional value	-	-	-	72,784	-	949,162	441,326
- Positive fair value	-	-	-	8,568	-	46,995	585
- Negative fair value	-	-	-	-	-	(326)	(1,616)
- future exposure	-	-	-	651	-	4,679	52
2. Equities and equity indices							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currency and gold							
- Notional value	-	-	-	-	-	598,509	537
- Positive fair value	-	-	-	-	-	36,179	13
- Negative fair value	-	-	-	-	-	(2,379)	(11)
- future exposure	-	-	-	-	-	5,372	5
4. Other instruments							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives: trading book for supervisory purposes – notional values, gross positive and negative fair values by counterparty – contracts forming part of clearing agreements

Contracts forming part of clearing agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial institutions	Other issuers
1. Debt securities and interest rates							
- Notional value	-	-	51,572,356	13,129,242	-	-	-
- Positive fair value	-	-	1,478,851	331,204	-	-	-
- Negative fair value	-	-	(1,013,784)	(346,956)	-	-	-
2. Equities and equity indices							
- Notional value	-	-	2,250	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
3. Currency and gold							
- Notional value	-	-	891,230	5,005	-	-	-
- Positive fair value	-	-	5,060	63	-	-	-
- Negative fair value	-	-	(9,237)	-	-	-	-
4. Other instruments							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-

A.7 OTC financial derivatives: banking book – notional values, gross positive and negative fair values by counterparty – contracts not forming part of clearing agreements

Contracts not forming part of clearing agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial institutions	Other issuers
1. Debt securities and interest rates							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2. Equities and equity indices							
- Notional value	-	-	-	-	178,494	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	(80,858)	-	-
- future exposure	-	-	-	-	-	-	-
3. Currency and gold							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4. Other instruments							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking book – notional values, gross positive and positive and negative fair values by counterparty – contracts forming part of clearing agreements

Contracts forming part of clearing agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial institutions	Other issuers
1. Debt securities and interest rates							
- Notional value	-	-	4,858,273	1,164,774	-	-	-
- Positive fair value	-	-	62,718	3,660	-	-	-
- Negative fair value	-	-	(606,053)	(269,513)	-	-	-
2. Equities and equity indices							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
3. Currency and gold							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
4. Other instruments							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional values

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	**Total**
A. Trading book for supervisory purposes	**21,572,062**	**23,558,596**	**22,531,743**	**67,662,401**
A.1 Financial derivatives on debt securities and interest rates	20,081,258	23,551,869	22,531,743	66,164,870
A.2 Financial derivatives on equities and equity indices	-	2,250	-	2,250
A.3 Financial derivatives on exchange rates and gold	1,490,804	4,477	-	1,495,281
A.4 Financial derivatives on other instruments	-	-	-	-
B. Banking book	**1,470,826**	**1,358,994**	**3,371,721**	**6,201,541**
B.1 Financial derivatives on debt securities and interest rates	1,292,332	1,358,994	3,371,721	6,023,047
B.2 Financial derivatives on equities and equity indices	178,494	-	-	178,494
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other instruments	-	-	-	-
Total at 31/12/2016	**23,042,888**	**24,917,590**	**25,903,464**	**73,863,942**
Total at 31/12/2015	**23,223,513**	**42,882,710**	**54,483,008**	**120,589,231**

A.10 OTC financial derivatives: counterparty risk/financial risk – Internal Models

The Group does not use EPE (expected positive exposure) internal models to define counterparty risk/financial risk.

B. CREDIT DERIVATIVES

The Group has not entered any transactions involving credit derivatives.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair value and future exposure for counterparties

	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial institutions	Other issuers
1. Bilateral financial derivative agreements							
- Positive fair value	-	-	271,588	27,209	-	-	-
- Negative fair value	-	-	(354,033)	(308,751)	-	-	-
- Future exposure	-	-	214,441	34,329	-	-	-
- Net counterparty risk	-	-	486,028	61,538	-	-	-
2. Bilateral credit derivative agreements							
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- Future exposure	-	-	-	-	-	-	-
- Net counterparty risk	-	-	-	-	-	-	-
2. "Cross product" agreements							
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- Future exposure	-	-	-	-	-	-	-
- Net counterparty risk	-	-	-	-	-	-	-

The Group uses bilateral offsetting arrangements relating to operations in over-the-counter derivatives with principal market counterparties, giving the option to offset creditor positions against debtor positions in the event of counterparty default.

SECTION 1.3 – LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Liquidity risk is the risk of being unable to meet payment obligations caused by inability to obtain funding (funding liquidity risk) and/or the presence of restrictions on the ability to sell assets (market liquidity risk). This risk can also take the form of a loss relative to fair value deriving from a forced sale, or more generally, of a loss in terms of reputation or business opportunities.

More specifically, funding liquidity risk – a type of typical risk of banking activities – is incurred when institutional counterparties withdraw their usual funding, or request, in exchange, a significantly higher return than in normal circumstances.

The policy for managing liquidity risk of the Banca Popolare di Vicenza Group lays down the following fundamental principles for governing this risk:
liquidity is managed centrally by the Parent Bank, Banca Popolare di Vicenza;

- responsibility for defining the propensity to liquidity risk and the guidelines on managing that risk rests with the Parent Bank's Board of Directors;
- the Liquidity Funding Plan (for ordinary liquidity management) and the Contingency Funding Plan (for contingency management) are developed and managed by the Parent Bank for the entire BPVi Group.

The Parent Bank's Board of Directors uses the Finance Committee and relevant company functions for the operational and strategic management of this risk. In particular:

- the Finance Committee proposes strategic guidelines in its consultative capacity to the Parent Bank's Board of Directors;
- the Managing Director of the Parent Bank, having consulted the Finance Committee, manages situations of liquidity stress, proposes possible corrective measures within the scope of the powers assigned to him by the Board of Directors, and submits proposals for action, that lie beyond his delegated powers, to the competent Bodies;
- the Risk Management Department monitors the risk limits, the results of the stress testing, the early warning indicators, and, more generally, the liquidity of the Group and of the individual Subsidiaries. Also, with the support of the Finance Division and of the Reporting and Planning Division, it regularly audits and updates the Contingency Funding Plan based on the results of the stress test;
- the Reporting and Planning Division, jointly with the Finance Division and the Risk Management Department, defines how the transfer price system operates within funds;
- the Finance Division has operational management duties.

Short-term liquidity management (within a 12-month horizon) uses an Operating Maturity Ladder, which identifies mismatches between expected cash inflows and outflows for each time period (liquidity gaps on precise dates). The cumulative mismatches (cumulative liquidity gaps) are used for calculating the net cash requirement/surplus for the different time horizons considered.

Medium/long-term liquidity management (beyond 12 months) uses a Structural Maturity Ladder, which identifies the balance between assets and liabilities by matching them not only in terms of cash flows but also in terms of statement of financial position ratios. The objective is to ensure that the profile of structural liquidity is sufficiently balanced, with restrictions on the possibility of financing medium/long-term assets with liabilities of a different duration.

The liquidity risk monitoring process is integrated between the Risk Management and Treasury functions of the Parent Bank and uses the ALMPro ERMAS application. The high level of automation in terms of both database input and report production fosters early monitoring of the risk/operating limit indicators.

The Global Markets Department is responsible for operational management of liquidity risk by seeking to maintain an optimum balance between average maturities of short-term lending and funding, and by diversifying positions by counterparty and due date negotiated both over the counter and on the Interbank Deposits Market. In addition to usual banking treasury activities (daily monitoring of the Group's liquidity and optimisation of its short-term management), any medium and long-term imbalances are managed using appropriate policies established by the Finance Committee.

As part of the overall Risk Management, the Board of Directors establishes, on an annual basis, the Group's propensity to liquidity risk, by defining the risk appetite and related thresholds (tolerance, capacity, risk and operational) as defined within the Risk Appetite Framework.

The system of risk appetite and thresholds is functional to the daily monitoring of the operational liquidity position and to the monthly monitoring of the structural liquidity position by the Risk Management Department.

The risk appetite and thresholds system approved by the Board of Directors for 2016 was based on the use of the following risk indicators:

- Liquidity Coverage Ratio;
- Net Stable Funding Ratio;
- Loans / Deposits Ratio;
- Cumulative cash position over total assets (1- and 3-month time horizon);
- Level 1 High Quality Liquid Assets;
- Intraday liquidity buffer;
- Cost of wholesale funding;
- Asset Encumbrance.

The first two indicators have a regulatory origin. In particular, the reference indicator selected for monitoring short-term liquidity is the Liquidity Coverage Ratio, determined using static, not stressed, logic. This indicator identifies, at Group level, the stock of not committed high quality liquid assets held by the Bank, which can be used to cover net cash outflows, which the Bank might need to cover in the event of a short-term liquidity crisis.

The reference indicator selected for monitoring medium/long-term liquidity is the Net Stable Funding Ratio, determined using static, not stressed, logic. This indicator identifies, at Group level, the ratio of available stable funding to required stable funding, which are both calculated as the sum of capital cash flows in the banking book expiring starting from the time bucket of 1 year, exclusive, up to the end of the time bucket in which the Group operates.

Since 30 June 2014, the Group has prepared its monthly Supervisory Reports on the basis of the LCR (Liquidity Coverage Ratio) indicator and the quarterly reports on the NSFR (Stable Funding Ratio) indicator, as defined in Regulation no. 575/2013 (CRR).

In addition to the indicators described above, the Group has defined indicators that are used, inter alia, to identify and recognise an "early warning" state of liquidity within the Contingency Funding Plan. They are divided into the following categories:

- bank specific liquidity indicators that provide evidence of the potential presence of stress or a liquidity crisis, based on Group's structure of assets and liabilities;
- liquidity alert indicators which provide alerts on the potential presence of stress or a liquidity crisis, based on indices and market variables.

With particular regard to diversifying funding sources, a specific risk threshold is defined for the level of concentration of the funding from single counterparties, for the following two technical types of funding:

- sight deposits from the first 10 non-financial counterparties (except for Cassa Depositi e Prestiti);
- short-term deposits from major financial counterparties (excluding Cassa Compensazione e Garanzia).

The contribution of individual counterparties must not exceed a pre-set threshold of the total specific type of funding. Said risk threshold is monitored on a daily basis and related information is provided with the same frequency.

In addition, the liquidity risk originated from intra-day operations is also monitored. Every day, the monitoring anticipates an ex-post analysis of the entire trend for cash flows entering and leaving the Group, identifying the minimum intra-day financial position. The analysis is performed in both ongoing terms and relating to specific stress scenarios. Furthermore, the timing at which "time critical" payments (i.e. of the payments that must be made within determined cut-off periods) is also monitored.

The trend in the Group's liquidity situation is reported monthly to the Board of Directors, to the Risk Committee and to the Finance and ALMs Committee. The Top Management is informed on the Group's exposure to liquidity risk on a daily basis. Lastly, the Group is monitored on a weekly basis by the Bank of Italy and the ECB, to which is sent a standard set of reports showing: the short-term liquidity, the medium-long term liquidity position, and the composition of the eligible ECB assets that make up the Group's liquidity buffer.

QUANTITATIVE INFORMATION

1. Distribution of financial assets and liabilities by residual maturity

Type/Residual duration	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets										
A.1 Government securities	-	-	-	-	-	1,005	10,000	1,250,000	2,568,376	-
A.2 Other debt securities	2,951	-	-	2,212	9,582	12,761	5,752	135,214	328,930	-
A.3 Mutual funds	161,081	-	-	-	-	-	-	-	-	-
A.4 Loans	5,110,224	65,644	118,407	633,427	1,062,693	1,385,114	1,202,182	7,824,063	7,475,586	113,899
- banks	1,538,337	558	1,560	2,403	57,252	47,524	58,803	300,026	-	113,899
- customers	3,571,887	65,086	116,847	631,024	1,005,441	1,337,590	1,143,379	7,524,037	7,475,586	-
Cash liabilities										
B.1 Deposits and current accounts	(9,954,328)	(32,202)	(56,005)	(139,996)	(645,077)	(300,359)	(292,714)	(368,210)	(177,449)	-
- banks	(564,234)	(10,000)	-	(35,000)	(41,233)	-	-	(866)	-	-
- customers	(9,390,094)	(22,202)	(56,005)	(104,996)	(603,844)	(300,359)	(292,714)	(367,344)	(177,449)	-
B.2 Debt securities	(161,986)	(316)	(12,721)	(543,234)	(151,975)	(336,342)	(590,482)	(2,302,387)	(416,923)	-
B.3 Other liabilities	(189,550)	(1,750,000)	-	(1,531)	(600,005)	(239,966)	(112,343)	(6,523,756)	(2,179,789)	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital	35	13,932	7,411	236	5,004	1,550	302	560	-	-
- long positions	775	235,930	192,186	504,903	358,859	72,037	62,236	4,903	-	-
- short positions	(740)	(221,998)	(184,775)	(504,667)	(353,855)	(70,487)	(61,934)	(4,343)	-	-
C.2 Financial derivatives without exchange of capital	507,038	-	-	-	-	-	-	-	-	-
- long positions	1,869,911	-	-	-	-	-	-	-	-	-
- short positions	(1,362,873)	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	(92,565)	(2,801)	76,180	255	(161,168)	(23,366)	(35,773)	117,255	121,983	-
- long positions	5,778	180	87,706	255	2,446	52,872	39,694	163,614	121,983	-
- short positions	(98,343)	(2,981)	(11,526)	-	(163,614)	(76,238)	(75,467)	(46,359)	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

The unspecified duration of line A.4 "Loans to banks" includes the compulsory reserve deposit of the Parent Bank and of the Subsidiary banks.

Among loans to customers are the loans securitised in the so-called "Piazza Venezia", "Piazza Venezia 2", "Berica PMI 2" and "Berica Funding" self-securitisations, in which the originator Banks subscribed all Asset-Backed Securities issued, in proportion to the transferred portfolio. Residual loans amount respectively to Euro 2,577,111 thousand, of which impaired positions of Euro 145,012 thousand.

The nominal quantities of the Asset-Backed Securities held by the Group at 31 December 2016 and issued within the aforementioned self-stigmatisations are summarized below:

- *"Piazza Venezia" securitisation*
  a. Euro 462,816 thousand in unrated junior notes with a yield tied to the 6-month Euribor;
- *"Piazza Venezia 2" securitisation:*
  a. Euro 261,900 thousand in unrated senior notes with a yield tied to the 6-month Euribor plus 150 bps;
  b. Euro 95,058 thousand in unrated junior notes with a yield tied to the 6-month Euribor;
- *"Berica PMI 2" securitisation:*
  a. Euro 640,000 thousand in senior notes with an external rating from Fitch ("A+") and Moody's ("A1") and a yield tied to the 6-month Euribor plus 130 bps;
  b. Euro 531,265 thousand in unrated junior notes with a yield tied to the 6-month Euribor;

- *"Berica Funding" Securitisation:*
    a. Euro 892,500 thousand in unrated senior notes with a yield tied to the 3-month Euribor plus 125 bps;
    b. Euro 119,200 thousand in unrated mezzanine notes with a yield tied to the 3-month Euribor plus 200 bps;
    c. Euro 79,800 thousand in unrated mezzanine notes with a yield tied to the 3-month Euribor plus 250 bps;
    d. Euro 185,265 thousand in unrated junior notes with a yield tied to the 3-month Euribor plus 300 bps;

1.4 – OPERATIONAL RISK

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

Operational risk is defined as the risk of losses deriving from inadequate or dysfunctional procedures, human resources or internal systems, or external events.

This category includes, inter alia, losses deriving from fraud, human error, the interruption of operations, the malfunction and non-availability of systems, contractual non-performance and natural catastrophes. Operational risk also includes legal risk, but excludes strategic and reputation risk.

In case of judicial or administrative penalties or significant financial losses as a consequence of regulations with respect to the areas identified by the Compliance and Anti-Money Laundering Department, operational risk also includes compliance risk.

With regard to the way the operational risk is managed, the BPVi Group defined a dedicated internal regulation that identifies the methodologies for the measurement of the risk, the roles and responsibilities of the corporate Bodies and Functions involved, and the related management reports.

In detail the risk management framework comprises four main elements:

5. **process for the identification, collection and classification of operating loss events for the purposes of measuring the actual risk (Loss Data Collection - LDC)**: a set of methods, systems and activities for the collection, processing, validation and preservation of the operating loss data and related recoveries experienced by the Group.
6. **process for assessing the exposure to operational risks in order to assess prospective/potential risks (Operational Risk Self-Assessment)[28]:** set of methods, systems and activities to identify and assess the operational areas that are most exposed to operational risks and the effectiveness of existing controls.
7. **mitigation process:** set of procedures, tasks and responsibilities directed at the adoption of risk prevention, reduction and/or transfer actions in relation to the identified critical areas.
8. **reporting process:** sets of systems and activities for processing all information about the operational risks for monitoring and controlling risk exposure and describing the actions to carry out to prevent and attenuate risk and indicating their effectiveness.

With regard to the first point, it should be noted that the Parent Bank was a founding member in 2002 of DIPO, the interbank consortium promoted by ABI that maintains an Italian database of operational losses. As a consequence, the Group gathers regular information about its operational losses.

For the purposes of the prudential capital requirements in view of operational risks, the Group uses the so-called basic approach or BIA (Basic Indicator Approach), whereby the capital requirement is equal to the average over the last 3 years of the of the pertinent indicator multiplied by a fixed coefficient of 15%.

[28] Currently under way is the project for the definition of the model and its implementation from a procedural viewpoint.

The core principles of the operational risk governance model of the BPVi Group, developed according to a logic consistent with the roles and responsibilities defined in the ICAAP prescribe that:

- responsibility for defining the guidelines on managing operational risks rests with the Body with strategic supervision function of the Parent Bank;
- riskiness is monitored centrally by the Parent Bank with reference to the individual legal entities and to the Group as a whole;
- individual legal entities must comply with the guidelines defined by the Parent Company for risk and capital management.

QUANTITATIVE INFORMATION

In 2016 the Parent Bank continued to gather data on operational losses and enter it into DIPO (Data Base Italiano delle Perdite Operative), which was more complete, in terms of the gathered information, thanks to the more structured approach and enhanced formalisation thereof into a methodology manual, which was updated in July 2016.
Of the events identified in the Group in 2016 involving an increase in operating losses, the following were attributable: 52.37% of the total loss amount to “customers, products and business practices”, 36.57% to “execution, delivery and process management”, 5.37% to “external fraud” cases, 4.27% to “interrupted operations and IT system dysfunctions”, 0.77% to “internal fraud”, 0.58% to “damage from external events” and the remainder 0.07% to “interrupted operations and IT system dysfunctions”.

The “retail” line of business accounted for the largest share of the loss, i.e. 69.54%. This is followed by the “commercial” business line, which accounted for 26.73% of total losses, “retail intermediation” for 3.71%, and the “trading and sales” line, which completes the totality of events with 0.01% of total losses.

SECTION 2 – RISKS PERTAINING TO INSURANCE ACTIVITIES

There are no amounts to be shown.

SECTION 3 – RISKS PERTAINING TO OTHER BUSINESSES

There are no amounts to be shown.

PART F – INFORMATION ON CONSOLIDATED EQUITY

SECTION 1

Consolidated Equity

A. QUALITATIVE INFORMATION

Definition of equity

The definition of equity used by the Group corresponds to the sum of the following line items: 140 "Valuation reserves", 150 "Redeemable shares", 160 "Equity instruments", 170 "Reserves", 180 "Additional paid-in capital", 190 "Capital stock", 200 "Treasury shares" and 220 "Net income (loss) for the year" under liabilities in the statement of the financial position.

Management of equity

Information about the way in which the Group pursues its capital management objectives is provided in Section 2.2 below.

Nature of the capital adequacy requirement

Since the Banking Group carries out lending activities, it is subject to the requirements of art. 29 et seq. of Legislative Decree no. 385 dated 1 September 1993 "Consolidated law on banking and lending" or "TUB". Accordingly, the Bank must comply with the capital adequacy requirements detailed in the above legislation.

Changes in disclosure requirements

The disclosure requirements relating to capital have not undergone any changes compared with the prior year.

B. QUANTITATIVE INFORMATION

B.1 Consolidated equity: breakdown by type of company

Equity line items	**Banking group**	**Insurance companies**	**Other companies**	**Consolidation eliminations and adjustments**	**Total**
Capital stock	1,272,789	-	-	(584,786)	688,003
Additional paid-in capital	3,197,414	-	-	(113,276)	3,084,138
Reserves	272,703	-	-	7,716	280,419
Equity instruments	-	-	-	-	-
(Treasury shares)	(28,056)	-	-	-	(28,056)
Valuation reserves	(30,038)	-	-	73,906	43,868
- Financial assets available for sale	466,313	-	-	-	466,313
- Property, plant and equipment	116	-	-	69	185
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash-flow hedges	(505,468)	-	-	-	(505,468)
- Exchange differences	-	-	-	-	-
- Non-current assets held for sale and discontinued operations	-	-	-	-	-
- Actuarial gains (losses) on defined-benefit pension plans	(9,181)	-	-	-	(9,181)
- Portion of valuation reserves of equity investments method carried at equity	-	-	-	3,663	3,663
- Special revaluation laws	18,182	-	-	70,174	88,356
Net income (loss) for the year (+/-) - Group and minority interests	(1,987,231)	-	-	86,252	(1,900,979)
Equity	**2,697,581**	**-**	**-**	**(530,188)**	**2,167,393**

B.2 Valuation *reserves - AFS financial assets: breakdown*

Assets/Values	Banking group		Insurance companies		Other companies		Consolidation eliminations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	446,621	(13,578)	-	-	-	-	-	-	446,621	(13,578)
2. Equities	33,087	(2,182)	-	-	-	-	-	-	33,087	(2,182)
3. Mutual funds	2,938	(573)	-	-	-	-	-	-	2,938	(573)
4. Loans	-	-	-	-	-	-	-	-	-	-
Total at 31/12/16	**482,646**	**(16,333)**	**-**	**-**	**-**	**-**	**-**	**-**	**482,646**	**(16,333)**
Total at 31/12/15	**562,654**	**(5,407)**	**-**	**-**	**-**	**-**	**-**	**-**	**562,654**	**(5,407)**

This table reports the positive and negative reserves, net of tax, arising on the fair value measurement of financial assets available for sale.
Among the positive reserves on debt securities are Euro 446,099 thousand of Inflation linked BTP which serve as cash flow hedges against the inflation risk. On the connected hedging derivatives are recorded negative valuation reserves amounting to Euro 505,208 thousand.

B.3 Valuation reserves - AFS financial assets: annual changes

	Debt securities	Equities	Mutual funds	Loans
1. Opening balance	**528,288**	**22,348**	**6,611**	**-**
2. Positive changes	**388,418**	**11,400**	**2,718**	**-**
2.1 Increases in fair value	348,585	11,394	2,713	-
2.2 Release negative reserves to income statement	2,427	-	-	-
- from impairment	-	-	-	-
- from disposals	2,427	-	-	-
2.3 Other changes	37,406	6	5	-
3. Negative changes	**483,663**	**2,843**	**6,964**	**-**
3.1 Decreases in fair value	13,984	1,120	581	-
3.2 Impairment writedowns	-	84	-	-
3.3 Release positive disposal reserves to income statement	469,679	813	5,516	-
3.4 Other changes	-	826	867	-
4. Closing balance	**433,043**	**30,905**	**2,365**	**-**

Lines 2.3 and 3.4 relate to the change in taxation for changes occurred during the year in the equity reserve arising from the fair value valuation of financial assets available for sale.

B.4 Valuation reserves on defined-benefit plans: annual changes

	Defined-benefit plan
Opening balance	**(6,435)**
Positive changes	**(2,746)**
Positive changes on actuarial gains and losses	(2,746)
Negative changes	**-**
Negative changes on actuarial gains and losses	-
Closing balance	**(9,181)**

SECTION 2

Own funds and capital adequacy ratios

2.1 Scope of application of the regulations

The Group's Own funds and the prudential ratios at 31 December 2016 were determined in accordance with the regulatory framework of Basel 3, including the transitory provisions and the national discretionary powers, that came into effect starting from 1 January 2014 subsequent to the issuing of the Regulation (EU) 575/2013 dated 26 June 2013 (CRR) and the Directive 2013/36/EU dated 26 June 2013 (CRD IV).

2.2 Own funds

A. QUALITATIVE INFORMATION

1. Common Equity Tier 1 (CET1) capital

At 31 December 2016, Common Equity Tier 1 capital consists of the various items of the Group's Equity, with the sole exception of "equity instruments".

The financial instruments computed in Common Equity Tier 1 capital relate to the ordinary shares issued by the Parent Bank. In this regard, it should be specified that the shares issued within the capital increase operations reserved for new stockholders completed in 2013 and in 2014, totalling Euro 200 million, were excluded from the aggregate for the portion (Euro 40.3 million) financed by the issuer, as allowed by the regulations of the aforesaid operations.

"Prudential filters" make corrections to equity in order to safeguard the quality of regulatory capital and reduce the potential volatility deriving from the application of IFRS. "Prudential filters" include the DTAs connected to multiple frankings of the same goodwill, the accumulated net gains recorded in the income statement referring to changes in the Bank's own credit rating, the valuation reserves referring to hedges on the cash flows of assets and liabilities not measured at fair value and, lastly, "prudent valuation" the amount of which was determined in accordance with the simplified approach. For complete disclosure, it should be pointed out that the "prudential filters" also include the neutralisation (Euro 255.3 million) from the calculation of Own Funds with respect to which a correlation was found to exist between purchases/subscriptions of BPVi shares and loans disbursed to certain Members/Stockholders, i.e., in relation to which certain anomaly profiles were detected that require it to be deducted from the Common Equity Tier 1 capital elements pursuant to Art. 36 of Regulation (EU) no. 575/2013.

"Deductions" from Common Equity Tier 1 capital pertain to the intangible assets recorded in the financial statements, including the differences in equity recorded in the Group's consolidated financial statements to increase the book value of the equity investments held in associated companies, to deferred tax assets that depend on future profitability and do not arise from temporary differences, to the common equity instruments issued by entities in the financial sector in which the Group holds a significant investment, and deferred tax assets that depend on future profitability and arise from temporary differences whose amount exceeds the thresholds prescribed by current regulations, taking into account the transitional provisions on this matter.

Lastly, it should be noted that, until 30 September 2016, the Bank exercised its right to sterilize the valuation reserves relating to debt securities issued by central governments of European Union countries held in the "Financial assets available for sale" portfolio, including the related cash flow hedge reserve on the same securities.

Given the novelties introduced by the Regulations (EU) no. 2016/445 of the ECB in terms of treatment of the valuation reserves referring to the exposures toward Central Administration (Government bonds) classified in the category "Assets available for sale", beginning on 1 October 2016, said reserves are calculated under Own Funds taking into account the national discretionary provisions set forth in this area.

2. Additional Tier 1 (AT1) capital

The Group has not issued any financial instruments that can be computed in Additional Tier 1 capital.

3. Tier 2 (T2) capital

Tier 2 capital comprises certain subordinated bonds issued by the Parent Bank which were computed net of any buy-backs and taking into account the transitional provisions. The principal contractual characteristics of the subordinated liabilities issued are presented below.

ISIN code	Issue date	Maturity	Captions[1]	Interest rate	Nominal value	Book value	Portion included in Tier 2 capital
XS1300456420 [2]	29/09/2015	29/09/2025	30 Liabilities	9.50%	200,000	190,432	189,498
XS0336683254 [2]	20/12/2007	20/12/2017	30 Liabilities	Euribor3m + 2.35	200,000	200,108	38,795
IT0004548258 [2][3]	31/12/2009	31/12/2016	30 Liabilities	3.70%	85,622	87,206	-
XS1300818785 [2]	02/10/2015	02/10/2025	30 Liabilities	9.50%	50,000	48,741	47,359
IT0004657471 [2][5]	15/12/2010	15/12/2017	30 Liabilities	4.60%	50,000	51,406	30,000
IT0004724214 [2][4]	24/06/2011	24/06/2018	30 Liabilities	6.65%	39,244	36,122	-
IT0004781073 [2][5]	28/12/2011	28/12/2018	30 Liabilities	8.50%	31,323	31,378	18,794
				Total	**656,189**	**645,393**	**324,446**

(1) 30 P.P. = Debt securities in issue.

(2) The bonds with a subordination clause whereby, if the Bank were to be wound up, they would be redeemed only after all other creditors, not subordinated to the same extent, have been satisfied.

(3) Bonds convertible into ordinary shares of Banca Popolare di Vicenza. The repayment of this bond took place on 2 January 2017.

(4) Zero coupon bond, issued under the Exchange Tender Offer promoted during the year on index linked policies issued by the affiliates Berica Vita and Cattolica Life, placed with Group clients and having as underlying assets securities issued by Icelandic banks in default. This liability is not included in the calculation of Own Funds as it does not meet all the conditions required by regulatory provisions for the inclusion.

(5) Starting in 2014, admissibility in Own Funds is limited to the "grandfathering" clauses that regulate the gradual shift from the previous Basel 2 rules to the current Basel 3 rules.

B. QUANTITATIVE INFORMATION

	31/12/2016	31/12/2015
A. CET1 before the application of prudential filters	**2,114,146**	**2,478,827**
of which CET1 instruments object of transitional disposals	-	-
B. Prudential filters of Tier 1 capital	(317,829)	(392,470)
C. CET1 before deductions and transitional arrangements effects (A+/-B)	1,796,317	2,086,357
D. Deductions from CET1	364,848	651,257
E. Transitional arrangements - Impact on CET1 (+/-), minority interests object of transitional disposal included	173,825	220,453
F. Total Common Equity Tier 1 - CET1 (C-D+/-E)	**1,605,294**	**1,655,553**
G. Additional Tier 1 - AT1 before deductions and transitional arrangements effects	-	-
of which AT1 instruments object of transitional disposals	-	-
H. Deductions from AT1	-	-
I. Transitional arrangements - Impact on AT1 (+/-), minority interests object of transitional disposal included	-	-
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**-**	**-**
M. Tier 2 - T2 before deductions and transitional arrangements effects	324,446	435,318
of which T2 instruments object of transitional disposals	48,794	102,395
N. Deductions from T2	-	-
O. Transitional arrangements - Impact on T2 (+/-), minority interests object of transitional disposal included	(23,283)	(68,377)
P. Total Tier 2 - T2 (M-N+/-O)	**301,163**	**366,941**
Q. Total Own Funds (F+L+P)	**1,906,457**	**2,022,494**

At 31 December 2016, Own funds amounted to Euro 1,906.5 million, versus Euro 2,022.5 million at 31 December 2015.

The loss for the year was entirely deducted from "Common Equity Tier 1 (CET 1) capital before the application of the prudential filters".

Moreover, despite elements of uncertainty concerning the legitimacy of the decision by Cattolica Assicurazioni to exercise the unilateral right of withdrawal from the partnership in place with the Bank, and consequently of the validity of Cattolica's right to sell the 60% equity investments held in the capital of Berica Vita, Cattolica Life and ABC Assicura, the entire price of exercise of Cattolica's potential right to sell its investments in the aforesaid insurance companies (Euro 178.5 million), was deducted from Own funds at 31 December 2016, taking into account the provisions (including transitional provisions) contained in Regulation (EU) no. 575/2013.

2.3 Capital adequacy

A. QUALITATIVE INFORMATION

The capital management policies adopted by the Banca Popolare di Vicenza Group are intended to ensure that Tier 1 capital is consistent with the overall level of risk accepted and the plans for the expansion of the Group, as well as to optimise the composition of capital by recourse to various financial instruments that minimise the related cost.

B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/ Requirements	
	31/12/2016	**31/12/2015**	**31/12/2016**	**31/12/2015**
A. RISK ASSETS				
A.1 Credit and counterparty risk	**35,487,630**	**39,452,377**	**19,370,032**	**22,302,109**
1. Standard methodology	35,172,595	39,138,389	18,930,205	21,983,681
2. Methodology based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitizations	315,035	313,988	439,827	318,428
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 Credit and counterparty risk			**1,549,603**	**1,784,169**
B.2 Adjustment credit valuation risk			**8,560**	**33,276**
B.3 Regulamentary risk			**-**	**-**
B.4 Market risks			**28,001**	**22,744**
1. Standard methodology			28,001	22,744
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risks			**132,029**	**150,552**
1. Basic method			132,029	150,552
2. Standard method			-	-
3. Advanced method			-	-
B.6 Other elements of calculation			**-**	**-**
B.7 Total prudential requirements			**1,718,193**	**1,990,741**
RISK ASSETS AND CAPITAL RATIOS			**-**	**-**
C.1 Risk-weighted assets			21,477,412	24,884,259
C.2 CET1 capital/ Risk-weighted assets (CET1 capital ratio)			7.47%	6.65%
C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			7.47%	6.65%
C.4 Regulatory capital including TIER 3/Risk-weighted assets (Total capital ratio)			8.88%	8.13%

The Common Equity Tier 1 Ratio and the Tier 1 Ratio are both 7.47% (6.65% at 31 December 2015), while the Total Capital Ratio is 8.88% (8.13% at 31 December 2015). At 31 December 2016, the Group's capital exceeded the minimum regulatory requirements of Article 92 of the CRR by Euro 188.3 million.

However, the Basel 3 framework also prescribes establishing additional capital reserves above the regulatory minimums in order to provide banks with high quality capital means to be used at times of market stress to prevent dysfunctions in the banking system and avoid interruptions in the loan granting process and to address risks deriving from the systemic relevance of banks at the global or domestic level.

In this regard, the capital conservation reserve has been already set out[29], while the countercyclical capital buffer[30], the reserves for the entities with global systemic relevance (G-SII *buffer*) and the reserve for the other entities with systemic relevance (O-SII *buffer*)[31] will apply as of 1 January 2016. The total amount of the aforesaid additional capital reserves is called "combined capital reserve requirement" and banks are obligated to address it with Common Equity Tier 1 (CET1) capital.

On 31 December 2016, the Group showed a Euro 348.7 million deficit on the "combined capital reserve requirement " set forth by prudential regulations and Euro 596.1 million compared with the target value of *CE*T1 *Ratio* (10.25%).

Capital adequacy requirements were calculated using the following methods:

- risk-weighted assets used for determining the credit and counterparty risk requirement have been quantified using the standard method and credit risk mitigation (CRM) simplified by adopting unsolicited external ratings provided by the DBRS ECAI for the supervisory portfolio "Exposures to Central governments or central banks", by the Moody's, S&P and Fitch ECAIs for the supervisory portfolio "Elements that represent positions relating to securitisations", and unsolicited ratings by the Cerved Group ECAI for the supervisory portfolio "Exposures to Companies";
- the market risk requirement is determined using the standard method, under which sensitivity models are used to represent derivatives involving interest rates and debt securities;
- the operational risks requirement was determined using the basic method, with the calculation of the reference aggregate aligned to the new supervisory provisions.

[29] The capital conservation reserve is equal to 2.5% of total risk exposure.

[30] On 30 December 2015, the Bank of Italy published the decision with which it set, for the first three months of 2016, to zero percent the coefficient of the countercyclical capital buffer applicable to exposures towards Italian counterparties.

[31] The requirements for entities with global systemic relevance or for the other entities with systemic relevance do not apply to the Group.

SECTION 3

Insurance regulatory capital and capital adequacy ratios

This Section has not been completed since the Group does not have any companies under its exclusive or joint control that are subject to insurance supervision.

SECTION 4

Capital adequacy of the financial conglomerate

This Section has not been completed since the Group is not a financial conglomerate, as defined by the supervisory authorities (Bank of Italy, CONSOB, ISVAP).

PART G – BUSINESS COMBINATIONS

SECTION 1

Transactions during the year

This Section has not been completed because the Group did not carry out any business combinations in 2016.

SECTION 2

Operations carried out after the end of the year

The Group has not carried out any business combinations involving companies or business units after 31 December 2016.

SECTION 3

Retrospective adjustments

In accordance with IFRS 3, paragraphs 61, 62 and 63, we point out that no changes have occurred during year 2016 on goodwill.

PART H – RELATED-PARTY TRANSACTIONS

1. Information on the remuneration of key management personnel

The following table reports the remuneration paid to key management personnel during the year 2016.

		Managers with strategic responsibilities
a)	Short-term benefits	6,722
b)	Post-employment benefits	208
c)	Other long-term benefits	-
d)	Indemnities due on termination of employment	2,011
e)	Share-based payments	-
	Total	**8,941**

Key management personnel comprise members of the Parent Bank's General Management team, as defined in its Articles of Association, as well as its serving Directors and Statutory Auditors. The above table includes the remuneration paid to key managers who left office during the year.

The remuneration categories included in the above table comprise:

a) Short-term benefits: the item includes: *i)* for members of the General Management team: wages, salaries and related social security contributions, payment in lieu of vacation and sick leave, incentives and benefits in kind, such as medical assistance, housing, company cars and goods or services provided free or at reduced cost; *ii)* for Directors and Statutory Auditors: attendance fees and remuneration for the performance of their duties (also for serving in similar capacities at other Group companies);

b) Post-employment benefits: these include the company contributions to pension funds (pension and retirement plans, life insurance and health care subsequent to termination) and the provision for severance indemnities recorded on the basis required by law and in-house agreements;

c) Other long-term benefits: there are no other long-term benefits worthy of mention (such as leave of absence or sabbaticals related to length of service, bonuses linked to anniversaries, other benefits linked with length of service, disability benefits and, if due more than twelve months after the reporting date, profit share, incentives and deferred remuneration);

d) Indemnities due on termination of employment: these include the amounts paid for early termination prior to pensionable age, incentives for voluntary redundancy and incentives for early retirement;

e) Share-based payments: these include the cost of shares assigned on attaining a certain length of service or specific objectives.

2. Information on related-party transactions

"Related-party transactions" are defined as all transactions with parties defined as such in IAS 24.

More specifically, with reference to the organisation and governance of the BPVi Group, the following parties are deemed to be "Related parties":
- *controlling entities:* the companies that control the Parent Bank BPVi;
- *companies under joint control:* companies over which the Group exercises joint control, whether directly or indirectly;
- *associated companies:* companies over which the Group exercises significant influence, whether directly or indirectly;
- *entities that are part of the same group*: subsidiaries and associates of the controlling entity, other than those listed above;
- *key management personnel,* i.e. members of the General Management of the Parent Company, the Parent Bank BPVi and its banking subsidiaries, the General Manager and/or Managing Director of the other subsidiaries, the Directors and Statutory Auditors of the Parent Company, the Parent Bank and other companies of the BPVi Group;
- *"close family" of key management personnel of the entity that prepares the financial statements, or of any of its parent company;*
- *companies controlled by, jointly controlled by or associated with key management personnel or their close family;*
- *parties that manage pension plans for the Group's employees and any other parties related to the Group.*

"Close family" is deemed to be: (a) the children and the partner of the related party; (b) the children of the partner; (c) the dependents of the related party or his/her partner.

Lastly, following the subscription in full of the Parent Bank BPV's capital increase, finalised on 4 May of this year, the company Quaestio Capital Management SGR SpA, as manager of the closed-end reserved alternative investment fund Atlante, acquired a controlling interest of 99.33% in Banca Popolare di Vicenza.

The following tables summarise the balances and transactions with related parties during the period and their impact on cash flow, according to their classification at 31 December 2016.

Statement of financial position

Related parties	Loans and advances to banks	Loans and advances to customers	Other assets[1]	Due to banks	Due to customers	Other liabilities[2]	Guarantees and commitments
- Associated companies	-	7,208	-	-	25,307	118,404	1,116
- Companies under joint control	-	-	-	-	-	-	-
- Managers with strategic responsibilities	-	27,908	-	-	2,404	544	52
- Other related parties[3]	52	47,518	116	7	26,677	10,417	2,810
Total	**52**	**82,634**	**116**	**7**	**54,388**	**129,365**	**3,978**
Total reported in balance sheet	**2,120,451**	**22,558,843**	**7,881,676**	**9,173,919**	**14,388,985**	**6,670,358**	**1,325,224**
% incidence	*0.00%*	*0.37%*	*0.00%*	*0.00%*	*0.38%*	*1.94%*	*0.30%*

[1] Asset line items 20, 30, 40, 50 and 160 from the consolidated statement of financial position.
[2] Liability line items 30, 40, 50 and 100 from the consolidated statement of financial position.
[3] Including the close family of key management personnel, companies controlled by, jointly controlled by or associated with key management personnel or their close family, and parties that manage pension plans for the Group's employees and any other parties related to the Group.

"Loans and advances to customers" include net non-performing loans for Euro 54,048 thousand (subject to value adjustment for a total of Euro 61,059 thousand).

"Guarantees and Commitments" include net non-performing unsecured loans to associated companies (Euro 56 thousand) in connection to which adjusting provisions of Euro 84 thousand have been allocated.

Income statement

Related parties	Interest income	Interest expense	Net fee and commission income	Other income/other costs [1]
- Associated companies	155	(6,792)	13,677	(47,816)
- Companies under joint control	-	-	-	-
- Managers with strategic responsibilities	418	(27)	71	(8,941)
- Other related parties [2]	3,419	(438)	319	(1)
Total	**3,992**	**(7,257)**	**14,067**	**(56,758)**
Total reported in balance sheet	**817,089**	**(437,038)**	**230,308**	**(674,442)**
% incidence	*0.49%*	*1.66%*	*6.11%*	*8.42%*

[1] Line items 180 and 220 from the consolidated income statement. These include the remuneration paid to key management personnel of the Parent Bank.
[2] Including the close family of key management personnel, companies controlled by, jointly controlled by or associated with key management personnel or their close family, and parties that manage pension plans for the Group's employees and any other parties related to the Group.

During the period, adjustments to non-performing loans with related parties for Euro 5,534 thousand, were recorded.

Please note, that the investment held by the Parent Bank Cattolica Assicurazioni was reclassified in the last quarter of the year under line item "Assets available for sale", since the significant influence of BPVi on Cattolica ceased to exist. This reclassification entailed also the termination, as at the reclassification date, of the qualification of Cattolica as a "Related party", pursuant to the international accounting principles IAS 24. For reasons of completeness, with reference to the former associate, following are the cost components of the income statement at the date of reclassification:

- adjustments of Euro 229,915 thousand within the scope of the impairment test carried out on the equity investment in accordance with IAS 36;
- capital losses of Euro 80,858 thousand relating to Cattolica Assicurazioni's right to sell to the BPVi the 60% equity investments held in Berica Vita S.p.A., Cattolica Life DAC and ABC Assicura S.p.A. (corresponding to the differential between the theoretical maximum price of the afore said right to sell and the corresponding pro-rata embedded value of Cattolica in Berica Vita S.p.A. and Cattolica Life DAC, and the equity of ABC Assicura S.p.A.);
- provisions for risks and charges of Euro 6,230 thousand in relation to the potential risk arising from the settlement, at the effective date of the withdrawal - should it be deemed legitimately exercised - of the bonus and penalty schemes conventionally provided in relation to the performance of Berica Vita S.p.A., Cattolica Life DAC and ABC Assicura S.p.A.

Cash flows

Cash flows	31/12/2016
Loans and advances to banks	52
Loans and advances to customers	(80,437)
Other assets [1]	(305)
Total cash flows with related parties	**(80,690)**
Total net liquidity absorbed by financial assets	**2,049,958**
% incidence	**-3.94%**

[1] Asset line items 20, 30, 40, 50 and 160 from the consolidated statement of financial position.

Cash flows	31/12/2016
Due to banks	7
Due to customers	(116,476)
Other liabilities [2]	(104,862)
Total cash flows with related parties	**(221,331)**
Total net liquidity generated by financial liabilities	**(3,349,565)**
% incidence	**6.61%**

[2] Liability line items 30, 40, 50 and 100 from the consolidated statement of financial position.

Cash flows	31/12/2016
Interest income and similar revenues	3,992
Interest expense and similar charges	(7,257)
Net fee and commission income	14,067
Other income/other costs [3]	(56,758)
Total cash flows with related parties	**(45,956)**
Total net liquidity generated by operations	**(264,582)**
% incidence	**17.37%**

3 Line items 180 and 220 from the consolidated income statement.

PART I – EQUITY-SETTLED PAYMENT ARRANGEMENTS

This Section has not been completed because there are no outstanding equity-settled payment arrangements.

PART L – SEGMENT INFORMATION

The composition of the various business segments is as follows:

Banks:	Banca Popolare di Vicenza SpA Banca Nuova SpA Farbanca SpA
Product companies:	Prestinuova SpA
Service and wholesale companies:	Servizi Bancari SCpA Immobiliare Stampa SCpA BPVi Multicredito – Agenzia in attività finanziaria SpA San Marco Srl HDS SpA
Private Equity:	NEM Sgr SpA Nem Imprese Nem Imprese II Industrial Opportunity Fund
Proprietary Trading:	BPV Finance (International) Plc

The composition of the various geographical areas is as follows:

Northern and Central Italy:	Banca Popolare di Vicenza SpA Farbanca SpA PrestiNuova SpA NEM Sgr SpA Nem Imprese Nem Imprese II Industrial Opportunity Fund Immobiliare Stampa SCpA Servizi Bancari SCpA BPVi Multicredito – Agenzia in attività finanziaria SpA San Marco Srl HDS SpA
Southern Italy and the Islands:	Banca Nuova SpA
Other EU countries:	BPV Finance (International) Plc

A. PRIMARY SEGMENT

A.1 Distribution by business segments: income statement

Line items/Segments	Commercial banks	Product companies	Service companies	Private Equity e Asset Management	Proprietary Trading	Other	Total
Net interest income (line item 30)	366,041	15,645	(2,833)	445	1,160	(407)	380,051
Net fee and commission income (line item 60)	230,379	(165)	478	(358)	(26)	-	230,308
Dividends and similar income (line item 70)	31,029	-	-	1,021	357	(27,031)	5,376
Net change in financial assets and liabilities (line items 80, 90, 100 and 110)	(37,165)	(186)	-	5,983	11,482	(4,588)	(24,474)
Net impairment adjustments (line item 130)	(1,082,860)	34	-	(1,847)	(51,357)	1,949	(1,134,081)
Administrative costs (line item 180)	(761,232)	(4,002)	(35,617)	(2,404)	(2,007)	46,593	(758,669)
Net provisions for risks and charges (line item 190)	(262,409)	(53)	(100)	(222)	-	(2,657)	(265,441)
Net adjustments to property, plant and equipment (line items 200 and 210)	(17,622)	(25)	(19,724)	(5)	-	189	(37,187)
Other operating charges/income (line items 220, 240, 250, 260 and 270)	(257,163)	732	49,528	(3,829)	35	70,795	(139,902)
Profit (loss) from current operations before tax (line item 280)	**(1,791,002)**	**11,980**	**(8,268)**	**(1,216)**	**(40,356)**	**84,843**	**(1,744,019)**

The "Other" column includes intercompany eliminations and consolidation adjustments.

A.2 Distribution by business segments: statement of financial position

Line items/Segments	Commercial banks	Product companies	Service companies	Private Equity e Asset Management	Proprietary Trading	Other	Total
Loans to customers (line item 70)	22,731,848	345,844	-	9,947	24,976	(553,772)	22,558,843
Deposits with banks and liquid assets (line items 10 and 60)	5,199,888	1,085	85,625	4,087	36,920	(3,048,374)	2,279,231
Financial assets (line items 20, 30, 40, 50 and 80)	7,348,727	-	-	37,757	74,101	-	7,460,585
Equity mehtod investments (line item 100)	594,491	35	87	7,133	-	(535,889)	65,857
Property, plant & equipment & intangible assets (line items 120 and 130)	128,227	4,051	457,912	10	-	2,230	592,430
Other assets (line items 90, 150 and 160)	429,686	771	22,616	590	37	(22,074)	431,626
Total assets	**36,432,867**	**351,786**	**566,240**	**59,524**	**136,034**	**(4,157,879)**	**33,388,572**
Due to customers (line item 20)	14,367,193	177,449	3,718	-	-	(159,375)	14,388,985
Deposits from banks (line item 10)	10,844,724	118,562	293,185	-	95,322	(2,177,874)	9,173,919
Financial liabilities (line items 30, 40, 50 and 60)	7,976,142	450	-	-	-	(1,240,547)	6,736,045
Other liabilities (line items 90, 100, 110 and 120)	1,673,302	11,586	24,467	709	28,824	(50,368)	1,688,520
Total liabilities	**34,861,361**	**308,047**	**321,370**	**709**	**124,146**	**(3,628,164)**	**31,987,469**

The "Other" column includes intercompany eliminations and consolidation adjustments.

B. SECONDARY SEGMENT

B.1 Distribution by geographical area: income statement

Line items/Segments	Italy		Other EU countries	Other	Total
	Northern and Central Italy	Southern Italy and the Islands			
Net interest income (line item 30)	303,656	75,642	1,160	(407)	380,051
Net fee and commission income (line item 60)	194,061	36,273	(26)	-	230,308
Dividends and similar income (line item 70)	32,025	25	357	(27,031)	5,376
Net change in financial assets and liabilities (line items 80, 90, 100 and 110)	(30,139)	(1,229)	11,482	(4,588)	(24,474)
Net impairment adjustments (line item 130)	(1,012,860)	(71,813)	(51,357)	1,949	(1,134,081)
Administrative costs (line item 180)	(698,702)	(104,553)	(2,007)	46,593	(758,669)
Net provisions for risks and charges (line item 190)	(254,989)	(7,795)	-	(2,657)	(265,441)
Net adjustments to property, plant and equipment (line items 200 and 210)	(34,587)	(2,789)	-	189	(37,187)
Other operating charges/income (line items 220, 240, 250, 260 and 270)	(222,227)	11,495	35	70,795	(139,902)
Profit (loss) from current operations before tax (line item 280)	**(1,723,762)**	**(64,744)**	**(40,356)**	**84,843**	**(1,744,019)**

The "Other" column includes intercompany eliminations and consolidation adjustments.

B.2 Distribution by geographical area: statement of financial position

Line items/Segments	Italy		Other EU countries	Other	Total
	Northern and Central Italy	Southern Italy and the Islands			
Loans and advances to customers (line item 70)	20,416,386	2,671,253	24,976	(553,772)	22,558,843
Cash, loans and advances to bank (line items 10 and 60)	3,991,112	1,299,573	36,920	(3,048,374)	2,279,231
Financial assets (line items 20, 30, 40, 50 and 80)	7,370,985	15,499	74,101	-	7,460,585
Equity method investments (line item 100)	601,209	537	-	(535,889)	65,857
Tangible and intangible assets (line items 120 and 130)	581,977	8,223	-	2,230	592,430
Othet assets (line items 90, 150 and 160)	366,054	87,609	37	(22,074)	431,626
Total assets	**33,327,723**	**4,082,694**	**136,034**	**(4,157,879)**	**33,388,572**
Due to customers (line item 20)	12,151,207	2,397,153	-	(159,375)	14,388,985
Deposits from banks (line item 10)	10,425,631	830,840	95,322	(2,177,874)	9,173,919
Financial liabilities (line items 30, 40, 50 and 60)	7,288,298	688,294	-	(1,240,547)	6,736,045
Other liabilities (line items 90, 100, 110 and 120)	1,640,887	69,177	28,824	(50,368)	1,688,520
Total liabilities	**31,506,023**	**3,985,464**	**124,146**	**(3,628,164)**	**31,987,469**

The "Other" column includes intercompany eliminations and consolidation adjustments.

ATTACHMENT NO. 1

Fees for auditing and services other than auditing pursuant to art. 149-duodecies of the Consob Issuers' Regulation

The table below, drawn up pursuant to art. 149-duodecies of the Consob Issuers' Regulation (resolution 11971), reports the fees paid in 2016 to the auditing firm PricewaterhouseCoopers S.p.A. and KPMG S.p.A. and to the companies within its network, following the provision of auditing and other services to the Group.

Type of service	Provider of service	Recipient of the service	Fees			Total
			of which: professional fees	of which: expenses	of which: VAT	
Audit	PWC SpA	Banca Popolare di Vicenza S.p.A. - Banca Nuova S.p.A. - Prestinuova S.p.A. - Immobiliare Stampa S.c.p.A. - NEM Sgr S.p.A. - BPVI Multicredito S.p.A. - Servizi Bancari S.c.p.A. - Industrial Opportunity Fund - Nem Imprese - Nem Imprese II	215,425	12,123	47,843	**275,391**
	KPMG SpA	Banca Popolare di Vicenza S.p.A. - Banca Nuova S.p.A. - Prestinuova S.p.A. - BPV Finance (International) Plc - Immobiliare Stampa S.c.p.A. - NEM Sgr S.p.A. - BPVI Multicredito S.p.A. - Servizi Bancari S.c.p.A. - Industrial	348,556	63,548	86,288	**498,392**
Certification services	KPMG SpA	Banca Popolare di Vicenza S.p.A. - Immobiliare Stampa S.c.p.A. - BPVI Multicredito S.p.A. - Servizi Bancari S.c.p.A.	1,754,000	205,000	430,760	**2,389,760**
Tax advisory services	TLS Associazione Professionale di Avvocati e Commercialisti - PWC Studio Associato	Banca Popolare di Vicenza S.p.A.	118,083	14,446	35,624	**168,153**
	Consulenza legale e tributaria - KPMG Ireland	BPV Finance (International) Plc	157,650	9,000	19,461	**186,111**
Other advisory services	PWC Advisory SpA	Banca Popolare di Vicenza S.p.A.	718,993	4,958	159,269	**883,220**
	KPMG Advisory SpA	Banca Popolare di Vicenza S.p.A.	371,340	-	81,695	**453,035**
		Total	**3,684,047**	**309,076**	**860,940**	**4,854,063**

For complete disclosure, please note that, during the year, the following remunerations were paid for the auditing of special purpose vehicle companies concerning securitisations originated by the BPVi Group:

Type of service	Provider of service	Recipient of the service	Fees			Total
			of which: professional fees	of which: expenses	of which: VAT	
SPV Audit	KPMG SpA	Securitisations originated by the BPVi Group	545,181	32,889	127,175	**705,245**

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO.11971 OF MAY 14, 1999, AS AMENDED AND UPDATED

1. The undersigned

   – Gianni Mion, as Chairman of the Board of Directors, and
   – Massimiliano Pellegrini, as Financial Reporting Manager of Banca Popolare di Vicenza S.p.A., taking into account of the provisions of Article 154-bis, paragraphs 3 and 4 of Legislative Decree No. 58 of 24 February 1998, do hereby certify:

   • the adequacy in relation to the enterprise's characteristics and

   • the effective application

   of the administrative and accounting procedures for preparing the consolidated financial statements, during 2016.

2. The adequacy of the accounting and administrative processes for preparing the consolidated financial statements at 31 december 2016 has been evaluated on the basis of an internal procedure established by Banca Popolare di Vicenza S.p.A. in compliance with the Internal Control - Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which are internationally accepted frameworks for internal control system.

3. It’s also certified that:

   3.1 The consolidated financial statements as at 31 December 2016:

   a) have been prepared in compliance with applicable international accounting standards recognized by the European Community pursuant to European Parliament and Council Regulation no. 1606/2002 of 19 July 2002;
   b) correspond to the results of the book and accounts;
   c) give a true and fair presentation of the balance sheet, profit and loss and financial position of the issuer and of the companies included in the scope of consolidation.

   3.2 The report on operations contains a reliable analysis of the business trends and results, as well as the general situation of the issuer and of the other companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Vicenza, March 28, 2017

The Chairman of the Board of Directors	Financial Reporting Manager
Gianni Mion	Massimiliano Pellegrini

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

BANCA POPOLARE DI VICENZA SPA

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016 pwc

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the Shareholders of
Banca Popolare di Vicenza SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Banca Popolare di Vicenza Group, which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the statement of consolidated cash flows for the year then ended and the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005 and article 43 of Legislative Decree no. 136/15.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree no. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

PricewaterhouseCoopers SpA

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Banca Popolare di Vicenza Group as of 31 December 2016 and of the result of its operations and cash flows for the year then ended, in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005 and article 43 of Legislative Decree no. 136/15.

Emphasis of matter

Without modifying our opinion, we draw attention to the following circumstances, more extensively described in "Section 2 – Basis of preparation" of the notes to the consolidated financial statements and in the directors' report on operations:

- the specific situation of Banca Popolare di Vicenza Group – particularly with regard to its economic and financial situation, which shows as at 31 December 2016 a failure to comply with the ECB's capital requirements under the 2016 SREP Decision and a liquidity coverage ratio below the regulatory requirements, required a careful evaluation by management of the going concern requirements and of the existence of realistic alternatives to winding up.

  Within this framework, the directors have taken actions to restore and preserve a financial position consistent with the ECB requirements, providing exhaustive information in the mentioned section of the explanatory notes, to which reference is made. With particular regard to the capital strengthening actions, in the absence of a clear expression of willingness by the shareholder Atlante Fund to provide further capital support to the Bank, the directors informed the Ministry of Economy and Finance, Bank of Italy and the ECB about the Bank's intention to apply for the extraordinary and temporary financial support by the Italian government ("precautionary recapitalisation"), pursuant to Legislative Decree no. 237/2016 as amended and converted into Law no. 15 on 17 February 2017.

  Although the directors believe that the Bank fulfils the law requirements to obtain the precautionary recapitalisation, to date several factors exist which create uncertainty on whether, to what extent and how soon the Bank will actually be able to obtain support from the government, and therefore meets its temporary capital needs through this measure.

  In light of the overall situation as outlined above, the actions taken and underway, and in view of the status of the discussions initiated with the institutions in connection with the foregoing, the directors deemed appropriate to apply the going-concern assumption for the preparation of the consolidated financial statements at 31 December 2016, as they concluded that the uncertainty described above, though it may raise significant doubts regarding the going concern assumption, is not such as to suggest that there are currently no realistic alternatives to liquidation.

- With respect to the inspection performed by the ECB during 2016 concerning management and valuation processes and the internal control system on credit and counterparty risks, the directors highlighted that, even though the consolidated financial statements at 31 December 2016 have already reflected the valuation differences emerged during the ECB inspection, uncertainties remain regarding the possible future impacts of more conservative policies, processes and procedures associated with credit and counterparty risk, whose application to the entire loan portfolio will presumably have a significant negative impact, which cannot currently be determined, on the financial and economic situation of the Group, already in 2017.

Other matter

The consolidated financial statements of the Banca Popolare di Vicenza Group for the year ended 31 December 2015 were audited by other auditors, which expressed an unqualified opinion on said financial statements on 29 February 2016.

Report on compliance with other laws and regulations

Opinion on the consistency with the consolidated financial statements of the report on operations and of the information required by paragraph 2, letter b) of article 123-bis of Legislative Decree No. 58/1998

We have performed the procedures required under auditing standard (SA Italia) no. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Banca Popolare di Vicenza SpA, with the consolidated financial statements of the Banca Popolare di Vicenza Group as of 31 December 2016. In our opinion, the report on operations and the information mentioned above are consistent with the consolidated financial statements of the Banca Popolare di Vicenza Group as of 31 December 2016.

Milan, 6 April 2017

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not reviewed the translation of the financial statements referred to in this report.

SEPARATE FINANCIAL STATEMENTS

BANCA POPOLARE DI VICENZA

STATEMENT OF FINANCIAL POSITION
in unit of Euro

ASSETS			31/12/2016		31/12/2015
10.	Cash and cash equivalents		126,094,805		138,939,470
20.	Financial assets held for trading		2,062,098,433		3,399,163,335
30.	Financial assets designated at fair value		5,959,274		7,842,079
40.	Financial assets available for sale		4,169,440,025		5,325,984,800
50.	Financial assets held to maturity		1,067,948,490		-
60.	Loans and advances to banks		3,716,654,098		3,319,379,917
70.	Loans and advances to customers		19,536,384,952		22,129,457,803
80.	Hedging derivatives		27,760,855		32,933,221
90.	Remeasurement of financial assets backed by macro hedges (+/-)		(17,237,989)		19,590,881
100.	Equity investments		593,912,867		1,023,399,631
110.	Property, plant and equipment		112,578,023		121,812,165
120.	Intangible assets		7,300,115		4,038,496
	of which: - goodwill	-		-	
130.	Tax assets		947,812,684		1,346,504,943
	a) current	128,657,390		82,748,003	
	b) deferred tax assets	819,155,294		1,263,756,940	
	of which: - L.214/2011	*409,102,255*		*641,511,891*	
150.	Other assets		324,515,935		414,216,257
Total assets			**32,681,222,567**		**37,283,262,998**

BANCA POPOLARE DI VICENZA
STATEMENT OF FINANCIAL POSITION
in unit of Euro

	EQUITY AND LIABILITIES		31/12/2016		31/12/2015
10.	Due to banks		9,770,508,844		10,168,571,616
20.	Due to customers		11,811,850,625		13,534,653,530
30.	Debt securities in issue		4,551,296,360		5,525,612,570
40.	Financial liabilities held for trading		1,451,845,030		2,766,587,410
50.	Financial liabilities designated at fair value		257,652,361		414,196,894
60.	Hedging derivatives		874,980,191		846,367,106
70.	Fair value adjustment of financial liabilities subject to macro hedge (+/-)		(6,808,355)		-
80.	Tax liabilities		248,254,473		290,354,979
	b) deferred	248,254,473		290,354,979	
100.	Other liabilities		765,106,399		677,558,913
110.	Provision for severance indemnities		59,679,127		59,757,531
120.	Provisions for risks and charges:		784,263,424		534,514,272
	a) pensions and similar commitments	4,858,171		4,828,772	
	b) other provisions	779,405,253		529,685,500	
130.	Valuation reserves		(44,399,744)		35,935,359
150.	Equity instruments		-		1,415,113
160.	Reserves		329,275,196		268,824,329
170.	Additional paid-in capital		3,080,275,190		3,206,572,847
180.	Capital stock		677,204,359		377,204,359
190.	Treasury shares (-)		(28,055,767)		(25,470,437)
200.	Net income (loss) for the year (+/-)		(1,901,705,146)		(1,399,393,393)
Total Equity and Liabilities			**32,681,222,567**		**37,283,262,998**

BANCA POPOLARE DI VICENZA

INCOME STATEMENT
in unit of Euro

CAPTIONS		31/12/2016		31/12/2015	
10.	Interest income and similar revenues		729,685,800		831,443,263
20.	Interest expense and similar charges		(453,637,505)		(461,716,318)
30.	**Net interest income**		**276,048,295**		**369,726,945**
40.	Fee and commission income		222,335,940		304,261,737
50.	Fee and commission expense		(30,490,433)		(28,921,516)
60.	**Net fee and commission income**		**191,845,507**		**275,340,221**
70.	Dividend and similar income		31,004,319		58,472,249
80.	Net trading income		(89,295,053)		35,378,430
90.	Net hedging gains (losses)		13,133,611		56,498,077
100.	Gains (losses) on disposal or repurchase of:		45,798,023		210,592,680
	a) loans and advances	(7,825,658)		108,310	
	b) financial assets available for sale	30,501,539		204,417,272	
	d) financial liabilities	23,122,142		6,067,098	
110.	Net change in financial assets and liabilities designated at fair value		(5,504,055)		(1,785,592)
120.	**Net interest and other banking income**		**463,030,647**		**1,004,223,010**
130.	Net impairment adjustments on:		(1,006,893,537)		(1,267,130,224)
	a) loans and advances	(984,598,898)		(1,177,996,066)	
	b) financial assets available for sale	(21,732,042)		(98,925,388)	
	d) other financial transactions	(562,597)		9,791,230	
140.	**Net income from financial activities**		**(543,862,890)**		**(262,907,214)**
150.	Administrative costs:		(650,581,909)		(675,057,385)
	a) payroll	(333,571,488)		(334,608,576)	
	b) other administrative costs	(317,010,421)		(340,448,809)	
160.	Net provisions for risks and charges		(254,617,790)		(506,645,613)
170.	Net adjustments to property, plant and equipment		(11,168,394)		(11,491,861)
180.	Net adjustments to intangible assets		(3,624,137)		(15,680,806)
190.	Other operating charges/income		65,412,152		59,592,546
200.	**Operating costs**		**(854,580,078)**		**(1,149,283,119)**
210.	Profit (loss) from equity investments		(334,739,682)		(229,808,003)
220.	Net gains (losses) arising on fair value adjustments to property, plant and equipment and intangible assets		-		(923,032)
230.	Adjustments to goodwill		-		(218,151,507)
240.	Gains (losses) on disposal of investments		(103,758)		(64,609)
250.	**Profit (loss) on current operations before income taxes**		**(1,733,286,408)**		**(1,861,137,484)**
260.	Income taxes on current operations		(168,418,738)		461,744,091
270.	**Profit (loss) from current operations after tax**		**(1,901,705,146)**		**(1,399,393,393)**
290.	**Net income (loss) for the year**		**(1,901,705,146)**		**(1,399,393,393)**

BANCA POPOLARE DI VICENZA

STATEMENT OF COMPREHENSIVE INCOME
in unit of Euro

	CAPTIONS	31/12/2016	31/12/2015
10.	**Net income (loss) for the year**	**(1,901,705,146)**	**(1,399,393,393)**
	Other post-tax components of income without reversal to income statement		
40.	Defined-benefit plans	(2,518,887)	3,372,140
	Other post-tax components of income with reversal to income statement		
90.	Cash-flow hedges	(61,607)	(376,520,915)
100.	Financial assets available for sale	(77,754,608)	359,176,135
130.	**Total other post-tax components of income**	**(80,335,103)**	**(13,972,640)**
140.	**Total comprehensive income (Lines 10 + 130)**	**(1,982,040,249)**	**(1,413,366,033)**

STATEMENT OF CHANGES IN EQUITY 2016

	Balance at 31/12/2015	Change in opening balances	Balance at 01/01/2016	Allocation of prior year results		Changes in the year								Equity at 31/12/2016
						Changes in reserves [1]	Equity transactions						Total comprehensive income at 31/12/2016	
				Reserves	Dividends and other allocations		Issue of new shares [2]	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock Options		
Capital stock:	377,204,359		377,204,359	-	-	-	300,000,000	-	-	-	-	-	-	677,204,359
a) ordinary shares	377,204,359	-	377,204,359	-	-	-	300,000,000	-	-	-	-	-	-	677,204,359
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	3,206,572,847	-	3,206,572,847	(1,326,307,118)	-	9,461	1,200,000,000	-	-	-	-	-	-	3,080,275,190
Reserves:	268,824,329	-	268,824,329	(73,086,275)	-	162,843,139	(29,305,997)	-	-	-	-	-	-	329,275,196
a) from earnings	256,248,464	-	256,248,464	(71,944,233)	-	(3,553,355)	(29,305,997)	-	-	-	-	-	-	151,444,879
b) other	12,575,865	-	12,575,865	(1,142,042)	-	166,396,495	-	-	-	-	-	-	-	177,830,318
Valuation reserves:	35,935,359	-	35,935,359	-	-	-	-	-	-	-	-	-	(80,335,103)	(44,399,744)
Equity instruments	1,415,113	-	1,415,113	-	-	-	-	-	-	(1,415,113)	-	-	-	-
Treasury shares	(25,470,437)	-	(25,470,437)	-	-	-	-	(2,585,330)	-	-	-	-	-	(28,055,767)
Net income (loss) for the year	(1,399,393,393)	-	(1,399,393,393)	1,399,393,393	-	-	-	-	-	-	-	-	(1,901,705,146)	(1,901,705,146)
Equity	**2,465,088,177**	**-**	**2,465,088,177**	**-**	**-**	**162,852,600**	**1,470,694,003**	**(2,585,330)**	**-**	**(1,415,113)**	**-**	**-**	**(1,982,040,249)**	**2,112,594,088**

[1] In "Changes in reserves" is included the first tranche paid the 30th of December 2016 by the Atlante Fund/Quaestio Sgr against the future capital increase.

[1] The "issue of new shares" is stated net of the cancellations recorded during the year

STATEMENT OF CHANGES IN EQUITY 2015

	Balance at 31/12/2014	Change in opening balances	Balance at 01/01/2015	Allocation of prior year results		Changes in the year								Equity at 31/12/2015
							Equity transactions						Total comprehensive income at 31/12/2015	
				Group reserves	Dividends and other allocations	Changes in reserves	Issue of new shares [1]	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock Options		
Capital stock:	351.870.120		351.870.120	-	-	-	25.334.239	-	-	-	-	-	-	377.204.359
a) ordinary shares	351.870.120	-	351.870.120	-	-	-	25.334.239	-	-	-	-	-	-	377.204.359
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	3.365.095.274	-	3.365.095.274	(398.695.348)	-	-	240.172.921	-	-	-	-	-	-	3.206.572.847
Reserves:	718.127.697	-	718.127.697	(424.986.206)	-	(26.086.748)	-	-	-	1.769.586	-	-	-	268.824.329
a) from earnings	707.321.418	-	707.321.418	(424.986.206)	-	(26.086.748)	-	-	-	-	-	-	-	256.248.464
b) other	10.806.279	-	10.806.279	-	-	-	-	-	-	1.769.586	-	-	-	12.575.865
Valuation reserves:	49.907.999	-	49.907.999	-	-	-	-	-	-	-	-	-	(13.972.640)	35.935.359
Equity instruments	3.195.323	-	3.195.323	-	-	-	-	-	-	(1.780.210)	-	-	-	1.415.113
Treasury shares	(25.887.625)	-	(25.887.625)	-	-	-	-	417.188	-	-	-	-	-	(25.470.437)
Net income (loss) for the year	(823.681.554)	-	(823.681.554)	823.681.554	-	-	-	-	-	-	-	-	(1.399.393.393)	(1.399.393.393)
Equity	**3.638.627.234**	**-**	**3.638.627.234**	**-**	**-**	**(26.086.748)**	**265.507.160**	**417.188**	**-**	**(10.624)**	**-**	**-**	**(1.413.366.033)**	**2.465.088.177**

[1] The "issue of new shares" is stated net of the cancellations recorded during the year.

BANCA POPOLARE DI VICENZA

STATEMENT OF CASH FLOWS

Direct method

in unit of Euro

A. OPERATING ACTIVITIES	31/12/2016	31/12/2015
1. Cash generated from operations	**(369,395,193)**	**103,059,457**
- Interest income collected (+)	576,707,286	688,584,527
- Interest expense paid (-)	(399,580,056)	(401,384,300)
- Dividends and similar income	3,973,511	19,450,207
- Net fee and commission income (+/-)	209,996,249	273,495,722
- Payroll costs (-)	(316,884,056)	(335,358,228)
- Other costs (-)	(536,952,127)	(341,788,471)
- Other revenues (+)	93,344,000	200,060,000
- Taxation (-)	-	-
- costs/income relating to groups of assets held for sale, net of tax effect (+/-)	-	-
2. Cash generated/used by financial assets	**1,605,028,557**	**1,968,038,252**
- Financial assets held for trading	15,281,231	951,407,000
- Financial assets designated at fair value	(2,376)	(3,602,000)
- Financial assets available for sale	(549,573,239)	(375,429,000)
- Loans and advances to customers	2,408,076,159	1,532,812,069
- Loans and advances to banks: demand	(366,071,000)	130,898,000
- Loans and advances to banks: other receivables	(28,211,252)	(134,777,960)
- Other assets	125,529,034	(133,269,857)
3. Cash generated/used by financial liabilities	**(2,765,801,501)**	**(2,131,136,627)**
- Due to banks: demand	526,806,000	502,621,000
- Due to banks: other payables	(424,869,000)	4,278,601,000
- Due to customers	(1,925,595,182)	(4,802,340,284)
- Debt securities in issue	(974,316,210)	(1,108,664,511)
- Financial liabilities held for trading	-	15,564,000
- Financial liabilities designated at fair value	(155,462,963)	(976,240,000)
- Other liabilities	187,635,854	(40,677,832)
Net liquidity generated/used by operating activities	**(1,530,168,137)**	**(60,038,918)**

Key:
(+) generated
(-) used

BANCA POPOLARE DI VICENZA
STATEMENT OF CASH FLOWS
Direct method
in unit of Euro

	31 DICEMBRE 2016	31 DICEMBRE 2015
B. INVESTING ACTIVITIES		
1. Cash generated by	**77,462,487**	**43,667,293**
- Disposal of equity investments	50,151,679	3,846,251
- Dividends collected on equity investments	27,030,808	39,022,042
- Disposal/redemption of financial assets held to maturity	-	-
- Disposal of property, plant and equipment	280,000	799,000
- Sale of intangible assets	-	-
- Sale of subsidiary companies and business divisions	-	-
2. Cash used by	**(219,839,598)**	**(14,323,965)**
- Purchase of equity investments	(101,955,140)	(3,050,965)
- Purchase of financial assets held to maturity	(108,680,458)	-
- Purchase of property, plant and equipment	(2,318,000)	(8,558,000)
- Purchase of intangible assets	(6,886,000)	(2,715,000)
- Purchase of subsidiary companies and business divisions	-	-
Net liquidity generated/used by investing activities	**(142,377,111)**	**29,343,328**
C. FUNDING ACTIVITIES		
- Issue/Purchase of treasury shares	1,661,115,696	13,854,494
- Issues/Purchases of equity instruments	(1,415,113)	(10,623)
- Distribution of dividends and other purposes	-	-
Net liquidity generated/used by funding activities	**1,659,700,583**	**13,843,870**
TOTAL NET CASH GENERATED/USED IN THE YEAR	**(12,844,665)**	**(16,851,720)**

RECONCILIATION

	31 DICEMBRE 2016	31 DICEMBRE 2015
Captions		
Cash and cash equivalents at the beginning of the year	**138,939,470**	**155,791,190**
Net liquidity generated/used in the year	(12,844,665)	(16,851,720)
Cash and balances with central banks: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the year	**126,094,805**	**138,939,470**

Key:
(+) generated
(-) used

The statement of cash flows presented above was prepared using the "direct" method envisaged by IAS 7 and reports the "cash flows" from the Bank's operating, investing and financing activities.

EXPLANATORY NOTES

PART A – ACCOUNTING POLICIES

PART B – INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

PART C – INFORMATION ON THE INCOME STATEMENT

PART D – COMPREHENSIVE INCOME

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICY

PART F – INFORMATION ON EQUITY

PART G – BUSINESS COMBINATIONS

PART H – RELATED-PARTY TRANSACTIONS

PART I – EQUITY-SETTLED PAYMENT ARRANGEMENTS

PART L – SEGMENT INFORMATION

PART A – ACCOUNTING POLICIES

A. 1 – GENERAL INFORMATION

Section 1 – Declaration of conformity with IFRS

The Financial statements at 31 December 2016 were prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), endorsed by the European Commission under the procedure as per art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and Council dated 19 July 2002 and in force at the current reporting date, including the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The currently applicable international accounting standards (IAS/IFRS), as endorsed by the European Commission, adopted to prepare the Financial Statements at 31 December 2016 are as follows:

IFRS 1 First-time adoption of IFRS

IFRS 7 Financial instruments: disclosures

IFRS 8 Operating segments

IFRS 10 Consolidated financial statements

IFRS 11 Joint arrangements

IFRS 12 Disclosure of interests in other entities

IFRS 13 Fair value measurement

IAS 1 Presentation of financial statements

IAS 7 Statement of cash flows

IAS 8 Accounting policies, changes in accounting estimates and errors

IAS 10 Events after the reporting period

IAS 12 Income taxes

IAS 16 Property, plant and equipment

IAS 17 Leases

IAS 18 Revenue

IAS 19 Employee benefits

IAS 21 The effects of changes in foreign exchange rates

IAS 24 Related party disclosures

IAS 26 Accounting and reporting by retirement benefit plans

IAS 27 Separate financial statements

IAS 28 Investments in associates and joint ventures

IAS 30 Disclosures in the financial statements of banks and similar financial institutions

IAS 32 Financial instruments: disclosure and presentation

IAS 36 Impairment of assets

IAS 37 Provisions, contingent liabilities and contingent assets

IAS 38 Intangible assets

IAS 39 Financial instruments: recognition and measurement

IAS 40 Investment property

Accounting standards and interpretations applied from 1 January 2016

The following table shows the new international accounting standards or the amendments to accounting standards already in force, with the related endorsing regulations by the European Commission, that came into force in 2016.

New documents issued by the IASB and approved by the EU to be adopted mandatorily for annual periods beginning on or after 1 January 2016

Description	Date of issue	Effective date	Regulation Endorsement	UE Regulation and publication date
Changes IAS 19 Employee benefits	November 2013	February 1, 2015 (IASB: July 1, 2014)	December 17, 2014	(UE) 2015/29 January 9, 2015
Improvements to International Financial Reporting Standards (cycle 2010-2012)	December 2013	February 1, 2015 (IASB: July 1, 2014)	December 17, 2014	(UE) 2015/28 January 9, 2015
Changes IAS 16 Property, plant and equipment and IAS 41 Agriculture	June 2014	January 1, 2016	November 23, 2015	(UE) 2015/2113 November 24, 2015
Changes IFRS 11 Joint arrangements	May 2014	January 1, 2016	November 24, 2015	(UE) 2015/2173 November 25, 2015
Changes IAS 16 Property, plant and equipment and IAS 38 Intangible assets	May 2014	January 1, 2016	December 2, 2015	(UE) 2015/2231 December 3, 2015
Changes IFRS 2012-2014	September 2014	January 1, 2016	December 15, 2015	(UE) 2015/2343 December 16, 2015
Changes IAS 1 First-time adoption of IFRS	December 2014	January 1, 2016	December 18, 2015	(UE) 2015/2406 December 19, 2015
Changes IAS 27 Separate Financial Statements	August 2014	January 1, 2016	December 18, 2015	(UE) 2015/2441 December 23, 2015
Investment entities: application of the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	December 2014	January 1, 2016	September 22, 2016	(UE) 2016/1703 September 23, 2016

IAS/IFRS and IFRIC interpretations applicable to the financial statements of years starting after 1 January 2016

The information to be provided in the Explanatory notes to the financial statements set out in such documents is included in this check list, as early application is permitted.

Description	Date of issue	Effective date	Regulation Endorsement	UE Regulation and publication date	Notes and references to this checklist
IFRS 15 – Revenue from Contracts with customers	May 2014 (1)	January 1, 2018	September 22, 2016	(UE) 2016/1905 October 29, 2016	Early application is allowed Points 460-481
IFRS 9 Financial Instruments	July 2014	January 1, 2018	November 22, 2016	(UE) 2016/2067 November 29, 2016	

(1) The amendment that changed the effective date of IFRS 15 was released in September 2015.

IAS/IFRS and IFRIC interpretations applicable to the financial statements of years starting after 1 January 2016

Please note that these documents will be applicable only after endorsement by the EU.

Description	IASB Date of issue	IASB Effective date	UE Regulation Endorsement
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	(1)	(1)
IFRS 16 Leases	January 2016	January 1, 2019	2017
Amendments			
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 2014	Deferred until the conclusion of the IASB project on Equity Method	Pending awaiting the conclusion of the IASB project on Equity Method
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	January 2016	January 1, 2017	
Amendments to IAS 7: Disclosure Initiative	January 2016	January 1, 2017	
Clarifications to IFRS 15 Revenue from Contracts with Customers	April 2016	January 1, 2018	1st semester 2017
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	June 2016	January 1, 2018	2nd semester 2017
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 2016	January 1, 2018	2017
Amendments to IAS 40: relating to transfers of investment property	December 2016	January 1, 2018	
Annual Improvements 2014-2016	December 2016	January 1, 2018	
IFRIC 22 Foreign currency transactions and advance consideration	December 2016	January 1, 2018	

(1) IFRS 14 entered into force from 1 January 2016, but the European Commission has decided to suspend the endorsement process pending approval of the new accounting standard on rate-regulated activities.

IFRS 9 Financial instruments

Starting from 1 January 2018 the new IFRS 9 "Financial Instruments", released by the IASB on 24 July 2014, will enter into force; it replaces the previous versions of the standard (released in 2009 and in 2010 for the "classification and measurement" phase, and in 2013 for the "hedge accounting" phase) and it completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The standard was endorsed by the European Commission on 22 November 2016 and the Regulations for its adoption were published in the Official Journal of the European Union of 29 November 2016.

IFRS 9:

4. amends the classification rules, and consequently the measurement methods of financial assets which, as regards debt instruments, will be based on the management arrangements ("business model") and the characteristics of the financial instrument's cash flows characteristics, while equity instruments are measured at fair value through profit and loss, without prejudice to the possible use of the OCI option;
5. provides for a new impairment accounting model based on an "expected losses" instead of an "incurred losses" approach as in the current IAS 39, and also introduces for performing loans the concept of lifetime expected loss which could lead to an anticipation and a structural increase in impairments;
6. introduces changes to hedge accounting by rewriting the rules for the designation of a hedging relationship and the testing of its effectiveness, with the aim of ensuring a closer alignment between the accounting representation of hedges and the underlying management logics.

The new standard also changes accounting for "own credit risk", i.e. the changes in fair value of the liabilities designated in fair value option due to fluctuations in one's own credit rating. The new standard requires to recognise such changes in an equity reserve, rather than in the income statement as provided by IAS 39, thus removing a source of income volatility.

Already in the first half of 2016, the Bank started, with the support of outside advisors, the "Transition to IFRS 9" project, with an internal analysis of the main impact areas of the new IFRS 9 accounting standard, while in the second half of 2016 a second step was started with the IT outsourcer SEC Servizi SCpA aimed at defining the methodological framework of reference for the classification, measurement and impairment of financial assets, and the design of the target solutions and of their implementations.

In particular, the consortium project is organised into two main work areas (Classification & Measurement – C&M and Impairment) supported by the IT and TOM (Target Operating Model) areas, acting across the two main areas in order to analyse and define impacts on the IT architecture and internal operational processes.

With regard to Hedge Accounting, the Bank has chosen not to start a specific work area, as the regulatory changes only concern General Hedge, and at this time it is deemed preferable to continue to apply IAS 39 to all types of hedges in place, as temporarily permitted by the standard.

For each of the above-mentioned work areas, the adopted methodological approach includes the following micro-phases:

- analysis and preliminary choices (mainly related to accounting and model);
- design of the target operating model and definition of the related IT impacts;
- application and organisational development and impact analysis.

Along with the above consortium project, the Bank has chosen to establish an internal Workgroup involving resources from the Credit, Finance and Sales areas, as well as stakeholders of the Financial Statements, Risk Management and Organisation areas, supported by a Project Manager and organised into the same work areas as described above, in charge of analysing specific aspects of the Bank in terms of tools (processes, procedures, regulations etc.) and resources, and to provide practical contributions to the work of the consortium project.

On the basis of the work plan developed, ongoing project activities concern the identification and analysis of the product portfolio (contractual screening), the definition and simulation related to the new C&M rules (Business Model and SPPI (Solely Payments of Principal and Interest) tests), and the definition of internal policies for staging credit exposures and determining the "expected loss".

At the date of preparation of these Financial Statements, the project is underway according to the originally planned schedule, and has not yet reached such progress as to allow a reliable estimate of the impacts resulting from first-time application of the new standard. Any updates in connection with the project's progress will be provided in the next interim accounting reports.

Lastly, it should be noted that as the introduction of IFRS 9 involves major changes for the banking sector with regard to provisions for potential losses arising from credit exposures, on 23 November 2016 the European Commission published a draft legislative proposal (known as "CRD V") that will update CRR, CRD IV, BRRD and the SRM Regulation. These proposals includes provisions to dilute over time the negative impact on regulatory capital arising from first-time application of IFRS 9 in 2018.

Section 2 – Basis of preparation

The Financial Statements at 31 December 2016 comprise the statement of financial position and the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and these explanatory notes and they are accompanied by the report on operations.

The financial statements have been prepared with reference to the formats and rules specified in Bank of Italy Circular no. 262 of 22 December 2005 - 4th update dated 15 November 2015 ("Banks' financial statements: layout and preparation"), issued by the Supervisory Body exercising its regulatory powers pertaining to the technical forms of bank financial statements, in accordance with Article 43 of Legislative Decree 136/2015.

As prescribed in Article 5.2 of Italian Legislative Decree no. 38/2005, the Financial Statements are prepared using the Euro as the accounting currency. The amounts contained in the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and these explanatory notes are, except where indicated otherwise, stated in thousands of euro. The roundings have been made in accordance with the related regulations.

These Financial statements were prepared with the intention to provide clear information and they truth and fair represent the financial position, the income and the cash flow of the Banca Popolare di Vicenza.

In the preparation of the Financial statements, general reporting standards have been adopted, as detailed below, prescribed by IAS 1 "Presentation of financial statements" and the accounting standards illustrated in part A.2 of these explanatory notes, in compliance with the general provisions included in the "Framework for the preparation and presentation of the financial standards" (the "framework") prepared by the International Accounting Standards Board, with particular regard to the fundamental principle of the prevalence of substance over form, and to the concept of the relevance and significance of the information.

The general reporting standards prescribed by IAS 1 are summarised below.

Going concern

These Financial statements were prepared on a going concern basis.

In this regard, the joint co-ordination committee for IAS/IFRS application between the Bank of Italy, CONSOB and ISVAP (Italy's insurance industry regulator) issued its document no. 2 on 6 February 2009 entitled "Disclosures in financial reports on the going concern assumption, financial risks, tests of assets for impairment and uncertainties in the use of estimates". This document requires management to carry out a detailed review in relation to the going concern presumption, in accordance with the requirements of IAS 1.

In particular, paragraphs 23-24 of IAS 1 establish that: "*When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern*".

The **specific situation of the Banca Popolare di Vicenza Group**, particularly with regard to its economic and financial situation, which shows as at 31 December 2016 a failure to comply with the ECB's capital requirements under the 2016 SREP Decision, requires a careful evaluation of the going concern requirements and, within this framework, of the existence of realistic alternatives to winding up.

The loss of €1.9 billion recorded in 2016 must be considered in light of the corporate restructuring process that the new Board of Directors is implementing and that has affected the provisioning policies of these Financial statements.

In effect, the negative result for the year is largely attributable (i)**to increased hedging on non-performing loans**, also due to implementation of the impairments required by the ECB during two recent audits on credit and counterparty risk; (ii) to **impairments on securities and investments** primarily related to withdrawal by Cattolica Assicurazioni and further write-downs on the Luxembourg funds; (iii) **provisions for risks and charges** mainly related to litigation risks on BPVi shares and the costs related to the Settlement Offer, and (iv) the **reversal of part of the previously allocated deferred tax assets**.

The negative result for 2016 is also partly due to the negative performance of commercial operations, affected by the reputational impacts that have hit the Group starting from the second half of 2015, consequent to the emergence of the phenomenon of the loans correlated with the purchase of shares and other critical issues that were the subject of the ECB's audits, which entailed a further reduction in volumes (after the strong decline recorded in 2015) and a rise in the cost of funding.

As a result of the loss for the period, at the end of 2016 the CET1 ratio and pro-forma TCR (i.e. taking into account the payment of €310 million completed by the Atlante Fund on 5 January 2017) stand at 8.21% and 9.61% respectively (7.47% and 8.88% considering only the first tranche of the Atlante Fund's payment made before 31 December 2016) against a SREP minimum CET1 ratio requirement at 31 December 2016 of 10.25% (7.75% excluding the "capital conservation buffer"). In this regard, it should be noted that following the 2016 SREP, the new capital requirements to be complied with **from 31 March 2017** are as follows: **8.75%** CET1 ratio, **10.25%**Tier 1 ratio and **12.25%** Total Capital. As the Bank does not currently have Tier 1 instruments, **the minimum CET1 ratio requirement under 2016 SREP is 10.25%**.

The above-mentioned capital ratios are compared against the minimum capital requirements under article 92 of Regulation (EU) no. 575/2013 for banking activities, namely 4.5% minimum CET1, 6% Tier 1, and 8% of Total Capital Requirement (TCR).

Along with the negative evolution in the financial position, 2016 also saw a deterioration in the Group's liquidity position, with a liquidity coverage ratio at the end of the year of 37.9% against a regulatory requirement of 70 percent.

Within this framework, the Board of Directors has taken actions to restore and preserve a financial position consistent with the ECB requirements; these actions are included in the reference information base used for assessing the existence of the going concern assumption in accordance with the accounting standards recalled above.

With regard to the foregoing, the Bank's Board of Directors believes that, for the purpose of determining the existence of the going concern assumption, the following facts are relevant:

(a) following 2016 SREP, in February 2017 the Bank completed the revision of the 2017-2021 Business Plan, which provides for merger with the Veneto Banca Group as well as a capital strengthening action to be realistically completed during the second half of 2017, and (i) a reduction in the Bank's risk profile, with specific reference to credit risk and legal risk (mainly in connection with to the litigation with shareholders), (ii) recovery of operational efficiency in line with the Italian banking system, and (iii) commercial relaunch to be carried out primarily through the recovery of customer relationships and stronger focus on multichannel marketing. The 2017-2021 Business Plan was prepared in full agreement and coordination with the Atlante Fund, which holds 99.3% of the Bank's share capital and which supported the Bank in 2016 and the early months of 2017 with capital injections totalling €1.8 billion;

(b) the Bank has requested and obtained access to a State guarantee on bond issues totalling €3 billion and, on 20 February 2017, placed state-guaranteed bonds for a total of €1.25 billion, thus restoring the Bank's liquidity ratios;

(c) on 9 January 2017 the Bank initiated a Settlement Offer with the aim to reduce and limit the legal and reputational risks arising from past operations on BPVi shares, thus helping to strengthen the solidity and economic viability of the Bank's business over time and to restore a relationship of trust with its traditional customer base and with the reference area - all to be achieved within a time limit consistent with the Bank's strategic objectives. The Settlement Offer ended on 28 March 2017. Data and evidence concerning acceptance of the Offer will be reviewed in the next few days, in order to certify the number of participants, the quantity of shares included in the Offer and the total amount of the compensation to be paid, if any. This will allow the Board of Directors to evaluate the final results of the initiative and decide, bearing in mind the overall interest of the Bank, whether or not to waive the condition precedent set out in the Offer Regulations (which states that payment of compensation is subject to the fact that the Offer is accepted by at least 80% of the holders of the shares included in the scope of the Offer. This condition is set in favour of the Bank, which may choose to waive it, if it deems it appropriate);

(d) by notice dated 1 March 2017, the ECB requested the Bank to prepare a plan for the preservation and strengthening of its capital, containing a description of actions taken or planned in order to meet supervisory capital ratios on an individual basis, irrespective of the proposed merger with the Veneto Banca Group and pending the implementation of the capital strengthening transactions outlined in the 2017-2021 Business Plan;

(e) in response to the ECB's notice of 1 March 2017, on 16 March 2017 the Bank sent to the Authority a letter confirming its intention to implement the 2017-2021 Business Plan and announcing its application with the Italian government to obtain extraordinary and temporary financial support (see paragraph (f) below). The Bank also transmitted to the ECB its budget for the first half of 2017, describing the actions it intends to undertake in the first 6 months of the year to ensure that the Bank maintains its capital and financial balance, pending implementation of the planned capital strengthening measures during 2017 and authorisation to finalise the merger with the Veneto Banca Group;

(f) having reviewed the viable alternatives, on 17 March 2017 the Bank informed the Ministry of Economy and Finance, the Bank of Italy and the ECB of its intention to apply for extraordinary and temporary financial support from the Italian government (known as "precautionary recapitalisation"), pursuant to Law Decree no. 237/2016 as amended and converted into Law no. 15 on 17 February 2017, once the ECB provides guidance on capital shortfall. The purpose of this is to meet, on a precautionary and temporary basis, the capital requirement set out in the 2017-2021 Business Plan and to comply with the regulatory constraints during the time required to implement the actions envisaged for this purpose in the 2017-2021 Business Plan.

Although the Bank believes, on the basis of analyses carried out to the best of its knowledge, that it fulfils law requirements to obtain precautionary recapitalisation, to date several factors exist which create uncertainty on whether, to what extent and how soon the Bank will actually be able to obtain support from the government, and therefore meet its temporary capital needs through this measure.

These uncertainties are such as to raise serious doubts on whether the ongoing concern requirement will continue to be met, in consideration, among others, of the following factors: (i) the fact that approval of the precautionary recapitalisation by the State, for applicant banks that meet the requirements under the aforementioned law, is subject to the binding opinion of the European Commission's Directorate-General for Competition (**DG Comp**) responsible for State aid matters, which could also impose limits on the amount of the recapitalisation; (ii) interpretative uncertainties related to the reference regulatory framework, which has been recently introduced and has not yet been actually applied; (iii) the decisions that the Supervisory Authority could make with regard to the Bank's current and future financial position (which may include the adoption of extraordinary measures, such as the resolution instruments provided for in Legislative Decree no. 180 of 16 November 2015 transposing Directive 2014/59/EU (Bank Recovery and Resolution or BRRD Directive). Despite the uncertainties outlined above, the Financial Statements as at 31 December 2016 were prepared based on a going concern assumption. The Bank's Board of Directors of the Bank has concluded that, in light of the overall situation as outlined above, the actions taken and underway, and in view of the status of the discussions initiated with the institutions in connection with the foregoing, the uncertainties expressed above, though they may raise significant doubts regarding the going concern assumption, are not such as to suggest that there are currently no realistic alternatives to liquidation.

However, in a constantly changing scenario such as the one that the Bank is facing, in which there is no certainty that the "precautionary recapitalisation" will be approved by the European Commission and that action can be taken in a time frame compatible with the progressive deterioration of the Bank's financial position (a scenario made even more uncertain by recent changes to the reference regulatory framework, the absence of any guidance from the Supervisory Authority concerning the 2017-2021 Business Plan and the proposed merger with the Veneto Banca Group, and the lack of a clear intention of the Atlante Fund shareholder to provide further capital support to the Bank), the Board of Directors, taking into account the significant reduction in deposits and the progressive deterioration of the liquidity situation resulting from delays in the recapitalisation process, the approval of the merger and the consequent bail-in concerns, reserves the right to update, just before the Shareholders' Meeting to approve the Financial Statements to be held on 28 April 2017, the analysis and evaluation of the uncertainties outlined above and their relevance to the going concern assumption on which the draft financial statements are based, and to make and communicate any different decision in this regard before the aforesaid Meeting.

Recognition on an accrual basis

The Financial statements are prepared, with the exception of cash flow disclosure, according to the principle that costs and revenues are recognised on an accrual basis, regardless of the time of their actual payment.

Relevance, significance and aggregation

Each relevant class of items, however similar they may be, shall be reported distinctly in the financial statements. Items with dissimilar nature or destination may be aggregated only if they are not significant. The presentation and classification of the items of the Financial statements complies with the provisions set out in Bank of Italy Circular no. 262 which bindingly establishes financial statement formats and the procedures for their completion, as well as the content of the explanatory notes.
In accordance with the provisions of the aforesaid Circular no. 262, statements of financial position, income statements and comprehensive income statements comprise line items (indicated by numbers), lines (indicated by letters) and additional information details (the "of which" portions of line items and lines). The line items, the lines and their information details make up the financial statement accounts. New items may be added to the aforesaid statements, provided their content is not associated to any of the items already included in the statements and only if the amounts are relevant. The lines provided by the statements may be grouped when one of the two following conditions is met: a) the amount of the lines is irrelevant; b) grouping enhances the clarity of the financial statements; in this case, the explanatory notes contain distinctly the lines to be grouped.

In this regard, the Bank, in preparing the Financial Statements at 31 December 2016, did not apply the aforesaid provisions that allow to add new items or to group them. Line items in the statement of financial position, the income statement, the statement of comprehensive income and the tables included in the explanatory notes are not presented if their balance is zero in both years.

Offsetting

Unless otherwise provided or expressly allowed by international reporting standards or by an interpretation thereof or by the provision of the aforementioned Bank of Italy Circular no. 262, assets and liabilities as well as costs and revenues may not be mutually offset.

Uniformity of presentation

The standards for the presentation and classification of Financial statement items are kept constant from one period to the other in order to assure the comparability of information, unless differently required by an international accounting standard or by an interpretation or if the need emerges of making the representation of the information more appropriate in terms of significance. If feasible, the change is adopted retroactively and the nature, the reason and the amount of the items affected by the change are indicated.

Comparative information

For all amounts posted in the Financial statements of the current year, unless otherwise prescribed or allowed by an international accounting standard, comparative information with respect to the previous year is provided and, when relevant for comprehension of the financial statements for the reference year, also comparative information about comments and descriptive information. If changes were made to the presentation or classification of line items, the comparative amounts are reclassified as well, unless reclassification is not feasible. Non-comparability and adjustment, or its impossibility, are pointed out and commented on in the explanatory notes.

Risks and uncertainties related to the use of estimates and to the possible developments of complaints and disputes promoted by Bank shareholders in relation to the investment in BPVi shares

As required by the aforementioned joint Bank of Italy/IVASS/CONSOB document, **accounting estimates have been made in support of the carrying amounts for the more significant items requiring measurement** in the financial statements at 31 December 2016, as required by prevailing accounting standards. This process, which largely involved estimating the future recoverability of amounts recognised in the financial statements in accordance with current regulations, **was performed on a going concern basis** without considering forced-sale values. **In this regard, please refer to the Board of Directors' going concern assessment**

Estimates have been primarily used for determining the fair value of financial instruments and equity investments, for the valuation of loans, for determining other provisions for risks and charges and for quantifying current and deferred taxes and estimating the recoverability of deferred tax assets.

The outcome of this work supports the carrying amount of these items at 31 December 2016.

This valuation process was nevertheless particularly complex due to the specific situation of the Banca Popolare di Vicenza Group and to the current macroeconomic and market conditions, which continue to be characterised by high levels of volatility in all financial and non-financial parameters used for measurement purposes, and to the consequent **difficulty in making short-term or other forecasts for the evolution of operating results and for such financial and non-financial parameters,** which have a significant influence on estimated values. The parameters and the information used to verify the values and the evaluation processes mentioned in the previous paragraphs are therefore significantly influenced by the Group's specific situation and by its possible evolution, as well as by the particularly uncertain macroeconomic and market environment, which could lead to rapid changes, not foreseeable today, with consequent effects, which may be significant, on the values reported in the Financial Statements at 31 December 2016**. The Directors have formulated their best estimates on the basis of available information.**

Moreover, with regard to loans, the Group has already recognised in the half-year financial statements as at 30 June 2016 all valuation differences emerged from the **ECB inspection started last May and ended in early September 2016** concerning management and valuation processes and the internal control system on credit and counterparty risks. However, **uncertainties remain regarding the possible future impacts of more conservatives policies, processes and procedures associated with credit and counterparty risk (as resulting from the planned revision) whose application to the entire loan portfolio will presumably have a significant negative impact, which cannot currently be determined, on the financial and economic situation of the BPVi Group, already in 2017.**

In addition, with regard to the **inspection** concerning "Credit and Counterparty risk management and risk control system" with specific reference to the **scope of the so-called loans "related"** to the purchase/subscription of BPVi shares, although no documents have yet been formalised in relation to the results of the inspection, the Bank has recognised the main differences communicated by the inspection team with respect to the classification of loans from performing to impaired and to impairment adjustments. **The requests to classify loans already identified as impaired under non-performing can only be implemented in the financial statements for 2017 and are still under analysis**; given the magnitude of the total amount involved in the aforesaid analysis, it cannot be excluded that non-performing loans will significantly increase already in the first half of 2017.

With specific reference to the quantification of **deferred tax assets and liabilities** and to the estimated recoverability of deferred tax assets (DTA), the Group has performed a probability test in accordance with IAS 12, in order to assess the probability of realising sufficient future taxable income to absorb the DTAs that can be recognised at 31 December 2016. It should be noted that **the elements considered in running the probability test contain several elements of uncertainty,** including but not limited to: *i)* risk that **changes to tax regulations** may in the future limit the possibility to recognise the tax losses incurred by the Group, reduce the tax rates with a consequent reduction in the amount of the recoverable DTA or entail even significant impacts on the taxable income of upcoming years; *ii)* **risk that the future economic results** (and the consequent future taxable income) generated by the Group **are lower than those considered in the probability test. The occurrence of the aforesaid circumstances could lead in upcoming years even to significant adjustments in the accounting values of the deferred tax assets recorded in the consolidated Financial Statements at 31 December 2016.**

In addition, as described in the specific section of the Report on Operations dedicated to the inspections conducted by the Supervisory Authorities, the Group, with the support of legal, accounting and tax advisors of high standing, has continued in 2016 to **update the analysis of the criticality profiles that emerged from the ECB's inspections**, in particular with reference to the phenomenon of **"related" financing** and more in general to **the Bank's transactions involving shares**, in order to identify the legal profile of the various situations, and assess the related risks and potential impacts on income and the financial position. **The complex estimates pertaining to such risks have been calculated to the best of the information currently available**, and taking into account the applicable accounting principles. The results of the analyses carried out to date and of the related assessments are reflected in the financial statements at 31 December 2016 through adjustments to loans and specific provisions for risks and charges, and are also discussed in the section entitled "Inspections by the Supervisory Authorities and related penalty proceedings" in the Report on Operations.

In this regard, it should be noted that **the allocations to the provisions for risks and charges** made in view of the **risks pertaining to complaints and disputes regarding the Bank's transactions involving shares** and the critical profiles described above, **supplemented to take into account the outcome of the Settlement Offer** made to the shareholders, **are subject to the variables and the uncertainty factors that are typical of any process involving complex estimates and valuations**. More specific and in-depth activities analyses concerning these risks will continue throughout 2017, and **it cannot be excluded, also in light of the evolution of the litigation and claims of customers and the outcome of the Settlement Offer referred to above, that the future assessments and estimates of the risks associated with these profiles may differ from those performed and recognised in the financial statements at 31 December 2016**. This would entail in the future **the need for the Bank to make additional provisions**, with significant negative effects on the economic and financial situation of the BPVi Group. **Nor can it be excluded that, despite the positive result of the aforementioned Settlement Offer made by the Bank to its shareholders, the risk exists that further claims or lawsuits may be brought by Bank shareholders** in relation to their investment in, or failure to dispose of, BPVi shares, which may result in the need to make further provisions or could expose the Bank to additional potential liabilities in addition to those reflected in the provisions made in the financial statements as at 31 December 2016, with significant negative effects on the economic and financial situation of the BPVi Group, its business and its market positioning.

Lastly, as has already been described in the aforesaid section of the Report on Operations pertaining to the inspections, it is pointed out that **the Bank is the recipient of certain penalty proceedings initiated by the different Supervisory Authorities** (ECB, Bank of Italy, Consob and AGCM), in some of which it is directly liable and in others it is jointly and severally liable for the violations allegedly perpetrated by the members of the corporate Bodies and by some of the Bank's executives and employees, even after they relinquished their office and/or their functions. With respect to some of these proceedings, the Bank has already received the imposition of penalty (AGCM) or penalty proposal (ECB and CONSOB), in response to which it has recognised the relevant expense in the income statement or allocated the appropriate funds to the provision for risks and charges in the Financial statements as at 31 December 2016 (in relation to potential charges for which it is directly responsible). **As to proceedings for which the Authority has not yet imposed a possible penalty, it cannot be excluded that such proceedings may result in potential liabilities** for the Bank, which currently can only be **considered possible, but cannot be estimated**.

Section 3 – Subsequent events

With regard to the requirements of IAS 10, without prejudice to the information presented in the Report on Operations and in the Explanatory Notes concerning, among other, the going concern assumption, in the period from 31 December 2016 (reporting date) and the date of approval, there are no significant events affecting to any appreciable extent the Bank's balance sheet, income statement and financial position.
For the sake of completeness, the main events occurred in the period from the end of the financial year 2016 to the date of approval of the draft financial statements by the Board of Directors are described below.

- **1 January 2017:** effective **from 1 January 2017**, Banca Popolare di Vicenza S.p.A., Banca Nuova S.p.A. and Farbanca S.p.A. have carried out a **securitisation transaction** (hereinafter referred to as the "Transaction") - under Law No. 130/99 ("Securitisation Law") - with the company Ambra SPV S.r.l. Through the Transaction, BPVI, Banca Nuova and Farbanca **assigned and transferred for consideration**, without recourse and in bulk, the **pecuniary claims arising from unsecured and mortgage loans, credit lines and other contractual relationships of various types and technical forms, payable by debtors classified as *"non-performing"*** and present in the portfolio of each Assignor Bank as at 30 November 2016, worth a total of Euro 4.3 billion in gross book value. The securitisation transaction, which in this first phase is fully retained by the Originators, was instrumental in supporting the Group's liquidity profile through the granting of a bridge loan. As regards administration, management, collection and debt recovery within the framework of the securitisation transaction described above, the company Ambra has appointed Banca Popolare di Vicenza S.p.A., Banca Nuova S.p.A. and Farbanca to S.p.A. as Interim Servicers. The Transaction was announced by notice published in the Official Journal of the Italian Republic on 14 January 2017.

- **5 January 2017:**
  - Following the **commitment** (communicated on 21 December 2016) to make a payment of Euro 310 million to the Bank by 5 January 2017 for a future capital increase by Quaestio Capital Management Sgr on behalf of the Atlante Fund, on 5 January 2017 the second tranche of said payment was finalised, amounting to Euro 146.3 million (the first tranche of Euro 163.7 million was paid on 30 December 2016).
  - The Board of Directors of Banca Popolare di Vicenza unanimously approved **the inclusion within the Bank's senior management Gabriele Piccini and Enrico Maria Fagioli Marzocchi**. As Substitute Deputy General Manager, Mr. Piccini will be responsible for the commercial area with the role of ***Chief Commercial Officer*** (CCO) of the Bank;
    As Deputy General Manager, Mr. Fagioli Marzocchi has been appointed to coordinate the Bank's General Affairs and Equity Investments Department, the Finance Division and the Financial Statements and Planning Division with the role of ***Chief Financial Officer*** (CFO).

- **9 January 2017:** The Board of Directors of Banca Popolare di Vicenza approved the initiation of a **settlement programme for its shareholders who invested in BPVi shares over the last 10 years. The Settlement Offer provides for payment of Euro 9 for each share** purchased through a Banca Popolare di Vicenza Group bank from 1 January 2007 to 31 December 2016 (net of any sales), in exchange for the shareholder's waiver of any claim relating to investment in (or non-disposal of) Banca Popolare di Vicenza shares, which in any case will remain the property of the shareholder. For additional information, please refer to the chapter 'Claims on BPVi shares and settlement programmes for BPVi shareholders' and the Offer Regulations in the www.popolarevicenza.it/azionisti website.

- **18 January 2017**: The **employment relationship with Mr. Iacopo De Francisco has been terminated by mutual agreement.** Mr. De Francisco had served as Substitute Deputy General Manager since June 2015.

- **19 January 2017**: the European Commission has concluded that the application submitted by the Bank to obtain measures in support of liquidity are in line with EU State Aid Regulations, and therefore the Bank can be authorised to issue additional state-guaranteed debt in accordance with Legislative Decree No. 237 of 23 December 2016. In its positive opinion, the Commission notes that the requested support should be considered as intended for a specific purpose, proportionate, and limited in time and objectives.

- **27 January 2017**: The Board of Directors of Banca Nuova acknowledged the resignation of Iacopo De Francisco from the office of Director of the Bank, and approved the appointment by cooptation, pursuant to article 2386 of the Italian civil code, of Gabriele Piccini (Substitute Deputy General Manager and Chief Commercial Officer of the parent company Banca Popolare di Vicenza S.p.A.).

- In early **February 2017**, the parent company BPVi underwent an additional on-site inspection by the ECB concerning “Credit and counterparty risk management and risk control system” with specific reference to the scope of the loans “related” to the purchase/subscription of BPVi shares.

- **1 February 2017**: Banca Popolare di Vicenza **received from the Ministry of Economy and Finance a decree containing the measure to grant a State guarantee on new bond issues** in accordance with Law Decree no. 237/2016.

- **3 February 2017:** Banca Popolare di Vicenza carried out a state-guaranteed bond issue in accordance with Law Decree no. 237/2016, amounting to **a total nominal amount of Euro 3.0 billion, coupon 0.5%, maturity date 3 February 2020** (ISIN: IT0005238859). The issue has been entirely subscribed by the issuer and will be sold on the market or used as collateral to secure loan transactions. On the same day, the rating agency **DBRS** assigned the above-mentioned bond issue a long-term rating of **BBB (high) with a 'stable' trend**. In view of the unconditional and irrevocable guarantee by the Italian State, the rating and trend are in line with those of the Republic of Italy.

- **6 February 2017:** the rating agency **Fitch** has assigned a long-term rating of **BBB+** to the state-guaranteed bond issue of Euro 3.0 billion nominal value, coupon 0.5%, maturity date 3 February 2020 (ISIN: IT0005238859) issued on 3 February 2017 in accordance with Law Decree no. 237/2016. In view of the unconditional and irrevocable guarantee by the Italian State, the rating is in line with those of the Republic of Italy.

- **20 February 2017**: **the placement with institutional investors of the Italian state-guaranteed bond issue** of Euro 1.25 billion was successfully completed. The placed bond is part of the state-guaranteed issue that had been carried out and entirely subscribed by the Bank on 3 February 2017 amounting to Euro 3 billion nominal value in accordance with Law Decree no. 237/2016.

- **7 March 2017**: Banca Popolare di Vicenza decided to **establish a reserve totalling Euro 30 million in support of shareholders who are in difficult conditions**. The procedures to apply for support from the aforesaid reserve were disclosed on 13 March 2017 (the terms and conditions to participate in the Welfare Initiative are stated in the Welfare Initiative Regulations, available at the websites and the branch offices of BPVi Group banks).

- **10 March 2017**: the Board of Directors of **Prestinuova** voted to appoint **Fabio Cassi** as **Chairman of the Board of Directors** and **Rodolfo Pezzotti as new General Manager**. In addition, the Shareholders' Meeting of Prestinuova appointed Roberto Cagnina and Basilio Pigato as new directors.

- **13 March 2017**: the Bank received from the ECB a draft notice reporting the results of the inspection started on 30 May 2016 and ended on 9 September 2016, on the Bank's management and valuation processes and the internal controls system relating to credit and counterparty risks.

- **16 March 2017: Francesco Micheli resigned from the Board of Directors of Banca Popolare di Vicenza**, effective from the end of March 2017.

- **17 March 2017**: the rating agency Fitch Ratings cut **the long-term rating of Banca Popolare di Vicenza** to **"CCC"** and **the short-term rating** to **"C"**. For both ratings, the outlook has been downgraded to Rating Watch Evolving (RWE). At the same time, the **Viability Rating** was downgraded to **"CC"**. The ratings of subordinated debt and the state-guaranteed bond were confirmed at "CC" and "BBB+" respectively.

- **17 March 2017**: **Banca Popolare di Vicenza informed the MEF, Bank of Italy and the ECB of its intention to apply for extraordinary and temporary financial support from the Italian government** ("precautionary recapitalisation"), in accordance with Law Decree no. 237/2016 as amended and converted into law no. 15 on 17 February 2017.

- **23 March 2017**: the Board of Directors decided to proceed with the request for an additional state-guaranteed bond issue in accordance with Law Decree no. 237/2016 up to Euro 2.2 billion with a three-year duration.

- **24 March 2017**: the rating agency **DBRS placed the ratings of Banca Popolare di Vicenza under review with negative implications (UR-Neg)**. Long and short-term ratings are currently B (high) and R-4 respectively. The rating of the state-guaranteed bond was confirmed at BBB (high) with stable outlook. Subordinated debt is not subject to rating by DBRS.

- **28 March 2017**: The Settlement Offer for BPVi shareholder was completed. Based on the preliminary data reviewed by the Board of Directors, the Offer was accepted by 66,712 shareholders (or 71.9%), holders of 68.7% of the shares included in the scope of the Offer. Deducting shares that could not be located and those that had already been the subject of specific analysis, the percentage of participating shareholders is **72.9%,** or **70.3%** of BPVi shares included in the scope of the settlement offer.

- **28 March 2017**: The Board of Directors acknowledged the resignation of Marco Bolgiani from Director of Banca Popolare di Vicenza, notified yesterday and effective immediately.

Section 4 – Other matters

Statutory audit of financial statements

The financial statements have been audited by PricewaterhouseCoopers S.p.A., an independent firm of auditors, under the engagement for external audit conferred for the years 2016 to 2024 by resolution of the shareholders on 7 July 2016. The financial statements are also accompanied by the attestation of the Financial Reporting Manager, as required by art. 154-bis, par. 5, of Legislative Decree 58/98 (Italy's Financial Markets Act – TUF) as amended by Decree no. 195/2007 implementing the Transparency Directive.

A.2 – PART RELATING TO THE PRINCIPAL FINANCIAL STATEMENT LINE ITEMS

The accounting standards adopted in the preparation of the Financial Statements at 31 December 2016 are as follows.

ASSETS

1. Financial assets held for trading

Classification

This line item comprises financial instruments held for trading[32] and derivative contracts with a positive fair value that are not designated as effective hedging instruments. Such financial instruments must not carry any clause restricting their trading.

Derivative contracts include embedded derivatives which are attached to a primary financial instrument, known as the "host contract" when they have been recognised separately from the host and forward transactions in currencies, securities, goods and precious metals. An embedded derivative is recognised separately from the host contract when all of the following conditions are satisfied:

- its economic characteristics and risks are not closely related to those of the "host" contract;
- the separate embedded instrument meets the definition of a derivative;
- the hybrid instrument is not measured at fair value through the income statement.

Financial instruments are designated as financial assets held for trading upon initial recognition, except if former hedging derivatives with a positive fair value at the reporting date are reclassified as "financial assets held for trading" after a hedging relationship has become ineffective.

Recognition

The initial recognition of financial assets held for trading takes place: i) on the settlement date for debt securities, equity instruments and units in mutual funds and sicavs, and ii) on the subscription date for derivative contracts.

Financial assets held for trading are initially recognised at their fair value, whereas transaction costs or income are immediately recorded in the income statement, even if directly attributable to the instrument concerned.

The initial fair value of a financial instrument is usually the cost incurred in buying it.

[32] Positions held for trading are those intentionally acquired for the purpose of sale in the near term and/or to benefit, in the near term, from differences between the purchase and sale price, or from other changes in price or interest rates. "Positions" are those held on own account and those arising from customer services or from market making.

Measurement and recognition of income and expense

After initial recognition, financial assets held for trading are stated at fair value and their changes are recorded in the income statement.

For details on the methods used to identify fair value, see section A.4 "Information about fair value" below.

Gains and losses realised on sale or redemption and unrealised gains and losses deriving from changes in the fair value of financial assets held for trading are booked to "net trading income" in the income statement, except for any gains or losses on rating or valuation relating to derivative contracts linked to the "fair value option", which are booked to "net change in financial assets and liabilities at fair value".

The profits and losses recognised in "Net trading income" in the income statement also include the differentials collected and paid on trading derivatives, and those accruing up to the reporting date, while differentials relating to derivative contracts associated with financial assets and liabilities at fair value and/or with financial assets and liabilities classified in the trading book are recognised in "interest income" or "interest expense" depending on whether they are positive or negative, respectively.

Derecognition

Financial assets held for trading are derecognised when the contractual rights over the related cash flows expire or when the financial asset is transferred together with substantially all the contractual risks and benefits associated with its ownership.

2. Financial assets available for sale

Classification

This line item comprises monetary financial instruments that are not classified in the other categories envisaged by IAS 39. It nonetheless includes:

- debt securities and loans for which the holder may not recover substantially all the initial investment, other than because of deterioration in the issuer's creditworthiness;
- equities not listed in an active market;
- unharmonised mutual funds;
- junior asset-backed securities (ABS) issued by SPVs as part of own or third-party securitisations, unless classified as "Financial assets at fair value";
- securities repurchased from customers following complaints/litigation.

Financial instruments are designated to this category upon initial recognition, or following reclassifications allowed by paragraphs 50 to 54 of IAS 39, as amended by Regulation (EC) No. 1004/2008 of the European Commission issued on 15 October 2008.

Recognition

Financial assets available for sale (AFS) are initially recognised on the settlement date, on the basis of their fair value, as uplifted by any directly-attributable acquisition costs/revenues. Costs and revenues with the above characteristics are excluded if they are reimbursable by the borrower or represent normal internal administrative costs.

The initial fair value of a financial instrument is usually the cost incurred in buying it.

Measurement and recognition of income and expense

Subsequent to initial recognition, AFS financial assets are stated at fair value; the profits or losses deriving from any changes in fair value are recorded in a specific equity reserve, recognised in the statement of comprehensive income, until the financial assets concerned are derecognised or a permanent impairment of value is recognised.
For details on the methods used to identify fair value, see section A.4 "Information about fair value" below.

These assets are reviewed at the end of each reporting period for objective evidence of any impairment in accordance with paragraph 58 *et seq.* of IAS 39. Such objective evidence in the case of equities quoted in an active market includes a significant or prolonged reduction in fair value below acquisition cost. In particular, as stated in the Bank's policy for identifying evidence of impairment of securities classified as financial assets available for sale, a significant reduction in fair value is defined as more than 50% and a prolonged reduction in fair value is defined as an unbroken period of more than 30 months. Any losses identified are charged to the income statement as "net impairment adjustments to financial assets available for sale". This amount also includes reclassification to the income statement of fair value gains/losses previously recognised in the specific equity reserve. If, in a subsequent period, the fair value of the financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss must be reversed, with the amount of the reversal recognised in the same line of the income statement as the original impairment in the case of monetary items (e.g. debt securities) or in equity in the case of non-monetary items (e.g. equities). Write-backs cannot exceed the cost/amortised cost that the instrument would have had in the absence of earlier write-downs.
If a financial asset classified in this line item has been reclassified to another category, the related reserve accumulated up to the date of the reclassification is maintained in equity until such time that the financial instrument in question is sold, if a non-monetary item is involved; on the other hand, if a monetary item is involved, the reserve is amortised in the income statement (as "interest income and similar revenues") over the residual useful life of the financial instrument to which it refers.

The interest income on these financial assets is calculated using the effective interest method, with the associated income recognised in "interest income and similar revenues" in the income statement.

Gains and losses on the disposal or redemption of such financial assets are booked to the income statement as "gains (losses) on disposal or repurchase of: financial assets available for sale" and include any reversal to profit or loss of fair value gains/losses previously recognised in the specific equity reserve.

Derecognition

Financial assets available for sale are derecognised when the contractual rights over the related cash flows expire or when the financial asset is transferred together with substantially all the contractual risks and benefits associated with its ownership.

3. Financial assets held to maturity

Classification

Classification

This line item reports non-structured debt securities, listed in an active market, with fixed maturity and fixed or determinable payments, which the Bank has the positive intention and ability to hold until maturity.

Financial instruments are designated as financial assets held to maturity upon initial recognition or following reclassification in accordance with paragraphs 50 to 54 of IAS 39, as amended by Regulation (EC) 1004/2008 of the European Commission issued on 15 October 2008.

Recognition

Financial assets held to maturity are initially recognised on the settlement date, on the basis of their fair value, as uplifted by any directly-attributable acquisition costs/revenues. Costs and revenues with the above characteristics are excluded if they are reimbursable by the borrower or represent normal internal administrative costs.

The initial fair value of a financial instrument is usually the cost incurred in buying it.

Measurement and recognition of income and expense

Subsequent to initial recognition, financial assets held to maturity are measured at amortised cost.

The interest income on these financial assets is calculated using the effective interest method, with the associated income recognised in "interest income and similar revenues" in the income statement. Gains and losses on the disposal or redemption of such financial assets are booked to the income statement as "gains (losses) on disposal or repurchase of: financial assets held to maturity".

An impairment test is carried out at the reporting date to check for objective evidence of any loss in value. Any losses identified are charged to the income statement as "net impairment adjustments to financial assets held to maturity". If the reasons for such losses cease to apply due to events arising subsequent to the write-down, the related write-backs are credited to the same income statement line item.

Write-backs cannot exceed the cost/amortised cost that the instrument would have had in the absence of earlier write-downs.

Derecognition

Financial assets held to maturity are derecognised when the contractual rights over the related cash flows expire or when the financial asset is transferred together with substantially all the contractual risks and benefits associated with its ownership.

4. Loans and receivables

4.1. Loans and advances to banks

Classification

This line item comprises monetary financial assets with banks, whether disbursed directly or purchased from third parties, which carry fixed or determinable payments and are not listed in an active market (current accounts, guarantee deposits, debt securities, etc.).
This balance also includes amounts due from Central Banks, other than unrestricted deposits which are classified as "cash and cash equivalents".

Details of the recognition, measurement, derecognition and recording of these loans can be found in the subsequent note 4.2 on "loans and advances to customers".

4.2. Loans and advances to customers

Classification

Loans and advances to customers include non-structured monetary financial assets with customers, whether disbursed directly or purchased from third parties, which carry fixed or determinable payments and are not listed in an active market (current accounts, mortgage loans, other kinds of loans, debt securities etc.).

Financial instruments are designated as loans and advances to customers upon initial recognition, or following reclassifications allowed by paragraphs 50 to 54 of IAS 39, as amended by Regulation (EC) 1004/2008 of the European Commission issued on 15 October 2008.

Recognition

The initial recognition of a loan takes place on the grant date or, in the case of debt securities, on the settlement date, with reference to the fair value of the financial instrument, increased by any directly-attributable acquisition costs/revenues.

Costs and revenues with the above characteristics are excluded if they are reimbursable by the borrower or represent normal internal administrative costs.

The initial fair value of a financial instrument is usually equal to the amount disbursed or the cost incurred in buying it.

Measurement and recognition of income and expense

Subsequent to initial recognition, loans and advances to customers are measured at amortised cost. This is their initially-recorded value as decreased/increased by repayments of principal, write-downs/write-backs and the amortisation – determined using the effective interest method – of the difference between the amount paid out and that repayable on maturity, which typically represents costs/income directly attributable to the individual loans.
The effective interest rate is the rate that discounts the flow of estimated future payments over the expected duration of the loan so as to obtain exactly the net book value at the time of initial recognition, which includes directly-related transaction costs/revenues and all fees paid or received between the contracting parties. This financial method of accounting distributes the economic effect of costs/income over the expected residual life of each loan.
Estimates of the flows and the contractual duration of the loan take account of all contractual clauses that could influence the amounts and due dates (such as early repayments and the various options that can be exercised), but without considering any expected losses on the loan.

The amortised cost method is not applied to short-term loans, since the discounting effect would be negligible, and these are therefore stated at cost. The same measurement criterion is applied to loans without a fixed repayment date or which are repayable upon demand.

At every reporting date an analysis is performed to identify any problem loans for which there is objective evidence of possible impairment. This category includes loans classified as "bad loans", "unlikely to pay" or "past due", as defined by the supervisory regulations (Circular 272 of 30 July 2008 and subsequent amendments).

The adjustment to the value of each loan represents the difference between its amortised cost (or cost for short-term and demand loans) at the time of measurement and the discounted value of the related future cash flows, determined using the original effective interest rate.

Key elements in determining the present value of future cash flows comprise the estimated realisable value of loans, also taking account of any available guarantees, the expected timing of recoveries and the forecast loan-recovery costs. Cash flows relating to loans due to be recovered in the short term (12/18 months) are not discounted.

The approach taken for case-by-case determination of the recoverable value of non-performing loans depends on their amount, applying the following criteria:

- up to Euro 25,000: the positions are analysed case-by-case but are not discounted, since they are frequently not taken to court, but sold after the usual attempts to obtain recovery on an amicable basis; these loans generally remain in this category for not more than 12/18 months, representing the short term;
- from Euro 25,000 to Euro 150,000: the positions are analysed on a case-by-case basis to estimate the amount recoverable, which is discounted over the average recovery period, based on past experience and statistics;
- amounts exceeding Euro 150,000 are analysed on a case-by-case basis to estimate the amount recoverable, which is discounted over the likely recovery period, as determined by the competent corporate functions.

"Unlikely to pay" includes non-performing exposures which, under the previous regulations on "Credit quality", were classified as:

- "watchlist" loans (subjective and objective), for which recovery is deemed improbable without recourse to actions such as the enforcement of guarantees,
- "restructured" loans, referring to exposures to parties with one or more credit facilities that meet the definition of "non-performing exposures with forbearance measures" pursuant to Annex V, Part 2, paragraph 180 of the EBA ITS.

More specifically:

- "Unlikely to pay - former watchlist" loans exceeding Euro 150,000 are analysed on a case-by-case basis to estimate the amount recoverable, which is discounted over the likely average recovery period, based on past experience and statistics. The remaining positions of this type under Euro 150,000 are assessed on a collective basis using the Loss Given Default (LGD) parameter (differentiated according to the amounts concerned) determined on a historical-statistical basis, which includes within it both the Danger Rate factor (probability of classification as non-performing) and the discounting effect connected with the average recovery periods of the exposures.
- "Unlikely to pay - former restructured" loans are valued on a case-by-case basis, also recognising any "implied" loss arising from the restructuring of the position. If the case-by-case analysis does not uncover evidence of loss, the exposures are assessed on a collective basis using the Loss Given Default (LGD) parameter (differentiated according to homogeneous credit category) determined on a historical-statistical basis, which includes within it both the Danger Rate factor (probability of classification as non performing) and the discounting effect connected with the average recovery periods of the exposures.

Past-due exposures are written down on a collective basis. This test is performed by grouping loans into categories that reflect a similar degree of credit risk. The related loss percentages are then determined using the Loss Given Default (LGD) parameter (differentiated according to homogeneous credit category) determined on a historical-statistical basis, which includes within it both the Danger Rate factor (probability of classification as non performing) and the discounting effect connected with the average recovery periods of the exposures.

Loans for which no objective evidence of loss has been individually identified, i.e. performing loans, are tested for impairment on an overall basis. This test is performed by grouping loans into categories that reflect a similar degree of credit risk. The related loss percentages are then estimated with reference to past records, in order to measure the inherent loss for each category of loan.

Estimated future cash flows are determined using PD - Probability of Default - and LGD - Loss Given Default - parameters differentiated by homogeneous credit category and determined on a historical-statistical basis. The LGD parameter includes within it both the Danger Rate factor (probability of classification as non-performing) and the discounting effect connected with the average recovery periods of the exposures.

The expected loss (equal to gross value x PD x LGD) is adjusted for the Loss Confirmation Period (LCP), which expresses the average delay between the deterioration of the debtor's financial conditions ("incurred loss") and the actual classification of individual exposures as defaulted, for various categories of homogeneous loans; its purpose is to "adjust" PD, which is typically expressed on an annual time span.

No write-downs are recorded in relation to loans represented by "repurchase agreements" and securities lending, as well as loans to Central Counterparties.

Provisions made for a non-performing loan are only reversed if the credit quality has improved to the extent that timely recovery of the principal and interest, with respect to the original terms for the loan contract, is reasonably certain, or if the amount actually recovered exceeds the recoverable amount estimated previously. Only for non-performing loans, write-backs also include the positive effect of discounting adjustments made due to the progressive reduction in the estimated time required to recover the related loans.

Adjustments, net of previous provisions and the partial or total recovery of amounts previously written down, are recorded in the "net impairment adjustments to loans and advances" line item of the income statement.

Derecognition

Loans and advances are derecognised as assets when they are deemed to be unrecoverable or are transferred together with substantially all the related risks and benefits.

5. Financial assets designated at fair value

Classification

This line item comprises monetary financial instruments of a structured kind (meaning that one or more embedded derivatives is present) and/or those related to trading derivatives entered into with an external counterparty for the purposes of transferring the risks of the financial asset held (under the so-called "fair value option", or FVO), unless classified as "Financial assets held for trading".

In particular, the FVO is used when it eliminates or significantly reduces accounting imbalances deriving from the inconsistent recognition of financial instruments that are related (natural hedges) or covered by derivative contracts which, due to difficulties and complexities, cannot be recognised as hedges.

Financial instruments are designated as financial assets designated at fair value upon initial recognition. They cannot be reclassified subsequently.

Recognition, measurement, derecognition and recording of income and expense

The principles applying to the recognition, measurement, derecognition and recording of income and expense relating to financial assets designated at fair value are the same as those relating to "financial assets held for trading".

Gains and losses realised on sale or redemption and unrealised gains and losses deriving from changes in the fair value of financial assets/liabilities at fair value are classified as "net change in financial assets and liabilities at fair value" in the income statement.

6. Hedging transactions

Classification

Hedging transactions are intended to neutralise possible losses on certain elements or groups of elements due to a given risk (e.g. a rise in interest rates), via the generation of profits from the hedging instruments if the events associated with that risk should actually occur.

Hedging transactions are conducted solely in the form of derivative contracts with counterparties outside of the Group to whom the risk is transferred. The use of internal deals is therefore not permitted.

At the time that a hedging transaction is arranged, it is classified as one of the following types of hedge:

- fair value hedge of a given asset or liability: the objective is to hedge the exposure to changes in fair value of an item caused by one or more risks;
- cash flow hedge attributable to a particular asset or liability: the objective is to hedge the exposure to changes in the future cash flows associated with an item caused by given risks;
- hedge of the effects of an investment denominated in foreign currency: the objective is to hedge the risks associated with investing in a foreign operation denominated in foreign currency.

Hedging transactions can refer to individual financial instruments and/or groups of financial assets/liabilities.

The transaction is classified as a hedge if it has been formally designated as such, there is a documented relationship between the hedged instrument and the hedging instrument, and it is highly effective both at the start of the hedge and throughout its life.

A hedge is considered highly effective if changes in the fair value of the instrument being hedged or of the related expected cash flows are offset by those of the hedging instrument. More precisely, the hedge is effective when changes in the fair value (or cash flows) of the hedging instrument neutralise the changes in the hedged instrument, deriving from the risk being hedged, within an interval of 80%-125%. The effectiveness of the hedge is assessed at the start of the hedge and throughout its life and, in particular, on each reporting date, using:

- prospective tests that justify the adoption of hedge accounting by showing the expected effectiveness of the hedge in future periods;
- retrospective tests that show the effectiveness of the hedge during the reference period.

If the tests do not confirm the effectiveness of the hedge, the hedge accounting described above is terminated and the related derivative contract is reclassified among the "financial assets (liabilities) held for trading". In addition, hedging transactions are no longer classified as such if:

- the hedge ceases;
- the transaction expires, is sold, terminated or exercised;
- the hedged item is sold, expires or is redeemed;
- the hedge no longer meets the criteria to qualify for hedge accounting.

Recognition

Hedging derivatives are initially recognised at fair value on their subscription date.

Measurement and recognition of income and expense

Subsequent to initial recognition, hedging derivatives are stated at fair value on the basis described below:

- in the case of fair value hedges, changes in the value of the hedged item (but only for the portion attributable to the hedged risk) and the hedging instrument are reflected in the income statement. In this way, changes in the fair value of the hedged item are substantially offset against the opposite changes in the fair value of the hedging instrument. Any difference, representing the ineffective portion of the hedge, therefore represents the net effect of the hedge on profit or loss, which is booked to "Net hedging gains (losses)";
- in the case of future cash flow hedges, changes in the fair value of the hedging transaction are recorded in equity, to the extent that the hedge is effective, and are only released to the income statement when the related cash flows are actually generated by the hedged item. Any change in hedge fair value attributable to the total or partial effectiveness of the hedging relationship is recorded in the income statement as "other operating charges/income";
- hedges of investments denominated in foreign currency are recorded in the same way as future cash flow hedges.

Hedging contract differentials are booked to "interest income" or "interest expense" depending on whether they are positive or negative.

Derecognition

Hedging transactions are derecognised on disposal if all the risks and benefits associated with them are substantially transferred as a result.

7. Equity investments

Classification

This line item reports investments in subsidiary companies, associated companies and joint ventures.

Recognition

Equity investments are recorded in the financial statements at their acquisition cost.

Measurement

Equity method investments are tested for impairment by estimating their recoverable amount, which takes into account the present value of the future cash flows to be generated by them, including their final disposal value and/or other factors.

Any resulting impairment adjustments, being the difference between the carrying amount of the investments concerned and their recoverable value, are charged to "Profit (loss) from equity method investments" in the income statement.

If the reasons for such impairment cease to apply due to events subsequent to its recognition, the write-down is reversed through the income statement in the same line item as above, but for no more than the amount of the original impairment loss.

Derecognition

Equity method investments are derecognised on expiry of the contractual rights over the related financial flows, or when the investment is sold with the transfer of substantially all the related risks and benefits of ownership.

Recognition of income and expense

Consistent with IAS 18, dividends are recorded when the stockholders' right to receive them is established, which is therefore subsequent to the date of the related resolution adopted by the stockholders of the declaring company.

8. Property, plant and equipment

Classification

This line item comprises the fixed assets held for the generation of income, for rent or for administrative purposes, such as land, business property, investment property, installations, furniture, furnishings, all types of equipment and works of art.

Property, plant and equipment also include leasehold improvements, if they can be separated from the related assets. If these items are expected to generate future benefits, but are not functionally and operationally independent, they are classified as "other assets" and depreciated over the expected useful life of the improvements or the residual lease period, whichever is shorter.

Amounts paid in advance to acquire and restructure assets not yet used for productive purposes are capitalised, but not depreciated.

Property, plant and equipment held "for business purposes" is defined as that held for supplying services or for administrative purposes, while "investment property" is defined as that held to earn rentals and/or for capital appreciation.

Recognition

Property, plant and equipment are initially recorded at cost, including all directly attributable costs of bringing them to working condition.

Expenditure that improves an asset or increases the future economic benefits expected from the asset is allocated to the asset concerned and depreciated over its remaining useful life.

Measurement and recognition of income and expense

Subsequent to initial recognition, property, plant and equipment held "for business purposes" are stated at cost, net of accumulated depreciation and any impairment losses, consistent with the "cost model" described in paragraph 30 of IAS 16. Property, plant and equipment are systematically depreciated over their useful lives on a straight-line basis, except for:

- land, whether acquired separately or included in the value of buildings, which is not depreciated since it has an indefinite useful life. With regard to free-standing properties, the value of the land is separated from the value of the related buildings by reference to internal and/or independent expert appraisals, unless this information is directly available from the purchase contract;
- works of art, which are not depreciated since they normally have an indefinite useful life and their value is likely to increase over time;
- investment properties, which are stated at fair value in accordance with IAS 40.

The depreciation charge for assets acquired during the period is determined on a daily basis from the time they enter into service. The depreciation charge for assets sold and/or disposed during the period is determined on a daily basis up to the date of transfer and/or disposal.
At each reporting date, if there is evidence that the value of an asset, other than investment property, may be impaired, its carrying value is compared with its recoverable value, being either its fair value net of any selling costs or its value in use, represented by the present value of the future cash flows to be generated by the asset, whichever is greater. Any adjustments are recorded as "net adjustments to property, plant and equipment" in the income statement.
If the reasons for recognising an impairment loss cease to apply, the consequent write-back cannot cause the value of the asset to exceed its net book value (after depreciation) had no impairment losses been recognised in prior periods.

"Investment properties" covered by IAS 40 are stated at the market value determined by independent appraisals, with changes in their fair value recorded in "net gains (losses) arising on fair value adjustments to property, plant and equipment and intangible assets" in the income statement.

Derecognition

Property, plant and equipment are derecognised upon disposal or when they are retired from use on a permanent basis and no economic benefits are expected from their disposal.

9. Intangible assets

Classification

This line item reports non-monetary assets without physical form that have the following characteristics:

- identifiability;
- control over the assets concerned;
- existence of future economic benefits.

If any one of these characteristics is absent, the related purchase or internally-generated cost is expensed in the period incurred.

Intangible assets include, in particular, software applications used over a number of years, "intangibles" associated with the valuation of customer relationships identified on allocation of the purchase price paid for lines of business, and other identifiable intangible assets representing legal or contractual rights.
This line item also includes goodwill, representing the positive difference between the purchase cost and the fair value of assets and liabilities acquired as a result of business combinations. In particular, an intangible asset is recorded as goodwill when the positive difference between the fair value of the net assets acquired and their purchase cost (including related charges) represents their ability to generate future earnings. If this difference is negative (badwill) or if the goodwill is not justified by the ability of the acquired assets/liabilities to generate future earnings, the difference is recorded directly in the income statement.

Recognition

Intangible assets are initially recorded at cost, including any directly-related charges.

Measurement

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any impairment losses, in accordance with the "cost model" described in paragraph 74 of IAS 38.

Intangible assets with a finite useful life are amortised systematically on a straight-line basis over their estimated useful lives.

The amortisation charge for assets acquired during the period is determined on a daily basis from the time they enter into service. The amortisation charge for those sold and/or disposed during the period is determined on a daily basis up to the date of transfer and/or disposal.

If there is evidence that the value of an intangible asset may be impaired, its carrying amount is compared with its recoverable value. Any adjustments are recorded in "net adjustments to intangible assets" in the income statement.

If the reasons for such impairment losses cease to apply due to events arising subsequent to the write-down, the appropriate write-backs are credited to the same income statement line item. Such write-backs cannot cause the value of the asset to exceed its net book value (after amortisation) had no impairment losses been recognised in prior periods.

Assets with an indefinite useful life, such as goodwill, are not amortised but their carrying value is tested periodically for impairment, as required by IAS 36. Any impairment losses, representing the difference between the carrying value of the asset and its recoverable value, are charged to "adjustments to goodwill" in the income statement. Impairment losses recognised for goodwill cannot be reversed in later periods.

Derecognition

Intangible assets are derecognised from the statement of financial position if no future economic benefits are expected, or on disposal.

10. Non-current assets held for sale and discontinued operations

Classification

These line items comprise all non-current assets/liabilities and discontinued operations held for sale, as defined by IFRS 5, i.e. those "individual assets/liabilities" or "groups of assets/liabilities" held for sale whose carrying amount will be recovered principally via sale rather than continuous use. This category also includes "discontinued operations" which, by convention, are also referred to as "groups of assets/liabilities held for sale".

Measurement

Non-current assets/liabilities (or discontinued operations) held for sale are measured at the lower of their carrying amount or their fair value, net of selling costs, except for the following assets which continue to be valued in accordance with the related accounting policies:

- deferred tax assets;
- assets deriving from employee benefits;
- financial instruments;
- investment property.

Recognition of income and expense

Income (interest income, dividends, etc.) and charges (interest expense, depreciation, etc.) relating to individual non-current assets (or discontinued operations) held for sale and the related liabilities are classified in the normal line items, while the income (interest income, dividends, etc.) and charges (interest expense, depreciation, etc.) relating to discontinued operations are classified, net of the related current and deferred taxation, in "profit (loss) from non-current assets held for sale, net of tax" in the income statement. The depreciation of depreciable assets ceases in the period in which they are classified as non-current assets held for sale.

11. Current and deferred taxation

Income taxes, calculated in accordance with current fiscal legislation, are recorded in the income statement on an accrual basis in line with the costs and revenues that generated them, except for those relating to items debited or credited directly to equity; for consistency, the tax on such items is also booked to equity.

Income taxes reported in the income statement represent a prudent estimate of the current tax charge and the related changes in deferred tax assets and liabilities. In particular, deferred tax assets and liabilities are determined with reference to temporary differences between the book value of assets and liabilities and their tax bases.

Deferred tax assets are recognised if they are likely to be recoverable, determined with reference to the Bank's ongoing ability to generate taxable income.

Deferred tax assets and liabilities are recorded in the statement of financial position as, respectively, "tax assets" and "tax liabilities", on an open account basis without offset.

In the case of current taxes, payments on account for individual taxes are offset against the related tax payable, with positive balances reported as “current tax assets” and negative balances as “current tax liabilities”.

In accordance with paragraph 52b of IAS 12, no provision for deferred tax liability has been recorded in relation to the reserves and revaluation surpluses that are in suspense for tax purposes, since their distribution is not envisaged; in this regard, the Bank has not carried out, and has no short or medium-term plans to carry out, any activities which could give rise to the payment of deferred taxes.

LIABILITIES AND EQUITY

12. Provisions for risks and charges

12.1 Pensions and similar commitments

IAS 19 classifies pension funds as post-employment benefits, making a distinction between defined contribution plans and defined benefit plans. The company pension fund for employees of the former subsidiary Cariprato (absorbed into the Bank effective 1 January 2010) is split into two sections:

3) a capitalisation section, qualifying as a defined contribution plan, for which the Bank only has the obligation to pay an annual amount calculated on the basis of salary paid to fund participants. This section is not recognised in the statement of financial position, in compliance with IAS 19. The costs of the annual payment by the Bank are recognised in the income statement;
4) a supplementary section, qualifying as a defined benefit plan, which is recognised in provisions for risks and charges in the statement of financial position. The benefits are assured by the return on the investments and by the mathematical reserve, calculated annually by an independent actuary.

12.2 Other provisions

In accordance with IAS 37, the provisions for risks and charges reflect known obligations (legal or constructive) deriving from past events, the settlement of which is likely to involve the use of economic resources whose timing and extent are uncertain, on condition that a reliable estimate can be made of the amount needed to settle them at the end of the reporting period. Where the effect of the time value of money is material because the liability's settlement date is deferred, the provisions are discounted using current market rates.

Provisions are re-examined at each reporting period and adjusted to reflect the best current estimate. These are recorded in the appropriate line items of the income statement, depending on the "nature" of the expense. In particular, provisions for future personnel expenses in connection with bonuses and other incentive schemes are classified in "payroll" costs, provisions for tax risks and charges are classified in "income taxes" and provisions for potential losses not directly attributable to specific line items in the income statement are reported in "net provisions for risks and charges".

13. Payables and debt securities in issue

Classification

Amounts due to banks and amounts due to customers include the various forms of interbank and customer funding (current accounts, restricted and unrestricted deposits, loans, repurchase agreements, etc.), while debt securities in issue report all the liabilities in respect of the Group's own issues (savings certificates, certificates of deposit, bonds not classified as "financial liabilities at fair value", etc.)

All the financial instruments issued are reported in the financial statements net of any amounts repurchased, and include those which have expired at the reporting date but which have not yet been repaid.

Recognition

These financial liabilities are initially recorded on receipt of the amounts collected or on the issue of the debt securities.
They are initially recognised at the fair value of the liabilities, as uplifted for any directly-attributable acquisition costs/revenues. Costs and revenues with the above characteristics are excluded if they are reimbursable by the borrower or represent normal internal administrative costs.
The initial fair value of a financial liability usually corresponds to the amount received.

If the conditions set out in IAS 32 and 39 are satisfied, any derivatives embedded in the above financial liabilities are separated and accounted for separately.

Measurement

Following initial recognition, the above financial liabilities are stated at amortised cost using the effective interest method, except that short-term liabilities continue to be stated at nominal value since the effect of discounting is negligible.

Derecognition

Financial liabilities are derecognised when they expire or are settled. Derecognition also applies when issued securities are repurchased, even if such acquisition is only temporary. Any differences between the book value of the derecognised liability and the amount paid are recorded as "gains (losses) on disposal or repurchase of financial liabilities" in the income statement. If, subsequent to repurchase, the securities are placed back in the market, this transaction is treated as a new issue and the liabilities are recorded at the new placement price.

14. Financial liabilities held for trading

Classification

This line item reports short positions arising from trading activities and derivatives not designated as effective hedging instruments that have a negative fair value.

Derivative contracts include embedded derivatives which are attached to a primary financial instrument, known as the "host contract" when they have been recognised separately from the host and forward transactions in currencies, securities, goods and precious metals. An embedded derivative is recognised separately from the host contract when all of the following conditions are satisfied:

- its economic characteristics and risks are not closely related to those of the "host" contract;
- the separate embedded instrument meets the definition of a derivative;
- the hybrid instrument is not measured at fair value through the income statement.

If the fair value of a derivative contract subsequently becomes positive, it is recorded as a financial asset held for trading.

Financial instruments are designated as financial liabilities held for trading upon initial recognition, except if former hedging derivatives with a negative fair value at the reference date are reclassified as "financial liabilities held for trading" after a hedging relationship has become ineffective. They cannot be reclassified subsequently.

Recognition, measurement, derecognition and recording of income and expense

The recognition, measurement, derecognition and recording of the effects on the income statement of the above financial liabilities are described in the earlier paragraph on "financial assets held for trading".

15. Financial liabilities designated at fair value

Classification

This line item reports bonds issued that are related to trading derivatives entered with an external counterparty for the purposes of transferring one or more risks associated with the liability issued (fair value option).

Financial instruments are designated as financial liabilities designated at fair value upon initial recognition. They cannot be reclassified subsequently.

Recognition, measurement, derecognition and recording of income and expense

The recognition, measurement, derecognition and recording of the effects on the income statement of the above financial liabilities are described in the earlier paragraph on "financial assets designated at fair value".

16. Transactions in foreign currency

Foreign currency assets and liabilities include not only those denominated in a currency other than the euro, but also those that carry financial indexation clauses linked to the euro exchange rate against a specific currency or a specific basket of currencies.

Foreign currency assets and liabilities are split between monetary and non-monetary items for currency translation purposes.

Recognition

Foreign currency transactions are initially recognised in euro, by translating the foreign currency amount using the spot exchange rate prevailing on the date of the transaction.

Measurement

At the end of each reporting period:

- foreign currency monetary items are translated using the year-end closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of the prior period, are recorded in the income statement for the period under "net trading income", or if such differences relate to financial assets/liabilities accounted for under the fair value option permitted by IAS 39, under "net changes in financial assets and liabilities at fair value".

When gains or losses on non-monetary items are recognised in equity, the exchange differences on them are also recognised in equity in the same period. Similarly, when gains or losses on non-monetary items are recognised in the income statement, the exchange differences on them are also recognised in the income statement in the same period.

17. Other information

17.1. Provision for severance indemnities

According to IFRIC, the provision for severance indemnities is a "post-employment benefit" qualifying as a "defined benefit plan", the value of which according to IAS 19 must be determined on an actuarial basis. As a consequence, the year-end actuarial valuation of this line item is carried out with reference to earned benefits using the Projected Unit Credit Method. This method involves the projection of future payments with reference to past trends and statistical analyses and probabilities, adopting suitable demographic techniques. This makes it possible to calculate the severance indemnities accruing at a specific date on an actuarial basis, distributing the cost over the entire remaining service of the current workforce, and no longer presenting them as a cost payable as if the business were to cease trading on the reporting date.

The provision for severance indemnities has been valued by an independent actuary using the method outlined above.

17.2. Repurchase agreements and securities lending

“Repurchase agreements”, which obligate the buyer to resell/repurchase the assets of the transaction (e.g., securities) and “securities lending” wherein the collateral is represented by cash that returns to be fully available to the lender, are treated as loans against securities and, therefore, the amounts received and paid are recorded as payables and loans. In particular, the aforesaid “repurchase agreements” and “securities loans” completed for funding purposes are recognised in the financial statements as payables for the amount received, while when completed for lending purposes they are recognised as receivables for the amount paid. These transactions do not determine movements in the securities portfolio. Accordingly, the cost of borrowing and income from lending are recorded as interest in the income statement.

A.3 - INFORMATION ABOUT TRANSFERS BETWEEN FINANCIAL-ASSET PORTFOLIOS

A.3.1 – Reclassified financial assets: book value, fair value and effect on comprehensive income

No financial assets were reclassified during the year in accordance with IFRS 7.12A(b) and 7.12A(e).

A.3.2 – Reclassified financial assets: effect on comprehensive income prior to transfer

No financial assets were reclassified during the year in accordance with IFRS 7.12A(d).

A.3.3 – Transfer of financial assets held for trading

No financial assets were reclassified during the year in accordance with IFRS 7.12A(c).

A.3.4 – Effective interest rate and forecast cash flows from reclassified assets

No financial assets were reclassified during the year in accordance with IFRS 7.12A(f).

A.4 - INFORMATION ABOUT FAIR VALUE

Qualitative information

A.4.1 Levels of fair value 2 and 3; valuation techniques and inputs used

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market, at current market conditions (i.e. a closing price), irrespective of whether the price is directly observable or is estimated using a valuation technique.
In the case of financial instruments listed in active markets, the fair value is determined on the basis of the most advantageous market prices to which the Bank has access (using the official or other equivalent price on the last trading day of the period in question). In this regard, a financial instrument is considered to be listed in an active market if the transactions related to the financial instruments take place frequently enough and with sufficient volumes to provide information useful to determine the price on a continuous basis.
In the absence of an active market, fair value is determined using valuation techniques generally accepted in financial practice aimed at estimating the price at which an orderly sale of an asset or transfer of a liability between market participants would take place at the measurement date, at current market conditions. These valuation techniques call for the use of:

- the latest NAV (Net Asset Value) published by the management companies of open-ended harmonised funds (UCITS - Undertakings for Collective Investment in Transferable Securities), Hedge Funds and SICAVs;
- the prices of similar financial instruments traded in active markets; the prices of identical financial instruments traded on markets (stock exchanges and/or Multilateral Trading Facilities) that do not qualify as active markets; price indications that can be inferred from info providers such as Bloomberg and Reuters, or otherwise observable in the market (e.g. the Bank of Italy’s valuation determined by law or the value of shares established by the Stockholders’ Meeting for co-operative banks);
- fair value obtained from valuation models (e.g. Discounted Cash Flow, Dividend Discount Model, multiples method and option pricing models), which estimate all of the possible factors that condition the fair value of a financial instrument (cost of money, credit risk, liquidity risk, volatility, exchange rates, prepayment rates, etc.) based on observable market data, also for similar instruments, at the valuation date. If there are no market references for one or more risk factors, we use internal parameters based on past experience and statistics (the valuation models are reviewed periodically to ensure that they are still completely reliable);
- price indications provided by the issuer, adjusted if necessary to take into account counterparty and/or liquidity risk, e.g. the unit value communicated by the management company for types of mutual funds other than those mentioned in point one, and the redemption value determined according to the issue regulations for insurance contracts;
- the value shown in independent appraisals;

- for equity instruments, where the valuation techniques mentioned above are not applicable: *i)* the transaction prices directed on the same security or on similar securities observed within a reasonable timescale with respect to the valuation date; *ii)* the value corresponding to the portion of equity held as shown in the company's latest approved financial statements; *iii)* the cost, adjusted if necessary to take account of material impairment, where the fair value cannot be reliably determined.

Given these considerations and in compliance with IFRS 13, the Bank classifies fair value measurements according to a hierarchy (the Fair Value Hierarchy) that reflects the reliability of the inputs on which the measurements are based. This hierarchy consists of the following levels:
- Level 1 - listed prices (unadjusted) in active markets that the entity can access at the measurement date for identical financial instruments;
- Level 2: prices obtained from measurement methods based on parameters that are directly or indirectly observable on the market for identical or similar financial instruments. This definition includes: *i)* the prices of similar financial instruments traded in active markets; *ii)* the prices of identical financial instruments traded in non-active markets; *iii)* price indications inferred from info providers or otherwise observable in the market; *iv)* price indications obtained from valuation models that can replicate the prices that occur in active markets, by mainly using data observable on the market at the valuation date; *v)* for mutual fund units characterised by significant levels of transparency and liquidity, the net asset value (NAV) communicated by the fund administrators;
- Level 3: prices obtained from measurement methods based mainly on parameters that are directly or indirectly observable on the market for identical or similar financial instruments. This definition includes: *i)* prices provided by the issuer counterparty, except for the cases of NAVs attributable to Fair Value lever 2; *ii)* price indications obtained with internal valuation models which mainly use data that are not observable on the market; *iii)* valuations derived from independent appraisals; *iv)* for unlisted equity instruments, valuations based on instruments corresponding to the fraction of equity held in the company or derived from direct transactions observed in a reasonable timescale on identical or similar financial instruments. Also included are the financial instruments kept at cost.

The Bank assigns the highest priority to prices quoted on active markets, which it identified with the definitions of "Regulated Market" and "Organised Trading Facilities", as set out in Legislative Decree no. 58/98 and in CONSOB Regulation no. 11768 of 23 December 1998, as amended. These include, in particular, the markets operated by Borsa Italiana, by MTS, as well as the regulated markets of Switzerland, USA and the EU (CESR). A "regulated market" is considered to be an "active" market only if the transactions related to the financial instruments take place often and frequently enough to provide information useful to determine the price on a continuous basis. This is done on the basis on the number and type of contributors, the frequency with which the price and deviations are updated, the presence of an acceptable Bid-Ask spread and the depth of the book. Furthermore, the prices must be immediately executable on the markets to which the Bank has access.

In the absence of an active market, the Bank chooses to adopt valuation methods that, in line with market best practices, can capture the specificity of the financial instrument to be valuated, and at the same time express a fair value applicable on the market, which maximises the use of the observable inputs considered relevant and minimised the use of non-observable inputs. In general, the Bank adopts a valuation technique with the aim to estimate the fair value at which an orderly sale of an asset or transfer of a liability between market participants would take place at the measurement date, at current market conditions. Consequently, mark-to-market methods are preliminarily used. These methods are based on prices and other relevant information generated from market transactions observable in non-active markets for identical financial instruments and/or observable in active and non-active markets for similar financial instruments; only at a later time are internal models certified by the Risk Management Function used (Discounted Cash Flow, Dividend Discount Model, multiples method and option pricing models). The valuation technique is determined at the time of the financial instrument's initial recognition. More specifically, the selected technique is calibrated so that, upon initial recognition, the result of the selected valuation technique allows to obtain again the entry price; this ensures that the valuation technique reflects current market conditions and helps determine the possible need for corrections or adjustments. It is the Risk Management Function's responsibility to carry out periodic reviews of the adequacy of the selected valuation technique in light of market conditions, developments in the financial industry, availability of new information and absence of previously used information. For this purpose, therefore, it is possible to change the valuation technique initially identified if it is no longer suited to determine a fair value which reflects a price that is tradable on the market.

to measure own bond issues, special Discounting Cash Flow-type models are used that call for the discounting of expected cash flows through the use of a discount curve representing both the funding spread, established by the issuer in the primary market, and any change in the issuer's creditworthiness during the life of the loan. The funding spread is made equal to the cost of the borrowing determined with the activation of the "hedge" or, in want thereof, based on the spread with which the "hedge" could have been stipulated when the bond was issued. The spread representative of the change in creditworthiness is determined only if a specialised agency reports a change in the Bank's rating after the issue date of the individual bond. This change is assumed to be equal to the average cumulative probabilities of default for issuers in the financial sector having the same rating as the Bank (pre- and post-downgrade) identifiable from the report published annually by the rating agency Standard & Poor's. The change of the above PD is then converted into a credit spread equivalent and applied to the individual bond issues.

To determine the fair value of OTC derivatives, the valuation techniques employed use predominantly material inputs based on observable market parameters (Interest rate curve, Volatilities, Credit curve, Spot price, etc.) obtained every day from the Reuters info provider. The adjustment applied to contracts with Corporate and Retail customers that present a positive market value for the Bank is determined on the basis of EL (Expected Loss), obtained by multiplying the probability of default associated to the counterparty according to the internal rating system and estimated over a time horizon equal to the remaining life of each derivative, by the LGD (Loss Given Default) of unsecured loans. No value adjustment attributable to the counterparty risk arising out of the positive market value for the Bank (CVA), or arising from a negative market value for the Bank (DVA), is instead introduced to the OTC derivative instruments traded with market counterparties with which are concluded specific bilateral offsetting agreements secured by "credit support annex" agreements that regulate the financial guarantees in cash collateral subject to daily marginalisation. A similar treatment is also observed for the transactions entered into materially with central counterparties or with investee companies of the Bank that result in exclusive control, a situation of significant influence or of joint ventures.

The fair value of investment property is derived from appraisals performed by outside companies. Fair value determinations made this way are assigned a Fair Value Hierarchy level 3.

For “Loans and advances to banks” and for “Amounts due to banks” of short duration (coming due within 12 months), by convention, the book value is assumed to be the fair value, whereas the corresponding medium-long term items are measured based on the discounted cash flow technique prescribed by contract through the use of risk free curves adjusted if necessary to take into account the credit risk of the counterparty or of the bank itself. Fair value determinations made this way are assigned a Fair Value Hierarchy level 3.

For “Loans and advances to customers” of short duration (coming due within 12 months), by convention, the book value is assumed to be the fair value. The valuation of medium term loans and advances corresponds to the sum of the future cash flows prescribed by contract, including interest, discounted with reference to a risk-free rate curve. The expected nominal cash flows are adjusted for expected losses using the probability of default (PD) and of loss-given-default (LGD) parameters attributed to the specific class of risk and determined with reference to past experience and statistics. Fair value determinations made this way are assigned a Fair Value Hierarchy level 3.
Conversely, for debt securities classified in this line item, reference is made to the fair value determination method described above for similar financial instruments measured at fair value on a recurring basis.

For “Amounts due to customers” of short duration (coming due within 12 months) by convention, the book value is assumed to be the fair value. The measurement of the medium-long term liabilities other than bonds issued already illustrated are measured based on the discounted cash flow technique prescribed by contract, adjusted to take into account the banks own credit risk if necessary. Fair value determinations made this way are assigned a Fair Value Hierarchy level 3.

For “Debt securities in issue” other than own bond issues, by convention the book value is assumed to be the fair value. Conversely, for own bond issues reference is made to the fair value determination method described above for similar financial instruments measured at fair value on a recurring basis.

A.4.2 Valuation processes and sensitivity

The table below provides indications regarding the valuation techniques used for the Bank's cash financial assets stated at fair value on a recurrent basis and classified in the Fair Value Hierarchy level 2.

Assessment techniques used (in thousands of euro)	Total	Assessment techniques		
		Listed prices in inactive markets	Other observable prices	Internal models
Financial assets held for trading	**116,661**	**53,226**	**-**	**63,435**
- Debt securities	116,201	52,766	-	63,435
- Equities	460	460	-	-
Financial assets designated at fair value	**2,193**	**-**	**-**	**2,193**
- Debt securities	2,193	-	-	2,193
Financial assets available for sale	**181,697**	**150,179**	**19,235**	**12,283**
- Debt securities	13,080	881	-	12,199
- Equities	166,677	147,358	19,235	84
- Mutual funds	1,940	1,940	-	-

"Other observable prices" relate to the Bank of Italy's valuation determined by law (Euro 17,175 thousand) and, for the remaining portion, primarily to the valuation of certain equity interests held in Italian co-operative banks based on the value of the shares as established by the Stockholders' Meeting.

Conversely, the "internal models" have been used for the valuation of a limited number of partially structured illiquid debt securities, for which the prices observed on the market were not considered sufficiently reliable.

It should be noted that Tier 2 equities in "Financial assets available for sale" include, as to Euro 146,312 thousand, shares held in the capital of Cattolica Assicurazioni, which were reclassification during the year from "equity investments" to "Financial assets available for sale", as it was deemed that BPVi no longer had a significant influence over Cattolica as defined in paragraph 9 of IAS 28. Cattolica shares, though listed on the MTA operated by Borsa Italiana, have been classified as level 2 in the fair value hierarchy and a price equal to the bid recorded on the last trading day, as the volumes traded in the ten business days prior to the measurement date are not sufficient to cover the possible disposal of 50% of the aforesaid investment.

The Fair Value Hierarchy level 2 also includes own bond issues for which the Bank used the fair value option as well as OTC derivative contracts. With regard to exposures in OTC derivatives (almost entirely attributable to transactions with central counterparties and the market) and the relevance that these have on the items recognised at fair value on a recurring basis, the different valuation models in use are in line with market best practices and provide pricing consistent with that applied, in accordance with the agreements in place, by the different market counterparties with which the Bank operates (including central counterparties), when determining the daily margining of changes in the market value of the financial instruments in place.

Lastly, financial instruments measured at fair value on a recurring basis and classified in Level 3 of the hierarchy envisaged by IFRS 13, because no market prices are available for them, these mainly consist of equities and mutual fund units. For these investments, no quantitative fair value sensitivity analysis with respect to changes in non-observable inputs was performed because, as shown in the table below, the relevant fair value was obtained from third-party sources without making any adjustment (e.g. NAV, redemption values, external appraisals, etc.), or is the result of a model whose inputs are specific to the entities being assessed (e.g. valuations made based on public information from the financial statements) and for which alternative values cannot reasonably be expected.

Assessment techniques used (in thousands of euro)	Total	Assessment techniques					
		Internal model	Net Assets Value	Recent transactions	Equity	External appraisals	Cost
Financial assets held for trading	**1,707**	**1,707**	**-**	**-**	**-**	**-**	**-**
- Debt securities	1,357	1,707	-	-	-	-	-
- Equities	350	1,357	-	-	-	-	-
Financial assets designated at fair value	**3,766**	**3,766**	**-**	**-**	**-**	**-**	**-**
- Debt securities	3,766	3,766	-	-	-	-	-
Financial assets available for sale	**269,155**	**43,612**	**83,491**	**10,606**	**104,403**	**26,543**	**500**
- Debt securities	10,622	10,619	-	-	-	-	3
- Equities	144,045	-	1,996	10,606	104,403	26,543	497
- Mutual funds	85,701	32,993	52,708	-	-	-	-
- Loans (capitalization certificates)	28,787	-	28,787	-	-	-	-

"Net Assets Value" also includes capitalisation certificates held and measured based on the redemption value reported by the issuer. "Recent transactions" refers both to transactions carried out by investee companies and to trading of equities between stockholders observed over a reasonable period of time.

Among the instruments measured with internal models are:

- two bonds subscribed during the year as part of the restructuring of receivables due from the issuer (Euro 3,766 thousand) that at maturity are convertible, at the initiative of the issuer and/or of the Bank, into shares of the same issuer which are currently not listed;
- the junior security (Euro 10,619 thousand) deriving from the own securitisation called "Berica Residential Mbs 1", not "reinstated" in the financial statements because it was carried out before 1 January 2004, whose fair value was made equal to the nominal value because the expectation is that, based on the definitive data of the securitisation at 31 December 2016 and given the short residual duration of the securitisation, the exposure will be repaid in full;
- exposure to the Optimum MSI Fund (Euro 32,993 thousand), for which, with the assistance of an external company, an update was performed on the valuations carried out internally when preparing the 2015 financial statements, which were based on that relied on the estimated realisable value of the individual underlying assets.

Lastly, the following are also classified in Fair Value Hierarchy Level 3: i) property held for investment, whose fair value is determined on the basis of independent appraisals to be updated annually; ii) back to back swap subscribed within the scope of the “Berica Residential Mbs1” securitisation transaction and measured on the basis of the present value of the cash flows expected from the financial instrument; iii) Cattolica Assicurazioni’s right to sell to BPVi the equity investments held by the latter in Berica Vita, Cattolica Life and ABC Assicura, which were measured on the basis of an internal model used to determine the fair value of the 3 unlisted insurance companies according to their respective embedded value/equity.
Given the above, for most of the financial instruments classified at level 3 in the hierarchy set forth by IFRS 13 “passive” measurement techniques were used (NAV or redemption values reported by the various management companies, values derived from the company’s equity or from independent appraisals obtained by the Bank, etc.) which do not use financial models based on market data and, therefore, any fair value sensitivity breakdown would have little meaning.

A.4.3 Fair value hierarchy

During the year, the Group approved the update to its Fair Value Policy, aimed at acknowledging the findings communicated by the ECB following the inspection conducted in 2015 in the market risk area. Compared with the previous version, this inspection introduced, among other things, additional controls on the volume of transactions and the presence of contributors in active markets.

A.4.4 Other information

There is no other information worthy of disclosure.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Financial assets and liabilities at fair value on a recurrent basis: breakdown by fair value levels

Financial assets/liabilities at fair value	31/12/16			31/12/15		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	1,434	2,058,957	1,707	29,110	3,369,698	355
2. Financial assets designated at fair value	-	2,193	3,766	-	4,411	3,431
3. Financial assets available for sale	3,718,588	181,697	269,155	4,984,806	56,012	285,167
4. Hedging derivatives	-	27,761	-	-	32,933	-
5. Property, plant and equipment	-	-	7,051	-	-	7,051
6. Intangible assets	-	-	-	-	-	-
Total	**3,720,022**	**2,270,608**	**281,679**	**5,013,916**	**3,463,054**	**296,004**
1. Financial liabilities held for trading	-	1,370,658	81,187	70	2,766,264	253
2. Financial liabilities designated at fair value	-	257,652	-	-	414,197	-
3. Hedging derivatives	-	874,980	-	-	846,367	-
Total	**-**	**2,503,290**	**81,187**	**70**	**4,026,828**	**253**

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

During 2016, the company reclassified from level 1 to level 2 of the hierarchical scale under IFRS 13, certain securities for a total value of Euro 19,802 thousand (including bonds for Euro 17.430 thousand, equity for Euro 432 thousand and mutual fund units for Euro 1,940 thousand, book values at 31 December 2016), all traded on regulated markets which, however, were not considered active because the trading volumes observed for the individual financial instruments were not adequate to the exposures held by the Bank. Additionally, the following were reclassified from level 2 to level 3 of the hierarchy under IFRS 13: a mini-bonds listed under "financial assets held for trading" (book value at 31 December 31 2016 Euro 1,357 thousand) estimated on the basis of an internal model; and some mutual fund units (book value Euro 226 thousand at 31 December 2016), due to insufficient levels of transparency and liquidity.

OTC derivatives with customers with a positive fair value have been adjusted for a total of Euro 3.9 million, to take account of the related counterparty risk (CVA). Conversely, no adjustment of value for DVA is applied to OTC derivative contracts with customers with a negative fair value.

A.4.5.2 – Annual changes in financial assets at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Hedging	Property, plant and equipment	Intangible assets
1. Opening balance	**355**	**3,431**	**285,167**	**-**	**7,051**	**-**
2. Increases	**5,535**	**337**	**54,099**	**-**	**-**	**-**
2.1. Purchases	4,810	2	41,916	-	-	-
- of which: business combinations	-	-	-	-	-	-
2.2. Profits booked to:	-	335	11,943	-	-	-
2.2.1. Income statement	-	335	828	-	-	-
- of which: realized gains	-	335	-	-	-	-
2.2.2. Equity	X	X	11,115	-	-	-
2.3. Transfers from other levels	707	-	232	-	-	-
2.4. Other increases	18	-	8	-	-	-
3. Decreases	**4,183**	**2**	**70,111**	**-**	**-**	**-**
3.1. Sales	3,274	-	45,589	-	-	-
3.2. Reimbursements	-	-	3,447	-	-	-
3.3. Losses booked to:	909	2	21,075	-	-	-
3.3.1. Income statement:	909	2	20,085	-	-	-
- of which: realized losses	906	2	20,017	-	-	-
3.3.2. Equity	X	X	990	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-
4. Closing balance	**1,707**	**3,766**	**269,155**	**-**	**7,051**	**-**

A.4.5.3 – Annual changes in financial liabilities at fair value on a recurring basis (level 3)

	Financial liabilities		
	held for trading	designated at fair value	hedging
1. Opening balance	**253**	**-**	**-**
2. Increases	**80,934**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses booked to:	80,934	-	-
2.2.1. Income statement	80,934	-	-
- of which: realized losses	80,934	-	-
2.2.2. Equity	X	X	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**-**	**-**	**-**
3.1. Reimbursements	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits booked to:	-	-	-
3.3.1. Income statement:	-	-	-
- of which: realized gains	-	-	-
3.3.2. Equity	X	X	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**81,187**	**-**	**-**

The capital losses referred to in line item 2.2.1 refer almost entirely to the valuation of the put option held by Cattolica on the insurance companies Berica Vita, Cattolica Life and ABC Assicura.

A.4.5.4 Financial assets and liabilities at fair value on a recurrent basis: breakdown by fair value levels

Financial assets/liabilities not valued at fair value or at fair value on a non- recurring basis	Book value at 31.12.2016	31/12/2016			Book value at 31.12.2015	31/12/2015		
		L1	L2	L3		L1	L2	L3
1. Financial assets held to maturity	1,067,948	1,055,730	-	-	-	-	-	-
2. Loans and advances to banks	3,716,654	-	596,559	3,124,716	3,319,380	-	630,258	2,695,446
3. Loans and advances to customers	19,536,385	-	46,728	20,523,096	22,129,458	-	67,103	23,514,143
4. Investiment property	-	-	-	-	-	-	-	-
5. Non-current assets held for sale	-	-	-	-	-	-	-	-
Total	**24,320,987**	**1,055,730**	**643,287**	**23,647,812**	**25,448,838**	**-**	**697,361**	**26,209,589**
1. Due to banks	9,770,509	-	-	9,770,509	10,168,572	-	-	10,168,572
2. Due to customers	11,811,851	-	-	11,811,851	13,534,654	-	-	13,534,654
3. Debt securities	4,551,296	-	4,523,494	60,382	5,525,613	-	5,440,524	103,415
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**26,133,656**	**-**	**4,523,494**	**21,642,742**	**29,228,839**	**-**	**5,440,524**	**23,806,641**

A.5 – "DAY ONE PROFIT/LOSS" DISCLOSURE

The Bank did not undertake any transactions during the year involving the recognition of "day one profit/loss".

PART B – INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1

Cash and cash equivalents – Line item 10

1.1 Cash and cash equivalents: breakdown

	31/12/2016	31/12/2015
a) Cash	126,095	138,939
b) Unrestricted deposits with central banks	-	-
Total	**126,095**	**138,939**

SECTION 2

Financial assets held for trading – Line item 20

2.1 Financial assets held for trading: breakdown by type

Items/Amounts	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	1,013	116,201	1,357	28,098	103,000	-
1.1 Structured securities	-	73,280	-	12,954	66,105	-
1.2 Other debt securities	1,013	42,921	1,357	15,144	36,895	-
2. Equities	311	460	350	990	2,715	355
3. Mutual funds	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**1,324**	**116,661**	**1,707**	**29,088**	**105,715**	**355**
B. Derivatives						
1. Financial derivatives	110	1,942,296	-	22	3,263,983	-
1.1 dealing	110	1,904,169	-	22	3,201,668	-
1.2 connected with the fair value option	-	38,127	-	-	62,315	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 dealing	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**110**	**1,942,296**	**-**	**22**	**3,263,983**	**-**
Total (A+B)	**1,434**	**2,058,957**	**1,707**	**29,110**	**3,369,698**	**355**

Structured securities mainly refer to bonds with payoffs linked to options on interest rate and inflation on baskets of shares and stock indexes and on currencies.

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items/Amounts	31/12/2016	31/12/2015
A. CASH ASSETS		
1. Debt securities	**118,571**	**131,098**
a) Governments and central banks	1,036	1,037
b) Other public entities	-	-
c) Banks	93,237	78,211
d) Other issuers	24,298	51,850
2. Equities	**1,121**	**4,060**
a) Banks	229	7
b) Other issuers:	892	4,053
- insurance companies	350	355
- financial companies	298	527
- non-financial companies	244	3,171
- other	-	-
3. Mutual funds	**-**	**-**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total A	**119,692**	**135,158**
B. DERIVATIVES		
a) Banks		
- fair value	1,521,439	2,829,085
b) Customers		
- fair value	420,967	434,920
Total B	**1,942,406**	**3,264,005**
Total (A+B)	**2,062,098**	**3,399,163**

There are no "Equities" issued by parties classified as bad loans or unlikely to pay.

The Bank uses bilateral offsetting arrangements relating to operations in over-the-counter derivatives with principal market counterparties, giving the option to offset creditor positions against debtor positions in the event of counterparty default. For the purpose of mitigating credit risk further, specific Credit Support Annex contracts have been entered with the Bank's most frequent counterparties with the aim of regulating the provision of cash collateral financial guarantees.

Exposures in derivative instruments towards customers also include transactions carried out with financial companies, habitual market counterparties of the Bank in these transactions.

SECTION 3

Financial assets designated at fair value – Line item 30

3.1 Financial assets designated at fair value: breakdown by type

Items/Amounts	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	2,193	3,766	-	4,411	3,431
1.1 Structured securities	-	2,193	3,766	-	4,411	3,431
1.2 Other debt securities	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-
3. Mutual funds	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**-**	**2,193**	**3,766**	**-**	**4,411**	**3,431**
Cost	**-**	**-**	**-**	**-**	**-**	**-**

The item refers to three convertible bonds for which the Bank invoked the "fair value option", which were subscribed as part of the restructuring of receivables due from the issuers.

3.2 Financial assets designated at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2016	31/12/2015
1. Debt securities	**5,959**	**7,842**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	5,959	7,842
2. Equities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Mutual funds	**-**	**-**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	**5,959**	**7,842**

SECTION 4

Financial assets available for sale – Line item 40

4.1 Financial assets available for sale: breakdown by type

Items/Amounts	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Debt securities	3,700,925	13,080	10,622	4,965,556	34,770	10,663
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	3,700,925	13,080	10,622	4,965,556	34,770	10,663
2. Equities	17,663	166,677	144,045	17,106	21,010	128,781
2.1 Carried at fair value	17,663	166,677	143,548	17,106	21,010	128,152
2.2 Carried at cost	-	-	497	-	-	629
3. Mutual funds	-	1,940	85,701	2,144	232	117,803
4. Loans	-	-	28,787	-	-	27,920
Total	**3,718,588**	**181,697**	**269,155**	**4,984,806**	**56,012**	**285,167**

Line 1. comprises (Euro 12,199 thousand) a senior tranche of ABS securities issued within the scope of transactions originated by primary Italian players in the consumer credit sector, as well as the junior tranche (Euro 10,619 thousand) deriving from the Berica Residential Mbs 1 securitisation, not reinstated in the financial statements because it was initiated before 1 January 2004.

Tier 2 equities include, as to Euro 146,312 thousand, the equity investment in Cattolica Assicurazioni, which was reclassified during the year from "Equity investments" to "Financial assets available for sale", as it was deemed that BPVi no longer had a significant influence over Cattolica as defined in paragraph 9 of IAS 28.

"Equities carried at cost" refer to certain individually immaterial equity interests, whose fair value cannot be reliably or verifiably determined and so are reported at cost, as adjusted for any impairment.

Line 4. "Loans" consists of the capitalisation certificates.

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Amounts	31/12/2016	31/12/2015
1. Debt securities	**3,724,627**	**5,010,989**
a) Governments and central banks	3,701,150	4,965,912
b) Other public entities	-	-
c) Banks	636	10,632
d) Other issuers	22,841	34,445
2. Equities	**328,385**	**166,897**
a) Banks	26,257	26,106
b) Other issuers:	302,128	140,791
- insurance companies	146,312	-
- financial companies	61,952	58,600
- non-financial companies	93,864	82,191
- other	-	-
3. Mutual funds	**87,641**	**120,179**
4. Loans	**28,787**	**27,920**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	28,787	27,920
Total	**4,169,440**	**5,325,985**

"Debt securities" are mainly connected to the Bank's investments in Italian government securities, some of which are backed by micro hedges against interest rate risk and inflation, both as fair value hedges and cash flow hedges.

"Equities" include equity interests issued by parties classified as unlikely to pay for Euro 18,011 thousand.

Mutual funds refer to investments in funds with underlying fund units (Euro 32,993 thousand), in real estate funds (Euro 21,726 thousand) and for the remainder to closed-end funds reserved for private equity institutional investors, which mainly invest in non-financial companies and companies not listed on active markets.

4.3 Financial assets available for sale with micro hedges

Items/Amounts	31/12/2016	31/12/2015
1. Debt securities	2,893,000	3,773,000
2. Equities	-	-
3. Mutual funds	-	-
4. Loans	-	-
Total	**2,893,000**	**3,773,000**

Assets hedged refer to inflation linked BTP government securities that had been micro hedged against interest rate and inflation risk both with cash flow hedging (nominal amount Euro 2,193 million) and with fair value hedging (nominal amount Euro 700 million).

The tests carried out at year end confirmed the effectiveness of the hedges. In particular, the net effect of changes in the fair value of the hedged assets, limited to the hedged risks under fair value hedging, and of the related hedging derivatives, was a negative amount of Euro 605 thousand, recorded under "Net hedging gains (losses)" of the income statement.

SECTION 5

Financial assets held to maturity – Line item 50

5.1 Financial assets held to maturity: breakdown by type

Items/Amounts	31/12/2016				31/12/2015			
	BV	FV			BV	FV		
		L1	L2	L3		L1	L2	L3
1. Debt securities	1,067,948	1,055,730	-	-	-	-	-	-
- structured	-	-	-	-	-	-	-	-
- other	1,067,948	1,055,730	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-
Total	**1,067,948**	**1,055,730**	**-**	**-**				

Key:
FV= fair value, BV= book value

The item includes government bonds reclassified during the year from "Financial assets available for sale" to "Financial assets held to maturity". This reclassification was carried out in light of the changes introduced by the ECB Regulation (EU) no. 2016/445 relating to the treatment of revaluation reserves relating to exposures to central Governments (Government bonds) classified as "Financial assets available for sale", and of the publication on 29 November 2016 in the Official Journal of the European Community of Commission Regulation (EU) no. 2016/2067 approving IFRS 9. Effective from 1 January 2018, IFRS 9 will replace international accounting standard (IAS) 39, with the aim to control the volatility of Own Funds pending a more comprehensive and in-depth analysis on the breakdown of the Government bond portfolio among the different accounting categories, also in light of the introduction of IFRS 9.

5.2 Financial assets held to maturity: breakdown by debtors/issuers

Items/Amounts	**31/12/2016**	**31/12/2015**
1. Debt securities	**1,067,948**	**-**
a) Governments and central banks	1,067,948	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	**1,067,948**	**-**

5.3 Financial assets held to maturity with micro hedges
There are no financial assets held to maturity with micro hedges.

SECTION 6

Loans and advances to banks – Line item 60

6.1 Loans and advances to banks: breakdown by type

Type of transaction/Amounts	31/12/2016				31/12/2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Deposits with central banks	**485,014**				**85,301**			
1. Time deposits	-	X	X	X	-	X	X	X
2. Compulsory reserve	485,014	X	X	X	85,301	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Loans and advances to banks	**3,231,640**				**3,234,079**			
1. Loans:								
1.1 Current accounts and sight deposits	243,892	X	X	X	150,524			
1.2. Time deposits	561,523	X	X	X	288,820	X	X	X
1.3 Other loans	1,834,287	X	X	X	2,170,801	X	X	X
- Repurchase agreements	780,318	X	X	X	994,135	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	1,053,969	X	X	X	1,176,666	X	X	X
2. Debt securities	591,938				623,934			
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	591,938	X	X	X	623,934	X	X	X
Total	**3,716,654**	**-**	**596,559**	**3,124,716**	**3,319,380**	**-**	**630,258**	**2,695,446**

Key:
FV= fair value, VB= book value

At 31 December 2016, there are no net no-performing loans to banks.

Line A.2. shows the balance of the "management account" with Bank of Italy and includes the reserve subject to maintenance and the "mobilisable" part of this reserve.

Line B.1.1.2. includes the "compulsory reserve" satisfied indirectly on behalf of the banking subsidiaries for a total of Euro 21,136 thousand.

6.2 Loans and advances to banks with micro hedges

There are no loans and advances to banks with micro hedges.

6.3 Finance leases

There are no finance leases with banks.

SECTION 7

Loans and advances to customers – Line item 70

7.1 Loans and advances to customers: breakdown by type

Type of transaction/Amounts	31/12/2016						31/12/2015					
	Book value			Fair value			Book value			Fair value		
	Performing loans	Non performing loans					Performing loans	Non performing loans				
		Purchased	Other	L1	L2	L3		Purchased	Other	L1	L2	L3
Loans												
1. Current accounts	1,735,732	-	1,283,208	X	X	X	2,541,628	-	1,156,132	X	X	X
2. Repurchase agreements	-	-	-	X	X	X	219,442	-	-	X	X	X
3. Mortgages	10,015,153	-	2,732,078	X	X	X	10,911,416	8,163	2,934,728	X	X	X
4. Credit cards, personal loans and assignments of one-fifth of salary	104,655	-	8,090	X	X	X	113,147	-	7,798	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	2,821,590	-	617,775	X	X	X	3,427,556	-	613,378	X	X	X
Debt securities	215,323	-	2,781				192,482	-	3,588			
8. Structured securities	-	-	1,321	X	X	X	-	-	3,588	X	X	X
9. Other debt securities	215,323	-	1,460	X	X	X	192,482	-	-	X	X	X
Total	**14,892,453**	**-**	**4,643,932**	**-**	**46,728**	**20,523,096**	**17,405,671**	**8,163**	**4,715,624**	**-**	**67,103**	**23,514,143**

Loans and advances to customers are reported in the financial statements at amortised cost, less specific and portfolio write-downs recognised in accordance with IAS 39.

Line 3. “Mortgages” includes Euro 7,030.8 million (Euro 6,703.4 million at 31 December 2015), of which non-performing exposures amounting to Euro 416.3 million (Euro 337.3 million at 31 December 2015), assets sold but not derecognised relating to the mortgage loans sold as part of securitisations originated by the Bank which, since they do not satisfy IAS 39 requirements for derecognition, have been “reinstated” in the financial statements.

“Other loans” in line 7. report Euro 340.3 million for the difference between the reinstatement of assets sold under self-securitisations and the accompanying elimination of the corresponding liability for the asset-backed securities subscribed under these loans.
The same line also includes operating receivables from customers for the performance of financial services (Euro 16.1 million) and guarantee deposits (Euro 31.3 million) carried out within the scope of certain securitisations originated by the Bank.

7.2 Loans and advances to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2016			31/12/2015		
	Performing loans	Non performing loans		Performing loans	Non performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities	**215,323**	**-**	**2,781**	**192,482**	**-**	**3,588**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	215,323	-	2,781	192,482	-	3,588
- non-financial companies	47,227	-	2,781	63,072	-	3,588
- financial companies	168,096	-	-	129,410	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**14,677,130**	**-**	**4,641,151**	**17,213,189**	**8,163**	**4,712,036**
a) Governments	1	-	-	1	-	-
b) Other public entities	38,519	-	31,487	41,856	-	36,390
c) Other issuers	14,638,610	-	4,609,664	17,171,332	8,163	4,675,646
- non-financial companies	6,954,372	-	3,326,755	8,258,819	-	3,533,014
- financial companies	1,251,574	-	186,644	1,773,057	8,163	158,787
- insurance companies	2,022	-	-	6,448	-	-
- other	6,430,642	-	1,096,265	7,133,008	-	983,845
Total	**14,892,453**	**-**	**4,643,932**	**17,405,671**	**8,163**	**4,715,624**

7.3 Loans and advances to customers with micro hedges

To manage exposure to the interest rate risk of the value of the banking book, the Bank activated hedges of floating rate mortgage loans with maximum rate, for a total nominal amount of Euro 947.1 million.

7.4 Finance leases

There are no finance leases with customers.

SECTION 8

Hedging derivatives – Line item 80

8.1 Hedge derivatives: breakdown by hedge type and levels

	Fair value 31/12/2016			VN 31/12/2016	Fair value 31/12/2015			VN 31/12/2015
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	**-**	**27,761**	**-**	**1,056,769**	**-**	**32,933**	**-**	**1,201,490**
1) Fair value	-	27,761	-	1,056,769	-	32,933	-	1,201,490
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
A. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**27,761**	**-**	**1,056,769**	**-**	**32,933**	**-**	**1,201,490**

Key
NV = notional value
L1: Level 1
L2: Level 2
L3: Level 3

At 31 December 2016, this line item reports derivatives with a positive fair value, taken out to hedge interest rate risk relating to specific fixed-rate and floating-rate with maximum rate mortgage books recorded under “Loans and advances to customers” and individual own bond issues classified as “Debt securities in issue”.

8.2 Hedge derivatives: breakdown by hedged portfolios and hedge type

Transactions/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available for sale	-	-	-	-	-	X	-	X	X
2. Loans and advances	17,160	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**17,160**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	10,601	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	**10,601**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**X**
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

To represent the aforesaid hedging transactions, the Bank opted for the “Micro Fair Value Hedge” accounting model for those relating to own-issue bonds, while it used the “Macro Fair Value Hedge” model for those relating to mortgage loans, with the consequent recognition of the revaluations of the hedged assets in Asset line item 90 “Remeasurement of financial assets backed by macro hedges”.

SECTION 9

Remeasurement of financial assets backed by macro hedges – Line item 90

9.1 Remeasurement of hedged assets: breakdown by hedged portfolios

Type of transaction/Amounts	31/12/2016	31/12/2015
1. Positive fair value	**-**	32,725
1.1 in specific portfolios:	-	32,725
a) loans and advances	-	32,725
b) financial assets available for sale	-	-
1.2 aggregate	-	-
2. Negative fair value	**(17,238)**	**(13,134)**
2.1 in specific portfolios:	(17,238)	(13,134)
a) loans and advances	(17,238)	(13,134)
b) financial assets available for sale	-	-
2.2 aggregate	-	-
Total	**(17,238)**	**19,591**

This line item reports fair value changes in floating-rate mortgage loans with maximum rate classified as “Loans and advances to customers” that are hedged by Interest Rate Caps in order to manage exposure of banking book value to interest rate risk.

The Bank has accounted for these hedges in the financial statements using the Macro Fair Value Hedging accounting model. Consequently, the write-back/write-down of hedged assets in compliance with IAS 39 is reported in this line item, with the matching entry recognised in “Net hedging gains (losses)” (income statement line item 90), together with the results of measuring the associated hedging derivatives.

9.2 Assets backed by macro hedges of interest rate risk

Hedged assets	31/12/2016	31/12/2015
1. Loans and advances	947,146	1,010,783
2. Financial assets available for sale	-	-
3. Portfolio	-	-
Total	**947,146**	**1,010,783**

The amounts shown in the table above refer to the remaining balance of principal due to expire of the hedged assets.

SECTION 10

Equity method investments – Line item 100

10.1 Equity investments: disclosures

Name	Registered Office	Headquarters	% held	Voting rights %
A. SUBSIDIARY COMPANIES				
1. BANCA NUOVA SpA	PALERMO	PALERMO	100.00	100.00
2. IMMOBILIARE STAMPA SCpA	VICENZA	VICENZA	99.92	99.92
3. BPV FINANCE INTERNATIONAL PLC	DUBLIN	DUBLIN	100.00	100.00
4. PRESTINUOVA SpA	ROMA	ROMA	100.00	100.00
5. FARBANCA SpA	BOLOGNA	BOLOGNA	70.77	70.77
6. NEM SGR SpA	VICENZA	VICENZA	100.00	100.00
7. SERVIZI BANCARI SCpA	VICENZA	VICENZA	96.00	96.00
8. POPOLARE DI VICENZA ASSESSORIA E CONSULTORIA LTDA	BRASILE	BRASILE	99.00	99.00
9. NEM IMPRESE I	BRAZIL	BRAZIL	95.00	95.00
10. NEM IMPRESE II	VICENZA	VICENZA	99.42	99.42
11. INDUSTRIAL OPPORTUNITY FUND	VICENZA	VICENZA	98.59	98.59
12. BPVI MULTICREDITO - Agenzia in attività finanziaria S.p.A.	VICENZA	VICENZA	100.00	100.00
13. SAN MARCO SRL	CORTINA D'AMPEZZO (BL)	CORTINA D'AMPEZZO (BL)	99.97	99.97

Name	Registered Office	Headquarters	% held	Voting rights %
C. ASSOCIATED COMPANIES				
1. BERICA VITA SpA	VICENZA	VICENZA	40.00	40.00
2. SEC SERVIZI SCpA	PADOVA	PADOVA	47.95	47.95
3. CATTOLICA LIFE DAC	DUBLINO	DUBLINO	40.00	40.00
4. ABC ASSICURA SpA	VERONA	VERONA	40.00	40.00
5. GIADA EQUITY FUND	TREVISO	TREVISO	56.67	56.67
6. MAGAZZINI GENERALI MERCI E DERRATE SpA	VICENZA	VICENZA	25.00	25.00

The percentage interest in equity also reflects the voting rights at the Shareholders' Meetings.
In 2016, the equity investment in Cattolica Assicurazioni was reclassified from "Equity investments" to "Financial assets available for sale", as it was deemed that BPVi no longer had a significant influence over Cattolica as defined in paragraph 9 of IAS 28.
At 31 December 2016 the equity investment held in the company San Marco Srl was written off entirely for Euro 7,414 thousand. Said equity method investment is classified as unlikely to pay.

10.2 Significant equity method investments: book value, fair value and collected dividends

Name	Book Value	Fair value	Dividends received
A. SUBSIDIARY COMPANIES			
1. BANCA NUOVA SpA	160,476	n.d.	-
2. IMMOBILIARE STAMPA SCpA	219,642	n.d.	793
3. BPV FINANCE INTERNATIONAL Plc	11,583	n.d.	-
4. PRESTINUOVA SpA	35,007	n.d.	9,853
5. FARBANCA SpA	43,912	n.d.	1,949
6. NEM SGR SpA	2,400	n.d.	1,092
7. SERVIZI BANCARI SCpA	435	n.d.	-
8. POPOLARE DI VICENZA ASSESSORIA E CONSULTORIA LTDA	10	n.d.	-
9. NEM IMPRESE I	8,807	n.d.	-
10. NEM IMPRESE II	27,651	n.d.	-
11. INDUSTRIAL OPPORTUNITY FUND	21,436	n.d.	-
12. BPVI MULTICREDITO - Agenzia in attività finanziaria S.p.A.	120	n.d.	309
13. SAN MARCO SRL	74	n.d.	-
TOTAL SUBSIDIARY COMPANIES	**531,553**		**13,996**
B. COMPANIES UNDER JOINT CONTROL	-	-	-
C. ASSOCIATED COMPANIES			
1. BERICA VITA SpA	33,618	n.d.	3,436
2. SEC SERVIZI SCpA	12,654	n.d.	-
3. CATTOLICA LIFE DAC	8,072	n.d.	-
4. ABC ASSICURA SpA	7,044	n.d.	406
5. GIADA EQUITY FUND	972	n.d.	-
6. MAGAZZINI GENERALI MERCI E DERRATE SpA	-	n.d.	-
TOTAL ASSOCIATED COMPANIES	**62,360**	**0**	**3,842**

10.3 Significant equity method investments: accounting information

10.4 Non-significant equity method investments: accounting information

In accordance with the provisions of Bank of Italy Circular no. 262, the information per the present items is not provided in the individual financial statements of the Bank because it is disclosed in the consolidated Financial Statements thereof, to which reference is therefore made.

10.5 Equity investments: annual changes

	31/12/2016	31/12/2015
A. Opening balance	**1,023,400**	**1,253,236**
B. Increases	**101,955**	**3,818**
B.1 Purchases	-	204
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other changes	101,955	3,614
C. Decreases	**531,442**	**233,654**
C.1 Sales	-	10
C.2 Adjustments	333,555	229,808
C.3 Other changes	197,887	3,836
D. Closing balance	**593,913**	**1,023,400**
E. Total revaluations	**-**	**-**
F. Total adjustments	**601,807**	**269,316**

Under “Other changes”, lines B.4 and C.3 show:

- capital increases in the subsidiaries Banca Nuova and BPV Finance;
- value increases and decreases, as a result of additional investments or divestments, of Nem Sgr funds;
- the capital payment following recapitalisation of the subsidiary San Marco Srl;
- the reclassification of the equity investment in Cattolica Assicurazioni, reclassified from “Equity investments” to “Financial assets available for sale”, as it was deemed that BPVi no longer had a significant influence over Cattolica as defined in paragraph 9 of IAS 28.

As required by the accounting standards, it is necessary to verify, at least on annual basis, whether there are indications that an asset may have been impaired.

For this purpose, with regard to the valuation of the equity investments, reference is made, first, to the comparison between the carrying amount and the corresponding fraction of equity of the investee ("recoverable value"). If comparison between the two values shows that the first one (carrying amount) is lower than the second (recoverable value), the carrying amount is not deemed to need additional examination/verification, whereas, in the opposite case, it is deemed possible that impairment losses may exist and therefore it is necessary to perform further analyses by impairment testing.

As a result of analyses carried out in 2016, the following "Adjustments" relating to impairment losses under IAS 36 were recorded in the income statement:

- Euro 7,415 thousand on the subsidiary San Marco S.r.l. (including Euro 6,205 thousand in the half-year report at 30 June 2016 and Euro 1,210 thousand as a result of the impairment test at 31 December 2016). The value of the investment had already been written off at 30 June 2016, and the company was recapitalised in the second half of 2016. The value of the investment at 31 December 2016 was aligned to the investee company's equity (approximately Euro 74 thousand);
- Euro 57,759 thousand on the subsidiary BPV Finance Plc (including Euro 34,342 thousand in the half-year report at 30 June 2016 and Euro 23,417 thousand as a result of the impairment test at 31 December 2016). The value of the investment had already been written off at 30 June 2016, and the company was recapitalised in the second half of 2016. The value of the investment at 31 December 2016 was aligned to the investee company's equity (approximately Euro 11,583 thousand);
- Euro 47,737 thousand on the equity investment in Banca Nuova S.p.A. (as a result of the impairment test at 31 December 2016) as detailed below;
- Euro 500 thousand on the associated company Giada Equity Fund (in the half-yearly report at 30 June 2016).

The need to write down the aforementioned equity investments derives from the observed recoverable value (corresponding to the pro rata value of the equity), lower than the carrying amount, as well as from the identification of impairment indicators.

As mentioned above, the equity investment in Cattolica Assicurazioni was reclassified in the last quarter of 2016 under "Financial assets available for sale"; in this regard, it should be noted that already in the half-year report at 30 June 2016 its book value had been aligned to its fair value, taken to be equal to the official stock exchange price at 30 June 2016, with an income statement write-down of Euro 220,144 thousand.

Lastly, on 1 January 2016 the equity investment in the subsidiary Monforte 19 Srl was merged by absorption into the subsidiary Immobiliare Stampa Scpa.

The information and parameters used to evaluate the equity method investments are influenced by the uncertainty of the macroeconomic and market environment, which may evolve in unforeseen ways.

Equity investment in Banca Nuova S.p.A.

In performing the impairment test on the equity investment in Banca Nuova S.p.A., Banca Popolare di Vicenza was supported by a leading consulting firm.

The equity investment's value in use was determined using the Excess Capital version of the Dividend Discount Model.

This method determines the value in use as the sum of the present value of the maximum dividend that may be distributed in the explicit planning period, in compliance with the target capitalisation requirements assumed for valuation purposes, and the Terminal Value, calculated based on the normalised net income expected for the last year of explicit projection, plus the long-term growth rate (“g”).

The valuation model was created on the basis of the 2016-2020/21 projections, developed by the Management according to the strategic guidelines contained in the new 2016-2020/21 Business Plan and a 2% growth rate, equal to the long-term growth target set by the European Central Bank. In line with the approach adopted for previous impairment tests, to apply the Excess Capital variant of the DDM method, the cost of capital (K_e) was estimated based on the Capital Asset Pricing Model (CAPM) determined as follows:

$$K_e = i + \beta * MRP$$

Where:

i: risk-free rate;

β: beta coefficient, measuring the volatility of an asset’s return in relation to the market;

MRP: Market Risk Premium, i.e. the compensation for an investment whose risk exceeds the one expressed by a risk-free asset.

In this case, at 31 December 2016:

- the rate i was determined taking as a reference the gross average return of ten-year Italian treasury notes in the 1 July 2016 - 31 December 2016 time interval (six-month average), and is assumed to be 1.47%.
- β is determined based on historical data relating to listed companies identified as comparable. In particular, the observation period for calculation of the coefficient is 5 years from 31 December 2016 and the reporting frequency is weekly;
- the MRP is assumed to be 5.6%, in line with valuation practices (source: *Paper* by Pablo Fernandez, Alberto Ortiz and Isabel F. Acin of May 9, 2016).

Overall K_e, determined according to the method adopted in recent years, is 8.6%.

As part of the impairment test analysis, the projections were determined on the basis of the data shown below, taking into account for all CGUs a market rate scenario that is consistent with the forecasts published by Prometeia for the 2017-2019 period, and the annual spreads implicit in the yield curve surveyed at the end of December 2016, for the two subsequent years.

The assumptions for the operating volumes for the forecast years (2016-2021) are that:

- net loans will grow at an average rate of +1.5%. The 16-19 CAGR is +0.3%, slightly lower than the reference scenario;
- the average change in direct funding is +0.9%. The 16-19 CAGR is -1.9%, as a result of longer bond maturities concentrated in the 2017-2019 period;
- the 16-21 CAGR of indirect funding is +8.9%. This growth is supported by a market effect and by the expected recovery of predicting the recovery of volumes lost in 2016.

With regard to income statement line items:

- net interest income was determined based on the expected growth of lending and deposit volumes. Rates and spreads were estimated on the basis of the rate scenario used. As to loans, the evolution of retail interest rates take into account the contractual indexing of the different forms of loan. As regards the evolution of bond funding, it has been assumed that there will be a progressive return to the placement of new loans starting in 2018, with a gradual reduction in spreads. Overall, the 16-21 CAGR of the net interest income is +2.3%; The 16-19 CAGR is +1.0%, lower than forecast in the reference scenario, as a result of a downward trend in net interest income that from 2016 to 2017, expected however to pick up in the 2018-2019 period;
- the overall 16-21 CAGR of net fee and commission income is 4.7%. The average growth rate in the 2016-2019 period is +4.9%, higher than indicated by the reference scenario. The projections assume, inter alia, an increase in indirect funding, an increase in loans relating to the parabanking sector, and growth in other revenues from services.
- adjustments to loans are assumed to converge gradually towards a cost of credit of approximately 0.62% by 2021. The evolution of the cost of credit is consistent with the average portfolio PDs expected over the Plan period and the specific transition matrices of Banca Nuova;
- payroll costs, estimated considering personnel management policies, show a total 16-21 CAGR of -5.2%;
- the other administrative costs record an overall CAGR for 16-21 of -4.0% (16-21 CAGR of -5.0%); This significant reduction is the result of extraordinary expenses incurred in 2016;
- income taxes were calculated according to current tax laws and regulations.

With the awareness that although the macroeconomic indicators are showing signs of partial recovery, there is still much uncertainty, and as required by regulations, the valuation of Banca Nuova S.p.A. at 31 December 2016 was tested for sensitivity to changes in specific parameters in the economic and financial forecasts, with regard to:

a. cost of capital Ke (+/- 0.25%) and growth rate g (+/- 0.25%),

b. growth rate g set at 1.5%;

c. a +/-0.5% change (in terms of 2016-2021 CAGR) of the banking income associated with a +/-0.05% change in the cost of credit in the last year of the Plan.

As a result of the measurements performed, the carrying amount of the investment was aligned to the investee's equity at 31 December 2016 (Euro 160,475.9 thousand), also in view of the fact that the upper limit of the range resulting from the sensitivity analyses is greater than this value.

The information and parameters used to evaluate the equity method investments are influenced by the uncertainty of the macroeconomic and market environment, which may evolve in unforeseen ways.

10.6 Commitments relating to equity investments in companies under joint control

There are no commitments relating to equity investments in companies under joint control.

10.7 Commitments relating to equity method investments in companies subject to significant influence

At the reporting date, Cattolica Assicurazioni has the right to sell to BPVi the 60% equity investment held by Cattolica in Berica Vita, Cattolica Life and ABC Assicura.

10.8 Significant restrictions

There are no significant restrictions on equity investments recorded in the financial statements.

10.9 Other information

In accordance with the provisions of Bank of Italy Circular no. 262, the information per the present items is not provided in the individual financial statements of the Bank because it is disclosed in the consolidated Financial Statements thereof, to which reference is therefore made.

SECTION 11

Property, plant and equipment – Line item 110

11.1 Property, plant and equipment used for business purposes: breakdown of assets carried at cost

Assets/Values	31/12/2016	31/12/2015
1. Owned asstes	**105,527**	**114,761**
a) land	6,760	6,761
b) buildings	17,170	18,065
c) furniture	10,951	14,002
d) IT equipment	1,282	2,567
e) other	69,364	73,366
2. Purchased under finance leases	-	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
Total	**105,527**	**114,761**

Property, plant and equipment for business purposes are systematically depreciated in each year on a straight-line basis using rates that reflect the residual useful lives of the related assets, as follows:

	%
Buildings	3
Furnishings	15
Furniture and ordinary office machines	12
Vehicles	25
Lifting equipment	7.5
Miscellaneous equipment	15
Electronic/electromechanical machines	20
Filming equipment/alarms	30
Temporary buildings	10
Communications equipment	25
Armoured counters	20
Lifting trucks	20

The value of land associated with free-standing property has been separated from the value of the building and is not depreciated since it has an indefinite useful life, as do works of art.

11.2 Investment property: breakdown of assets carried at cost

There is no investment property carried at cost.

11.3 Property, plant and equipment used for business purposes: breakdown of revalued assets

There is no revalued property, plant and equipment used for business purposes.

11.4 Investment property: breakdown of assets carried at fair value

Assets/Values	31/12/2016			31/12/2015		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. owned	**-**	**-**	**7,051**	**-**	**-**	**7,051**
a) land	-	-	1,729	-	-	1,729
b) buildings	-	-	5,322	-	-	5,322
2. Purchased under finance leases	**-**	**-**	**-**	-	-	-
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**7,051**	**-**	**-**	**7,051**

11.5 Property, plant and equipment used for business purposes: annual changes

	Land	Buildings	Furniture	IT equipment	Other	Total
A. Opening gross amount	**6,761**	**44,907**	**67,584**	**54,354**	**135,371**	**308,977**
A.1 Total net reductions in value	-	26,842	53,582	51,787	62,005	194,216
A.2 Opening net amount	**6,761**	**18,065**	**14,002**	**2,567**	**73,366**	**114,761**
B. Increases	**-**	**-**	**227**	**209**	**1,924**	**2,360**
B.1 Purchases	-	-	219	209	1,890	2,318
B.2 Capitalized improvement expenditure	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 *Fair value* increases booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate adjustments	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	8	-	34	42
C. Decreases	**1**	**895**	**3,278**	**1,494**	**5,926**	**11,594**
C.1 Sales	-	-	41	7	232	280
C.2 Depreciation	-	832	3,211	1,443	5,618	11,104
C.3 Impairment writedowns booked to:	1	63	-	-	-	64
a) equity	-	-	-	-	-	-
b) income statement	1	63	-	-	-	64
C.4 *Fair value* increases booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate adjustments	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	26	44	76	146
D. Closing net amount	**6,760**	**17,170**	**10,951**	**1,282**	**69,364**	**105,527**
D.1 Total net reductions in value	1	27,737	56,793	53,230	67,623	205,384
D.2 Closing gross amount	**6,761**	**44,907**	**67,744**	**54,512**	**136,987**	**310,911**
E. Carried at cost	-	-	-	-	-	-

11.6 Investment property: annual changes

Assets/Values	Total	
	Land	Buildings
A. Opening balance	**1,729**	**5,322**
B. Increases	**-**	**-**
B.1.Purchases	-	-
B.2 Capitalized improvement expenditure	-	-
B.3 Positive changes in *fair value*	-	-
B.4 Writebacks	-	-
B.5 Positive exchange rate adjustments	-	-
B.6 Transfers from property, plant and equipment used for business purposes	-	-
B.7 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Sales	-	-
C.2 Depreciation	-	-
C.3 Negative changes in *fair value*	-	-
C.4 Impairment writedowns	-	-
C.5 Negative exchange rate adjustments	-	-
C.6 Transfers to:	-	-
a) property used for business purposes	-	-
b) non-current assets held for sale	-	-
C.7 Other changes	-	-
D. Closing balance	**1,729**	**5,322**
E. Measurement at *fair value*	-	-

11.7 Commitments to purchase property, plant and equipment (IAS 16/74 c.)

There are no commitments at the reporting date for the purchase of property, plant and equipment that warrant disclosure.

SECTION 12

Intangible assets – Item 120

12.1 Intangible assets: breakdown by type of asset

Assets/Values	31/12/2016		31/12/2015	
	Finite life	**Indefinite life**	**Finite life**	**Indefinite life**
A.1 Goodwill	X	-	X	-
A.2 Other intangible assets	7,300	-	4,038	-
A.2.1 Carried at cost:	7,300	-	4,038	-
a) Other intangible assets: generated internally	-	-	-	-
b) Other assets	7,300	-	4,038	-
A.2.2 Carried at *fair value*:	-	-	-	-
a) Other intangible assets: generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**7,300**	**-**	**4,038**	**-**

The other intangible assets classified in line A.2 "Other intangible assets" mainly refer to capitalised software and user licenses.

There is no goodwill or other intangible assets with indefinite useful life. Therefore, the disclosures required by IAS 36 para. 134-137 is omitted.

12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**1,168,189**	**-**	**-**	**35,558**	**-**	**1,203,747**
A.1 Total net reductions in value	1,168,189	-	-	31,520	-	1,199,709
A.2 Opening net amount	**-**	**-**	**-**	**4,038**	**-**	**4,038**
B. Increases	**-**	**-**	**-**	**6,886**	**-**	**6,886**
B.1 Purchases	-	-	-	6,886	-	6,886
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Writebacks	X	-	-	-	-	-
B.4 Fair value increases booked to:	-	-	-	-	-	-
a) equity	X	-	-	-	-	-
b) income statement	X	-	-	-	-	-
B.5 Positive exchange rate adjustments	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**3,624**	**-**	**3,624**
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	3,624	-	3,624
- Amortization	X	-	-	3,624	-	3,624
- Writedowns	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Fair value increases booked to:	-	-	-	-	-	-
a) equity	X	-	-	-	-	-
b) income statement	X	-	-	-	-	-
C.4 Transfers to discontinued operations due for disposal	-	-	-	-	-	-
C.5 Negative exchange rate adjustments	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Closing net amount	**-**	**-**	**-**	**7,300**	**-**	**7,300**
D.1 Total net value adjustments	1,168,189	-	-	35,144	-	1,203,333
E. Closing gross amount	**1,168,189**	**-**	**-**	**42,444**	**-**	**1,210,633**
F. Carried at cost	-	-	-	-	-	-

Key

DEF: definite life
INDEF: indefinite life

The opening balance of "Other intangible assets" does not include those assets which had been fully depreciated at the end of the prior year.

12.3 Other information

It is reported that:

- no intangible assets have been revalued under paragraph 124 b) of IAS 38;
- there are no intangible assets that have been acquired under government concession;
- no intangible assets have been given as security against the Bank's debts;
- there are no commitments for the purchase of intangible assets that warrant disclosure;
- there are no intangible assets under finance leases.

As for the allocation of goodwill between cash-generating units, reference should be made to the information contained in the specific paragraph earlier in the present section.

SECTION 13

Tax assets and liabilities – Asset line item 130 and Liability line item 80

13.1 Deferred tax assets: breakdown

Deferred tax assets	31/12/2016	31/12/2015
Deferred tax assets through the income statement	**599,458**	**1,011,391**
- Tax losses	-	212,736
- of which DTA convertible Law 214/2011	-	-
- Goodwill subject to impairment and franking	145,529	235,296
- of which DTA convertible Law 214/2011	*144,110*	*233,343*
- Adjustments to loans to costomers	265,526	408,755
- of which DTA convertible Law 214/2011	*264,992*	*408,169*
- Provisions for risks and charges	180,680	137,691
- Other	7,723	16,913
Deferred tax assets through equity	**219,697**	**252,366**
- Revalutations of financial asset available for sale	-	1,035
- Hedging derivatives CFH of asset/liabilities at fair value	219,697	248,550
- Hedging derivatives CFH of asset/liabilities at amortized cost	-	1,042
- Actuarial valuation of the defined benefit pension plans	-	269
- Other	-	1,470
Total	**819,155**	**1,263,757**

13.2 Deferred tax liabilities: breakdown

Deferred tax assets	31/12/2016	31/12/2015
Deferred tax liabilities through the income statement	**12,139**	**16,346**
- Goodwill (depreciation)	-	-
- Gains in installments	1,210	2,365
- Other	10,929	13,981
Deferred tax liabilities through equity	**236,115**	**274,009**
- Revalutations of financial asset available for sale	224,152	261,610
- Revalutations HTM	718	-
- Profit (loss) from CFH discontinuing	11,245	12,399
Total	**248,254**	**290,355**

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

	31/12/2016	31/12/2015
1. Opening balance	**1,011,391**	**703,294**
2. Increases	**73,390**	**450,841**
2.1 Deferred tax assets recorded during the year	73,390	450,539
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) other	73,390	450,539
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	302
3. Decreases	**485,323**	**142,744**
3.1 Deferred tax assets reversing during the year	247,601	10,876
a) reversals	28,250	10,876
b) written down as no longer recoverable	219,351	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	237,722	131,868
a) transformation in tax credits of which Law 214/2011	232,241	131,373
b) other	5,481	495
4. Closing balance	**599,458**	**1,011,391**

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

	31/12/2016	31/12/2015
1. Opening balance	**641,512**	**675,438**
2. Increases	**-**	**98,004**
3. Decreases	**232,410**	**131,930**
3.1 Reversals	-	186
3.2 Transformation in tax credits	232,241	131,373
a) resulting from operating losses	232,241	122,866
b) resulting from tax losses	-	8,507
3.3 Other decreases	169	371
4. Closing balance	**409,102**	**641,512**

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

	31/12/2016	31/12/2015
1. Opening balance	**16,346**	**31,076**
2. Increases	**2,328**	**933**
2.1 Deferred tax liabilities recorded during the year	2,328	933
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	2,328	933
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**6,535**	**15,663**
3.1 Deferred tax liabilities eliminated during the year	1,161	15,651
a) reversals	1,161	15,651
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	5,374	12
4. Closing balance	**12,139**	**16,346**

13.5 Change in deferred tax assets (through equity)

	31/12/2016	31/12/2015
1. Opening balance	**252,366**	**92,707**
2. Increases	**-**	**186,325**
2.1 Deferred tax assets recorded during the year	-	186,325
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	-	186,325
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**32,669**	**26,666**
3.1 Deferred tax assets reversing during the year	32,669	26,666
a) reversals	10,629	26,666
b) written down as no longer recoverable	22,040	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**219,697**	**252,366**

13.6 Change in deferred tax liabilities (through equity)

	31/12/2016	31/12/2015
1. Opening balance	**274,009**	**117,070**
2. Increases	**718**	**189,804**
2.1 Deferred tax liabilities recorded during the year	718	189,804
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	718	189,804
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**38,612**	**32,865**
3.1 Deferred tax liabilities eliminated during the year	37,795	32,865
a) reversals	37,795	32,865
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	817	-
4. Closing balance	**236,115**	**274,009**

Disclosure about deferred taxes

With respect to Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) recorded in the financial statements at 31 December 2016, as detailed in the tables of the Section in question, the following information is provided.

Concerning deferred taxes recorded as offsetting entries against equity, the total amount of deferred tax liabilities (Euro 236,115 thousand) is higher than the amount of the deferred tax assets (Euro 219,697 thousand). The deferred tax assets recorded as offsetting entries against equity refer solely to the capital losses recorded in the dedicated equity reserve in relation to the change in the fair value of cash flow hedge derivatives used as micro hedges of the inflation risk of Italian government bonds recorded under “Financial assets available for sale”. The aforesaid deferred tax assets are balanced by the deferred tax liabilities recorded as offsetting entries against equity in view of the capital gain recognised on Government bonds micro hedged against the inflation risk through the aforesaid cash flow hedge derivatives.

Therefore, in relation to deferred tax assets recorded as offsetting entries against equity it seems reasonable to expect that the related deductible temporary differences will be reversed and/or deleted in the same years when the taxable temporary differences are expected to be released and/or zeroed, with a balanced effect on the taxable income of future years. For this reason, the conditions prescribed by IAS 12 for recording the aforementioned deferred tax assets are deemed to exist.
With regard to deferred tax assets recorded as offsetting entries in the income statement, the following information is provided:

- Euro 409,102 thousand (approximately 68% of total deferred tax assets recorded as offsetting entries in the income statement) consist of IRES and IRAP DTAs that fulfil the requirements of Italian Law no. 214/2011. These DTAs are convertible into tax credits if the Bank incurs an operating loss or a tax loss, within the limits set by the provisions in force;
- Euro 190,356 thousand refer to IRES DTAs relating to cases other than the above. The most significant amount (Euro 162,472 thousand) refers to the deferred tax assets recorded in view of provisions for risks and charges allocated in relation to the Settlement Offer made by the Bank to its Shareholders as well as to the legal risks connected with "BPVi capital transactions" and with the other critical issues emerged in the course of the ECB's inspection.

It is recalled that Law no. 208 of 28 December 2015 provides, effective from the tax period following the current one at 31/12/2016, for the reduction of the IRES rate from 27.5% to 24% and the simultaneous introduction of a 3.5% additional IRES tax for credit and financial institutions (excluding mutual fund managers). Consequently, Group companies other than credit and financial institutions adjusted IRES DTAs taking into account the IRES rate reduction from 27.5% to 24%.
It should also be noted that the Bank, as consolidating company of the Group's tax consolidation, opted for payment of the annual guarantee fee pursuant to Law Decree no. 59 of 3 May 2016 in order to maintain the requirements to convert DTAs into tax credits in accordance with Law No. 214/2011. Consequently, for the aforesaid eligible DTAs, as specified in the joint document by Bank of Italy/IVASS/CONSOB of 15 May 2012, the probability test is deemed to be automatically met because it is certain that they will be entirely recovered under any circumstance.

With regard to IRES DTAs, other than those per Law no. 214/2011, the considerations on the basis of which the conditions for recording them according to IAS 12 are deemed to be met are described below. In particular, in the verification prescribed by the aforementioned accounting standard for recording the DTA, the following elements were taken into account:

- the Board of Directors approved the stand-alone income and financial projections for the years 2017-2021, consistent with the Business Plan in support of the proposed merger with Veneto Banca S.p.A.;
- for the purposes of the probability test, the taxable income of future years was estimated on the basis of the income statements forecast by the aforesaid stand-alone income and financial projections. Taxable income was estimated at national tax consolidation level taking into account all Group companies that exercised the option envisaged in articles 117 et seq of the Consolidated Income Tax Law;

- for Group companies under the national tax consolidation regime and falling within the category of credit and financial institutions, for the purposes of the additional 3.5% tax, future income was estimated separately for each company, as the additional tax is paid on an individual basis;
- according to article 84 of the Consolidated Income Tax Act, the IRES tax loss may be computed as a reduction of the income of the tax periods of future years, without time limits;
- current legislation requires financial intermediaries to convert the DTAs referred to in Law no. 214/2011 into tax credits if the Bank incurs an operating loss or a tax loss, within the limits set by the provisions in force;
- in estimating the recoverability of DTAs, the lookout-period approach was used assuming a ten-year time horizon. To this end, it was assumed that the profit for the years after the last one in the time horizon (years 2017 to 2021) considered by the stand-alone income and financial projections is at least equal to the last explicit year of these projections.

Based on the above elements, the assessments made led to believe that future taxable income will likely be available in view of which it will be possible to use the IRES DTAs. In this regard, it should be noted that on the basis of the analyses carried out, recovery of IRES DTAs recorded in the financial statements (net of DTLs) would occur within the time horizon assumed for the purposes of the aforesaid lookout-period approach.

Additionally, in relation to the probability test results with regard to compliance with the ten-year DTA recoverability horizon assumed for the purposes of the lookout-period approach, at 31 December 2016 no IRES DTAs have been recorded for a total amount of Euro 531.2 million, related to tax losses (realised in the years 2015 and 2016), which according to the current legislation can be deducted from future year earnings without any time limit, and other IRES deferred tax assets totalling Euro 46.2 million (of which Euro 20.7 million may be recorded as offsetting entries in the income statement and Euro 25.5 million may be recorded as offsetting entries against equity).

With regard to IRAP deferred tax assets, only "DTAs per Law no. 214/2011" have been recorded, for which - as specified above - the probability test is deemed to be automatically met because it is certain that they will be entirely recovered in all circumstances.

Lastly, it should be pointed out that the elements considered above for probability test purposes present the following reasons for uncertainty:

- risk that changes to tax regulations, not foreseeable today, may in the future limit the possibility to recognise the IRES tax loss, reduce the tax rates with a consequent reduction in the amount of the recoverable DTA or entail even significant impacts on the taxable income of upcoming years;
- risk that, for any reason not currently foreseeable, the economic results (and the consequent future taxable income) are lower than those estimated by stand-alone income and financial projections for the years 2017-2021.

The occurrence of the aforesaid circumstances could lead in upcoming years even to significant adjustments in the accounting values of the deferred tax assets recorded in the Financial Statements.

13.7 Other information

"Tax assets: a) current" are broken down as follows:

	31/12/2016	31/12/2015
1. Direct tax assets - IRES	1,246	43,342
2. Credits for reimbursement claims for direct taxes - IRES	67,756	19,371
3. Credits from subsidiaries for direct taxes - IRES	6,220	2,906
4. Credits for transformation of DTA pursuant of law 214/2011 - IRES	45,534	8,507
5. Direct tax assets - IRAP	7,901	8,622
Total	**128,657**	**82,748**

In compliance with the Bank of Italy Circular no. 262 of 22 December 2005 as amended, "Tax assets" (asset line item 130) and "Tax liabilities" (liability line item 80) in the statement of financial position only include those tax assets and liabilities (current and deferred) recognised in accordance with IAS 12 (governing income taxes), while other tax credit/debit balances are reported in "Other assets" (asset line item 150) and "Other liabilities" (liability line item 100) of the statement of financial position.
In compliance with IAS 12, payments on account for individual taxes have been offset against the related tax payable, with net positive balances reported as "Tax assets: a) current" and net negative balances as "Tax liabilities: a) current".
With reference to the Bank's tax position, based on the ordinary statute of limitations of the assessment, both for value added tax purposes and for direct tax purposes, the last year closed is 2011.

As far as regional business tax (IRAP) is concerned, in previous years the Italian tax authorities sent the Bank two assessments for alleged irregularities in calculating and paying the tax due in relation to fiscal years 2003 and 2004, against which the Bank duly appealed. The Veneto regional tax commission ruled fully in favour of the Bank, annulling the two assessments in full. For both fiscal years, the Italian tax authorities submitted an appeal to the supreme Court of Cassation, in relation to which the Bank shall file an appearance before the Court. The Supreme Court of Cassation rejected the appeal filed by the Italian Tax Authorities for the year 2003, confirming the upper court's decision that had been fully favourable to the Bank, whereas it has not yet decided with reference to the assessment pertaining to the year 2004.

As far as regional business tax (IRAP) of the merged company Cariprato is concerned, litigation is still ongoing with regard to an assessment pertaining to the year 2006, for alleged irregularities in calculating and paying the tax due, against which the Bank promptly appealed. The first level Tax Commission recognised the payable tax striking down the penalties. An appeal against this decision was filed with the competent Regional Tax Commission, whose decision confirmed the first level ruling. The Italian Tax Authorities submitted an appeal against this ruling with the supreme Court of Cassation.

Lastly, the Bank has renewed the option under art. 117 *et seq.* of the Income Tax Consolidation Act to file for tax on a group basis, together with its subsidiaries Banca Nuova Spa, Farbanca Spa, Prestinuova Spa and Immobiliare Stampa, for the three-year period 2015-2017. It also exercised the same option for the three-year period 2014-2016 with the subsidiary Nem Sgr SpA.

SECTION 14

Non-current assets held for sale and associated liabilities – Asset line item 140 and liability line item 90

This section has not been completed since the Bank does not have any non-current assets held for sale within the meaning of IFRS 5.

SECTION 15

Other assets – Line item 150

15.1 Other assets: breakdown

	31/12/2016	31/12/2015
1. Miscellaneous debits in transit	10,311	8,766
2. Miscellaneous security transactions	646	1,201
3. Amounts recorded on the last day of the year	156,871	140,402
4. Checks drawn on third parties sent for collection	4,003	2,405
5. Accrued income and prepaid expenses not allocated to specific accounts	2,285	2,651
6. Leasehold improvements	5,840	8,937
7. Items awaiting allocation	1,831	1,060
8. Other fiscal items	72,648	88,207
9. Other miscellaneous items	70,081	160,587
Total	**324,516**	**414,216**

“Leasehold improvements” consist of improvement expenditure that cannot be separated from the assets themselves, meaning that it cannot be separately recognised in property, plant and equipment. These costs are amortised over the period they are expected to benefit or the residual duration of the lease, whichever is shorter.

“Amounts recorded on the last day of the year” refer to items almost all of which settled in the first few days of the new year.

In compliance with the Bank of Italy Circular no. 262 of 22 December 2005 as amended, line 9. reports the tax liabilities that do not fall under the scope of IAS 12 (governing income taxes).

LIABILITIES AND EQUITY

SECTION 1

Due to banks – Line item 10

1.1 Due to banks: breakdown by type

Type of transaction/Members of the group	31/12/2016	31/12/2015
1. Due to central banks	**6,436,479**	**6,651,137**
2. Due to other banks	**3,334,030**	**3,517,435**
2.1 Current accounts and sight deposits	528,454	500,652
2.2 Time deposits	671,614	740,221
2.3 Loans	2,001,005	2,082,853
2.3.1 repurchase agreements	1,907,855	1,408,851
2.3.2 other	93,150	674,002
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	132,957	193,709
Total	**9,770,509**	**10,168,572**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	9,770,509	10,168,572
Total fair value	**9,770,509**	**10,168,572**

Under line item 1. “Due to central banks” are included refinancing operations in which the Bank participated by forming a pool of assets eligible as collateral. In particular, at 31 December 2016, a refinancing operation for Euro 4,686 million, called TLTRO II Series (Targeted Longer Term Refinancing Operation) is under way, carried out by participating in the June 2016 auction, as well as an ordinary refinancing operation for Euro 1,750 million by participating in the weekly auctions of the ECB (so-called MRO). Lastly, during 2016, the TLTRO I operations carried out in 2014 (Euro 1,249 million) and in 2015 (Euro 600 million) were extinguished early.

Line 2.2 “Time deposits” also includes the “compulsory reserve” of Euro 21,136 thousand received from other Group banks to satisfy their obligations indirectly.

Line 2.3.1 also includes funding “repurchase agreements” using securities obtained under lending “repurchase agreements”.

1.2 Details of Line item 10 "Due to banks": subordinated debt

There is no subordinated debt with banks.

1.3 Details of Line item 10 "Due to banks": subordinated debt

There is no structured debt with banks.

1.4 Due to banks with micro hedges

There are no amounts due to banks with micro hedges.

1.5 Finance lease payables

There are no finance leases with banks.

SECTION 2

Due to customers – Line item 20

2.1 Due to customers: breakdown by type

Type of transaction/Members of the group	31/12/2016	31/12/2015
1. Current accounts and sight deposits	7,653,566	9,450,771
2. Time deposits	1,595,409	1,521,597
3. Loans	749,372	829,573
3.1 repurchase agreements	131,488	-
3.2 other	617,884	829,573
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	1,813,504	1,732,713
Total	**11,811,851**	**13,534,654**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	11,811,851	13,534,654
Total fair value	**11,811,851**	**13,534,654**

"Other payables", at 31 December 2016, include Euro 1,716.3 million (Euro 1,513.5 million at 31 December 2015) in liabilities for assets sold but not derecognised, as the matching entry to the mortgages sold under certain securitisations originated by the Bank which do not qualify for derecognition under IAS 39 and so have been "reinstated" in the financial statements under Assets, line item 70 "Loans and advances to customers".

2.2 Details of Line item 20 "Due to customers": subordinated debt

There is no subordinated debt with customers.

2.3 Details of Line item 20 "Due to customers": structured debt

There is no structured debt with customers.

2.4 Due to customers with micro hedges

There are no amounts due to customers with micro hedges.

2.5 Finance lease payables

There are no finance leases with customers.

SECTION 3

Debt securities in issue – Line item 30

3.1 Debt securities in issue: breakdown by type

Type of security/Amounts	31/12/2016				31/12/2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities	**4,551,296**	**-**	**4,523,494**	**60,382**	**5,525,613**	**-**	**5,440,524**	**103,415**
1. Bonds	4,490,914	-	4,523,494	-	5,422,198	-	5,440,524	-
1.1 structured	87,206	-	87,206	-	85,272	-	86,925	-
1.2 other	4,403,708	-	4,436,288	-	5,336,926	-	5,353,599	-
2. other securities	60,382	-	-	60,382	103,415	-	-	103,415
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	60,382	-	-	60,382	103,415	-	-	103,415
Total	**4,551,296**	**-**	**4,523,494**	**60,382**	**5,525,613**	**-**	**5,440,524**	**103,415**

Line 1.1 “Structured bonds” concerns a bond issue convertible into ordinary shares of Banca Popolare di Vicenza.

Line 1.2 “Other bonds” also includes repurchase agreements with underlying own issue securities amounting to Euro 96,357 thousand (Euro 335,555 thousand at 31 December 2015).

Line 2.2 “Other securities” comprises certificates of deposit and own cheques in circulation.

3.2 Details of Line item 30 "Debt securities in issue”: subordinated securities

	31/12/2016	**31/12/2015**
Debt securities in issue	645,393	713,437

More information about subordinated liabilities can be found in Part F, Section 2 of these explanatory notes.

3.3 Debt securities in issue with micro hedges

Type of security/Amounts	31/12/2016	31/12/2015
A. Securities		
1. Bonds	85,544	264,505
1.1 structured	-	-
1.2 other	85,544	264,505
2. other securities	-	-
2.1 structured	-	-
2.2 other	-	-
Total	**85,544**	**264,505**

The amounts shown in the table above refer to the nominal value of fixed-rate bonds subject to micro hedges.

SECTION 4

Financial liabilities held for trading – Line item 40

4.1 Financial liabilities held for trading: breakdown by type

Type of transaction/ Members of the group	31/12/2016					31/12/2015				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to other banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1. Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	-	1,370,658	81,187	X	-	70	2,766,264	253	X
1.1 Dealing	X	-	1,370,522	81,187	X	X	70	2,765,769	253	X
1.2 Connected with fair value option	X	-	136	-	X	X	-	495	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Dealing	X	-	-	-	X	X	-	-	-	X
2.2 Connected with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**1,370,658**	**81,187**	**X**	**X**	**70**	**2,766,264**	**253**	**X**
Total (A+B)	**X**	**-**	**1,370,658**	**81,187**	**-**	**X**	**70**	**2,766,264**	**253**	**-**

Key:
FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
NV = Nominal or notional value
L1= Level 1
L2= Level 2
L3 = Level 3

It should be noted that the amount related to financial derivatives indicated in Level 3 at 31/12/2016 is almost fully to be attributed to the valuation of the put option held by Cattolica Assicurazioni which give to said company the same right to sell to BPVi the 60% share held in the capital of the insurance companies Berica Vita, Cattolica Life and ABC Assicura.

There are no derivatives with underlying own liabilities.

4.2 Details of Line item 40 "Financial liabilities held for trading": subordinated liabilities

There are no subordinated liabilities.

4.3 Details of Line item 40 "Financial liabilities held for trading": structured debt

There is no structured debt.

SECTION 5

Financial liabilities designated at fair value – Line item 50

5.1 Financial liabilities designated at fair value: breakdown by type

Type of transaction/Amounts	31/12/2016					31/12/2015				
	NV	*Fair value*			FV*	NV	*Fair value*			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
2. Due to customers	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
3. Debt securities	**252,228**	**-**	**257,652**	**-**	**260,534**	**403,762**	**-**	**414,197**	**-**	**418,781**
3.1 Structured	16,263	-	16,299	-	X	23,322	-	23,432	-	X
3.2 Other	235,965	-	241,353	-	X	380,440	-	390,765	-	X
Total	**252,228**	**-**	**257,652**	**-**	**260,534**	**403,762**	**-**	**414,197**	**-**	**418,781**

Key:
FV = Fair value
FV = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date*
NV = Nominal value
L1 = Level 1 L2 = Level 2 L3 = Level 3

This line item includes own bonds related to derivative contracts that hedge interest rate risk, valued by applying the fair value option, as set forth in IAS 39 (so-called "*natural hedge*").

Structured securities relate to liabilities containing an optional part linked to the performance of interest rates.

5.2 Details of Line item 50 "Financial liabilities designated at fair value": subordinated liabilities

There are no subordinated financial liabilities designated at fair value.

SECTION 6

Hedging derivatives - Line item 60

6.1 Hedging derivatives: breakdown by types of hedge and hierarchical levels

	Fair Value 31/12/2016			NV 31/12/2016	Fair Value 31/12/2015			NV 31/12/2015
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	**-**	**874,980**	**-**	**4,259,195**	**-**	**846,367**	**-**	**4,014,506**
1) Fair value	-	141,228	-	2,066,195	-	76,366	-	241,506
2) Cash flows	-	733,752	-	2,193,000	-	770,001	-	3,773,000
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**874,980**	**-**	**4,259,195**	**-**	**846,367**	**-**	**4,014,506**

Key:
NV = nominal value
L1 = Level 1 L2 = Level 2 L3 = Level 3

This line item reports derivatives with a negative fair value, taken out to hedge interest rate risk on specific debt securities under "Financial assets available for sale" and on on-demand items (current accounts and demand deposits) of "Due to customers".

6.2 Hedging derivatives: breakdown by hedged portfolios and types of hedging

Transactions/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available for sale	134,263	-	-	-	-	X	733,752	X	X
2. Loans and advances	-	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**134,263**	**-**	**-**	**-**	**-**	**-**	**733,752**	**-**	**-**
1. Financial liabilities	6,965	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	**6,965**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

To represent the aforesaid hedging transactions, the Bank opted for the "Micro Fair Value Hedge" accounting model for those relating to investments in debt securities, while it used the "Macro Fair Value Hedge" model for those relating to on-demand items recorded under "Due to customers", with the consequent recognition of the revaluations of the hedged liabilities under Liabilities, line item 70 "Remeasurement of financial liabilities backed by macro hedges".

SECTION 7

Remeasurement of financial liabilities backed by macro hedges - Line item 70

7.1 Remeasurement of hedged financial liabilities

Fair value adjustment of hedged financial liabilities	31/12/2016	31/12/2015
1. Positive changes to financial liabilities	-	-
2. Negative changes to financial liabilities	6,808	-
Total	**6,808**	**-**

This item includes the changes in fair value referring to on-demand items (current accounts and demand deposits) recorded under hedged "Due to customers".

The Bank has accounted for these hedges in the financial statements using the Macro Fair Value Hedging accounting model. Consequently, the write-back/write-down of hedged assets in compliance with IAS 39 is reported in this line item, with the matching entry recognised in "Net hedging gains (losses)" (income statement line item 90), together with the results of measuring the associated hedging derivatives.

7.2 Financial liabilities backed by macro hedges covering interest rate risk: breakdown

Hedged liabilities	31/12/2016	31/12/2015
1. Due to customers	1,366,195	
Total	**1,366,195**	**-**

The amounts shown in the table above refer to the residual debt under liabilities, backed by hedges.

SECTION 8

Tax liabilities – Line item 80

Deferred tax liabilities are discussed in Section 13 of the Assets.

The same Section also contains information about the Bank's tax position.

In relation to "Tax liabilities: a) current" the present line item has not been completed.

SECTION 9

Liabilities associated with non-current assets held for sale – Line item 90

This section has not been completed since the Bank does not have any liabilities associated with non-current assets held for sale.

SECTION 10

Other liabilities – Line item 100

10.1 Other liabilities: breakdown

	31/12/2016	31/12/2015
1. Miscellaneous security transactions	16,274	24,622
2. Employee salaries and contributions	30,330	31,251
3. Due to suppliers	37,449	24,408
4. Transactions in transit	292,352	162,573
5. Adjustments for non-liquid balances relating to the portfolio	139,202	263,722
6. Allowance for risks on guarantees and commitments	10,740	10,192
7. Accrued expenses and deferred income not allocated to specific accounts	4,675	4,618
8. Other fiscal items	39,174	14,202
9. Other miscellaneous items	194,910	141,971
Total	**765,106**	**677,559**

"Transactions in transit" refer to positions taken in the last few days of the year, almost all of which settled in the first few days of the new year.

In compliance with the Bank of Italy Circular no. 262 of 22 December 2005 as amended, line 8. reports the tax assets that do not fall under the scope of IAS 12 (governing income taxes).

SECTION 11

Provision for severance indemnities – Line item 110

11.1 Provision for severance indemnities: changes during the year

	31/12/2016	31/12/2015
A. Opening balance	**59,758**	**66,188**
B. Increases	**2,821**	**1,112**
B.1 Provisions	919	1,101
B.2 Other increases	1,902	11
- of which: business combinations	-	-
C. Decreases	**2,900**	**7,542**
C.1 Payments made	2,896	2,952
C.2 Other decreases	4	4,590
D. Closing balance	**59,679**	**59,758**
Total	**59,679**	**59,758**

According to IFRIC, the provision for severance indemnities is a "post-employment benefit" qualifying as a "defined benefit plan", the value of which according to IAS 19 must be determined on an actuarial basis. As a consequence, the year-end valuation of this amount was carried out by an independent actuary using the projected unit credit method with reference to earned benefits. This method involves the projection of future payments with reference to past trends and statistical analyses and probabilities, adopting suitable demographic techniques. This makes it possible to calculate the severance indemnities accruing at a specific date on an actuarial basis, distributing the cost over the entire remaining service of the current workforce, and no longer presenting them as a cost payable as if the business were to cease trading on the reporting date.

Line B.1 "Provisions" includes, in addition to the actual provisions for the year determined in accordance with current laws and with the National Collective Labour Agreement, also the adjusting effect of the actuarial measurement recognised in the income in accordance with IAS 19.

Line B.2 "Other decreases" includes the effect of the actuarial measurement, recognised as a balancing entry of the specific equity valuation reserve, in accordance with IAS 19.

The actuarial valuation of the employee severance indemnities performed in accordance with the method indicated above, brought to light a deficit of Euro 4,196 thousand in the payable, determined in accordance with current laws and with the National Collective Labour Agreement, compared to the result of the actuarial valuation.

11.2 Other information

The demographic and financial assumptions used by the actuary to value the provision for severance indemnities at 31 December 2016 compared to those at 31 December 2015 are shown below.

Demographic assumptions	**31/12/2016**	**31/12/2015**
Mortality rate	RG48	RG48
Disability	INPS tables by age and gender	INPS tables by age and gender
Age of retirement	Achievement of compulsory general insurance requirements	Achievement of compulsory general insurance requirements

Financial assumptions	**31/12/2016**	**31/12/2015**
Annual discounting rate	1.36%	2.03%
Annual inflation rate	1.50%	1,50% 2016 1,80% 2017 1,70% 2018 1,60% 2019 2,00% from 2020 onwards
Rate of severance indemnity increase	2.625%	2,625% 2016 2,850% 2017 2,775% 2018 2,700% 2019 3,00% from 2020 onwards

Annual frequency of turnover and severance indemnity advances	**31/12/2016**	**31/12/2015**
Advances (BPVi)	1.00%	1.00%
Turnover (BPVi)	1.00%	1.00%

SECTION 12

Provision for risks and charges – Line item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts	31/12/2016	31/12/2015
1. Post-retirement benefits	4,858	4,829
2. Other provisions for risks and charges	779,405	529,685
2.1 legal disputes	48,388	34,679
2.2 personnel expenses	15,391	18
2.3 other	715,626	494,988
Total	**784,263**	**534,514**

"Post-retirement benefits" refer to the Supplementary Section of the Pension Fund, a defined benefit plan of the former subsidiary Cariprato, merged on 31 December 2010, more details of which can be found in note 12.3 below. The Capitalisation Section of this fund is a defined contribution plan and so is not reported in the statement of financial position, in compliance with IAS 19.

12.2 Provisions for risks and charges: changes during the year

	Post-retirement benefits	Other provisions	Total
A. Opening balance	**4,829**	**529,685**	**534,514**
B. Increases	**532**	**269,991**	**270,523**
B.1 Provisions	532	269,870	**270,402**
B.2 Changes due to the passage of time	-	-	**-**
B.3 Changes due to variations in the discount rate	-	121	**121**
B.4 Other increases	-	-	**-**
C. Decreases	**503**	**20,271**	**20,774**
C.1 Utilizations during the year	503	20,045	**20,548**
C.2 Changes due to variations in the discount rate	-	-	**-**
C.3 Other decreases	-	226	**226**
D. Closing balance	**4,858**	**779,405**	**784,263**

12.3 Defined benefit pension funds

1. Illustration of the characteristics of the provisions and of the related risks

The Bank operates a supplementary pension fund for employees under an agreement signed on 30 June 1998 between Cariprato, merged into BPVi in December 2010, and the employees' unions. This Fund, restricted under article 2117 of the Italian Civil Code and governed by specific regulations, is divided into two Sections:

- the Capitalisation Section, which guarantees supplementary pension benefits on a defined contribution basis, requiring the Bank to pay an annual amount calculated with reference to the taxable base used for determining severance indemnities;
- the defined benefit Supplementary Section, which is described in this note.

The Supplementary Section represents the continuation, under current rules, of the original Fund set up under an in-house agreement dated 27 June 1972 to supplement the benefits payable by INPS. Its participants comprise personnel of the former subsidiary Cariprato who were already pensioners as of 1 July 1998, as well as the employees of the bank at 1 May 1981 who opted to remain in the Supplementary Section on 1 July 1998.
The Fund guarantees pension benefits to members that supplement those paid by INPS under the obligatory national scheme. These benefits can represent up to 75% of the last pensionable salary received (after 35 years of service).
It should also be noted that as stated by the Supervisory Commission with reference to the Pension Funds, with Resolution dated 21 September 2011, the Pension Fund for Employees does not provide differentiated treatment based on gender.
At 31 December 2016, the Supplementary Section's participants comprise 1 employee still in service and 55 employees entitled to supplementary or substitute benefits greater than zero.

2. Change in the year of the net defined benefit liabilities (assets) and of the rights to reimbursement

The opening and closing balances of the present value of the defined benefit obligation are reconciled below, indicating the effects of changes during the year:

Description	Mathematical reserve
Mathematical reserve at 31.12.15	**4,829**
Net earnings of the Fund	121
Pension cost	(503)
Payments made	3
Actuarial profit (loss) - 2016	408
Reserve at 31.12.16	**4,858**

At 31 December 2016, the size of the Fund was aligned to the mathematical reserve calculated on the same date, since the Bank, in accordance with Article 8 of the Fund Regulations, had settled the deficit of Euro 532 thousand (versus a deficit of Euro 116 thousand in the previous year) resulting from the actuarial valuation.

The Fund's assets, all invested in cash and cash equivalents with Banca Popolare di Vicenza, increased from Euro 4,829 thousand as at 31 December 2015 to Euro 4,858 thousand as at 31 December 2016. The decreases during the year derive from the payment of Euro 503 thousand in pensions, whilst the increases refer to the payment, for Euro 532 thousand, made to settle the Fund deficit and make its size match the mathematical reserve.

3. Disclosures on the fair value of plan assets

The present value of the defined benefit obligation and the fair value of the plan assets and the plan's surplus or deficit are presented for the current year and four previous ones:

	Present value	Fair value of assets	Surplus or Deficit
2012	5,923	5,838	(85)
2013	5,682	5,268	(414)
2014	5,253	5,042	(211)
2015	4,829	4,713	(116)
2016	4,858	4,326	(532)

At 31 December 2016, the Bank allocated a provision of Euro 532 thousand to make the size of the Fund match the Mathematical Reserve.

There are no differences between the present value of plan assets and the assets and liabilities reported in the statement of financial position since all the fund's resources are invested in liquid assets.

4. Description of principal actuarial assumptions

The amount of the supplementary Fund in relation to the obligations to its participants is reviewed once a year by an independent actuary.
The principal actuarial assumptions adopted for the latest calculation of the mathematical reserve at 31/12/2016 are set out below.
This valuation was made using the demographic, economic and financial assumptions described below.

Demographic assumptions

The following criteria were adopted:

- *probability of death of current employees and pensioners:* the mortality rates of the Italian population published by ISTAT in 2014 were applied;
- *probability of termination of service for absolute and permanent disability:* probabilities adopted by the Treasury Ministry's Pension Institutes, published in the report of 1969, reduced to 75% of the original amount, were applied;
- *retirement age*: it was assumed that active employees who do not "die in service" or "retire for intervening disability" stop working as soon as they reach the minimum pensionable age/length of service established by INPS current retirement legislation in Italy. No person may receive benefits unless they also qualify for a pension payable by INPS;
- *calculation of indirect expenses and reversibility*: the calculation refers to the composition of the average surviving family unit, depending on the employee's sex and age upon death, and the number of years since death. The probabilities of marriage (by sex and age) and the probabilities of fertility (by age of the female and by order of birth of the children) were taken from the ISTAT "Marriage tables" (1971) and from the ISTAT "Female fertility survey" (1974), with appropriate adjustments to take account of social changes in the past twenty years. In order to take account of the changes introduced by Law 335/1995 on the accumulation of surviving spouse pensions and beneficiary income, the pension payable by INPS to surviving spouses has been reduced to 66% (based on information obtained in relation to a major credit institution);
- *types of remuneration:* these were taken, with suitable standardisation, from actual statistics relating to the staff of a bank at 31 December 1995, broken-down based on the following four categories: managers and officers, male middle managers and clerical staff, female middle managers and clerical staff, subordinate and auxiliary staff. Due to the limited number of employees of Cassa, the data which can be directly identified by examining its experience is immaterial.

Economic and financial assumptions

The following rates have been adopted:

- technical discounting rate: 0.39;
- annual inflation rate: 1.50%;
- annual rate of salary increases: 1%.

The technical rate was chosen based on the consideration that the financial average duration of outflows, starting from 31 December 2016, calculated according to the assumptions adopted for the previous Financial Statement, is 6.9 years.

5. Information on amount, timing and uncertainty of cash flows

On the basis of assumptions reported in the earlier paragraph, the calculation of charges the Fund must deal with in the future gave the following results.

Pensioners

Average present value of integrated pension (Euro)			
	Male	Female	Total
direct	23,323,513	1,523,094	24,846,607
ind. e di rev.	-	4,191,569	4,191,569
total	23,323,513	5,714,663	29,038,176

Average present value of INPS pension(Euro)			
	Male	Female	Total
direct	19,762,491	1,332,613	21,095,104
ind. e di rev.	-	3,129,343	3,129,343
total	19,762,491	4,461,956	24,224,447

Average present value of supplementary pension (Euro)			
	Male	Female	Total
direct	3,561,022	190,482	3,751,504
ind. e di rev.	-	1,062,227	1,062,227
total	3,561,022	1,252,709	4,813,731

Active

Average present value of treatments accrued (Euro)		
integrated pension	pension INPS	supplementary pension
728,041	683,600	44,441

As regards timing, for the 55 pensioners, the average age is around 78 years for males and 81 years for females.
As regards the current female employees, it was assumed they will continue to keep up the same percentage of work activity in the future as they have done up till now (the employees are holding part time employment contracts).

6. Multi-employer plans

This paragraph has not been completed, since there is just one employer.

7. Defined benefit plans that spread risks among entities under common control

This paragraph has not been completed since there are no risks spread among entities under common control.

12.4 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2016	31/12/2015
1. Legal disputes	**48,388**	**34,679**
1.1 Civil litigation	43,222	31,040
1.2 Bankruptcy claims	5,166	3,639
2. Personnel expenses	**15,391**	**18**
2.1 Bonus system	15,391	18
3. Other	**715,626**	**494,988**
3.1 Financed capital and letters of commitment	264,005	348,408
3.2 Complaints and disputes on BPVi shares (incl. Settlement Offer)	417,058	135,817
3.3 Other	34,563	10,763
Total	**779,405**	**529,685**

The provision for legal disputes relates to contingencies associated with claims against the Bank and from the liquidators of bankrupt companies.

The provision for employment costs refers to potential lawsuits related to employees. More specifically, it refers to the charges related to the Solidarity Fund executed in December with the Trade Unions.

The other funds under lines 3.1 and 3.2 refer to "BPVi capital transactions" and apply to legal risks related to other critical issues that emerged during the ECB's inspection of 2015, as well as following internal audits carried out as described in the paragraph "Inspections" of the Report on Operations. Line 3.2 includes the allocations made to keep into account the outcome of the settlement offer made to the Shareholders of the Bank (including the Welfare Initiative targeting the shareholders under difficult living conditions), the terms and conditions of which are described in the specific paragraph of the Report on Operations.

The lawsuit for bankruptcy claims and litigation against the Bank (other than cases relating to the transactions on BPVi capital) has been discounted to present value, while the other provisions refer to contingencies that are likely to be settled within the next 12/18 months. Consequently, these liabilities have not been discounted since the effect would not be significant.

SECTION 13

Redeemable shares – Line item 140

This section has not been completed because the Bank has not issued any redeemable shares.

SECTION 14

Equity - Line items 130, 150, 160, 170, 180, 190 and 200

14.1 "Capital stock" and "Treasury shares": breakdown

	31/12/2016	31/12/2015
- Total number of shares	15,100,587,829	100,587,829
- Nominal value	-	Euro 3.75

Following the by-laws amendments approved by the Shareholders' Meeting of 7 July 2016, the shares of the Bank have no nominal value.

14.2 Capital stock - Number of shares: changes during the year

Items	Ordinary	Other
A. Shares issued at the beginning of the year	**100,587,829**	**-**
- fully paid	100,587,829	-
- not fully paid	-	-
A.1 Treasury shares (-)	407,527	-
A.2 Outstanding shares: opening balance	**100,180,302**	**-**
B. Increases	**15,000,000,000**	**-**
B.1 New issues	15,000,000,000	-
- payment:	15,000,000,000	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrant	-	-
- other	15,000,000,000	-
- bonus:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**258,533**	**-**
C.1 Elimination	-	-
C.2 Purchase of treasury shares	258,533	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	**15,099,921,769**	**-**
D.1 Treasury shares (+)	666,060	-
D.2 Shares issued at the end of the year	**15,100,587,829**	-
- fully paid	15,100,587,829	-
- not fully paid	-	-

The “New issues – against payment” of line B.1 refers to the completion of the capital increase operation which took place in May 2016, fully subscribed by Atlante Fund/Quaestio Sgr SpA.

Line C.2 “Purchase of Treasury shares” refers to the shares resulting from the settlement agreement entered into with the Athena Fund.

14.3 Share capital: other information

As a result of bonus issues in previous years, capital stock includes the following revaluation reserves in suspense for tax purposes:

- Reserve under Law 74 dated 11.02.1952 for Euro 24 thousand;
- Reserve under Law 72 dated 19.03.1983 for Euro 13,005 thousand;
- Reserve under Law 576 dated 02.12.1975 for Euro 553 thousand;
- Reserve under Law 218 dated 30.07.1990 for Euro 30,582 thousand;
- Reserve under Law 408 dated 29.12.1990 for Euro 12,834 thousand;
- Reserve under Law 413 dated 30.12.1991 for Euro 28,054 thousand.

14.4 Reserves from earnings: other information

As required by art. 2427, par. 1 no. 7-bis of the Italian Civil Code, the following table analyses the equity accounts according to their permitted uses and distribution:

Description	Amount	Permitted uses	Unrestricted portion	Uses in past three years	
				To cover losses	For other reasons
Capital stock	677,204		-	-	30,092
Treasury shares	(28,056)		-	-	-
Capital reserves					
- additional paid-in capital	3,080,275	a,b,c	899,019	398,695	125,773
Equity instruments	-		-	-	-
Valutation reserves					-
- art. 6.1 b) Decree 38/2005 (financial assets available for sale and cash flow hedge derivatives valuation)	(39,066)		-	-	-
- art. 7.6 Decree 38/2005	1,757	a,b	1,757	-	-
- reserve ex Law 413/91	344	a,b,c	344	-	-
- reserve ex Law 342/00	173	a,b,c	173	-	-
- reserve ex Law 576/75	61	a,b,c	61	-	-
- Valuation reserve actuarial gains defined benefit plans	(7,668)		-	-	-
Profit reserves					-
- legal reserve	135,776	b	135,441	-	-
		a,b,c	336	-	-
- Statutory reserve	-	a,b,c	-	283,537	-
- reserve for treasury shares (restricted portion)	28,056		-	-	-
- reserve for treasury shares (unrestricted portion)	-	a,b,c	-	140,000	-
- reserve Law 153/99	-	a,b,c	-	27,036	-
- reserve ex art. 2349 Civil Code	1,902	a	1,902	-	465
- art. 6.1a) Decree 38/2005	2,882	b	2,882	-	-
- reserve ex Law 218/90	1,586	a,b,c	1,586	-	-
- reserve against the future capital increase	163,701	a	163,701	-	-
- costs incurred for capital increase	(29,709)	-	-	-	-
- other reserves	870	a,b,c	870	18,697	1,000
- Reserve for gains (losses) realized following the closing of cash flow hedge operations	22,757	-	-	-	-
- riserva ex titoli AFS riclassificati	1,454	-	-	-	-
		-			
TOTAL	**4,014,299**		**1,208,072**	**867,965**	**157,330**
Net loss	**(1,901,705)**				
Total equity	**2,112,594**				
Undistributable portion			305,682		
Remaining distributable portion			902,390		

Key: "a": for capital increase; "b": for hedging losses; "c": for distribution to the shareholders; "d": for other destinations.

(1) The information about the portion of available reserves should be considered in light of the proposed coverage of the loss for the year formulated by the Board of Directors in the Bank's Report on Operations.
(2) The unrestricted portion does not include the equity reserve pursuant to Art. 2358, paragraph 6 of the Italian Civil Code established in view of the equity share for which a correlation exists between purchases/subscriptions of BPVi shares and loans disbursed to some Members/Stockholders (amounting to Euro 231,733 thousand) as well as the reserve pursuant to Art. 2358, paragraph 6 of the Italian Civil Code recorded in view of the two "ordinary" share capital increase transactions to expand the stockholder base, which offered new Stockholders the possibility of subscribing BPVi shares with resources deriving from a loan granted by the Bank, in compliance with the provisions of Art. 2358 of the Italian Civil Code (amounting to Euro 40,251 thousand).

The table above classifies the reserves according to the permitted uses specified in the Italian Civil Code and in special laws governing such reserves.
The permitted use and unrestricted portion do not take account of any restrictions imposed by tax laws.

Attention is drawn to the fact that the Supervisory Instructions for Banks lay down minimum capital requirements which place limits on the actual possibility of distributing reserves.

14.5 Capital instruments: breakdown and changes during the year

"Equity instruments" standing, at 31 December 2015, at Euro 1,415 thousand, are written-off following the expiry of the subordinated convertible loan "BPVi 1^ Issue 2009-2016". The related amount was reclassified under equity "reserves".

14.6 Other information

As is better described in the "Inspections" paragraph of the Report on Operations, the review of the capital carried out by the ECB brought to light a correlation between acquisitions/subscriptions of BPVi shares and loans disbursed to certain Members/Shareholders. In this regard it is pointed out that the equity reserves are subject to a restriction making them non-distributable pursuant to Art. 2358, paragraph 6 of the Italian Civil Code, in the amount of Euro 232 million.

In addition to the amount mentioned above there is another non-distributable equity reserve pursuant to Art. 2358, paragraph 6 of the Italian Civil Code in the amount of Euro 40 million relating to two "ordinary" share capital increase transactions to expand the shareholder base, which offered new Shareholders the possibility of subscribing BPVi shares with resources deriving from a loan granted by the Bank, in compliance with the provisions of Art. 2358 of the Italian Civil Code.

OTHER INFORMATION

1. Guarantees given and commitments

Operations	31/12/2016	31/12/2015
1) Financial guarantees	427,731	1,347,028
a) Banks	11,558	27,561
b) Customers	416,173	1,319,467
2) Commercial guarantees	430,405	527,254
a) Banks	31,057	39,457
b) Customers	399,348	487,797
3) Irrevocable commitments to make loans	434,250	939,347
a) Banks	842	5,242
i) certain to be called on	842	5,242
ii) not certain to be called on	-	-
b) Customers	433,408	934,105
i) certain to be called on	6,275	3,060
ii) not certain to be called on	427,133	931,045
4) Commitments underlying credit derivatives: protection sold	-	-
5) Assets lodged to guarantee the commitments of third parties	-	-
6) Other commitments	183,813	11,012
Total	**1,476,199**	**2,824,641**

2. Assets pledged to guarantee own liabilities and commitments

Portfolio	31/12/2016	31/12/2015
1. Financial assets held for trading	49,699	61,196
2. Financial assets designated at fair value	-	-
3. Financial assets available for sale	3,731,689	4,480,164
4. Financial assets held to maturity	1,034,169	-
5. Loans and advances to banks	1,014,809	1,089,375
6. Loans and advances to customers	9,357,880	8,522,912
7. Property, plant and equipment	11,970	-

The assets pledged as security shown in the table refer mainly:

- for assets held for trading, to own securities pledged in repurchase agreements;
- for financial assets available for sale, to securities transferred in the pooling of assets pledged as security for refinancing operations carried out with the ECB, as well as those pledged in repurchase agreements or deposited to secure own liabilities;
- for financial assets held to maturity, to own securities transferred to the pooling of assets pledged as collaterals for refinancing operations with the ECB;
- for loans and advances to banks, to cash collateral in view of the exposures deriving from operations involving OTC derivatives and/or Repo/bond buy/sell back, regulated by international standards (CSA/GMRA) subscribed on existing ISDA contracts with the various counterparties that regulate such operations;
- for loans and advances to customers, to the securitised loans reported for an amount proportional to the portion of the related ABS securities placed directly on the market or subscribed by the Bank and subsequently re-employed in funding operations, such as repurchase agreements for funding and/or refinancing with the ECB. Also included are the loans in place with customers and connected with financing obtained from multilateral development banks and from other institutional counterparties as well as those transferred into the pooling of assets pledged as security for refinancing operations carried out with the ECB;
- for property, plant and equipment, to properties encumbered by a mortgage in favour of holders of a debenture loan issued by the Bank at the end of the year.

Lastly, for a total of Euro 1.6 billion, also guarantees not recorded in the financial statements and received within security lending and/or repurchase agreement transactions were pledged as security for own liabilities. They were transferred into the pooling of assets pledged as security for refinancing operations with the ECB or re-employed in repurchase agreement transactions.

3. Information on operating leases

There are no material operating leases.

4. Administration and trading on behalf of third parties

The Bank is authorised to trade in securities in accordance with article 1, par. 5 letters a), b), c) and e) of Legislative Decree no. 58 dated 24 February 1998.

Type of service	31/12/2016	31/12/2015
1. Orders executed on behalf of customers	**343,539**	**814,937**
a) purchases	251,856	698,806
1. settled	250,606	692,206
2. unsettled	1,250	6,600
b) sales	91,683	116,131
1. settled	90,396	115,315
2. unsettled	1,287	816
2. Portfolio management	**46,987**	**61,616**
a) individual	46,987	61,616
b) collective	-	-
3. Custody and administration of securities	**22,051,850**	**25,644,800**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	-	-
1. securities issued by consolidated companies	-	-
2. other securities	-	-
b) third party securities in custody (excluding portfolio management): other	10,240,473	13,701,165
1. securities issued by consolidated companies	2,368,831	3,270,379
2. other securities	7,871,642	10,430,786
c) third-party securities on deposit with third parties	9,791,028	13,260,041
d) own securities on deposit with third parties	11,811,377	11,943,635
4. Other transactions	**-**	**-**

5. Financial assets offset in the financial statements, or subject to framework offsetting agreements or similar agreements

6. Financial assets offset in the financial statements, or subject to framework offsetting agreements or similar agreements

The Bank has no outstanding financial assets and liabilities that are offset in accordance with IAS 32, par. 42. The related tables are therefore omitted.

It should be noted that The Bank uses bilateral offsetting arrangements relating to operations in over-the-counter derivatives with principal market counterparties, mainly Banks, giving the option to offset creditor positions against debtor positions in the event of counterparty default. These agreements have not entailed the offsetting of assets against liabilities in the financial statements.

7. Securities lending

The fair value at 31 December 2016 of the securities received in securities loans with customers is set out below. The transactions are without cash guarantee or with cash guarantee that is not within the full availability of the lender. Therefore, they are not included among the assets and liabilities of the Statement of Financial Position.

Type of financial instruments	Financial companies	Non-financial companies
	Fair value	**Fair value**
Debt securities	7,608	47,449
Other debt securities	5,978	3,793
Total	**13,586**	**51,242**

All borrowed securities were pledged to guarantee own financing transactions of the Eurosystem.

8. Disclosure on joint operations

The Bank does not own any joint operations.

PART C - INFORMATION ON THE INCOME STATEMENT

SECTION 1

Interest – Line items 10 and 20

2 Interest income and similar revenues: breakdown

Items/technical forms	Debt securities	Loans	Other transactions	31/12/2016	31/12/2015
1. Financial assets held for trading	3,886	-	8,159	12,045	34,059
2. Financial assets available for sale	110,179	940	-	111,119	72,963
3. Financial assets held to maturity	953	-	-	953	-
4. Loans and advances to banks	29,278	20,698	-	49,976	39,880
5. Loans and advances to customers	5,406	549,705	-	555,111	684,228
6. Financial assets designated at fair value	92	-	-	92	92
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	390	390	221
Total	**149,794**	**571,343**	**8,549**	**729,686**	**831,443**

The line item at issue includes late-payment interest collected on loans referring to loans and advances to customers classified under bad loans for Euro 80.4 thousand.
Late-payment interest on loans and advances to customers classified under bad loans and not yet collected, was fully adjusted.

1.2 Interest income and similar revenues: differentials relating to hedging transactions

This table has not been completed.

1.3 Interest income and similar revenues: other information

1.3.1 Interest income on foreign currency financial assets

	31/12/2016	31/12/2015
a) on foreign currency assets	5,777	7,216

1.3.2 Interest income on finance leases

There are no finance leases.

1.4 Interest expense and similar charges: breakdown

Items/technical forms	Payables	Securities	Other transactions	31/12/2016	31/12/2015
1. Due to central banks	(1,618)	X	-	(1,618)	(2,134)
2. Due to banks	(88,026)	X	-	(88,026)	(60,671)
3. Due to customers	(110,646)	X	-	(110,646)	(122,708)
4. Debt securities in issue	X	(189,798)	-	(189,798)	(226,929)
5. Financial liabilities held for trading	-	(439)	-	(439)	(1,406)
6. Financial liabilities designated at fair value	-	(11,865)	-	(11,865)	(34,118)
7. Other liabilities and provisions	X	X	-	-	-
8. Hedging derivatives	X	X	(51,246)	(51,246)	(13,750)
Total	**(200,290)**	**(202,102)**	**(51,246)**	**(453,638)**	**(461,716)**

1.5 Interest expense and similar charges: differentials relating to hedging transactions

	31/12/2016	31/12/2015
A. Positive differentials relating to hedging transactions	13,194	24,111
B. Negative differentials relating to hedging transactions	(64,440)	(37,861)
C. Balance (A-B)	**(51,246)**	**(13,750)**

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on foreign currency liabilities

	31/12/2016	31/12/2015
a) on foreign currency liabilities	(415)	(1,087)

1.6.2 Interest expense on finance leases

There are no finance leases.

SECTION 2

Commissions – Line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/ Amounts	31/12/2016	31/12/2015
a) guarantees given	8,866	11,841
b) credit derivatives	-	-
c) management, dealing and consultancy services:	68,178	122,630
1. trading in financial instruments	174	1,094
2. foreign currency trading	1,093	1,701
3. portfolio management	484	811
3.1. individual	484	811
3.2. collective	-	-
4. custody and administration of securities	1,796	1,984
5. custodian bank	-	-
6. placement of securities	29,627	50,104
7. acceptance and transmission of orders	4,411	8,394
8. advisory services	1,597	2,861
8.1. for investments	-	-
8.2. for financial structure	1,597	2,861
9. distribution of third party services	28,996	55,681
9.1. portfolio management	383	318
9.1.1. individual	-	-
9.1.2. collective	383	318
9.2. insurance products	12,419	29,740
9.3. other products	16,194	25,623
d) collection and payment services	30,687	34,301
e) servicing for securitization transactions	655	2,046
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) multilateral trading systems management	-	-
i) provision and management of current accounts	89,365	105,089
j) other services	24,585	28,355
Total	**222,336**	**304,262**

Details of "Other services"

	31/12/2016	31/12/2015
1. Fees and commissions on loans	8,029	9,363
2. Commissions on debit/credit cards	13,789	15,665
3. Other services	2,767	3,327
Total	**24,585**	**28,355**

2.2 Fee and commission income: product and service distribution channels

Services/Amounts	31/12/2016	31/12/2015
a) At own branches:	**51,838**	**99,764**
1. portfolio management	462	783
2. placement of securities	26,449	47,588
3. third-party products and services	24,927	51,393
b) Door-to-door:	**7,269**	**6,832**
1. portfolio management	22	28
2. placement of securities	3,178	2,516
3. third-party products and services	4,069	4,288
c) Other distribution channels:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-

2.3 Fee and commission expense: breakdown

Type of service/Amounts	31/12/2016	31/12/2015
a) Guarantees received	(900)	(825)
b) Credit derivatives	-	-
c) Management and dealing services	(7,771)	(10,946)
1. trading in financial instruments	(2,529)	(2,638)
2. trading in foreign currency	(48)	(236)
3. portfolio management:	(96)	(126)
3.1 own portfolio	(96)	(126)
3.2 third-party portfolio	-	-
4. custody and administration of securities	-	-
5. placement of financial instruments	(766)	(690)
6. door-to-door distribution of financial instruments, products and services	(4,332)	(7,256)
d) Collection and payment services	(6,609)	(8,645)
e) Other services	(15,210)	(8,506)
Total	**(30,490)**	**(28,922)**

Details of line "Other services"

	31/12/2016	31/12/2015
1. Commissions on debit/credit cards	(74)	(116)
2. Commissions on financial instruments	(10,871)	(3,563)
3. Other services	(4,265)	(4,827)
Total	**(15,210)**	**(8,506)**

SECTION 3

Dividend and similar income – Line item 70

3.1 Dividend and similar income: breakdown

Items/Income	31/12/2016		31/12/2015	
	Dividends	**Income from mutual funds**	**Dividends**	**Income from mutual funds**
A. Financial assets held for trading	97	-	631	-
B. Financial assets available for sale	3,819	58	7,277	11,542
C. Financial assets designated at fair value	-	-	-	-
D. Equity investments	27,030	X	39,022	X
Total	**30,946**	**58**	**46,930**	**11,542**

SECTION 4

Net trading income – Line item 80

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B) - (C+D)]
1. Financial assets held for trading	**2,526**	**1,013**	**(2,302)**	**(2,597)**	**(1,360)**
1.1 Debt securities	2,523	672	(2,051)	(1,433)	(289)
1.2 Equities	3	339	(251)	(1,164)	(1,073)
1.3 Mutual funds	-	2	-	-	2
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**113**	**-**	**-**	**113**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	113	-	-	113
2.3 Other	-	-	-	-	-
3. Other assets and financial liabilities: exchange differences	**X**	**X**	**X**	**X**	**6,986**
4. Derivatives	**829,639**	**2,757,226**	**(682,352)**	**(2,996,350)**	**(95,034)**
4.1 Financial derivatives:	829,639	2,757,226	(682,352)	(2,996,350)	(95,034)
- On debt securities and interest rates	829,482	2,754,216	(601,494)	(2,991,535)	(9,331)
- On equities and equity indices	157	3,010	(80,858)	(4,815)	(82,506)
- On currency and gold	X	X	X	X	(3,197)
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**832,165**	**2,758,352**	**(684,654)**	**(2,998,947)**	**(89,295)**

Trading profits (losses) and valuation gains (losses) relating to financial derivatives are presented on a gross basis for each individual financial instrument. Capital losses of Euro 80.9 million on derivative instruments based on equity securities refer to the valuation of the put options held by Cattolica Assicurazioni on the insurance companies Berica Vita, Cattolica Life and ABC Assicura which recognise to Cattolica Assicurazioni the right to sell to the Bank 60% of the capital share held in these companies.

SECTION 5

Net hedging gains (losses) – Line item 90

5.1 Net hedging gains (losses): breakdown

Income items/ Amounts	31/12/2016	31/12/2015
A Income relating to:		
A.1 Fair value hedges	89,467	162,353
A.2 Hedged financial assets (fair value)	89,517	12,383
A.3 Hedged financial liabilities (fair value)	12,363	7,933
A.4 Cash-flow hedges	28,470	73,532
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activities (A)	**219,817**	**256,201**
B. Charges from:		
B.1 Fair value hedges	(206,683)	(171,465)
B.2 Hedged financial assets (fair value)	-	(28,238)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedges	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activities (B)	**(206,683)**	**(199,703)**
C. Net hedging gains (losses) (A - B)	**13,134**	**56,498**

As at 31 December 2016, there are hedges of interest rate risk on a specific floating rate with maximum rate mortgage portfolios classified as "Loans and advances to customers", on certain debt securities classified as "Financial assets available for sale", on individual own-issue bonds recorded among "Securities in issue" and on demand items (current accounts and demand deposit liabilities) under "Due to customers".

The measurements carried out at the end of the year, in accordance with IAS 39, confirmed the effectiveness of existing hedges and led to the recording, in the line item in question, of a net revenue of Euro 874 thousand, which represents partial ineffectiveness, which in any case remains within the range allowed by IAS 39.
The line item includes Euro 18,328 thousand in net income related to the early termination of certain hedges on debt securities recorded under "Financial assets available for sale" and net expenses of Euro 7,121 thousand related to the termination of the hedges on fixed rate mortgages.

SECTION 6

Gains (losses) on disposal or repurchase – Line item 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Items/income items	31/12/2016			31/12/2015		
	Profits	Losses	Net profit (loss)	Profits	Losses	Net profit (loss)
Financial assets						
1. Loans and advances to banks	-	-	-	-	-	-
2. Loans and advances to customers	3,328	(11,154)	(7,826)	1,107	(999)	108
3. Financial assets available for sale	31,123	(621)	30,502	204,684	(267)	204,417
3.1 Debt securities	10,844	(604)	10,240	12,124	(190)	11,934
3.2 Equities	19,569	(17)	19,552	187,076	(72)	187,004
3.3 Mutual funds	710	-	710	5,484	(5)	5,479
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**34,451**	**(11,775)**	**22,676**	**205,791**	**(1,266)**	**204,525**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	5,470	-	5,470	1,932	-	1,932
3. Debt securities in issue	17,730	(78)	17,652	6,719	(2,584)	4,135
Total liabilities	**23,200**	**(78)**	**23,122**	**8,651**	**(2,584)**	**6,067**

Gains and losses under "Loans and advances to customers" refer primarily to the disposal of some receivables carried out during the period.

The gains and losses from "Financial assets available for sale" include the "release" to income of the positive and negative valuation reserves, recorded separately under equity of the financial statements of the previous year, as a result of selling assets during the year.

SECTION 7

Net change in financial assets and liabilities designated at fair value – Line item 110

7.1 Net change in financial assets and liabilities designated at fair value: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Net profit (loss) [(A+B) -
1. Financial assets	**335**	**-**	**(2,313)**	**-**	**(1,978)**
1.1 Debt securities	335	-	(2,313)	-	(1,978)
1.2 Equities	-	-	-	-	-
1.3 Mutual funds	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**2,477**	**1,475**	**(824)**	**(421)**	**2,707**
2.1 Debt securities	2,477	1,475	(824)	(421)	2,707
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**-**
4. Credit and financial derivatives	**1,823**	**444**	**(6,305)**	**(2,195)**	**(6,233)**
Total	**4,635**	**1,919**	**(9,442)**	**(2,616)**	**(5,504)**

Realisable profits (losses) and valuation gains (losses) relating to financial derivatives are presented on a gross basis for each individual financial instrument.

The net losses recorded in the line item in question on financial liabilities include the pull to par effect connected to the reduction, due to the passing of time, in profits deriving from the change in the Bank's creditworthiness recorded in previous years on its bonds measured at fair value.

SECTION 8

Net impairment adjustments – Line item 130

8.1 Net impairment adjustments to loans and advances: breakdown

Transactions/Income items	Adjustments (1)			Writebacks (2)				31/12/2016	31/12/2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks	(61)	-	-	-	-	-	-	(61)	(237)
- Loans	(61)	-	-	-	-	-	-	(61)	(237)
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans and advances to customers	(6,349)	(1,078,542)	(12,469)	51,054	61,662	-	106	(984,538)	(1,177,759)
Purchased non performing loans	-	-	-	-	-	-	-	-	-
- Loans	-	-	X	-	-	X	X	-	-
- Debt securities	-	-	X	-	-	X	X	-	-
Other loans	(6,349)	(1,078,542)	(12,469)	51,054	61,662	-	106	(984,538)	(1,177,759)
- Loans	(6,349)	(1,075,252)	(8,084)	51,054	61,662	-	-	(976,969)	(1,173,103)
- Debt securities	-	(3,290)	(4,385)	-	-	-	106	(7,569)	(4,656)
C. Total	**(6,410)**	**(1,078,542)**	**(12,469)**	**51,054**	**61,662**	**-**	**106**	**(984,599)**	**(1,177,996)**

Key:
A = interest B = other

8.2 Net impairment adjustments to financial assets available for sale: breakdown

Transactions/Income items	Adjustments		Writebacks		31/12/2016	31/12/2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	(8)	-	-	(8)	(4)
B. Equities	-	(9,115)	X	X	(9,115)	(9,539)
C. Mutual funds	-	(12,609)	X	-	(12,609)	(89,382)
D. Loans to banks	-	-	-	-	-	-
E. Loans and advances to customers	-	-	-	-	-	-
F. Total	**-**	**(21,732)**	**-**	**-**	**(21,732)**	**(98,925)**

Key:
A = interest B = other

Impairment adjustments to equities relate to stocks listed on an active market which exceeded the materiality and/or durability threshold set forth in the internal policy for “identifying impairment losses on financial assets available for sale” and to certain equity interests held in unlisted companies for which an impairment loss was deemed to exist.
Impairment adjustments to mutual funds refer specifically to the Luxembourg Optimum Fund, for which, assisted by an external firm, the internal valuations carried out in the 2015 financial statements (based on the estimated realisable value of the individual underlying assets) were updated.

8.3 Net impairment adjustments to financial assets held to maturity: breakdown

This table has not been completed because the Bank did not show impairment losses on financial assets held to maturity.

8.4 Net impairment adjustments to other financial transactions: breakdown

Transactions/Income items	Adjustments			Writebacks				31/12/2016	31/12/2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	(13)	(1,543)	-	-	-	-	993	(563)	9,791
B. Derivatives on loans	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**(13)**	**(1,543)**	**-**	**-**	**-**	**-**	**993**	**(563)**	**9,791**

Key:
A = interest B = other

“Value adjustments” and “write-backs” refer to the valuation of the guarantees issued by the Bank.

SECTION 9

Administrative costs – Line item 150

9.1 Payroll costs: breakdown

Type of expense/Segments	31/12/2016	31/12/2015
1. Employees	**(332,886)**	**(330,069)**
a) wages and salaries	(225,202)	(229,321)
b) social security contributions	(59,224)	(60,461)
c) severance indemnities	(19)	(17)
d) pension costs	(500)	(518)
e) provision for severance indemnities	(919)	(1,101)
f) provision for pensions and similar commitments:	(710)	(946)
- defined contribution	(586)	(755)
- defined benefit	(124)	(191)
g) payments to external supplementary pension funds:	(17,440)	(20,334)
- defined contribution	(17,440)	(20,334)
- defined benefit	-	-
h) costs deriving from equity-settled payment arrangements	-	-
i) other personnel benefits	(28,872)	(17,371)
2. Other personnel	**(121)**	**(1,748)**
3. Directors and Statutory Auditors	**(3,761)**	**(4,995)**
4. Retired personnel	**(916)**	**(777)**
5. Recharge of costs of employees seconded to other companies	**4,789**	**4,297**
6. Reimbursement of costs of third-party employees seconded to the company	**(676)**	**(1,317)**
Total	**(333,571)**	**(334,609)**

9.2 Average number of employees by grade

	31/12/2016	31/12/2015
1. Employees	**4,109**	**4,219**
a) Managers	79	80
b) Middle managers	1,824	1,865
c) Other employees	2,206	2,274
2. Other personnel	**2**	**14**
Total	**4,111**	**4,233**

The average number of employees is calculated as the weighted average number of employees (with permanent and other employment contracts, including staff from other companies seconded to the Bank and excluding Bank staff seconded to other companies), where the weighting is given by the number of months worked in the year.

"Other employees" include staff working under contracts other than permanent employment ones, such as temporary or project contracts.

9.3 Defined benefit pension funds: costs and income

At 31 December 2016, the Bank, in accordance with Article 8 of the Fund Regulations, had settled the deficit of Euro 532 thousand resulting from the actuarial valuation, realigning the size of the Fund to the mathematical reserve calculated on the same date.

The above mentioned cost has been recorded for Euro 124 thousand under income statement line 150 a) "Payroll costs" and for Euro -408 thousand under line item 40 "Actuarial gains (losses) on defined-benefit plans" of the statement of comprehensive income.

9.4 Other employee benefits

There are no other employee benefits worthy of disclosure under IAS 19, paragraphs 131, 141 and 142.

9.5 Other administrative costs: breakdown

	31/12/2016	**31/12/2015**
1. Indirect taxes	**(95,852)**	**(107,154)**
1.1. FITD/BRRD contributions	(52,771)	(52,711)
1.2. other indirect taxes	(43,081)	(54,443)
2. Non-professional products and services	**(77,570)**	**(90,277)**
2.1. postage, telephone and data trasmission charges	(7,456)	(9,603)
2.2. security and valuables transportation	(5,062)	(6,070)
2.3. electricity, heating and water	(6,218)	(7,378)
2.4. transport	(2,417)	(2,619)
2.5. hire of programs and microfiches	(1,880)	(1,942)
2.6. data processing	(50,240)	(57,400)
2.7. stationery and printing	(1,335)	(1,505)
2.8. cleaning of premises	(2,962)	(3,760)
3. Professional services	**(45,938)**	**(38,893)**
3.1. fees paid to professionals	(16,206)	(16,307)
3.2. legal, survey and search fees	(29,732)	(22,586)
4. Rentals	**(41,213)**	**(47,479)**
4.1. rent of buildings	(40,791)	(46,903)
4.2. machine lease installments	(422)	(576)
5. Maintenance of furniture and installations	**(7,502)**	**(8,751)**
6. Insurance premiums	**(3,083)**	**(2,437)**
7. Other expenses	**(45,852)**	**(45,458)**
7.1. surveys, searches and subscriptions	(5,428)	(6,111)
7.2. meal vouchers	(3,058)	(3,806)
7.3. advertising and entertainment	(6,113)	(8,225)
7.4. other miscellaneous expenses	(31,253)	(27,316)
Total	**(317,010)**	**(340,449)**

SECTION 10

Net provisions for risks and charges – Line item 160

10.1 Net provisions for risks and charges: breakdown

	31/12/2016	31/12/2015
a) Net provisions for risks and charges for litigation	(21,463)	(14,300)
b) Net provisions for risks and charges	(233,155)	(492,346)
Total	**(254,618)**	**(506,646)**

More details on provisions for risks and charges can be found in Part B, Section 12 of these explanatory notes.

SECTION 11

Net adjustments to property, plant and equipment – Line item 170

11.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Writebacks (c)	Net result (a + b - c)
A. Property, plant and equipment				
A.1 Owned	(11,104)	(64)	-	(11,168)
- for business purposes	(11,104)	(64)	-	(11,168)
- for investment purposes	-	-	-	-
A.2 Held under finance leases	-	-	-	-
- for business purposes	-	-	-	-
- for investment purposes	-	-	-	-
Total	**(11,104)**	**(64)**	**-**	**(11,168)**

SECTION 12

Net adjustments to intangible assets – Line item 180

12.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortization (a)	Impairment adjustments (b)	Writebacks (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(3,624)	-	-	(3,624)
- internally generated	-	-	-	-
- other	(3,624)	-	-	(3,624)
A.2 Held under finance leases	-	-	-	-
Total	**(3,624)**	**-**	**-**	**(3,624)**

SECTION 13

Other operating charges/income – Line item 190

13.1 Other operating charges: breakdown

	31/12/2016	31/12/2015
1. Amortization of leasehold improvements	(3,761)	(4,064)
2. Other charges	(1,741)	(17,219)
Total	**(5,502)**	**(21,283)**

The amount in line 1. relates to the amortisation of leasehold improvements that cannot be separated from the related assets and which, accordingly, are not reported separately under property, plant and equipment. These costs are amortised over the period they are expected to benefit or the residual duration of the lease, whichever is shorter.

It must be noted that the line "Other charges", at 31 December 2015, includes re-crediting to customers during 2015 referring to the reversal of commissions and expense reimbursements charged in past years.

13.2 Other operating income: breakdown

	31/12/2016	31/12/2015
1. Expenses recovered from third parties on current and savings accounts	12,530	15,271
2. Property rental income	1,091	1,105
3. Recovery of stamp duty and other indirect taxes	33,620	49,409
4. Recovery of intercompany service costs	2,689	2,707
5. Other income	20,984	12,384
Total	**70,914**	**80,876**

Line "Other income" includes the charge-back of legal expenses for credit recovery on non-performing loans.

SECTION 14

Profit (loss) from equity investments – Line item 210

14.1 Profit (Loss) from equity investments: breakdown

Income item/Segments	31/12/2016	31/12/2015
A. Income	**-**	**-**
1. Revaluations	-	-
2. Profit from disposals	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Charges	**(334,740)**	**(229,808)**
1. Writedowns	-	-
2. Impairment writedowns	(333,555)	(229,808)
3. Loss from disposals	-	-
4. Other charges	(1,185)	-
Net profit (loss)	**(334,740)**	**(229,808)**

The Impairment adjustments of line B.2 refer, for Euro 220,144 thousand, to the write-downs of Cattolica Assicurazioni, reclassified during the year from the line item "Investments" to the line item "Financial assets available for sale" since a significant influence of BPVi on Cattolica, pursuant to par. 9 of IAS 28, ceased to exist.

The remaining amount of line B.2 refers to impairment write-downs recognised on certain subsidiaries and associates.

SECTION 15

Net gains (losses) arising on fair value adjustments to property, plant and equipment and intangible assets - Line item 220

There are no amounts to be shown.

SECTION 16

Adjustments to goodwill – Line item 230

	31/12/2016	31/12/2015
a) Adjustments to goodwill	-	(218,152)

"Adjustments to goodwill" at 31 December 2015, refer to the impairment following verification of the adjustment of the book value in compliance with the provisions of IAS 36.

SECTION 17

Gains (losses) on disposal of investments – Line item 240

17.1 Gains (losses) on disposal of investments: breakdown

Income item/Segments	31/12/2016	31/12/2015
A. Buildings	**-**	**-**
- Profit from disposals	-	-
- Loss from disposals	-	-
B. Other assets	**(104)**	**(65)**
- Profit from disposals	42	45
- Loss from disposals	(146)	(110)
Net profit (loss)	**(104)**	**(65)**

SECTION 18

Income taxes on current operations – Line item 260

18.1 Income taxes on current operations: breakdown

Income item/Segments	31/12/2016	31/12/2015
1. Current income taxes (-)	-	(53)
2. Change in prior period income taxes (+/-)	738	96
3. Reduction in current taxes (+)	-	-
3 bis. Reduction in current taxes for tax credits pursuant to Law 214/2011	232,241	131,373
4. Change in deferred tax assets (+/-)	(400,231)	315,610
5. Change in deferred tax liabilities (+/-)	(1,167)	14,718
6. Income taxes for the year (-) (-1+/-2+3+3bis/-4+/-5)	**(168,419)**	**461,744**

The positive change of current taxes of the earlier years refers to surplus provisions set aside for income taxes in earlier years.

The net change in deferred tax assets for the year was negative by Euro 400,231 thousand and it is equal to the imbalance between the positive change connected with the deferred tax assets recognised in the year and the negative change connected with the decreases in the deferred tax assets recorded in previous years.

The deferred tax assets recognised in the year amounted to Euro 79,610; their main components are described in detail below:

- Euro 73,390 thousand refer to the deferred tax assets recorded in relation to temporary differences deductible in upcoming years. The most significant amount of this positive change refers to the deferred tax assets, amounting to Euro 62,074 thousand, recorded in relation to allocations to provisions for risks and charges recognised during the period following the settlement offer in favour of the Shareholders and in view of the legal risks connected with the "BPVi capital transactions" and with the other critical issues that emerged in the course of the ECB's inspection;
- Euro 6,220 thousand refer to the portion of the IRES tax loss recognised in the year, which is immediately recovered in offset with the taxable income of the subsidiaries that exercised the option to file for tax on a group basis.

The decrease in prepaid taxes amounted to a total of Euro 479,841 thousand of which:

- Euro 232,241 thousand refer to the transformation in receivables for current taxes of a portion of the prepaid taxes recorded in the financial statements at 31 December 2015, following the loss of the 2015 period, pursuant to the law no. 214/2011;
- Euro 219,351 thousand refer to the cancellation of IRES prepaid taxes recorded on the tax loss of 2015 and the IRAP prepaid taxes recorded in the previous periods;
- Euro 28,249 thousand refer to the reclassification of the prepaid taxes recorded in the previous periods or to other changes.

With regard to the existence of the requirements for recording the deferred tax assets, please refer to Part B, Section 13.7 of these Explanatory Notes.

18.2 Reconciliation between theoretical tax charge and actual tax charge reported in the financial statements

	IRES	% (1)
IRES with application at nominal rate	**476,654**	**-27.50%**
Disallowable portion of interest expense	(4,645)	0.27%
Disallowable writedowns and losses on equities	(91,756)	5.29%
Disallowable costs	(2,700)	0.16%
Disallowable provisions	(27,733)	1.60%
Tax losses without DTA	(315,281)	18.19%
DTA devaluation for unrecoverable loss	(215,937)	12.46%
Total tax effect of add-backs	**(658,052)**	**37.97%**
Dividends	7,856	-0.45%
Changes in prior year taxes	734	-0.04%
Gains and revaluations of exempt equity investments	4,995	-0.29%
Other changes	3,573	-0.21%
Total tax effect of deductions	**17,158**	**-0.99%**
IRES recognized in the income statement	**(164,240)**	**9.48%**
	IRAP	**% (1)**
IRAP with application at nominal rate	**80,598**	**-4.65%**
Payroll	(1,194)	0.07%
Non-recoverable tax loss	(62,070)	3.58%
Disallowable costs	(23,019)	1.33%
Disallowable provisions	(14,214)	0.81%
Deferred tax assets in previous non-recoverable years	(3,414)	0.20%
Total tax effect of add-backs	**(103,911)**	**5.99%**
Change in prior period income taxes	5	0.00%
Increases in rates made by the regions	15,946	-0.92%
Non-taxable income	2,310	-0.13%
Portion of dividends non-taxable	862	-0.05%
Other changes	11	0.00%
Total tax effect of deductions	**19,134**	**-1.10%**
IRAP recognized in the income statement	**(4,179)**	**0.24%**

(1): The percentage weight is calculated using the ratio of taxes (with the related algebraic sign) to profit on current operations before income taxes (income statement line item 250).

SECTION 19

Profit (loss) from disposal groups, net of tax – Line item 280

This section has not been completed since the Bank does not have any assets/liabilities held for sale.

SECTION 20

Other information

There is no other information worthy of disclosure in addition to that established by international financial reporting standards and by the instructions in Bank of Italy Circular no. 262 of 22 December 2005 and subsequent revisions.

SECTION 21

Earnings per share

The disclosure required by IAS 33 (paragraphs 68, 70 a), b), c), and d) and 73 will now be provided.

21.1 Average number of ordinary shares on dilution of capital stock

	31/12/2016	31/12/2015
Weighted average number of ordinary shares	9,977,059,246	97,105,531
Dilution adjustment	-	-
Weighted average number of ordinary shares (fully diluted)	9,977,059,246	97,105,531

The weighted average number of ordinary shares outstanding is calculated with reference to the number of ordinary shares outstanding at the start of the year, as adjusted by the number of ordinary shares cancelled or issued during the year multiplied by the number of days such shares were in circulation in proportion to the total number of days in the year. Treasury shares are not included in the total number of shares outstanding.

At 31 December 2016 there are no dilution adjustments. In this regard, it should be noted that the potential dilutive effects associated with the "Loyalty Bonus", provided as part of the capital increase made by the Bank in 2014, were not taken into account.

The weighted average number of ordinary shares (fully diluted) is calculated by adding to the weighted average number of ordinary shares outstanding the additional ordinary shares that would have been outstanding had all potential ordinary shares with a dilutive effect been converted.

Since at 31 December 2016 there are no dilution adjustments, the weighted average of ordinary shares on dilution of capital stock matches the weighted average of ordinary shares.

21.2 Other information

	31/12/16			31/12/15		
	Share of profit (Euro)	Weighted average number of ordinary shares	EPS (Euro)	Share of profit (Euro)	Weighted average number of ordinary shares	EPS (Euro)
Basic earnings/losses per share	(1,901,705,146)	9,977,059,246	(0.191)	(1,399,393,393)	97,105,531	(14.411)
Diluted earnings/Losses per share	(1,901,705,146)	9,977,059,246	(0.191)	(1,399,393,393)	97,105,531	(14.411)

Basic earnings/losses per share are determined by dividing the results attributable to the holders of the Bank's ordinary equity instruments (the numerator) by the weighted average number of ordinary shares outstanding during the year (the denominator).

Diluted earnings/losses per share are determined by adjusting both the results attributable to the holders of ordinary equity instruments and the weighted average number of shares outstanding, to take account of the potential dilution associated with the convertible bonds into ordinary shares of the Bank.

Since at 31 December 2016 there are no dilutive effects, the diluted earnings/loss per share coincide with the basic earnings/losses per share.

PART D – COMPREHENSIVE INCOME

Statement of comprehensive income

	Line items	Gross amount	Income tax	Net amount
10.	**Net income (loss) for the year**	**(1,733,286)**	**(168,419)**	**(1,901,705)**
	Other components of income without release to the income statement			
20.	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined-benefit plans	(2,250)	(269)	(2,519)
50.	Non-curent assets held for sale and discontinued operations	-	-	-
60.	Portion of valuation reserves of equity investments carried at equity	-	-	-
	Other components of income with release to the income statement			-
70.	Hedges of foreign investments:	-	-	-
	a) changes in fair value	-	-	-
	b) release to the income statement	-	-	-
	c) other changes	-	-	-
80.	Exchange differences:	-	-	-
	a) changes in fair value	-	-	-
	b) release to the income statement	-	-	-
	c) other changes	-	-	-
90.	Cash-flow hedges:	29,833	(29,895)	(62)
	a) changes in fair value	(456,490)	130,932	(325,558)
	b) release to the income statement	488,161	(161,435)	326,726
	c) other changes	(1,838)	608	(1,230)
100.	Financial assets available for sale:	(113,463)	35,709	(77,754)
	a) changes in fair value	347,267	(37,745)	309,522
	b) release to the income statement	(460,736)	73,452	(387,284)
	- impairment writedowns	(84)	6	(78)
	- profits/losses on disposals	(460,652)	73,446	(387,206)
	c) other changes	6	2	8
110.	Non-current assets held for sale and discontinued operations:	-	-	-
	a) changes in fair value	-	-	-
	b) release to the income statement	-	-	-
	c) other changes	-	-	-
120.	Portion of valuation reserves of equity investments carried at equity	-	-	-
	a) changes in fair value	-	-	-
	b) release to the income statement	-	-	-
	- impairment writedowns	-	-	-
	- gains/losses on disposal	-	-	-
	c) other changes	-	-	-
130.	**Total other components of income**	**(85,880)**	**5,545**	**(80,335)**
140.	**Comprehensive income (Lines 10+130)**	**(1,819,166)**	**(162,874)**	**(1,982,040)**

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

The current regulations for internal controls define the Internal Control System (ICS) as a fundamental element of the comprehensive bank governance system; it ensures that activities are carried out in accordance with corporate strategies and policies and in compliance with the standards of sound and prudent management.

The controls involve, with different roles, the Corporate bodies, the Governance Committees and all Group personnel and they are an integral part of day to day activities. These "controls" must be identified with the goal of mitigating the inherent risks existing in corporate processes and, consequently, assuring the correct execution of corporate operations.
The Internal Controls structure comprises the following three tiers:

- line controls, whose purpose is to ensure the correct execution of operations, also by applying a control involving a check of the regular execution of the processes. They are carried out by the operating structures themselves (e.g. hierarchical, system-wide and sampling controls) also through different units reporting to the heads of the operating structures, or performed within the back office activities; insofar as possible, they are included in IT procedures. Line controls, be they carried out by real persons or through IT procedures, can be further distinguished into:
  a) First level line controls: these are carried out directly by those who perform a certain activity, or by the IT procedures supporting that activity;
  b) Second level line controls: they are carried out by persons who do not actually perform the operations but are tasked with supervising them (risk owners). In particular, the latter are divided into:
    - Second level - functional controls: carried out by corporate structures separate from the operating structures; they include the functional controls carried out within the scope of specialist back-office or support activities (e.g., controls carried out by back office units on Network operations);
    - Second level - hierarchical controls: carried out by corporate roles hierarchically above those responsible for the operation (e.g. controls carried out by Network Managers on operations performed by the operators reporting hierarchically to them).
- risk management controls (or second level controls) for the purpose of ensuring, inter alia:
  a) the correct implementation of the risk management process;
  b) compliance with the operating limits assigned to the various Functions;
  c) the corporate operations' compliance with regulations.
  The Functions tasked with performing these controls are separate from the productive functions; they contribute to the definition of the risk governance policies and of the risk management process. Specifically, these controls are carried out by the Corporate risk management Control Functions, as defined by the Bank of Italy (Compliance, Risk Management, Anti Money Laundering and Validation) and by the Functions that, according to provisions of law, regulations, articles of association or self-regulation, have prevalent control duties (Financial Reporting Manager).

These controls have the following objectives:

- o to contribute to the definition of methodologies for the measurement of risk, to check compliance with the limits assigned to the various operational functions and to check the consistency of the transactions carried out by each production unit with the assigned risk/return targets (**Risk Management**);
- o to concur in monitoring the performance and stability of the first pillar internal risk management systems used to calculate capital requirements (**Validation**);
- o to concur in the definition of methods for measuring/assessing the risk of non-compliance with regulations, verifying that corporate processes are capable of preventing the violation of externally imposed regulations (laws, regulations, etc.) and voluntarily adopted regulations (codes of conduct, codes of ethics, etc.) (**Compliance**);
- o to concur in the prevention of risks connected with use of the financial system for the purpose of laundering the revenues from criminal activities and financing terrorism, in accordance with the reference regulations (Italian Legislative Decree no. 231/07) (**Anti-money laundering**);
- o to certify corporate accounting information in accordance with legal requirements (**Financial Reporting Manager**);

- the Internal Audit activity (third level): serves the purpose of identifying violations of procedures and regulations, as well as periodically assessing the completeness, functionality, adequacy (in terms of efficiency and effectiveness) and the reliability of the Internal Control System. Another purpose of the activity performed by the Internal Audit Function is to bring potential improvements to the attention of the corporate Bodies, with particular reference to risk governance policies, to the risk management process and to risk measurement and control instruments. Based on the results of its own controls, the Internal Audit Function submits intervention requests to corporate structures.

The aforesaid levels of control (line, risk management, internal audit) constitute a single integrated system activated by different Functions, but complementary in its aims, in the characteristics of its approach and in its operating rules.

With particular reference to the Risk Management Function, it should be pointed out that, in compliance with the model applied by the Banca Popolare di Vicenza Group, the Bank's Risk Management Offices carry out these activities centrally on a Group level. This Function reports hierarchically to the Managing Director of the Bank and functionally to the Board of Directors of the Bank through the Risk Committee. It is the duty of the Risk Management Function, inter alia, to:

- develop and/or maintain, in a systematic and continuous way, the risk management models and instruments used also in light of regulatory changes and indications having an impact on risk management activities;
- define and develop models and tools for the measurement and control of risks at Group level, including those connected with advanced approaches;
- coordinate the collection, from all Group Banks and Companies, of the information that needs to be entered into the Group's risk management system, overseeing and promoting the actions aimed at filling any gaps noted;
- measure the Group's exposure to the different risk profiles, verifying their compliance with the limits established by the Body with management function, providing the corporate Bodies and Functions with reports about the different risk profiles;
- propose to the Bank's strategic supervision Body the Risk Appetite Framework parameters (objectives, tolerance and capacity), continuously verifying its adequacy after its passage

through the Control and Risk Committee and coordinating, when necessary, with other competent functions;

- participate in the internal committees that involve risk assumption/management processes at the individual level and at the Group level.

In addition, the Risk Management Function is responsible for managing the assessment of the internal capital levels adjusted to address all the risks associated with the activities carried out (ICAAP), in compliance with the legislation that came into force on 1 January 2007, originated in the Second Pillar of Basel II, subsequently revised with Basel III. It should be emphasised that the preparation of the ICAAP Report is one of the best opportunities to disseminate the risk culture within the Group, starting with the Board of Directors, that approves the Report itself and that every quarter receives updates on the main content thereof, and continuing on to the various functional units involved.

Another opportunity to disseminate the risk culture occurs when defining the so-called Risk Appetite Framework in a Statement, approved as a minimum on an annual basis by the Board of Directors and continuously monitored by the competent structures. It should be emphasised that most of the Group's activity, from the process of defining operational and strategic planning goals to daily operations, takes place in compliance with the system of risk objectives (appetite) and limits (tolerance, capacity and risk) defined within the Risk Appetite Framework. The Risk Appetite Statement for 2016 was also adopted by the subsidiaries, together with the regulations for risk management, each in reference to the main risk profiles as resulting from the ICAAP process. Consistent with the described setting, personnel training also keeps into consideration risk-related issues: in 2015, the number of days dedicated to training on risk (including issues such as safety, anti-money laundering, protection of the investors), also including issues concerning credit in general, represented about 40% of the total.

SECTION 1

Credit risk

QUALITATIVE INFORMATION

1. General aspects

Credit Risk is the risk of losses due to non-performance by the counterparty (specifically the obligation to repay loans) or, more broadly, the failure of customers or their guarantors to meet their obligations.

The credit exposure risks also include the "Country Risk" (i.e. the risk of losses caused by events occurring in a country other than Italy; the country risk concept is broader than sovereign risk because it refers to all exposures, regardless of the nature of the counterparties, be they natural persons, entities, banks or public administrations) and the "Transfer Risk" (i.e. the risk that the Group, exposed to a party that finances itself in a currency other than the one in which its main sources of income are denominated, realises losses due to the debtor's difficulty in reconverting its own currency into the currency of the exposure).

Lending by the Bank has always aimed to support both the borrowing needs of households and the development and consolidation of businesses, especially small and medium-sized firms, which typify the local economies where the Bank operates.

In keeping with prior years, the lending policy adopted by the Bank seeks to respond to the needs of individuals and firms, while paying particular attention to the difficult economic situation, credit risk and an adequate level of guarantees.

With reference to "individual" customers, the development of activities has focused on the longer-term segment with the granting and/or renegotiation of home mortgages and personal loans either directly via the Group's banks or via other companies.

Development activities in relation to "small businesses" have mainly focused on short-term lending, where the risk is spread widely, using technical forms that are supported by underwriting syndicates wherever possible. Medium-term lending has been expanded to medium and large businesses, with a special focus on those with secured guarantees. In all cases, special care has been taken in the selection of the economic sectors from which borrowers come, in order to give preference to lower risk activities. Sector analysis has become increasingly important in the credit management process and involves the examination of internal data and external data provided by specialist Italian companies.

The Bank is not active in the field of credit derivatives.

It should also be noted that the public disclosure set forth in Pillar 3 is published on the web site of Banca Popolare di Vicenza (www.popolarevicenza.it) in the "Investor Relations" section.

2. Credit risk management policies

2.1 Organisational Aspects

The Bank's Regulations for the Management of Credit, contained in its Credit Manual, establish a prudent approach to risk assessment. At the preliminary stage, borrowers are required to provide all the documentation needed for an adequate assessment of their credit rating. Such documentation must allow assessment of whether the amount requested, the technical form of the loan and the project to be financed are all consistent; it must also allow the characteristics and qualities of borrowers to be identified, having regard for all forms of relationship with them.

The risks associated with individual customers from the same Group must be considered separately. If there are legal or economic relations between individual customers, these parties form a unit in risk terms and represent a Group (economic group or risk group).

When granting and/or renewing lines of credit, it is necessary to verify the exposure by the entire BPVi Group to borrowers and to any groups to which they belong.
Pricing and/or income from the relationship cannot be a factor when evaluating credit rating and agreeing upon a loan.

The preliminary process depends on the type of customer concerned. For "individual" customers and small businesses, the granting or otherwise of credit for relatively small amounts is dealt with at the branch or District level. This follows a simplified process using internal rating models, an IT tool that checks credit rating at the time new lines of credit are granted, using both internal and external sources of information. For better control over the process of granting credit to "individual" customers and small businesses, stricter limits have been introduced on decision-making powers, identified on the basis of the risk profile attributed to the counterparty by the internal rating system.

The granting of credit to companies/entities follows a more complex process: proposed lending to such customers must be supported by a technical opinion from Business Centres or Head Office credit analysts depending on the amount of credit requested.

Account managers monitor and administer loans day by day and are responsible for their granting. If customer risk increases, the operating objective is to contain the bank's risk by promptly adopting all the necessary measures.

The Bank has adopted a process which, as far as property securing loans is concerned, constantly checks and updates its estimated value, also by using statistical methods based on geo-referenced systems.

2.2 Management, measurement and monitoring systems

The credit process is organised as follows:

- <u>Granting of credit,</u> which involves: investigation, assessment, decision, formalisation of the credit and any guarantees;
- <u>Management of credit,</u> which involves: uses, monitoring, facility revision, management of anomalies;
- <u>Management of bad loans and recovery of loans.</u>

The BPVi Group within the scope of its processes to assess customer ratings, and to grant and monitor credit, uses an internal rating system developed within the A-IRB (Advanced Internal Rating Based) project, the purpose of which is to validate the internal credit risk models. Please note that the ratings represent a summary assessment of the credit quality of the customer expressed as a probability that the counterparty may become insolvent within 12 months. Rating models cover the types of counterparties with which the Group operates structurally and to which it is most exposed, i.e. non-financial companies, small businesses and individuals, the remaining customers being a marginal fraction of the entire portfolio. The adoption of the new rating system has been accompanied both by a more structured and comprehensive preparatory phase of the credit process, and a new procedure for assigning the rating. In addition, the calculation of the Risk Adjusted Pricing was automated, using the developed A-IRB metrics. Considering the activities carried out on the models and on the organisational and IT aspects, the A-IRB Project is concluded and said activities are now part of the ordinary management of the Bank.

After introducing such internal ratings into the credit management process, a series of "Lending Policies" were defined and approval limits were revised according to the level of counterparty risk.

The "Lending Policies" govern the way in which the Group means to assume credit risk with customers, by fostering balanced growth in loans to counterparties with higher "credit ratings" and regulating/limiting the granting of credit to riskier customers.

This also includes the regulations for "critical sectors", i.e. the sectors that, based on assessments made on data outside and inside the Bank, exhibit such systemic risk elements that companies in the sectors should be more carefully scrutinised when granting and managing credit. Credit to companies in these sectors is regulated by more stringent limits than the ordinary ones, with a restriction of decision-making powers and inhibiting growth-oriented lending policies. The definition of the scope of critical sectors is revised annually by the Risk Management Department, with the collaboration of the Loan Division, considering the probability of default, the deterioration rate and market indicators.

The Credit Management application (GdC) plays an important role in the monitoring and management of borrowers, allowing account managers to check on changes in the credit status of customers and quickly identify any deterioration in the standing of borrowers. This instrument was developed with the objective of implementing an advanced credit portfolio management model based on predefined strategies (objectives, actions and timelines) that are consistent with the customer's risk level.

In order to improve the management of customers who show early signs of distress, within the Loan Division, an Anomalous Loan Department was created for the purpose of providing support to account managers for specific anomalous positions, reviewing the effectiveness of actions taken and spreading a general culture focused on safeguarding against credit risk and reducing it.

Within the scope of the credit risk monitoring and management activities, a specific management reporting process has been set up; in particular, on a quarterly basis the loans portfolio's risk Profile Report is prepared; it provides a fundamental information support for the Risk Committee: the reporting contains detailed credit risk reports at the consolidated and individual levels (portfolio distribution by administrative statuses, rating classes and expected losses, transition matrices, deterioration rates), with analyses differentiated by Group banks, management segments, industry and technical forms.

Also available is an instrument for reporting to the network, characterised by various views of the loans portfolio, with different hierarchical levels of aggregation (from the branch to the General Management office at a single bank or group levels) and visibility.

Lastly, in compliance with the Bank of Italy's instructions relating to Basel II and "groups of connected customers", the Bank uses rules relating to the management of economic groups to increase the level of objectivity and process repetition regarding their composition.

2.3 Credit risk mitigation techniques

The credit risk associated with individual counterparties or groups is mitigated by obtaining security (pledges, mortgages and special privileges) and/or personal guarantees (sureties, endorsements, credit mandates and letters of patronage). For internal purposes, the degree of mitigation attributed to each guarantee is governed by specific regulations that take account of the different types of the acquired guarantees.

The value of property is periodically reassessed and updated on the basis of the statistical databases of a primary operator in the industry and the initiatives directed at renewing the appraisals are activated.

Analysis of these guarantees does not reveal a special degree of concentration within the various technical forms of cover/guarantee since, except with regard to general sureties, they are essentially "specific" to each position. In addition, overall, there are no contractual restrictions that might undermine the legal validity of the guarantees obtained.

2.4 Non-performing financial assets

The main instrument used for the recognition of non-performing loans is the aforementioned GDC (Management of Credit) procedure, based on the Early Warning anomalies reporting system, which classifies customers in increasing risk statuses.
Non-performing loans not classified as bad loans are monitored not only by the commercial network but also by specific organisational units, whose mission is to "prevent default". These units, which report hierarchically and functionally to the Loan Division, operate at Head Office and in the Districts and/or Business Centres responsible for the branch network.

Account managers are required to adopt an operational approach aimed at eliminating anomalies and limiting risks.

Concerning positions within the category of "unlikely to pay", two situations are distinguished:

- The first one regards the positions for which, as a result of recognised financial hardships, a measure of forbearance was granted, i.e. a change, favourable to the debtor, to the conditions relative to the original ones (forborne exposure). This category includes the positions involved in debt restructuring in its various forms, including restructuring agreements under art. 67 or art. 182 of the bankruptcy law. For them, management is addressed to verifying compliance with the agreed upon restructuring plan.

  Forborne exposures also include positions not involved in debt restructuring processes defined within the bankruptcy law, but which, starting from a previous default state, were subjected to measures such as the suspension of payment of the instalment or of the principal amount. In this case, the management entails punctual monitoring of the situation, in particular of the absence of overdrafts exceeding thirty days on the ratio to be measured or on ratios connected thereto, especially starting from the time when the effectiveness of the suspension measure expires.

- The second situation pertains to the positions that, according to the previous regulatory dispositions, would have been classified as “watchlist loans”: for them, the activity gives priority to friendly, even if gradual, recovery of credit or at least to the mitigation of any negative effects in the event of default.

The classification of exposures as “bad loans” is based on the criteria laid down in the supervisory regulations. Accordingly, this category comprises loans to parties that are insolvent or in similar circumstances, even if not confirmed by a judge, the recovery of which is the subject of court action or other suitable measures.

Management of bad loans and recovery of loans is the responsibility of specific units within the Loan Division and the Legal Department.

These units consist of internal lawyers and personnel who carry out administrative and accounting activities in relation to the bad loans concerned. The accounting processes adopt an IT procedure used by all the companies belonging to the Sec Servizi consortium.

Recovery activities are carried out on a pro-active basis, with a view to optimising the legal procedures and maximising the outcome in economic and financial terms. In particular, when evaluating the steps to take, internal lawyers prefer to take out-of-court action with recourse to settlements that accelerate recoveries and contain the level of costs incurred. Where this route is not applicable, and especially with regard to larger amounts and when higher recoveries can be expected, external lawyers are instructed to take legal action since this represents both a method of putting legitimate pressure on the debtor and a way to resolve disputes.

Small loans that are uncollectible or difficult to collect are generally grouped together and sold without recourse, given that legal action would be uneconomic in cost/benefit terms.

For financial reporting purposes, bad loans are analysed on a case-by-case basis to determine the provisions required to cover expected losses. The extent of the loss expected from each relationship is determined with reference to the solvency of the debtor, the nature and value of the guarantees obtained and the progress made by recovery procedures. Estimates are always made on a prudent basis, taking into account the actual realisation values deriving from the personal and/or corporate capital of the debtor and of the guarantors; moreover, in accordance with the international accounting standards (IAS 39), the assessment includes the effects of discounting. Discounting is effected, for each position, on the basis of the original rate of the individual loan.

This complex evaluation process is facilitated by subdividing the total loan book into similar categories and years of origin, taking account of the realisable value of the personal and/or corporate assets of the debtor and the guarantors.

Lastly, the proper performance of the task of administering and evaluating bad loans is assured by both periodic Internal Audit Department and by external verification activities, carried out by the Board of Statutory Auditors and the Independent Auditors.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 PERFORMING AND NON-PERFORMING EXPOSURES: SIZE, ADJUSTMENTS, TRENDS, ECONOMIC AND TERRITORIAL DISTRIBUTION

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/Quality	Bad loans	Unlikely to Pay	Non performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets available for sale	-	-	-	-	3,753,414	**3,753,414**
2. Financial assets held to maturity	-	-	-	-	1,067,948	**1,067,948**
3. Loans and advances to banks	-	-	-	-	3,716,654	**3,716,654**
4. Loans and advances to customers	1,807,172	2,791,796	44,964	516,685	14,375,768	**19,536,385**
5. Financial assets designated at fair value	-	-	-	-	5,959	**5,959**
6. Financial assets being sold	-	-	-	-	-	**-**
Total at 31/12/2016	**1,807,172**	**2,791,796**	**44,964**	**516,685**	**22,919,743**	**28,080,360**
Total at 31/12/2015	**1,694,382**	**2,915,409**	**114,057**	**625,311**	**25,146,430**	**30,495,589**

For the "Loans and advances to customers" portfolio, for performing exposures, the breakdown of past-due loans is provided below.

Portfolios/age of the past-due exposures	Until 3 months			For more than 3 months until 6 months			For more than 6 months until 1 year			For more than 1 year			Total		
	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure
Loans and advances to customers	368,032	(4,772)	363,260	92,824	(1,073)	91,751	57,535	(1,023)	56,512	5,277	(115)	5,162	523,668	(6,983)	516,685

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

Portfolio/Quality	Non perfoming exposures			Performing exposures			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets available for sale	-	-	-	3,753,414	-	3,753,414	**3,753,414**
2. Financial assets held to maturity	-	-	-	1,067,948	-	1,067,948	**1,067,948**
3. Loans and advances to banks	-	-	-	3,716,654	-	3,716,654	**3,716,654**
4. Loans and advances to customers	8,896,950	(4,253,018)	4,643,932	15,015,631	(123,178)	14,892,453	**19,536,385**
5. Financial assets designated at fair value	-	-	-	X	X	5,959	**5,959**
6. Financial assets being sold	-	-	-	X	X	-	**-**
Total at 31/12/2016	**8,896,950**	**(4,253,018)**	**4,643,932**	**23,553,647**	**(123,178)**	**23,436,428**	**28,080,360**
Total at 31/12/2015	**8,022,750**	**(3,298,902)**	**4,723,848**	**25,888,801**	**(124,902)**	**25,771,741**	**30,495,589**

Portfolio/Quality	Low credit standing assets		Other assets
	Accumulated losses	Net exposures	Net exposures
1. Financial assets held for trading	(906)	1,357	2,059,620
2. Hedging derivatives	-	-	27,761
Total at 31/12/2016	**(906)**	**1,357**	**2,087,381**
Total al 31/12/2015	**955**	**10,388**	**3,417,648**

A.1.3 Cash and off-balance sheet exposures to banks: gross values, net values and bands of past due loans

Type of exposure/Amounts	Gross exposures					Specific adjustments	Portfolio adjustments	Net exposures
	Non performing exposures				Performing exposures			
	Until 3 months	For more than 3 months until 6 months	For more than 6 months until 1 year	For more than 1 year				
A. CASH EXPOSURES								
a) Bad loans	-	-	-	-	X	-	X	-
- of which: exposures with forbearance measures	-	-	-	-	*X*	-	*X*	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: exposures with forbearance measures	-	-	-	-	*X*	-	*X*	-
c) Non performing past due exposures	-	-	-	-	X	-	X	-
- of which: exposures with forbearance measures	-	-	-	-	*X*	-	*X*	-
d) Performing past due exposures	X	X	X	X	-	X	-	-
- of which: exposures with forbearance measures	*X*	*X*	*X*	*X*	-	*X*	-	-
e) Other performing exposures	X	X	X	X	3,810,527	X	-	3,810,527
- of which: exposures with forbearance measures	*X*	*X*	*X*	*X*	-	*X*	-	-
TOTAL A	**-**	**-**	**-**	**-**	**3,810,527**	**-**	**-**	**3,810,527**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	601,970	X	-	601,970
TOTAL B	**-**	**-**	**-**	**-**	**601,970**	**-**	**-**	**601,970**
TOTAL (A + B)	**-**	**-**	**-**	**-**	**4,412,497**	**-**	**-**	**4,412,497**

A.1.4 Cash exposures to banks: changes in gross non-performing loans

Categories	Bad loans	Unlikely to Pay	Non performing past due exposures	
A. Opening gross exposure	**616**	**-**	**-**	**-**
of which: sold but not derecognized	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**
B.1 transfers from performing loans	-	-	-	-
B.2 transfers from other categories of non performing exposure	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	**616**	**-**	**-**	**-**
C.1 transfers to performing loans	-	-	-	-
C.2 write-offs	616	-	-	-
C.3 collections	-	-	-	-
C.4 proceeds from disposals	-	-	-	-
C.5 losses from disposals	-	-	-	-
C.6 transfers to other categories of non performing exposure	-	-	-	-
C.7 other decreases	-	-	-	-
D. Closing gross exposure	**-**	**-**	**-**	**-**
of which: sold but not derecognized	-	-	-	-

A.1.4 bis Cash exposures to banks: changes in gross granted loans broken-down by credit quality

There are no amounts to be shown.

A.1.5 Non-performing cash exposures to banks: changes in total write-downs

Causali/Categorie	Bad loans		Unlikely to Pay		Non performing past due exposures	
	Total	of which: exposures with forbearance measures	Total	of which: exposures with forbearance measures	Total	of which: exposures with forbearance measures
A. Opening total adjustments	**555**	**-**	**-**	**-**	**-**	**-**
of which: sold but not derecognized	-	-	-	-	-	-
B. Increases	**61**	**-**	**-**	**-**	**-**	**-**
B.1 adjustments	61	-	-	-	-	-
B.2 losses from disposal	-	-	-	-	-	-
B.3 transfers from other categories of non performing exposure	-	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
C. Decreases	**616**	**-**	**-**	**-**	**-**	**-**
C.1 writebacks on valuation	-	-	-	-	-	-
C.2 writebacks due to collections	-	-	-	-	-	-
C.3 profit from disposals	-	-	-	-	-	-
C.4 write-offs	616	-	-	-	-	-
C.5 transfers to other categories of non performing exposure	-	-	-	-	-	-
C.6 other decreases	-	-	-	-	-	-
D. Total closing adjustments	**-**	**-**	**-**	**-**	**-**	**-**
of which: sold but not derecognized	-	-	-	-	-	-

A.1.6 Cash and off-balance sheet exposures to customers: gross values, net values and bands of past due loans

Type of exposure/Amounts	Gross exposures					Specific adjustments	Portfolio adjustments	Net exposures
	Non performing exposures							
	Until 3 months	For more than 3 months until 6 months	For more than 6 months until 1 year	For more than 1 year	Performing exposures			
A. CASH EXPOSURES								
a) Bad loans	-	99,663	113,511	4,385,550	X	(2,791,552)	X	1,807,172
- of which: exposures with forbearance measures	*-*	*24,473*	*46,754*	*296,062*	*X*	*(179,732)*	*X*	*187,557*
b) Unlikely to pay	1,343,870	123,581	827,661	1,947,856	X	(1,451,172)	X	2,791,796
- of which: exposures with forbearance measures	*667,422*	*44,156*	*268,237*	*785,163*	*X*	*(441,508)*	*X*	*1,323,470*
c) Non performing past due exposures	9,460	20,290	20,768	4,740	X	(10,294)	X	44,964
- of which: exposures with forbearance measures	*1,876*	*793*	*1,532*	*3,437*	*X*	*(841)*	*X*	*6,797*
d) Performing past due exposures	X	X	X	X	523,668	X	(6,983)	516,685
- of which: exposures with forbearance measures	*X*	*X*	*X*	*X*	*97,170*	*X*	*(2,697)*	*94,473*
e) Other performing exposures	X	X	X	X	19,343,982	X	(116,195)	19,227,787
- of which: exposures with forbearance measures	*X*	*X*	*X*	*X*	*475,988*	*X*	*(12,155)*	*463,833*
TOTAL A	**1,353,330**	**243,534**	**961,940**	**6,338,146**	**19,867,650**	**(4,253,018)**	**(123,178)**	**24,388,404**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non performing	85,607	-	-	-	X	(9,799)	X	75,808
b) Performing	X	X	X	X	1,457,001	X	(941)	1,456,060
TOTAL B	**85,607**	**-**	**-**	**-**	**1,457,001**	**(9,799)**	**(941)**	**1,531,868**
TOTAL (A + B)	**1,438,937**	**243,534**	**961,940**	**6,338,146**	**21,324,651**	**(4,262,817)**	**(124,119)**	**25,920,272**

For complete disclosure, cash exposure to customers classified as bad loans including partial write-offs for bankruptcy proceedings in progress at the reporting date ("memorandum accounts") is set out below.

Type of exposure/Amounts	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
A. CASH EXPOSURES				
a) Bad loans	4,816,352	(3,009,180)	X	1,807,172

A.1.7 Cash exposures to customers: changes in gross non-performing loans

Categories	Bad loans	Unlikely to Pay	Non performing past due exposures
A. Opening gross exposure	**3,905,886**	**3,985,337**	**130,911**
of which: sold but not derecognized	*197,107*	*208,415*	*12,357*
B. Increases	**945,882**	**1,509,281**	**331,605**
B.1 transfers from performing loans	5,297	996,398	316,038
B.2 transfers from other categories of non performing exposure	834,562	367,439	9,229
B.3 other increases	106,023	145,444	6,338
C. Decreases	**253,044**	**1,251,650**	**407,258**
C.1 transfers to performing loans	-	129,868	65,302
C.2 write-offs	80,463	15,974	103
C.3 collections	124,478	222,089	13,145
C.4 proceeds from disposals	349	2,405	-
C.5 losses from disposals	8,581	291	-
C.6 transfers to other categorie of non performing exposure	39,173	843,349	328,708
C.7 other decreases	-	37,674	-
D. Closing gross exposure	**4,598,724**	**4,242,968**	**55,258**
of which: sold but not derecognized	*188,951*	*324,406*	*10,969*

The above table shows the total for the four quarters of the upward and downward changes in gross non-performing exposures.

A.1.7 bis Cash exposures to customers: changes in gross granted loans broken down by credit quality

Categories	Forborne non performing	Forborne performing
A. Opening gross exposure	**1,633,826**	**746,056**
of which: sold but not derecognized	*75,341*	*163,629*
B. Increases	743,854	364,555
B.1 transfers from performing loans non forborne	50,455	182,334
B.2 transfers from forborne performing loans	237,182	X
B.3 transfers from forborne non performing loans	X	64,188
B.4 other increases	456,217	118,033
C. Decreases	237,776	537,453
C.1 transfers to performing loans non forborne	X	-
C.2 transfers to forborne performing loans	64,188	X
C.3 transfers to forborne non performing loans	X	237,182
C.4 write-offs	-	-
C.5 collections	159,943	300,271
C.6 proceeds from disposals	-	-
C.7 losses from disposals	-	-
C.8 other decreases	13,645	-
D. Closing gross exposure	**2,139,904**	**573,158**
of which: sold but not derecognized	*135,100*	*183,017*

A.1.8 Non-performing cash exposures to customers: changes in total write-downs

Causali/Categorie	Bad loans		Unlikely to Pay		Non performing past due exposures	
	Total	of which: exposures with forbearance measures	Total	of which: exposures with forbearance measures	Total	of which: exposures with forbearance measures
A. Opening total adjustments	**2,211,565**	**53,339**	**1,069,928**	**239,177**	**16,854**	**1,049**
of which: sold but not derecognized	*66,599*	*697*	*13,246*	*4,788*	*698*	*50*
B. Increases	**739,856**	**126,891**	**576,860**	**286,228**	**426**	**-**
B.1 adjustments	510,009	70,790	574,456	286,228	426	-
B.2 losses from disposal	8,581	-	291	-	-	-
B.3 transfers from other categories of non performing exposure	144,070	50,783	-	-	-	-
B.4 other increases	77,196	5,318	2,113	-	-	-
C. Decreases	**159,869**	**498**	**195,616**	**83,897**	**6,986**	**208**
C.1 writebacks on valuation	59,622	198	25,602	6,179	6,883	208
C.2 writebacks due to collections	19,435	101	1,174	21,695	-	-
C.3 profit from disposals	349	-	2,405	-	-	-
C.4 write-offs	80,463	199	15,974	5,240	103	-
C.5 transfers to other categories of non performing exposure	-	-	144,070	50,783	-	-
C.6 other decreases	-	-	6,391	-	-	-
D. Total closing adjustments	**2,791,552**	**179,732**	**1,451,172**	**441,508**	**10,294**	**841**
of which: sold but not derecognized	*71,586*	*3,777*	*35,481*	*10,111*	*976*	*304*

A.2 CLASSIFICATION OF EXPOSURES BASED ON EXTERNAL AND INTERNAL RATINGS

A.2.1 Distribution of cash and "off-balance sheet" exposures by external rating class

Exposures	External rating class						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposures	**21,708**	**594,351**	**5,518,268**	**2,341,308**	**285,018**	**166,914**	**19,359,005**	**28,286,572**
B. Derivatives	**-**	**38,476**	**10,521**	**19,604**	**526**	**809**	**318,561**	**388,497**
B.1 Financial derivatives	-	38,476	10,521	19,604	526	809	318,561	**388,497**
B.2 Credit derivatives	-	-	-	-	-	-	-	**-**
C. Guarantees given	**-**	**106,148**	**120,581**	**115,789**	**10,567**	**1,542**	**503,509**	**858,136**
D. Commitments to grant finance	**-**	**16,567**	**80,970**	**46,149**	**17,949**	**3,119**	**274,813**	**439,567**
E. Other	**3,718**	**-**	**8,241**	**-**	**668**	**-**	**435,011**	**447,638**
Total	**25,426**	**755,542**	**5,738,581**	**2,522,850**	**314,728**	**172,384**	**20,890,899**	**30,420,410**

For classifying customers by external ratings, the Bank uses:

- the ratings provided by DBRS Ratings Limited with regard to the supervisory portfolio "Exposures to or guaranteed by central governments and central banks";
- the ratings supplied by Standard & Poor's Rating Services, Moody's and Fitch Ratings with regard to the "Securitisations" supervisory portfolio;
- the ratings provided by Cerved Group with regard to the "Exposures to companies and other parties".

The mapping tables for the rating classes published by each of the above rating agencies are provided below (source: Bank of Italy).

Credit class	Risk weighting coefficients				DBRS Ratings Limited
	Central governments and banks	Supervised intermediaries, public sector entities, territorial entities	Multi-lateral development banks	Companies and other issuers	
1	0%	20%	20%	20%	from AAA to AAL
2	20%	50%	50%	50%	from AH to AL
3	50%	100%	50%	100%	from BBBH to BBBL
4	100%	100%	100%	100%	from BBH to BBL
5	100%	100%	100%	150%	from BH to BL
6	150%	150%	150%	150%	CCC

In accordance with the Circular entitled "New prudential supervisory instructions for banks", the categories "Supervised intermediaries", "Public-sector entities" and "Territorial entities" must make reference to the credit class in which exposures to "Central government" are classified in the country in which these parties are headquartered.

Credit class	Securitizations	Ecai		
		Standard & Poor's	Fitch Ratings	Moody's
1	20%	from AAA to AA-	from AAA to AA-	from Aaa to Aa3
2	50%	from A+ to A-	from A+ to A-	from A1 to A3
3	100%	from BBB+ to BBB-	from BBB+ to BBB-	from Baa1 to Baa3
4	350%	from BB+ to BB-	from BB+ to BB-	from Ba1 to Ba3
5	1250%	B+ and below	B+ and below	B1 and below

Credit class	Companies and other parties	Cerved Group
1	20%	-
2	50%	from A1.1 to A3.1
3	100%	B1.1
4	100%	from B1.2 to B.2.2
5	150%	C1.1
6	150%	from C1.2 a C2.1

A.2.2 Distribution of cash and "off-balance sheet" exposures by internal rating class

Exposures	Internal rating classes													Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8	Class 9	Class 10	Class 11	Class 12	Class 13		
A. Cash exposures	**744,648**	**799,852**	**1,039,850**	**2,356,124**	**2,104,548**	**2,033,988**	**1,657,683**	**882,755**	**533,517**	**205,449**	**96,055**	**56,762**	**287,692**	**6,548,145**	**19,347,068**
B. Derivatives	**5,770**	**1,005**	**55**	**6,504**	**8,500**	**8,646**	**7,320**	**702**	**310**	**1,321**	**-**	**49**	**270**	**77,893**	**118,345**
B.1 Financial derivatives	5,770	1,005	55	6,504	8,500	8,646	7,320	702	310	1,321	-	49	270	77,893	118,345
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Guarantees given	**27,994**	**47,043**	**6,881**	**100,564**	**107,420**	**128,719**	**46,604**	**13,062**	**4,650**	**2,939**	**366**	**981**	**2,576**	**326,034**	**815,833**
D. Commitments to grant finance	**7,216**	**20,522**	**11,840**	**32,483**	**32,093**	**66,861**	**46,536**	**14,957**	**4,028**	**179**	**668**	**121**	**14,396**	**118,495**	**370,395**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**785,628**	**868,422**	**1,058,626**	**2,495,675**	**2,252,561**	**2,238,214**	**1,758,143**	**911,476**	**542,505**	**209,888**	**97,089**	**57,913**	**304,934**	**7,070,567**	**20,651,641**

The Bank uses internal ratings, split into 13 classes of decreasing credit quality (with class 1 representing the least risky customers and class 13 the most risky), solely for managing customer credit risk. Non-performing assets are all classified as “Unrated”.

It should be noted that in 2016, the internal rating model was subject to a recalibration of the different scores which contribute to the final rating of the model and was implemented based on loans valuation. Pending such activity, the definition of the above mentioned rating scale was refined.

The models developed by the Bank cover the types of counterparty with whom it operates structurally and to whom it is most exposed (Individuals, Small Business, Small Corporate, Mid Corporate and Corporate). This table therefore does not include exposures arising from treasury activity (loans and advances to Banks) or investment activity (debt securities, equities, mutual funds, derivatives with institutional counterparties).

The internal ratings are not used for calculating capital adequacy requirements.

A.3 DISTRIBUTION OF GUARANTEED EXPOSURES BY TYPE OF GUARANTEE

A.3.1 Guaranteed exposures to banks

	Amount of net exposure	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Guarantees				
							Other derivatives								
		Buildings	Buildings financial leasing	Securities	Other secured guarantees	CLN	Govern-ments and central banks	Other public entities	Banks	Other issuers	Govern-ments and central banks	Other public entities	Banks	Other issuers	
1. Guaranteed cash exposures:	**789,020**	**-**	**-**	**788,322**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**698**	**-**	**789,020**
1.1 fully guaranteed	789,020	-	-	788,322	-	-	-	-	-	-	-	-	698	-	789,020
- of which: non performing exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non performing exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed "off-balance sheet" exposures:	**3,945**	**-**	**-**	**-**	**3,945**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,945**
2.1 fully guaranteed	3,945	-	-	-	3,945	-	-	-	-	-	-	-	-	-	3,945
- of which: non performing exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non performing exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Guaranteed exposures to customers

	Amount of net exposure	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Guarantees				
							Other derivatives								
		Buildings	Buildings financial leasing	Securities	Other secured guarantees	CLN	Govern-ments and central banks	Other public entities	Banks	Other issuers	Govern-ments and central banks	Other public entities	Banks	Other issuers	
1. Guaranteed cash exposures:	**13,695,103**	**11,144,182**	**-**	**192,700**	**95,000**	**-**	**-**	**-**	**-**	**-**	**-**	**102,238**	**5,073**	**1,851,518**	**13,390,711**
1.1 fully guaranteed	12,762,004	10,890,493	-	126,726	62,947	-	-	-	-	-	-	38,805	4,046	1,638,987	12,762,004
- of which: non performing exposure	*3,156,231*	*2,663,494*	-	*16,887*	*8,620*	-	-	-	-	-	-	*3,360*	*249*	*463,621*	*3,156,231*
1.2 partially guaranteed	933,099	253,689	-	65,974	32,053	-	-	-	-	-	-	63,433	1,027	212,531	628,707
- of which: non performing exposure	*400,030*	*177,841*	-	*23,401*	*10,895*	-	-	-	-	-	-	*8,378*	*393*	*101,940*	*322,848*
2. Guaranteed "off-balance sheet" exposures:	**273,253**	**100,821**	**-**	**13,359**	**24,174**	**-**	**-**	**-**	**-**	**-**	**-**	**34**	**1,713**	**98,471**	**238,572**
2.1 fully guaranteed	101,230	1,788	-	6,879	17,137	-	-	-	-	-	-	34	1,213	74,179	101,230
- of which: non performing exposure	*7,811*	*825*	-	*1,250*	*1,491*	-	-	-	-	-	-	-	-	*4,245*	*7,811*
2.2 partially guaranteed	172,023	99,033	-	6,480	7,037	-	-	-	-	-	-	-	500	24,292	137,342
- of which: non performing exposure	*19,424*	*2,334*	-	*1,938*	*564*	-	-	-	-	-	-	-	-	*9,269*	*14,105*

The 4th revision of Circular no. 262 of the Bank of Italy changed the procedures for representing the guarantees in the above table, providing that their value may be no higher than the book value of the guaranteed exposures.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT

B.1 Distribution by sector of cash and "off-balance sheet" exposures to customers (book value)

Exposures/Counterparts	Governments			Other public entities			Financial companies			Insurance companies			Non-financial institutions			Other issuers		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures																		
A.1 Bad loans	-	-	X	-	-	X	36,589	(84,407)	X	-	-	X	1,318,841	(2,205,238)	X	451,742	(501,907)	X
- of which: exposures with forbearance measures	-	-	X	-	-	X	136	(29,548)	X	-	-	X	141,902	(130,625)	X	45,518	(19,559)	X
A.2 Unlikely to pay	-	-	X	31,486	(22,898)	X	149,903	(222,960)	X	-	-	X	1,983,305	(740,500)	X	627,102	(464,814)	X
- of which: exposures with forbearance measures	-	-	X	31,486	(22,898)	X	65,860	(49,320)	X	-	-	X	1,040,790	(327,436)	X	185,334	(41,854)	X
A.3 Non performing past due exposures	-	-	X	1	-	X	152	(32)	X	-	-	X	27,390	(5,173)	X	17,421	(5,089)	X
- of which: exposures with forbearance measures	-	-	X	-	-	X	-	-	X	-	-	X	2,850	(481)	X	3,947	(360)	X
A.5 Performing exposures	4,770,135	X	-	38,519	X	-	1,449,137	X	(16,414)	30,914	X	-	7,025,044	X	(78,454)	6,430,723	X	(28,310)
- of which: exposures with forbearance measures	-	X	-	-	X	-	427	X	(5)	-	X	-	356,726	X	(12,509)	201,153	X	(2,338)
TOTAL A	**4,770,135**	**-**	**-**	**70,006**	**(22,898)**	**-**	**1,635,781**	**(307,399)**	**(16,414)**	**30,914**	**-**	**-**	**10,354,580**	**(2,950,911)**	**(78,454)**	**7,526,988**	**(971,810)**	**(28,310)**
B. "Off-balance sheet" exposures																		
B.1 Bad loans	-	X	X	-	-	X	-	(10)	X	-	-	X	4,232	(2,337)	X	23	(4)	X
B.2 Unlikely to pay	-	-	X	-	-	X	212	-	X	-	-	X	66,494	(2,107)	X	4,218	(5,340)	X
B.3 Other non performing exposures	-	-	X	-	-	X	-	-	X	-	-	X	568	(1)	X	61	-	X
B.4 Performing exposures	1,284	X	X	7,324	X	(2)	316,992	X	(37)	47,541	X	(70)	866,048	X	(815)	56,163	X	(17)
TOTAL B	**1,284**	**-**	**-**	**7,324**	**-**	**(2)**	**317,204**	**(10)**	**(37)**	**47,541**	**-**	**(70)**	**937,342**	**(4,445)**	**(815)**	**60,465**	**(5,344)**	**(17)**
Total A+B at 31/12/2016	**4,771,419**	**-**	**-**	**77,330**	**(22,898)**	**(2)**	**1,952,985**	**(307,409)**	**(16,451)**	**78,455**	**-**	**(70)**	**11,291,922**	**(2,955,356)**	**(79,269)**	**7,587,453**	**(977,154)**	**(28,327)**
Total A+B at 31/12/2015	**4,969,320**	**X**	**-**	**88,203**	**(17,361)**	**(2)**	**3,398,000**	**(264,867)**	**(14,491)**	**82,063**	**X**	**(74)**	**13,241,228**	**(2,286,393)**	**(84,202)**	**8,417,921**	**(737,995)**	**(28,055)**

B.2 Geographical distribution of cash and "off-balance sheet" exposures to customers (book value)

Exposures/Geographical area	ITALY		OTHER EU COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Bad loans	1,805,771	(2,778,229)	1,255	(12,640)	146	(683)	-	-	-	-
A.2 Unlikely to pay	2,777,899	(1,383,866)	11,170	(67,133)	2,725	(172)	-	-	2	(1)
A.3 Non performing past due exposures	44,928	(10,285)	21	(7)	15	(2)	-	-	-	-
A.4 Other exposures	19,238,133	(122,737)	486,023	(269)	8,231	(79)	4,160	(43)	7,925	(50)
TOTAL A	**23,866,731**	**(4,295,117)**	**498,469**	**(80,049)**	**11,117**	**(936)**	**4,160**	**(43)**	**7,927**	**(51)**
B. "Off-balance sheet" exposures										
B.1 Bad loans	4,255	(2,351)	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	70,924	(7,447)	-	-	-	-	-	-	-	-
B.3 Other non performing exposures	629	(1)	-	-	-	-	-	-	-	-
B.4 Performing exposures	1,110,479	(941)	184,781	-	11	-	-	-	81	-
TOTAL B	**1,186,287**	**(10,740)**	**184,781**	**-**	**11**	**-**	**-**	**-**	**81**	**-**
Total at 31/12/2016	**25,053,018**	**(4,305,857)**	**683,250**	**(80,049)**	**11,128**	**(936)**	**4,160**	**(43)**	**8,008**	**(51)**
Total at 31/12/2015	**28,885,755**	**(3,364,962)**	**1,243,033**	**(64,505)**	**39,645**	**(1,114)**	**8,718**	**(2,778)**	**19,584**	**(81)**

B.3 Geographical distribution of cash and "off-balance sheet" exposures to banks (book value)

Exposures/Geographical area	ITALY		OTHER EU COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Other exposures	2,391,766	-	1,393,059	-	3,407	-	16,846	-	5,449	-
TOTAL A	**2,391,766**	**-**	**1,393,059**	**-**	**3,407**	**-**	**16,846**	**-**	**5,449**	**-**
B. "Off-balance sheet" exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non performing exposures	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	219,391	-	68,785	-	3,165	-	20,195	-	3,505	-
TOTAL	**219,391**	**-**	**68,785**	**-**	**3,165**	**-**	**20,195**	**-**	**3,505**	**-**
Total at 31/12/2016	**2,611,157**	**-**	**1,461,844**	**-**	**6,572**	**-**	**37,041**	**-**	**8,954**	**-**
Total at 31/12/2015	**1,709,216**	**-**	**1,958,796**	**(555)**	**13,474**	**-**	**37,198**	**-**	**13,537**	**-**

B.4 Significant exposures

	31/12/2016
a) Book value	14,357,833
b) Weighted value	2,197,174
c) Number	11

On the basis of current supervisory instructions, a “Significant exposure” is one whose amount is equal to or greater than 10% of the admissible Capital (equal to the Bank’s Own Funds). They include, at 31 December 2016, the exposure to the companies of the BPVi Group for a total book value of Euro 4,135.1 million and a weighted value of Euro 54.6 thousand.

The remaining “Significant exposures” relate to the exposure to the Italian State (nominal value of Euro 4,974.1 million and weighted value equal basically to zero) referring mainly to direct and indirect investments in Government bonds as well as to exposures to worldwide bank groups (total nominal value of Euro 4,515.3 million and weighted value of Euro 1,919.2 million). It should be noted that, at 31 December 2016, no exposure exceeded the limit set forth in article 395 of the Regulation (EU) no. 575/2013 (CRR).

C. SECURITISATIONS

QUALITATIVE INFORMATION

Objectives, strategies and processes underlying securitisations

The Banca Popolare di Vicenza Group has identified securitisations as the main source of collection to meet funding requirements. All these securitisations form a strategic part of the Group's expectations of further growth in the mortgage sector and the general process of expanding bank lending, which requires adequate liquidity to be raised in advance to meet future loan applications. More specifically, the securitisations carried out met the following objectives:

– to free up resources on the asset-side of the statement of financial position, whilst improving the treasury position;
– to reduce maturity mismatching between deposits and long-term lending;
– to reduce the ratio of long-term lending to total lending.

These are also the purposes of "self-securitisations", carried out with the intent of having available usable securities for funding activities with the European Central Bank or with major market counterparties.

At the date of the financial statements, the following securitisations, all multioriginator and carried out in accordance with Italian Law no. 130/1999, existed:

- Berica Residential MBS 1 Srl;
- Berica 5 Residential MBS Srl;
- Berica 6 Residential MBS Srl;
- Berica 8 Residential MBS Srl;
- Berica 9 Residential MBS Srl;
- Berica 10 Residential MBS Srl;
- Berica ABS Srl;
- Berica ABS 2 Srl;
- Berica PMI Srl;
- Piazza Venezia Srl;
- Berica ABS 3 Srl;
- Berica ABS 4 Srl;
- Berica PMI 2 Srl;
- Berica Funding Srl;
- Piazza Venezia 2 Srl;
- Berica ABS 5 Srl.

The above securitisations, all multi-originator in nature and carried out in accordance with Law 130/1999, involved, in addition to the Bank, also the former subsidiaries Cassa di Risparmio di Prato S.p.A. and Banca Nuova S.p.A., merged respectively on 31 December 2010 and 28 February 2011. As a result of the contribution of the "Local Bank" business line, with the only exception of the securitisation called Berica Residential MBS 1 S.r.l., the Bank owns pro-rata the junior securities issued within the aforesaid securitisations (therefore the related mortgages are "reinstated" in the financial statements).

As regards the last three securitisations, these were carried out in 2016. These are securitisations of a multioriginator nature, completed with the assignment of mortgages portfolios (Berica Funding srl and Berica ABS 5 srl) by the Bank and by the subsidiary Banca Nuova, and with the assignment of commercial and unsecure mortgages in favour of small and medium sized corporations (Piazza Venezia 2 S.r.l.) in addition to the Bank, the subsidiary Banca Nuova and also the subsidiary Farbanca. As for the Berica Funding srl and Piazza Venezia 2 srl, the special purpose vehicle has already issued the ABS, subscribed by the originators in proportion to the loans assigned, while the securitisation, called Berica ABS 5 srl, is currently still in the warehousing phase since the related ABS have not yet been issued by the special purpose vehicle.

The details are provided below:

"*Berica Funding S.r.l." Securitisation*

- Vehicle company:	Berica FUNDING 2016 srl	
- Date of sale of loans:		01/01/2016
- Type of loans sold:	Mortgage loans	
- Quality of loans sold:	Performing loans	
- Guarantees on loans sold:	First mortgage	
- Geographical area of loans sold:	Italy	
- Economic status of debtors sold:	Individuals	
- Number of loans sold:		13,605
of which: Banca Popolare di Vicenza		11,895
of which: Banca Nuova		1,710
- Price of loans sold:		1,277,279,036
of which: Banca Popolare di Vicenza		1,131,982,560
of which: Banca Nuova		145,296,476
- Value of loans sold:		1,276,764,244
of which: Banca Popolare di Vicenza		1,131,510,284
of which: Banca Nuova		145,253,960
- Interest accrued on loans sold:		514,792
of which: Banca Popolare di Vicenza		472,276
of which: Banca Nuova		42,516

With the aforesaid securitisation, the Funding securities, as set out below, were issued; they were subscribed on the date of issue by the originators in proportion to the transferred receivables portfolio. In detail:

- Euro 892,500 thousand in unrated senior notes (of which Euro 790,900 thousand subscribed by the Bank) with yield tied to the 3-month Euribor plus 125 bps;
- Euro 119,200 thousand in unrated mezzanine notes (of which Euro 105,700 thousand subscribed by the Bank) with yield tied to the 3-month Euribor plus 200 bps;
- Euro 79,800 thousand in unrated mezzanine notes (of which Euro 70,800 thousand subscribed by the Bank) with yield tied to the 3-month Euribor plus 250 bps;
- Euro 185,265 thousand in unrated junior notes (of which Euro 164,111 thousand subscribed by the Bank) with yield tied to the 3-month Euribor plus 300 bps.

"Piazza Venezia 2 S.r.l." Securitisation

- Vehicle company:	PIAZZA VENEZIA 2 srl
- Date of sale of loans:	01/02/2016
- Type of loans sold:	Unsecured loans and mortgage loans in favor of small and medium- size companies
- Quality of loans sold:	Performing loans
- Guarantees on loans sold:	First and second mortgage
- Geographical area of loans sold:	Italy
- Economic status of debtors sold:	Companies
- Number of loans sold:	1,277
of which: Banca Popolare di Vicenza	738
of which: Banca Nuova	181
of which: Farbanca	358
- Price of loans sold:	357,816,317
of which: Banca Popolare di Vicenza	198,593,846
of which: Banca Nuova	16,588,555
of which: Farbanca	142,633,915
- Value of loans sold:	356,958,704
of which: Banca Popolare di Vicenza	197,826,061
of which: Banca Nuova	16,566,617
of which: Farbanca	142,566,026
- Interest accrued on loans sold:	857,613
of which: Banca Popolare di Vicenza	767,785
of which: Banca Nuova	21,939
of which: Farbanca	67,889

With the aforesaid securitisation, the Piazza Venezia 2 securities, as shown below, were issued and were subscribed on the date of issue by the originators in proportion to the transferred receivables portfolio. In detail:

- Euro 261,900 thousand in unrated senior notes (of which Euro 145,200 thousand subscribed by the Bank) with yield tied to the 6-month Euribor plus 150 bps;
- Euro 95,058 thousand in unrated junior notes (Euro 52,626 thousand subscribed by the Bank) with yield tied to the 6-month Euribor.

"Berica ABS 5 S.r.l." Securitisation

- Vehicle company:	BERICA ABS 5 srl	
- Date of sale of loans:		01/12/2016
- Type of loans sold:	Mortgage loans	
- Quality of loans sold:	Performing loans	
- Guarantees on loans sold:	First mortgage	
- Geographical area of loans sold:	Italy	
- Economic status of debtors sold:	Individuals	
- Number of loans sold:		5,305
of which: Banca Popolare di Vicenza		4,226
of which: Banca Nuova		1,079
- Price of loans sold:		618,601,757
of which: Banca Popolare di Vicenza		503,839,652
of which: Banca Nuova		114,762,106
- Value of loans sold:		618,517,631
of which: Banca Popolare di Vicenza		503,769,166
of which: Banca Nuova		114,748,466
- Interest accrued on loans sold:		84,126
of which: Banca Popolare di Vicenza		70,486
of which: Banca Nuova		13,640

The above securitisation operation, as explained above, is still in the warehousing phase since the relevant Asset Backed Securities have not yet been issued by the vehicle company.

For each own securitisation, the originator Banks have signed specific servicing contracts with the respective vehicle companies for the coordination and supervision of the management, administration and collection of the securitised loans, as well as for recovery activities in the event of borrower default. These contracts require the payment of an annual servicing fee as well as recompense for each position requiring recovery activities. The function of servicer is carried out by specific structures within the company, whose work has been duly organised and is checked by the Bank's internal auditors, who verify the propriety and conformity of its conduct with respect to the terms of the servicing contract.

In the case of the Berica PMI 2, Berica Funding, Piazza Venezia, Piazza Venezia 2 and Berica ABS 5 securitisations, since the first four transactions are self-securitisations (the originator banks have subscribed all issued asset-backed securities in proportion to the size of the loan portfolio sold) and the fifth one, as described in the previous point, is in the warehousing phase, they do not fall under the disclosure requirements applying to the present Section.

Servicer and arranger activities

For all the securitisations, the Bank has signed specific servicing contracts with the respective vehicle companies for the coordination and supervision of the management, administration and collection of their specific securitised loans, as well as for recovery activities in the event of borrower default. These contracts require the payment of an annual servicing fee as well as recompense for each position requiring recovery activities. The function of servicer is carried out by specific specially organised structures within the company, whose work is subject to control by the Bank's internal auditors, who verify the propriety and conformity of their conduct with respect to the terms of the servicing contract.

Lastly, Banca Popolare di Vicenza also acts as the administrative servicer for all the above securitisations, receiving a contractually-agreed fee from the special purpose vehicles for providing this service.

Accounting treatment of outstanding positions relating to securitisations

With regard to the first securitisation, set up before 1 January 2004, the securitised assets were not reinstated on the first-time adoption of IAS-IFRS, as set forth in par. 27 of IFRS 1.

As for the other securitisations, arranged subsequent to 1 January 2004, since they do not meet the derecognition requirements of IAS 39, the portion of residual securitised assets relating to loans sold was reinstated at the statement of financial position date and the corresponding asset-backed securities were eliminated.

In particular, the residual portion of the securitised loans at that date were reported in "Loans and advances to customers" and the associated liabilities were reported in "Due to customers", while the corresponding portion of ABS relating to these securitisations were derecognised from the Bank's portfolio. If said elimination results in a negative imbalance, said amount is recorded under "Loans and advances to customers".

"Interest income and similar revenues" and "interest expense and similar charges" arising during the year in relation to the above assets and liabilities have been recognised, and an overall assessment of the reinstated securitised loans has also been performed with any write-downs reported in "net impairment adjustments to: loans and advances".

The securitised assets reported in the statement of financial position have been valued using the same principles as for the Bank's own assets.

Internal systems for the measurement and control of risk and hedging policies

The residual risk for the Bank in relation to the total insolvency of borrowers represents, for the own securitisations not reinstated, the value of the junior notes (highest degree of subordination) held.

The Bank periodically monitors changes in the key credit and financial variables relating to each securitisation.

With a view to controlling risk, special attention is focused on the performance of the trigger ratios, of performance indicators on default and delinquent loans, as well as the performance of the excess spread that represents the return on the junior notes held by the Bank. The Board of Directors receives a summary and detailed statement about the securitisations at least every six months.

Concurrently with the issue of the ABS, several back-to-back swaps were arranged in the form of Interest Rate Swaps (IRS), in order to shield the special purpose vehicle (SPV) from interest rate risk.

These instruments are measured at fair value, as discussed below, and are included in the periodic Asset & Liability Management (ALM) analysis which is performed every quarter.

With regard to the organisational structure that oversees securitisations, the Bank, through a dedicated operating unit, monitors the performance of the securitisations originated by the Banca Popolare di Vicenza Group.

Results from positions relating to securitisations

Information about the results from positions relating to securitisations is provided below, with the distinction between the securitisations reinstated in the financial statements and those not reinstated.

Vehicle company	Interest income	Interest expense	Servicing for transactions	Positive (Negative) differential	Write-backs (writedowns) of loans
Berica 5	1,861	(188)	(123)	(120)	(2,273)
Berica 6	4,577	(3,134)	(146)	(104)	10,999
Berica 8	8,749	(10,686)	(113)	(266)	(1,162)
Berica 9	8,508	(3,417)	(148)	(299)	(508)
Berica 10	8,210	(39)	(163)	(386)	(588)
Berica abs	13,316	(12,082)	(163)	434	(2,494)
Berica abs 2	9,330	(9,374)	(158)	(421)	(633)
PMI	14,750	(2,094)	(167)	(528)	(4,552)
Berica abs 3	17,565	(6,135)	(122)	(990)	(1,960)
Berica abs 4	17,192	(4,083)	(120)	(945)	(1,912)
Total	**104,058**	**(51,232)**	**(1,423)**	**(3,625)**	**(5,083)**
Total reported in balance sheet	729,686	(453,638)	191,846	(89,295)	(984,599)
% incidence	14.3%	11.3%	-0.7%	-4.1%	0.5%

Vehicle company	Interest income	Servicing for transactions	Positive (Negative) differential	Gains (losses) on valutation	Other income (expenses)
Berica Residential MBS 1	-	164	(229)	(75)	-
Total	**-**	**164**	**(229)**	**(75)**	**-**
Total reported in balance sheet	729,686	191,846	(89,295)	(89,295)	(21,732)
% incidence	0.0%	0.1%	-0.3%	0.1%	0.0%

The above table does not reports the results of the self-securitisations, because they do not fall under the disclosure requirements applying to the present section.

Rating agencies

The following rating agencies were engaged to perform due diligence work on the above transactions and assign ratings to the related Asset-Backed Securities:

- Berica Residential MBS 1 Srl: Standard & Poor's and Fitch Ratings;
- Berica 5 Residential MBS Srl: Standard & Poor's and Fitch Ratings;
- Berica 6 Residential MBS Srl: Standard & Poor's, Fitch Ratings and Moody's Investors Service Inc.;
- Berica 8 Residential MBS Srl: Fitch Ratings and Moody's;
- Berica 9 Residential MBS Srl: Fitch Ratings and Moody's;
- Berica 10 Residential MBS Srl: Moody's and DBRS;
- Berica ABS Srl: Moody's and DBRS;
- Berica ABS 2 Srl: Fitch Ratings and DBRS;
- Berica PMI Srl: Fitch Ratings and DBRS;
- Berica ABS 3 Srl: Fitch Ratings and DBRS;
- Berica ABS 4 Srl: Fitch Ratings and DBRS.

Third party securitisations

Within the scope of third party securitisations, the Bank subscribed:

1. its own portion of a single tranche within the securitisation carried out by Banca della Nuova Terra and recorded under "Loans and advances to customers" with a total value of Euro 61.9 million. In this regard, it should be pointed out that the security was subjected to specific write-downs totalling Euro 13,152 thousand;
2. senior tranches of ABS issued in relation to securitisations arranged pursuant to Law no. 130/1999 and originated mainly by construction companies operating with public agencies. These exposures are recorded under "Loans and advances to customers" for a total value of Euro 54.3 million, and under "Financial assets available for sale" for a total value of 12.2 million, on which no impairments requiring recognition in the income statement under IAS 39 were noted in 2016;
3. senior tranches of ABS securities purchased by the subsidiary BPV Finance and issued in relation to securitisations originated mainly by construction companies operating with public agencies. These exposures are stated under item "Loans and advances to customers".

Cod Isin	Description	Tranche	Maturity date	Originator	Geographical distribution	Type of asset securitized	Rating	Captions	Book value
IT0005022915	BNT PORTFOLIO TV 42	senior	09/02/42	Banca Nuova Terra	Italy	Loans agricultural and zootechnics	n.d.	Loans and advances to customers	61,871
IT0005144172	RENO SPV 3,00% CL.A	senior	30/11/40	Reno SPV srl	Italy	Technical reserves	n.d.	Loans and advances to customers	40,103
IT0004841372	ATLANTICA SRL CL.A	senior	30/07/26	Atlantica SPV S.R.L.	Italy	Technical reserves	n.d.	Loans and advances to customers	14,177
XS1177802102	ABS FUNDING 2,5% 24	senior	30/05/25	ABS Funding S.A.	Luxembourg	Commercial loans	n.d.	Loans and advances to customers	9,677
XS1089898230	ZENONE 5,50% CL A 25	senior	30/09/25	Securitisation Service	Luxembourg	ABS portfolio	n.d.	Loans and advances to customers	14,394
IT0005092470	QUARZO CL.A TV 15-30	senior	15/11/30	Quarzo CQS S.R.L.	Italy	Credit for consuption	n.d.	Financial assets available for sale	12,199
Total									**152,421**

QUANTITATIVE INFORMATION

C.1 Exposures deriving from the principal "own" securitisations analysed by type of asset securitised and type of exposure

Quality of underlying assets/Exposures	Cash exposures						Guarantees given						Credit lines					
	Senior		*Mezzanine*		*Junior*		*Senior*		*Mezzanine*		*Junior*		*Senior*		*Mezzanine*		*Junior*	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Own securitized underlying assets:																		
- residential mortgage loans	12,139	-	17,890	-	10,734	(856)	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognized																		
C. Not derecognized																		
- residential mortgage loans	27,916	-	424,658	-	1,114,057	-	-	-	-	-	-	-	-	-	-	-	-	-
- unsecured loans and mortgage loans in favor of small and medium- size companies	-	-	-	-	428,100	-	-	-	-	-	-	-	-	-	-	-	-	-

C.2 Exposures deriving from the principal "third-party" securitisations analysed by type of asset securitised and type of exposure

Type of asset securitized/Exposure	Cash exposures						Guarantees given						Credit lines					
	Senior		*Mezzanine*		*Junior*		*Senior*		*Mezzanine*		*Junior*		*Senior*		*Mezzanine*		*Junior*	
	Book value	Writedowns/ writebacks	Book value	Writedown s/writeback s	Book value	Writedowns/ writebacks	Book value	Writedown s/writeback s	Book value	Writedown s/writeback s	Book value	Writedown s/writeback s	Book value	Writedown s/writeback s	Book value	Writedown s/writeback s	Book value	Writedown s/writeback s
A. Fully derecognized																		
- residential mortgage loans	323	-	476	-	275	(23)	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognized																		
C. Not derecognized																		
- residential mortgage loans	2,944	-	80,767	-	229,898	-	-	-	-	-	-	-	-	-	-	-	-	-
- unsecured loans and mortgage loans in favor of small and medium- size companies	-	-	-	-	72,683	-	-	-	-	-	-	-	-	-	-	-	-	-
- technical reserves	54,280	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- loans agricultural and zootechnics	61,871	(13,152)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- credit for consumption	12,199	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- commercial loans	9,677	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- ABS Portfolio	14,394	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

As set forth by the Bank of Italy’s Circular no. 262 of 22 December 2005 as amended, in the case of multi originator own securitisations in which the assets sold remained fully intact under assets in the statement of financial position, in the table above, the third-party exposures are determined in proportion to the weighting those same assets have in relation to the securitised assets.

C.3 Special purpose vehicles for securitisation

Vehicle company	Registered Office	Consolidation	Assets			Liabilities		
			Loans and advances	Debt securities	Other	Senior	Mezzanine	Junior
Berica Residential MBS 1 S.r.l.	Vicenza	No	80,252	-	15,525	37,200	35,308	10,526
Berica 5 Residential MBS S.r.l.	Vicenza	No	154,614	-	18,575	85,119	43,932	34,293
Berica 6 Residential MBS S.r.l.	Vicenza	No	343,106	-	178,361	-	362,899	1,000
Berica 8 Residential MBS S.r.l.	Vicenza	No	465,002	-	90,649	288,846	-	174,950
Berica 9 Residential MBS S.r.l.	Vicenza	No	533,911	-	63,366	-	324,940	193,200
Berica 10 Residential MBS S.r.l.	Vicenza	No	519,546	-	44,228	-	300,300	184,382
Berica ABS S.r.l.	Vicenza	No	765,711	-	31,742	232,346	110,000	327,468
Berica ABS 2 S.r.l.	Vicenza	No	514,795	-	45,826	14,661	280,100	179,959
Berica ABS 3 S.r.l.	Vicenza	No	633,002	-	29,275	395,564	93,900	115,012
Berica ABS 4 S.r.l.	Vicenza	No	730,225	-	30,558	432,969	107,100	82,400
Berica PMI S.r.l.	Vicenza	No	593,764	-	42,761	-	-	588,027

It must be noted that the prerequisites of "control" under the new accounting standard IFRS 10 exist with regards to the special purpose vehicles used by the Group in its securitisation transactions. For these companies, however, the decision was made not to proceed with the corresponding consolidation in consideration of the fact that all financial statement values are irrelevant with respect to those of the Group and that the securitised assets are already included in the Group financial statements, since the prerequisites set forth in IAS 39 for "derecognition" do not apply to the various transactions carried out.

C.4 Non-consolidated special purpose vehicles for securitisation

In accordance with Circular no. 262 of 22 December 2005 as amended, for information about this item please refer to the disclosure provided in the consolidated Financial Statements at 31 December 2016 of the Banca Popolare di Vicenza Group.

C.5 Servicer activities - own securitisations: collection of securitised loans and redemption of securities issued by the vehicle company

Vehicle company	Securitized assets 31/12/2016		Loans collected during the year		Percentage of securities redeemed 31/12/2016					
					Senior		Mezzanine		Junior	
	Non performing loans	Performing loans	Non performing loans	Performing loans	Non performing assets	Performing assets	Non performing assets	Performing assets	Non performing assets	Performing assets
Berica Residential MBS 1 S.r.l.	-	75,568	-	15,208	0.00%	90.21%	0.00%	33.33%	0.00%	55.82%
Berica 5 Residential MBS S.r.l.	-	134,362	-	16,440	0.00%	86.53%	0.00%	0.00%	0.00%	3.13%
Berica 6 Residential MBS S.r.l.	-	284,221	-	93,626	0.00%	100.00%	0.00%	71.31%	0.00%	78.26%
Berica 8 Residential MBS S.r.l.	-	313,864	-	78,796	0.00%	76.33%	0.00%	0.00%	0.00%	0.00%
Berica 9 Residential MBS S.r.l.	-	444,030	-	85,695	0.00%	65.13%	0.00%	0.00%	0.00%	0.00%
Berica 10 Residential MBS S.r.l.	-	423,562	-	70,723	0.00%	60.38%	0.00%	0.00%	0.00%	0.00%
Berica ABS S.r.l.	-	664,769	-	101,453	0.00%	67.40%	0.00%	0.00%	0.00%	0.00%
Berica ABS 2 S.r.l.	-	419,188	-	81,037	0.00%	59.07%	0.00%	0.00%	0.00%	0.00%
Berica ABS 3 S.r.l.	-	576,661	-	146,176	0.00%	52.65%	0.00%	0.00%	0.00%	0.00%
Berica ABS 4 S.r.l.	-	637,151	-	110,516	0.00%	31.72%	0.00%	0.00%	0.00%	0.00%
Berica PMI S.r.l.	-	507,796	-	148,752	0.00%	100.00%	0.00%	0.00%	0.00%	0.00%

D. DISCLOSURE ON STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SPECIAL PURPOSE VEHICLES FOR SECURITISATION)

In accordance with Circular no. 262 of 22 December 2005 as amended, for information about this item please refer to the disclosure provided in the consolidated Financial Statements at 31 December 2016 of the Banca Popolare di Vicenza Group.

E. DISPOSALS

A. Financial assets sold but not derecognised in full

QUALITATIVE INFORMATION

Financial assets sold but not derecognised and all liabilities relating to assets sold but not derecognised in the tables set out in this section mainly refer to receivables reinstated in the financial statements relating to securitisations set up by the Group, outlined in the previous section C.1 "Securitisations", as well as to repurchase agreements carried out on property securities.

QUANTITATIVE INFORMATION

E.1 Financial assets sold but not derecognised: book value and full value

Technical forms/Portfolio	Financial assets held for trading			Financial assets at fair value			Financial assets available for sale			Financial assets held to maturity			Loans and advances to banks			Loans and advances to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/2016	31/12/2015
A. Cash assets	**40,953**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,442,949**	**-**	**-**	**4,483,902**	**4,680,958**
1. Debt securities	40,953	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	40,953	60,159
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. Mutual funds	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,442,949	-	-	4,442,949	4,620,799
B. Derivatives	-	-	-	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total at 31/12/2016	**40,953**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,442,949**	**-**	**-**	**4,483,902**	**-**
of which: non performing exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*284,582*	-	-	*284,582*	*X*
Total at 31/12/2015	**60,159**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,620,799**	**-**	**-**	**X**	**4,680,958**
of which: non performing exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*268,229*	-	-	*X*	*268,229*

Key:

A = Financial assets sold and recognised in full (book value)
B = Financial assets sold and recognised in part (book value)
C = Financial assets sold and recognised in part (full value)

E.2 Financial liabilities relating to financial assets sold but not derecognised

Liabilities/Assets portfolio	Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Financial assets held to maturity	Loans and advances to banks	Loans and advances to customers	Total
1. Due to customers	**-**	**-**	**131,488**	**-**	**-**	**1,716,331**	**1,847,819**
a) for assets recognized in full	-	-	131,488	-	-	1,716,331	1,847,819
b) for assets recognized in part	-	-	-	-	-	-	-
2. Due to banks	**27,086**	**-**	**769,382**	**-**	**-**	**1,111,387**	**1,907,855**
a) for assets recognized in full	27,086	-	769,382	-	-	1,111,387	1,907,855
b) for assets recognized in part	-	-	-	-	-	-	-
Total at 31/12/2016	**27,086**	**-**	**900,870**	**-**	**-**	**2,827,718**	**3,755,674**
Total at 31/12/2015	**44,326**	**-**	**361,587**	**-**	**-**	**2,516,477**	**2,922,390**

The amounts "Due to customers" in respect of "Loans and advances to customers" refer to the liabilities associated with mortgages sold under certain securitisations, which do not qualify for derecognition under IAS 39 and so are "reinstated" in the financial statements.

E.3 Sales with liabilities having recourse exclusively on the sold assets: fair value

The fair value of sales with liabilities having recourse exclusively on the sold assets does not have substantial differences from the book value. Therefore, the table has not been completed.

B. Financial assets sold and fully derecognised, with recognition of ongoing involvement

The Bank has no financial assets sold and fully derecognised, with recognition of ongoing involvement.

E.4 Covered bond transactions

The Bank has not carried out any covered bond transactions.

F. MODELS USED FOR MEASURING CREDIT RISK

Since 2008, Banca Popolare di Vicenza has adopted internal rating models, for the *retail segment* (private and *small business*), *small corporate segment* (from Euro 517 thousand to Euro 2.5 million in turnover), *mid corporate segment* (from Euro 2.5 to Euro 50 million in turnover), and *corporate segment* beginning in 2009 (companies with a turnover exceeding Euro 50 million, Financial and Investment Holdings - regardless of the turnover - and parent companies with a group turnover exceeding Euro 50 million).

Subsequently, in 2013, the Board of Directors of the Bank decided to launch the initiative to adopt advanced credit risk measurement methods (**Internal Ratings Based" system** - **AIRB**) as set forth in the supervisory regulations in compliance with the principles of Basel 2. This project led to the implementation of the **New Rating System** (models, processes, procedures, regulations) for all segments (Large Corporate, Sme Corporate, Sme Retail, Small Business and Private) with consequent activation of the **New Rating Assignment Procedure** throughout the Group's sales Network.
In the first quarter of 2016, the organisational and IT activities preparatory to the April 2016 production of the following models were concluded:

- rating models for estimating the probability of default (PD), improved with respect to those already in use in the Group starting from 2014;
- internal Loss Given Default (LGD) model, replacing the one in force starting from the second half of 2014;
- internal Exposure at Default (EAD) model to quantify any expected change in the margins granted and unused by the counterparties.

In the second half of 2016, recalibration activities were carried out concerning the PD and LGD models in order to also incorporate the data of the 2015 period into the estimates.
Considering the activities carried out on the models and on the organisational and IT aspects, the A-IRB Project is concluded and said activities are now part of the ordinary management of the Bank.

It should be noted that the SGR monitoring system (Sistema di Gestione dei Rischi or risk management system) has been in use at the Bank since October 2004. It is used mainly to provide early warnings to alert account managers of the existence of problems with certain customers and to make them take corrective action against the higher risk situations, in accordance with precisely defined procedures.
The system underwent a revision in 2009 to make this monitoring tool still more effective in quickly identifying anomalies, and involved the definition of a new model and calculation algorithm for performance scoring (called EW = Early Warning), as well as interfacing the system with the internal ratings models.

Within the scope of the AIRB Project, during 2014, this monitoring system was revised, to adjust it to new rating models and, especially, to give greater significance to the latter by means of appropriate risk indicators, in monitoring borrowers.

SECTION 2

Market risk

2.1 INTEREST RATE RISK AND PRICE RISK – TRADING BOOK FOR SUPERVISORY PURPOSES

QUALITATIVE INFORMATION

A. General aspects

Interest rate risk represents the risk of incurring losses due to adverse trends in the rates of return on debt securities and other interest rate related instruments.

Three types of interest rate risk can be identified:

- level. The risk associated with an absolute change in the forward structure of risk-free interest rates (parallel shifts in the yield curve);
- curve and fundamental. The first identifies the risk deriving from a relative change in the structure of interest rates. The second derives from the imperfect correlation of the elements of a position, particularly with reference to hedging strategies;
- credit spread. Risk deriving from changes in the prices of bonds and credit derivative instruments associated with unexpected changes in the issuer's credit rating.

Price risk represents the risk associated with changes in the value of equity portfolios due to fluctuations in market prices. This risk is distinguished between:

- generic risk. Change in the price of an equity instrument following fluctuations in the market concerned;
- specific risk. Change in the market price of a specific equity instrument due to revised market expectations about the financial strength or prospects of the issuer.

The investment policy adopted by the Group focuses on optimising operating results and on reducing their volatility.

B. Management and measurement of interest rate risk and price risk

The Board of Directors of the Bank is responsible for defining the propensity to market risk, and hence implicitly the aforementioned sub-risks that comprise it, and the guidelines for the management of such risk, with the support of the Finance Committee and the corporate Divisions in charge of the operational and strategic management of risk.

Specifically, for market risk management:

- the Board of Directors approves the strategic guidelines and operating limits and is periodically informed (at least once a quarter) about changes in exposure to market risk and its operational management;
- the Finance Committee serves in a consultative role for the Bank's Board of Directors;
- the Finance Division has operational management duties for activities regarding trading in financial instruments, in compliance with the risk limits and powers assigned;
- the Risk Management Department monitors the risk and operating limits.

The Board of Directors also resolved that investment strategies must be executed in line with the propensity to risk and the resulting operating limits generally or specifically approved, in relation to the assigned powers, by the competent corporate bodies, as well as with the risk/return targets negotiated during budget planning.

With reference to the trade portfolio, investment strategies have been conducted through market-making/trading by the Finance Division; this activity primarily translates into the process of managing financial instruments held for trading and treasury purposes, also in support of the branch Network's flow business (positions held to create the underlying assets for repo transactions with customers, secondary markets for issues by the Bank or placed by the Bank etc.).

The control of financial risk management is, therefore, centralised under the Bank's Risk Management Department. This activity involves the daily monitoring of the observance of the *VaR* limits approved by the Board of Directors, as well as of the operating limits aimed at directing the activities of the single desks.

More specifically, the monitoring of the market risk of the BPVi Group is based on:

- defining a system for delegating powers in line with the risk limits and identifying the related escalation procedures in the event of overruns of these limits;
- controlling observance of the limits and powers.

For the Group's book (HFT), the BPVi Group has defined a risk-based system for delegating powers in line with the risk-appetite targets as resolved by the Board of Directors. Specifically, the Board may delegate powers to the Managing Director of the Bank, upon hearing the opinion of the Finance Committee, for the definition of the operating powers of the Finance Division.

The Board of Directors approved the following limits for 2016:

- VaR limit: measure of the maximum potential loss over a given period of time for a predefined confidence level;
- capital limit allocated in view of the market risk: it measures the maximum potential loss that the Group is willing to accept concerning the assumption of financial risks within this area.

BPVi has also set out the monitoring of a set of operating limits based on the following indicators:

- ***Sensitivity*** (interest rate risk): change in profit or loss that would occur in the event of a parallel shift in the reference curve by one basis point;
- ***Sensitivity*** (inflation risk): change in profit or loss that would occur in the event of a shift in the reference inflation curve by one basis point;
- ***Vega*** (rate risk): change in profit or loss that would occur in the event of a 1% change in volatility (or in the volatility curves) for the financial instrument;
- ***Vega*** (equity risk): change in profit or loss that would occur in the event of a 1% change in volatility (or in the volatility curves) for the financial instrument;
- ***Vega*** (exchange rate risk): change in profit or loss that would occur in the event of a 1% change in the volatility of the exchange rate;
- ***Delta*** in cash terms (exchange rate risk): cash equivalent position for spot, forward and exchange rate derivative portfolios;
- ***Delta equivalent*** (equity risk): market value of shares and cash equivalent position
- ***Theta***: change in the profit and loss that would occur over time (on a daily basis);
- ***Duration***: average maturity of the weighted instrument on future flows;
- ***Maximum invested amount*** (position): book value of cash securities/funds (gross of the derivatives' delta) to ensure that assets and liabilities are balanced within the assigned budget limits. The above limits do not apply to government bonds (or bonds guaranteed by government entities) or supranational bonds of euro-zone members, the United Kingdom and the United States, with the same rating as Italy or higher (if more than one agency has given a rating, the following rule shall apply: if two ratings have been given, the worse of the two shall be selected; if there are more than two ratings, the two best are taken, from which the lower one shall be selected);
- ***Concentration***: maximum limit, in percentage or absolute terms, on an asset that can be held in the portfolio (by instrument or issuer). The above concentration limits do not apply to government bonds (or bonds guaranteed by government entities) or supranational bonds of euro-zone members, the United Kingdom and the United States, with the same rating as Italy or higher (if more than one agency has given a rating, the following rule shall apply: if two ratings have been given, the worse of the two shall be selected; if there are more than two ratings, the two best are taken, from which the lower one shall be selected);
- ***Credit Risk Sensitivity*** (credit risk): change in profit or loss that would occur in the event of a shift in the reference credit curve by one basis point.

Value at Risk (VaR) is a statistical measure that indicates the maximum potential loss on an investment in a given period of time. VaR is calculated by simulating past trends and estimates portfolio risks on the basis of:

- past market movements;
- holding period of 1 day;

- 99% confidence level.

The **VaR limit** refers to overall operations of the Global Markets aggregate, but it entails monitoring the level of risk applying to the individual strategies (desks) identified by the portfolio tree in the Murex application and resolved by the Bank's Board of Directors.
For the purposes of having a standard representation of the underlying risk factors and a consistent method of calculation, the Group uses a single risk calculation system based on the VaR program by Murex. This has the benefit not only of being able to use the same system of position keeping as for managing and measuring risks, but also of producing important operational synergies. In addition, operational risks have also been reduced as a result of no longer having to replicate in an external system the positions and deals contained in the Group's official system.

The Bank's Risk Management Department is responsible for reporting VaR. This analysis is performed on a daily basis, partly to check that the VaR remains within the parameters established and defined by the Board of Directors in line with the propensity to risk resolved by the Board.

In addition to monitoring VaR limits, the Risk Management Department carries out back-testing and stress testing on a daily basis.

In order to test the forecasting effectiveness of the results of the VaR, back-testing is carried out which makes it possible to compare the potential loss in time t+1 represented by the VaR estimate calculated at time t through historical simulation, with the P&L data resulting from the revaluation of the positions based on market parameters between time t and time t_{+1}, hypothesising that there are no changes in the portfolio.
The stress test, instead, measures potential vulnerability upon the occurrence of exceptional events that are nonetheless possible. The analysis is carried out on a daily basis and the scenarios used represent 8 levels of extreme, symmetrical variations regarding stock markets, parallel shifts in rate curves, trends in exchange rates, volatility and credit spreads.

In defining stress scenarios, the following assumptions have been made regarding correlation between risk factors:

- rises in the stock market are accompanied by downward movements in government securities, meaning that shares and risk-free rates rise at the same time;
- declines in the stock market are followed by a collapse in the corporate bond market (high correlation between equities and credit spreads), meaning credit spreads rise when stock markets fall.

Apart from the scenarios just described - which simulate a specifically defined hypothetical market situation - two stress tests are also conducted based on actual market crashes in the past, involving the reproduction:

- of the market shifts reported after the World Trade Center Attack on 11 September 2001;
- of the market shifts reported after Lehman Brothers filed for bankruptcy under Chapter 11 on 15 September 2008.

The VaR models are used solely for management control purposes and are not used for the calculation of capital adequacy requirements. The trends in VaR for the Group's trading book are described in point 3 below.

QUANTITATIVE INFORMATION

1. Trading book for supervisory purposes: distribution by residual maturity (repricing date) of cash financial assets and liabilities and financial derivatives

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**3,124**	**36,700**	**43,293**	**8,047**	**25,813**	**-**	**32**	**-**
1.1 Debt securities	**3,124**	36,700	43,293	8,047	25,813	-	32	**-**
- with early redemption option	-	-	-	-	-	-	-	-
- other	3,124	36,700	43,293	8,047	25,813	-	32	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**(1,529)**	**(25,525)**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	(1,529)	(25,525)	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**22,086**	**8,260,731**	**(2,786,694)**	**(5,992,148)**	**837,606**	**(697,842)**	**439,363**	**-**
3.1 With underlying security	-	52,527	1,098	(56)	520	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other	-	52,527	1,098	(56)	520	-	-	-
+ long positions	-	63,505	1,242	25	814	-	-	-
+ short positions	-	(10,978)	(144)	(81)	(294)	-	-	-
3.2 Without underlying security	22,086	8,208,204	(2,787,792)	(5,992,092)	837,086	(697,842)	439,363	-
- Options	24,259	26,231	(1,470)	(26,858)	(211,232)	74,868	138,812	-
+ long positions	247,453	763,319	520,184	933,506	6,381,141	8,137,272	11,980,755	-
+ short positions	(223,194)	(737,088)	(521,654)	(960,364)	(6,592,373)	(8,062,404)	(11,841,943)	-
- Other	(2,173)	8,181,973	(2,786,322)	(5,965,234)	1,048,318	(772,710)	300,551	-
+ long positions	2,482	25,599,390	2,861,372	4,744,722	15,300,344	4,459,822	6,922,783	-
+ short positions	(4,655)	(17,417,417)	(5,647,694)	(10,709,956)	(14,252,026)	(5,232,532)	(6,622,232)	-

2. Trading book for supervisory purposes: distribution of the exposures in equities and stock indices by principal Country and market of listing

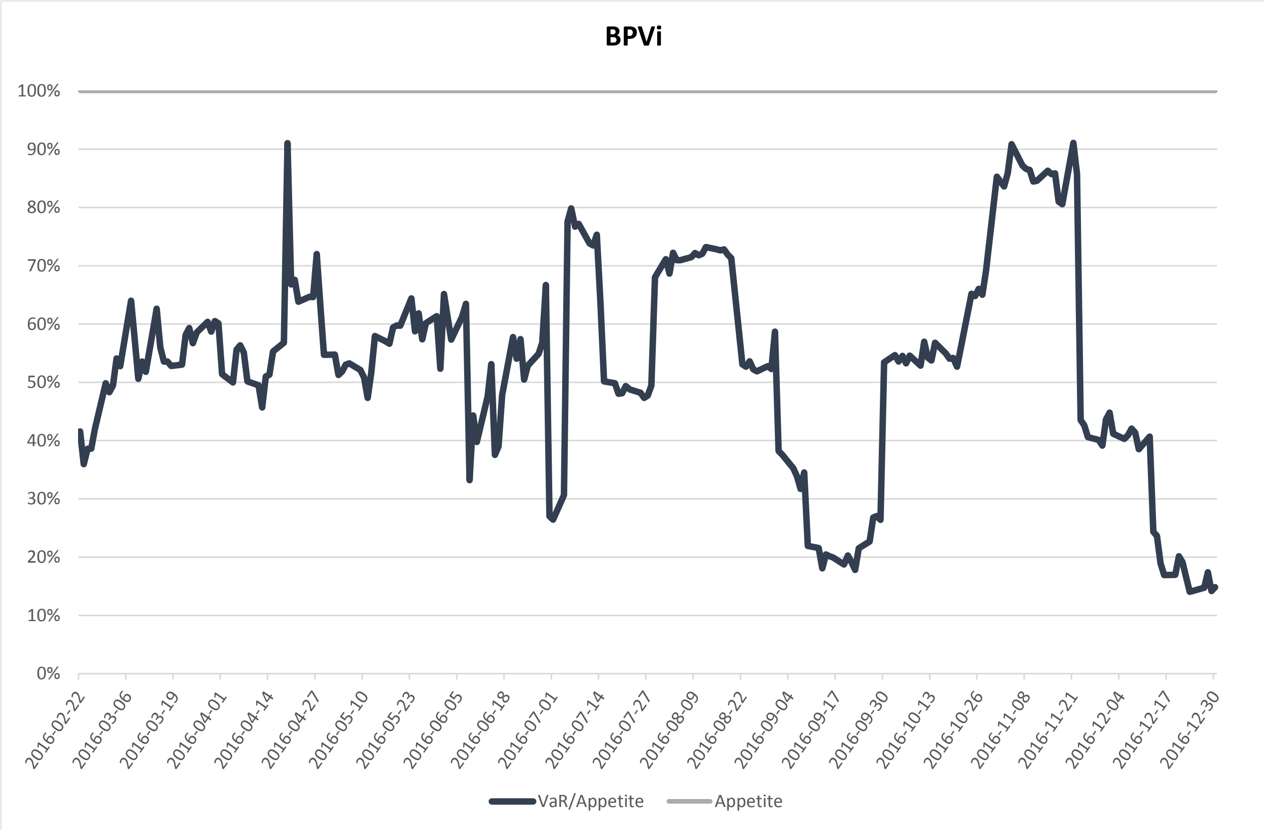
Type of transaction/Listing index	Listed		Unlisted
	ITALY	OTHER COUNTRIES	
A. Equities	**1,017**	**105**	**-**
- long positions	1,017	105	-
- short positions	-	-	-
B. Transactions not yet settled on equities	**-**	**-**	-
- long positions	-	-	-
- short positions	-	-	-
C. Other derivatives on equities	**1,481**	**(7,871)**	-
- long positions	1,481	-	-
- short positions	-	(7,871)	-
D. Derivatives on equity indices	**-**	**-**	-
- long positions	-	-	-
- short positions	-	-	-

3. Trading portfolio for supervisory purposes: internal models and other methods of sensitivity analysis

Trends in VaR and the results of Stress Tests and Back-testing for Banca Popolare di Vicenza's trading book in 2016 are shown below.

VaR of the book as a whole

During the period under review, from 22 February to 31 December 2016, the 1-day 99% Value at Risk of the Global Markets aggregate of the BPVi averaged Euro 1.05 million. In terms of the tolerance appetite absorption, set at Euro 2 million, this averaged 52.69% (in 2016, the 1-day 99% VaR of the book analysed amounted to Euro 1.82 million, with appetite limit absorption of approximately 91.11%).



Stress Test Scenario

As mentioned above, the stress test analysis is carried out on a daily basis and the scenarios used represent 8 levels of extreme, symmetrical variations regarding stock markets, parallel shifts in rate curves, trends in exchange rates, volatility and credit spreads.
The changes assumed in each of the eight scenarios for the variables considered are described below.

Variables	***Scenarios***							
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Equity	-40%	-30%	-20%	-10%	10%	20%	30%	40%
Equity Volatility	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Fx Spot	-40%	-30%	-20%	-10%	10%	20%	30%	40%
FX Volatility	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Swaption Volatility	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Market Rate	-40%	-30%	-20%	-10%	10%	20%	30%	40%
Cap Floor Volatility Smile	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Credit Derivatives Market Rates	40%	30%	20%	10%	-10%	-20%	-30%	-40%
Inflation	-40%	-30%	-20%	-10%	10%	20%	30%	40%

Lastly, apart from the scenarios just described, which simulate a specifically defined hypothetical market situation, two stress tests are also conducted based on actual market crashes in the past, involving the reproduction:

- of the market shifts reported after the World Trade Center Attack on 11 September 2001 (scenario 9);
- of the market shifts reported after Lehman Brothers filed for bankruptcy under Chapter 11 on 15 September 2008 (scenario 10).

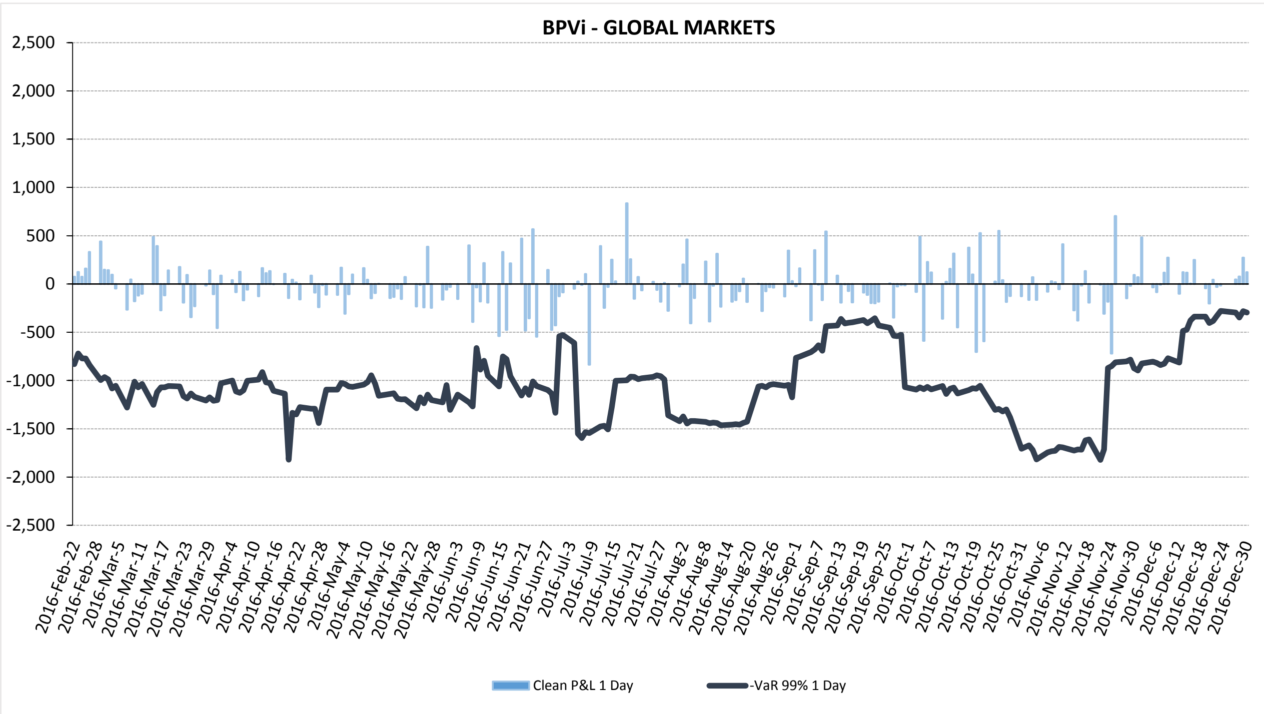
In 2016 (more specifically, from 22 February to 31 December 2016) the theoretical maximum loss of the Global Markets aggregate, in stress situations, would have been Euro 10.11 million, while the maximum loss at 31 December 2016 would have reached Euro 0.62 million.

	BPVi - GLOBAL MARKETS									
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9	Scenario 10
Max	141,688	88,589	49,043	19,464	4,682	5,373	8,236	11,264	3,607	453
Min	1,590	147	-609	-710	-3,363	-4,310	-6,038	-6,761	-10,119	-2,347
Media	29,080	16,819	8,203	2,394	513	831	1,448	2,287	-215	-946
Profile at 30/12/2016	23,731	13,338	5,821	1,092	991	2,925	4,777	6,420	-616	-483

In €/000

Back-testing

The following chart shows the results of back-testing analysis with reference to the Global Markets aggregate in 2016 (more specifically from 22 February to 31 December 2016).



In 2016 (more specifically from 22 February to 31 December 2016) no negative P&L cases were recorded, exceeding the VaR of the Global Markets aggregate.

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

The banking book comprises all the positions other than those included in the trading book for supervisory purposes.

The interest rate risk incurred by the Bank in relation to the banking book mainly derives from the activity of transforming maturities. It particularly arises from the mismatch of interest-bearing assets and liabilities in terms of amount, due date and interest rates.

As regards price risk, the banking book comprises minority holdings in equities classified as available for sale (AFS) and mutual funds. Investments in associates and subsidiaries are also included.

The process of measuring and controlling interest rate risk on the banking book, with the aim of effectively managing the medium/long-term economic and financial equilibrium of the Bank and the Group, is governed by a specific policy, updated in May 2016.

Responsibility for managing interest rate risk lies with the Board of Directors, which uses the Finance Committee and relevant company functions for the strategic and operational management of the same, both at the level of the Group and of individual legal entities. In particular, the governance of interest rate risk involves the following bodies:

- the Board of Directors approves the strategic guidelines and operating limits and is periodically informed (at least once a quarter) about changes in exposure to interest rate risk and its operational management;
- the Finance Committee serves in a consultative role for the Bank's Board of Directors;
- the Managing Director of the Bank, having heard the opinion of the Finance Committee, having assessed the potential impacts on the Group's multi-year net interest income deriving from the proposed strategies for managing the interest rate risk, formally defines the actions which the Finance Division implements in matters of interest rate risk both in the short and in the medium to long term, observing the guidelines defined by the Board of Directors;
- the Risk Management Department is responsible for reporting and monitoring operating limits, and prepares the topics of discussion for the meetings of the Finance Committee;
- the Finance Division has direct responsibility for the operational management of interest rate risk.

The Asset & Liability Management methods adopted by the Bank largely respond to the need to monitor exposure of all interest-earning assets and interest-bearing liabilities to interest rate risk when market conditions change. A report is produced once a month for the purpose of analysing interest rate exposure of both net interest income and the economic value of the banking book.

Interest rate risk is monitored using the following models:

- *repricing gap analysis*: estimates repricing mismatches and expected change in net interest income following a sudden, parallel shock to rate curves (+/-50 bps and +/-100 bps);
- *refixing gap analysis*: estimates refixing mismatches (split by benchmark, such as to ensure monitoring of lags and basis risks) for floating-rate positions;
- *maturity gap analysis fixed rate*: estimates mismatches between fixed-rate statement of financial position items in the banking book, and the corrective effects of any hedging strategies;
- *duration gap analysis* and *sensitivity analysis*: estimates market value, duration, sensitivity, bucket sensitivity of the economic value of the banking book following a sudden, parallel shock to rate curves of +/-100 bps and +/-200 bps.

The analyses performed are static and therefore exclude assumptions about future changes in the structure of assets and liabilities, in terms of volumes and product mix. Sight positions with customers are managed using a specific internal model, which makes it possible to model the stickiness of the rate applied to such transactions, as well as of the duration of such positions. The inclusion of this "behavioural" model in static ALM analyses completes the collection of methods used to estimate the interest rate risk of the banking book, thereby going beyond the assumption of full and immediate repricing of such positions when market rates change and of the assumptions of the Bank of Italy's simplified model.

For 2016, the BPVi Group defined a system of internal limits for monitoring the interest rate risk of the banking book, consistent with the risk-appetite targets set by the Board of Directors.

The variables to be monitored are those generated by the static Asset & Liability Management analyses with the "outlook for current profits" and with the "outlook for market values" approach. The system of limits for 2016 approved by the Board of Directors is structured so as to identify:

- a risk capacity limit and risk appetite calculated as a relationship between the change in the economic value of assets and liabilities following an immediate parallel shock to the rate curves of +200 basis points (with respect to the inertia situation), as a percentage of consolidated Own Funds at the measurement date;
- a risk tolerance limit and risk appetite calculated as a ratio of the change in the interest margin, following an immediate parallel shock to the rate curves of +100 basis points (with respect to the inertia situation), to the interest margin, at a consolidated level, at the year end.

Other limits were set to monitor the Net Market Value of the entire portfolio of derivatives concerning:

- the Macro Cash Flow Hedge strategy on homogeneous portfolios of medium-long term floating rate loans;
- the Fair Value Hedge strategy defined on the inelastic sight deposit component with customers (defined through the appropriate statistical behavioural internal model);
- the Fair Value Hedge strategy on homogeneous portfolios of medium-long term floating rate loans.

In addition, the "attention thresholds" were monitored as regards the representation of bucket sensitivity +100 bps (with thresholds declined for each relevant time bucket interval).

The Group's strategic and operating decisions regarding the banking book aim to minimise the volatility in net interest income expected in the gapping period (12 months) or rather to minimise the volatility in total economic value when interest rates change.

B. Fair value hedges

In order to make stable and certain the fair value measurement of some instruments recorded in the financial statements, the Bank has defined the Hedge Accounting processes aimed at hedging homogeneous clusters of medium-long term fixed-rate loans (e.g. mortgages), single loans (e.g. securities) and liabilities (Fair Value Hedge).
In detail, in 2016, the Fair Value Hedge strategies in the Bank's books can be classified as follows:

- Active Fair Value Hedge for homogeneous clusters of similar medium to long-term fixed-rate loans;
- Active Fair Value Hedge applied to investments in inflation linked BTP securities;
- Active Fair Value Hedge applied to homogeneous clusters of floating-rate loans with interest rate cap embedded;
- Passive Fair Value Hedge applied to fixed rate bonds of the Bank;
- Passive Fair Value Hedge applied to the anelastic core component of "sight" deposits.

In addition to the above hedge accounting transactions, the Group has defined a strategy in application of the liabilities Fair Value Option aimed at hedging the fixed rate/fixed multicallable step-up bonds of the Bank.

C. Active Cash flow hedges

In order to make stable and certain the future flows of some instruments recorded in the financial statements, the Bank has defined the Hedge Accounting processes aimed at hedging homogeneous clusters of medium-long term floating rate loans (e.g. mortgages), single loans (e.g. securities) and liabilities (Cash Flow Hedge).
In detail, in 2016, the Cash Flow Hedge strategies in the Bank's books can be classified as follows:

- Active Cash Flow Hedge applied to investments in inflation linked BTP-type securities only for the inflation component;
- Active Cash Flow Hedge for homogeneous clusters of medium-long term floating-rate loans.

D. Hedges of foreign investments

The Bank does not undertake hedges of foreign investments.

QUANTITATIVE INFORMATION

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**6,820,925**	**14,425,489**	**1,134,442**	**217,959**	**4,128,537**	**425,207**	**927,801**	**-**
1.1 Debt securities	1,804	3,957,726	4,073	2,004	1,155,014	74,240	413,715	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,804	3,957,726	4,073	2,004	1,155,014	74,240	413,715	-
1.2 Loans to banks	1,257,446	746,301	33,903	1,612	1,085,454	-	-	-
1.3 Loans and advances to customers	5,561,675	9,721,462	1,096,466	214,343	1,888,069	350,967	514,086	-
- current accounts	2,618,290	2,895	114,108	14,774	257,959	12,166	-	-
- other loans	2,943,385	9,718,567	982,358	199,569	1,630,110	338,801	514,086	-
- with early redemption option	1,523,810	9,490,372	247,159	98,846	709,243	277,265	493,443	-
- other	1,419,575	228,195	735,199	100,723	920,867	61,536	20,643	-
2. Cash liabilities	**(9,108,796)**	**(5,776,158)**	**(2,531,739)**	**(812,594)**	**(7,744,415)**	**(326,167)**	**(5,199)**	**-**
2.1 Due to customers	(8,355,384)	(843,465)	(1,964,406)	(252,085)	(390,514)	-	-	-
- current accounts	(7,547,572)	(2,186)	-	(57)	-	-	-	-
- other payables	(807,812)	(841,279)	(1,964,406)	(252,028)	(390,514)	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	(807,812)	(841,279)	(1,964,406)	(252,028)	(390,514)	-	-	-
2.2 Due to banks	(661,409)	(3,802,260)	(174,427)	(374,421)	(4,694,482)	(36,456)	-	-
- current accounts	(16,321)	-	-	-	-	-	-	-
- other payables	(645,088)	(3,802,260)	(174,427)	(374,421)	(4,694,482)	(36,456)	-	-
2.3 Debt securities	(92,003)	(1,130,433)	(392,906)	(186,088)	(2,659,419)	(289,711)	(5,199)	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	(92,003)	(1,130,433)	(392,906)	(186,088)	(2,659,419)	(289,711)	(5,199)	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**(11,492)**	**(3,549,987)**	**103,154**	**141,421**	**863,533**	**2,664,596**	**(211,227)**	**-**
3.1 With underlying security	-	(2)	-	-	-	-	-	-
- Options	-	(2)	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	(2)	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	(11,492)	(3,549,985)	103,154	141,421	863,533	2,664,596	(211,227)	-
- Options	(11,492)	15	12,591	9,463	30,758	174,892	(216,227)	-
+ long positions	28	11,564	12,634	15,286	1,968,634	4,493,114	7,342,297	-
+ short positions	(11,520)	(11,549)	(43)	(5,823)	(1,937,876)	(4,318,222)	(7,558,524)	-
- other	-	(3,550,000)	90,563	131,958	832,775	2,489,704	5,000	-
+ long positions	-	826,062	212,863	194,770	905,642	2,489,704	5,000	-
+ short positions	-	(4,376,062)	(122,300)	(62,812)	(72,867)	-	-	-
4. Other off-balance sheet	(364,772)	1,869	49,469	37,044	163,402	59,602	53,388	-
+ long positions	5,621	1,869	49,469	37,044	163,402	59,602	53,388	-
+ short positions	(370,393)	-	-	-	-	-	-	-

2. Banking book: internal models or other methods of sensitivity analysis

As mentioned earlier, the Bank uses a static ALM model to measure the sensitivity of the banking book's financial and economic equilibrium to changes in interest rates.

The effects of interest rate fluctuations on expected profitability are estimated using the classic textbook approaches:

- the "outlook for current profits" approach estimates the impact of interest rate fluctuations on net interest income for the year, over a short-term period;
- the "outlook for market values" approach estimates the impact of interest rate fluctuations on the banking book's economic value, over a long-term period.

Stress testing represents the set of qualitative and quantitative techniques used by the Bank to assess its vulnerability to adverse market conditions. The Bank periodically carries out stress tests to measure and control the interest rate risk of the banking book. Stress tests look at target variables with a view to the "outlook for current profits" and the "outlook for market values".

Stress tests are conducted for the following purposes:

- to highlight the risk generated by any mismatches between interest-earning assets and interest-bearing liabilities, and so to clearly define what actions are needed to mitigate and keep interest rate risk within the established limits;
- to produce measures of sensitivity to monitor the operating limits on interest rate risk.

The scenarios used to measure the exposure of the banking book's economic value to risk assume that rate curves shift by +/-50 basis points and +/-100 basis points. The scenarios used to measure the exposure of the banking book's economic value to risk assume that rate curves shift by +/-100 basis points and +/-200 basis points. In each of these scenarios, all the risk factors experience the same shock.

As stated before, the estimates are made under the assumption that the structure of the statement of financial position remains unchanged in terms of volumes and product mix. The stickiness and persistence of sight positions with customers are managed using a specific internal model.

The principal indicators of the banking book's interest rate risk at 31 December 2016 are set out below (in Euro).

Δ MI +50 bp	**euro**	**31,846,925**
	% MI	***11.5%***
Δ MI +100 bp	**euro**	**62,724,037**
	% MI	***22.7%***

ΔVA +100 bp	**euro**	**-182,339,115**
	% VA	***-9.5%***
ΔVA +200 bp	**euro**	**-328,910,293**
	% VA	***-17.1%***

In order to assess the Group's vulnerability to exceptional but plausible events, said scenarios are supplemented by more complex, detailed scenarios, substantially associated with curve steepening, flattening and inversion movements.

2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange rate risk

Exchange rate risk represents the risk associated with changes in the value of positions denominated in foreign currencies deriving from unexpected variations in the cross rates. Exchange rate risk is principally generated by the support provided for commercial activity in foreign currencies and by trading in foreign securities.

Automatic network systems interfaced with a single position-keeping system enable the Finance Division to monitor constantly, in real time, the currency flows that are processed instantaneously on the interbank forex market. In addition, a specific unit within the Finance Division is responsible for managing own account positions and products relating to the exchange derivatives needed to meet the various investment and hedging requirements of Group customers.

An advanced position keeping system assures the efficient management of spot and forward flows within a specific framework of limits set by the competent corporate bodies.

During 2015, currency positions generated by the Group’s other Banks also started to be managed by these same systems.

B. Hedging of exchange rate risk

Currency investment and hedging of exchange rate risk involve transactions that minimise currency exposure (purchase and sale of currency on the interbank market) as well as management of the derivatives book within predetermined risk limits in terms of positions.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets, liabilities and derivatives

Line items	Currency					
	US Dollars	Pounds	Japanese Yen	Australian Dollars	Swiss Francs	Other currencies
A. Financial assets	**175,322**	**2,511**	**3,065**	**1,820**	**2,131**	**11,127**
A.1 Debt securities	636	-	-	-	-	-
A.2 Equities	285	-	-	-	-	-
A.3 Loans to banks	19,052	1,377	907	708	768	10,353
A.4 Loans and advances to customers	155,349	1,134	2,158	1,112	1,363	774
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**23,406**	**713**	**310**	**172**	**1,131**	**1,433**
C. Financial liabilities	**(46,703)**	**(1,902)**	**(712)**	**(1,238)**	**(2,801)**	**(5,899)**
C.1 Due to banks	(451)	-	-	(2)	-	(100)
C.2 Due to customers	(46,252)	(1,902)	(712)	(1,236)	(2,801)	(5,799)
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**(1,318)**	**(5)**	**-**	**(1)**	**-**	**(2)**
E. Financial derivatives	**(165,144)**	**(518)**	**(2,663)**	**(574)**	**(842)**	**17,541**
- Options	182,986	(5,366)	(1,922)	651	-	(180,938)
+ long positions	217,867	169	5,607	2,852	-	10,200
+ short positions	(34,881)	(5,535)	(7,529)	(2,201)	-	(191,138)
- Other derivatives	(348,130)	4,848	(741)	(1,225)	(842)	198,479
+ long positions	332,114	8,568	4,185	5,608	-	336,352
+ short positions	(680,244)	(3,720)	(4,926)	(6,833)	(842)	(137,873)
Total assets	**748,709**	**11,961**	**13,167**	**10,452**	**3,262**	**359,112**
Total liabilities	**(763,146)**	**(11,162)**	**(13,167)**	**(10,273)**	**(3,643)**	**(334,912)**
Net balance (+/-)	**(14,437)**	**799**	**-**	**179**	**(381)**	**24,200**

2. Internal models and other methods of sensitivity analysis

The exchange rate risk generated by the trading book and the banking book is monitored using the VaR model described in detail in section 2.1 "Interest rate risk and price risk - Trading book for supervisory purposes", to which reference is made. With regard to the estimation of exchange rate risk, reference is made to the tables included in the quantitative information for that section.

2.4 DERIVATIVE INSTRUMENTS

A. FINANCIAL DERIVATIVES

A.1 Trading book for supervisory purposes: period-end and notional amounts

Underlyings/Type of derivatives	31/12/2016		31/12/2015	
	OTC	Central counter-parties	OTC	Central counter-parties
1. Debt securities and interest rates	**64,703,916**	**440,350**	**110,142,063**	**470,000**
a) Options	6,300,459	-	7,410,623	-
b) Swaps	58,403,457	-	102,731,440	-
c) Forward	-	-	-	-
d) Futures	-	440,350	-	470,000
e) Other	-	-	-	-
2. Equities and equity indices	**2,250**	**11,040**	**32,500**	**10,317**
a) Options	2,250	3,169	32,500	2,746
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	7,871	-	7,571
e) Other	-	-	-	-
3. Currency and gold	**1,491,636**	**-**	**1,994,158**	**-**
a) Options	526,920	-	1,288,575	-
b) Swaps	-	-	-	-
c) Forward	874,570	-	605,933	-
d) Futures	-	-	-	-
e) Other	90,146	-	99,650	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**66,197,802**	**451,390**	**112,168,721**	**480,317**

It should be noted that line 1. b) – "Swap on debit securities and interest rates" includes for Euro 17,783.6 million also derivative contracts that are subject to central clearing at the London Clearing House (LCH), in which the Bank is an indirect member through two clearing brokers.

A.2 Banking book: period-end notional amounts

A.2.1 For hedging

Underlyings/Type of derivatives	31/12/2016		31/12/2015	
	OTC	Central counter-parties	OTC	Central counter-parties
1. Debt securities and interest rates	**5,315,965**	**-**	**5,215,996**	**-**
a) Options	962,769	-	910,690	-
b) Swaps	4,353,196	-	4,305,306	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**5,315,965**	**-**	**5,215,996**	**-**

A.2.2 Other derivatives

Underlyings/Type of derivatives	31/12/2016		31/12/2015	
	OTC	Central counter-parties	OTC	Central counter-parties
1. Debt securities and interest rates	**503,885**	**-**	**866,314**	**-**
a) Options	223,040	-	260,040	-
b) Swaps	280,845	-	606,274	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	**178,494**	**-**	**-**	**-**
a) Options	178,494	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**682,379**	**-**	**866,314**	**-**

A.3 Financial derivatives: gross positive fair value – breakdown by product

Portfolio/Type of derivatives	31/12/2016		31/12/2015	
	OTC	Central counter-parties	OTC	Central counter-parties
A. Trading book	**1,904,169**	**110**	**3,201,668**	**22**
a) Options	83,991	110	76,806	22
b) Interest rate swaps	1,811,770	-	3,117,154	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	8,359	-	6,587	-
f) Futures	-	-	-	-
g) Other	49	-	1,121	-
B. Banking book - hedging	**27,761**	**-**	**32,933**	**-**
a) Options	17,160	-	13,556	-
b) Interest rate swaps	10,601	-	19,377	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**38,127**	**-**	**62,315**	**-**
a) Options	162	-	944	-
b) Interest rate swaps	37,965	-	61,371	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**1,970,057**	**110**	**3,296,916**	**22**

It should be noted that line A. b) – “Interest rate swap” includes for Euro 538,664 thousand also derivative contracts that are subject to central clearing at the London Clearing House (LCH) to which the Bank is an indirect member through two clearing brokers.

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

Portfolio/Type of derivatives	31/12/2016		31/12/2015	
	OTC	Central counter-parties	OTC	Central counter-parties
A. Trading book	**(1,370,851)**	**-**	**(2,766,022)**	**(70)**
a) Options	(69,545)	-	(74,926)	(70)
b) Interest rate swaps	(1,291,863)	-	(2,685,153)	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	(8,592)	-	(5,884)	-
f) Futures	-	-	-	-
g) Other	(851)	-	(59)	-
B. Banking book - hedging	**(874,980)**	**-**	**(846,367)**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	(874,980)	-	(846,367)	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**(80,994)**	**-**	**(495)**	**-**
a) Options	(80,858)	-	-	-
b) Interest rate swaps	(136)	-	(495)	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**(2,326,825)**	**-**	**(3,612,884)**	**(70)**

It should be noted that line A. b) – "Interest rate swap" includes for Euro 358,207 thousand also derivative contracts that are subject to central clearing at the London Clearing House (LCH) to which the Bank is an indirect member through two clearing brokers.

A.5 OTC financial derivatives: trading book for supervisory purposes: notional values, gross positive and negative fair values by counterparty – contracts not forming part of clearing agreements

Contracts not forming part of clearing agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial institutions	Other issuers
1. Debt securities and interest rates							
- Notional value	-	-	-	72,784	-	737,092	303,117
- Positive fair value	-	-	-	8,568	-	44,307	585
- Negative fair value	-	-	-	-	-	(292)	(1,079)
- Future exposure	-	-	-	651	-	4,514	52
2. Equities and equity indices							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- Future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- Notional value	-	-	-	-	-	596,687	537
- Positive fair value	-	-	-	-	-	36,117	13
- Negative fair value	-	-	-	-	-	(2,369)	(11)
- Future exposure	-	-	-	-	-	5,356	5
4. Other instruments							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- Future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives: trading book for supervisory purposes: notional values, gross positive and negative fair values by counterparty – contracts forming part of clearing agreements

Contracts forming part of clearing agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial institutions	Other issuers
1. Debt securities and interest rates							
- Notional value	-	-	50,461,681	13,129,242	-	-	-
- Positive fair value	-	-	1,478,261	331,204	-	-	-
- Negative fair value	-	-	(1,010,969)	(346,956)	-	-	-
2. Equities and equity indices							
- Notional value	-	-	2,250	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- Notional value	-	-	889,407	5,005	-	-	-
- Positive fair value	-	-	5,051	63	-	-	-
- Negative fair value	-	-	(9,175)	-	-	-	-
4. Other instruments							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-

A.7 OTC financial derivatives: banking book – notional values, gross positive and negative fair values by counterparty – contracts not forming part of clearing agreements

Contracts not forming part of clearing agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial institutions	Other issuers
1. Debt securities and interest rates							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- Future exposure	-	-	-	-	-	-	-
2. Equities and equity indices							
- Notional value	-	-	-	-	178,494	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	(80,858)	-	-
- Future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- Future exposure	-	-	-	-	-	-	-
4. Other instruments							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- Future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking book: notional values, gross positive and positive and negative fair values by counterparty – contracts forming part of clearing agreements

Contracts not forming part of clearing agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial institutions	Other issuers
1. Debt securities and interest rates							
- Notional value	-	-	4,655,076	1,164,774	-	-	-
- Positive fair value	-	-	62,228	3,660	-	-	-
- Negative fair value	-	-	(605,603)	(269,513)	-	-	-
2. Equities and equity indices							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
4. Other instruments							
- Notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional values

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	Total
A. Trading book for supervisory purposes	**20,550,459**	**23,318,845**	**22,328,498**	**66,197,802**
A.1 Financial derivatives on debt securities and interest rates	19,063,300	23,312,118	22,328,498	64,703,916
A.2 Financial derivatives on equities and equity indices	-	2,250	-	2,250
A.3 Financial derivatives on exchange rates and gold	1,487,159	4,477	-	1,491,636
A.4 Financial derivatives on other instruments	-	-	-	-
B. Banking book	**1,452,544**	**1,282,589**	**3,263,211**	**5,998,344**
B.1 Financial derivatives on debt securities and interest rates	1,274,050	1,282,589	3,263,211	5,819,850
B.2 Financial derivatives on equities and equity indices	178,494	-	-	178,494
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other instruments	-	-	-	-
Total at 31/12/2016	**22,003,003**	**24,601,434**	**25,591,709**	**72,196,146**
Total at 31/12/2015	**22,155,525**	**42,287,570**	**53,807,936**	**118,251,031**

A.10 OTC financial derivatives: counterparty risk/financial risk – Internal Models

The Bank does not use EPE (expected positive exposure) internal models to define counterparty risk/financial risk.

B. CREDIT DERIVATIVES

The Bank has not entered any transactions involving credit derivatives.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair value and future exposure for counterparties

	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial institutions	Other issuers
1. Bilateral financial derivative agreements							
- Positive fair value	-	-	271,587	27,210	-	-	-
- Negative fair value	-	-	(351,794)	(308,752)	-	-	-
- Future exposure	-	-	213,272	34,329	-	-	-
- Net counterparty risk	-	-	484,859	61,539	-	-	-
2. Bilateral credit derivative agreements							
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- Future exposure	-	-	-	-	-	-	-
- Net counterparty risk	-	-	-	-	-	-	-
3. "Cross product" agreements							
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- Future exposure	-	-	-	-	-	-	-
- Net counterparty risk	-	-	-	-	-	-	-

The Bank uses bilateral offsetting arrangements relating to operations in over-the-counter derivatives with principal market counterparties, giving the option to offset creditor positions against debtor positions in the event of counterparty default.

SECTION 3

Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Liquidity risk is the risk of being unable to meet payment obligations caused by inability to obtain funding (funding liquidity risk) and/or the presence of restrictions on the ability to sell assets (market liquidity risk). This risk can also take the form of a loss relative to fair value deriving from a forced sale, or more generally, of a loss in terms of reputation or business opportunities.

More specifically, funding liquidity risk – a type of typical risk of banking activities – is incurred when institutional counterparties withdraw their usual funding, or request, in exchange, a significantly higher return than in normal circumstances.

The policy for managing liquidity risk of the Banca Popolare di Vicenza Group lays down the following fundamental principles for governing this risk:

- liquidity is managed centrally by the Bank, Banca Popolare di Vicenza;
- **responsibility for defining the propensity to liquidity risk and the guidelines on managing that risk rests with the Bank's Board of Directors;**
- the Liquidity Funding Plan (for ordinary liquidity management) and the Contingency Funding Plan (for contingency management) are developed and managed by the Bank for the entire BPVi Group.

The Bank's Board of Directors uses the Finance Committee and relevant company functions for the operational and strategic management of this risk. In particular:

- the Finance Committee proposes strategic guidelines in its consultative capacity to the Bank's Board of Directors;
- the Managing Director of the Bank, having consulted the Finance Committee, manages situations of liquidity stress, proposes possible corrective measures within the scope of the powers assigned to him by the Board of Directors, and submits proposals for action, that lie beyond his delegated powers, to the competent Bodies;
- the Risk Management Department monitors the risk limits, the results of the stress testing, the early warning indicators, and, more generally, the liquidity of the Group and of the individual Subsidiaries. Also, with the support of the Finance Division, the General Accounting Department and the Operation Planning and Control Department, it regularly audits and updates the Contingency Funding Plan based on the results of the stress test;
- the Planning and Operation Control Department, jointly with the Finance Division and the Risk Management Department, defines how the transfer price system operates within funds;
- the Finance Division has operational management duties.

Short-term liquidity management (within a 12-month horizon) uses an Operating Maturity Ladder, which identifies mismatches between expected cash inflows and outflows for each time period (liquidity gaps on precise dates). The cumulative mismatches (cumulative liquidity gaps) are used for calculating the net cash requirement/surplus for the different time horizons considered.
Medium/long-term liquidity management (beyond 12 months) uses a Structural Maturity Ladder, which identifies the balance between assets and liabilities by matching them not only in terms of

cash flows but also in terms of statement of financial position ratios. The objective is to ensure that the profile of structural liquidity is sufficiently balanced, with restrictions on the possibility of financing medium/long-term assets with liabilities of a different duration.

The liquidity risk monitoring process is integrated between the Risk Management and Treasury functions of the Bank and uses the ALMPro ERMAS application. The high level of automation in terms of both database input and report production fosters early monitoring of the risk/operating limit indicators.

The Finance Division carries out the operational management of liquidity risk by seeking to maintain an optimum balance between average maturities of short-term lending and funding, and by diversifying positions by counterparty and due date negotiated both over the counter and on the Interbank Deposits Market. In addition to the usual banking treasury activities (daily monitoring of the Group's liquidity and optimisation of its short-term management), any medium and long-term imbalances are managed using appropriate policies established by the Finance Committee.

As part of the overall Risk Management, the Board of Directors establishes, on an annual basis, the Group's propensity to liquidity risk, by defining the risk appetite and related thresholds (tolerance, capacity, risk and operational) as defined within the Risk Appetite Framework.

The system of risk appetite and thresholds is functional to the daily monitoring of the intra-day operational liquidity position and to the monthly monitoring of the structural liquidity position by the Risk Management Function.
The risk appetite and thresholds system approved by the Board of Directors for 2016 was based on the use of the following risk indicators:

- Liquidity Coverage Ratio;
- Net Stable Funding Ratio;
- Loans / Deposits Ratio;
- Cumulative cash position over total assets (1- and 3-month time horizon);
- Level 1 High Quality Liquid Assets;
- Intraday liquidity buffer;
- Cost of wholesale funding;
- Asset Encumbrance.

The first two indicators have a regulatory origin.

In particular, the reference indicator selected for monitoring short-term liquidity is the Liquidity Coverage Ratio, determined using static, not stressed, logic. This indicator identifies, at Group level, the stock of not committed high quality liquid assets held by the Bank, which can be used to cover net cash outflows, which the Bank might need to cover in the event of a short-term liquidity crisis.

The reference indicator selected for monitoring medium/long-term liquidity is the Net Stable Funding Ratio, determined using static, not stressed, logic. This indicator identifies, at Group level, the ratio of available stable funding to required stable funding, which are both calculated as the sum of capital cash flows in the banking book expiring starting from the time bucket of 1 year, exclusive, up to the end of the time bucket in which the Group operates.

Since 30 June 2014, the Group has prepared its monthly Supervisory Reports on the basis of the LCR (Liquidity Coverage Ratio) indicator and the quarterly reports on the NSFR (Net Stable Funding Ratio) indicator, as defined in Regulation no. 575/2013 (CRR).

In addition to the indicators described above, the Group has defined indicators that are used, inter alia, to identify and recognise an "early warning" state of liquidity within the Contingency Funding Plan. They are divided into the following categories:

- bank specific liquidity indicators that provide evidence of the potential presence of stress or a liquidity crisis, based on the Group's structure of assets and liabilities;
- liquidity alert indicators which provide alerts on the potential presence of stress or a liquidity crisis, based on indices and market variables.

With particular regard to diversifying funding sources, a specific risk threshold is defined for the level of concentration of the funding from single counterparties, for the following two technical types of funding:

- "sight" deposits from the first 10 non-financial counterparties (except for Cassa Depositi e Prestiti);
- short-term deposits from major financial counterparties (excluding Cassa Compensazione e Garanzia).

The contribution of individual counterparties must not exceed a pre-set threshold of the total specific type of funding. Said risk threshold is monitored on a daily basis and related information is provided with the same frequency.

In addition, the liquidity risk originated from intra-day operations is also monitored. Every day, the monitoring anticipates an ex-post analysis of the entire trend for cash flows entering and leaving the Group, identifying the minimum intra-day financial position. The analysis is performed in both ongoing terms and relating to specific stress scenarios. Furthermore, the timing at which "time critical" payments (i.e. of the payments that must be made within determined cut-off periods) is also monitored.

The trend in the Group's liquidity situation is reported monthly to the Board of Directors, to the Risk Committee and to the Finance and ALMs Committee. The Top Management is informed on the Group's exposure to liquidity risk on a daily basis. Lastly, the liquidity profile of the Group is monitored on a weekly basis by the European Central Bank and the Bank of Italy, to which is sent a standard set of reports showing: the short-term liquidity, the medium-long term liquidity position, and the composition of the eligible ECB assets that make up the Group's liquidity buffer.

QUANTITATIVE INFORMATION

1. Distribution of financial assets and liabilities by residual maturity

Type/Residual duration	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**4,904,739**	**62,840**	**127,300**	**712,890**	**1,165,597**	**1,268,326**	**1,002,769**	**9,126,109**	**9,384,957**	**113,899**
A.1 Government securities	-	-	-	-	-	1,005	-	1,250,000	2,568,376	-
A.2 Other debt securities	2,935	-	-	2,212	15,000	36,261	5,752	255,110	640,897	-
A.3 Mutual funds	87,641	-	-	-	-	-	-	-	-	-
A.4 Loans	4,814,163	62,840	127,300	710,678	1,150,597	1,231,060	997,017	7,620,999	6,175,684	113,899
- banks	1,652,272	558	1,560	43,608	195,150	66,423	58,803	993,800	-	113,899
- customers	3,161,891	62,282	125,740	667,070	955,447	1,164,637	938,214	6,627,199	6,175,684	-
Cash liabilities	**8,463,903**	**1,788,768**	**57,723**	**691,555**	**1,481,717**	**912,778**	**1,250,037**	**9,646,323**	**2,202,521**	**-**
B.1 Deposits and current accounts	8,100,019	38,462	47,641	146,826	644,918	394,420	598,933	380,974	-	-
- banks	528,454	19,000	-	66,137	85,500	150,000	350,000	-	-	-
- customers	7,571,565	19,462	47,641	80,689	559,418	244,420	248,933	380,974	-	-
B.2 Debt securities	143,610	306	10,082	543,198	236,794	280,941	541,303	2,750,033	404,092	-
B.3 Other liabilities	220,274	1,750,000	-	1,531	600,005	237,417	109,801	6,515,316	1,798,429	-
Off-balance sheet transactions	**420,592**	**12,244**	**7,633**	**379**	**(156,955)**	**(8,705)**	**(16,042)**	**163,961**	**112,989**	**-**
C.1 Financial derivatives with exchange of capital	34	13,933	7,411	236	5,001	1,550	302	559	-	-
- long positions	775	234,684	192,186	504,504	358,413	70,450	61,464	4,902	-	-
- short positions	(741)	(220,751)	(184,775)	(504,268)	(353,412)	(68,900)	(61,162)	(4,343)	-	-
C.2 Financial derivatives without exchange of capital	507,070	-	-	-	-	-	-	-	-	-
- long positions	1,866,498	-	-	-	-	-	-	-	-	-
- short positions	(1,359,428)	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	(86,512)	(1,689)	222	143	(161,956)	(10,255)	(16,344)	163,402	112,989	-
- long positions	5,621	180	222	143	1,446	49,469	37,044	163,402	112,989	-
- short positions	(92,133)	(1,869)	-	-	(163,402)	(59,724)	(53,388)	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

The unspecified duration of line A.4 "Loans to banks" includes the compulsory reserve deposit (both direct and indirect).

Among loans to customers are the loans securitised in the so-called "Piazza Venezia", "Piazza Venezia 2", "Berica PMI 2" and "Berica Funding" self-securitisations, in which the originator Banks subscribed all Asset-Backed Securities issued, in proportion to the transferred portfolio. Residual loans amount to Euro 2,080,254 thousand, of which impaired positions of Euro 132,978 thousand.

The nominal quantities of the Asset-Backed Securities held by the Bank at 31 December 2016 and issued within the aforementioned self-stigmatisations are summarised below:

- *"Piazza Venezia" securitisation*
    a. Euro 151,811 thousand in mezzanine notes (fully repaid during the period);
    b. Euro 462,816 thousand in unrated junior notes (Euro 353,684 thousand subscribed by the Bank) with yield tied to the 6-month Euribor;
- *"Piazza Venezia 2" securitisation:*
    a. Euro 261,900 thousand in unrated senior notes (of which Euro 145,200 thousand subscribed by the Bank) with yield tied to the 6-month Euribor plus 150 bps;
    b. Euro 95,058 thousand in unrated junior notes (Euro 52,626 thousand subscribed by the Bank) with yield tied to the 6-month Euribor;
- "*Berica PMI 2" securitisation:*
    a. Euro 640,000 thousand in senior notes Euro 548,000 thousand subscribed by the Bank) with an external rating from Fitch ("A+") and Moody's ("A1") with a yield tied to the 6-month Euribor plus 130 bps;

b. Euro 531,265 thousand in unrated junior notes (Euro 454,905 thousand subscribed by the Bank) with yield tied to the 6-month Euribor;

- *"Berica Funding" securitisation:*
  a. Euro 892,500 thousand in unrated senior notes (of which Euro 790,900 thousand subscribed by the Bank) with yield tied to the 3-month Euribor plus 125 bps;
  b. Euro 119,200 thousand in unrated mezzanine notes (of which Euro 105,700 thousand subscribed by the Bank) with yield tied to the 3-month Euribor plus 200 bps;
  c. Euro 79,800 thousand in unrated mezzanine notes (of which Euro 70,800 thousand subscribed by the Bank) with yield tied to the 3-month Euribor plus 250 bps;
  d. Euro 185,265 thousand in unrated junior notes (of which Euro 164,111 thousand subscribed by the Bank) with yield tied to the 3-month Euribor plus 300 bps.

SECTION 4

Operational risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

Operational risk is defined as the risk of losses deriving from inadequate or dysfunctional procedures, human resources or internal systems, or external events.
This category includes, inter alia, losses deriving from fraud, human error, the interruption of operations, the malfunction and non-availability of systems, contractual non-performance and natural catastrophes. Operational risk also includes legal risk, but excludes strategic and reputation risk.

In case of judicial or administrative penalties or significant financial losses as a consequence of regulations with respect to the areas identified by the Compliance and Anti-Money Laundering Department, operational risk also includes compliance risk.
With regard to the way the operational risk is managed, the BPVi Group defined a dedicated internal regulation that identifies the methodologies for the measurement of the risk, the roles and responsibilities of the corporate Bodies and Functions involved, and the related management reports.
In detail the risk management framework comprises four main elements:

9. **process for the identification, collection and classification of operating loss events for the purposes of measuring the actual risk (Loss Data Collection - LDC)**: a set of methods, systems and activities for the collection, processing, validation and preservation of the operating loss data and related recoveries experienced by the Group;
10. **process for assessing the exposure to operational risks in order to assess prospective/potential risks (Operational Risk Self-Assessment)[33]:** set of methods, systems and activities to identify and assess the operational areas that are most exposed to operational risks and the effectiveness of existing controls;
11. **mitigation process:** set of procedures, tasks and responsibilities directed at the adoption of risk prevention, reduction and/or transfer actions in relation to the identified critical areas;
12. **reporting process:** sets of systems and activities for processing all information about the operational risks for monitoring and controlling risk exposure and describing the actions to carry out to prevent and attenuate risk and indicating their effectiveness.

With regard to the first point, it should be noted that the Bank was a founding member in 2002 of DIPO, the interbank consortium promoted by ABI that maintains an Italian database of operational losses. As a consequence, the Group gathers regular information about its operational losses.

For the purposes of the prudential capital requirements in view of operational risks, the Group uses the so-called basic approach or BIA (Basic Indicator Approach), whereby the capital requirement is equal to the average over the last 3 years of the pertinent indicator multiplied by a fixed coefficient of 15%.

The core principles of the operational risk governance model of the BPVi Group, developed according to a logic consistent with the roles and responsibilities defined in the ICAAP prescribe that:

[33] Currently under way is the project for the definition of the model and its implementation from a procedural viewpoint.

- responsibility for defining the guidelines on managing operational risks rests with the Body with strategic supervision function of the Bank;
- riskiness is monitored centrally by the Bank with reference to the individual legal entities and to the Group as a whole;
- individual legal entities must comply with the guidelines defined by the Bank for risk and capital management.

QUANTITATIVE INFORMATION

In 2016 the process of gathering data on operational losses and entering it into DIPO (Data Base Italiano delle Perdite Operative) continued and obtained a more complete gathering of information thanks to the more structured approach and enhanced formalisation thereof into a methodology manual, which was updated in July 2016.

Of the events identified in 2016 involving an increase in operating losses, 63.15% were attributable to the category “customers, products and business practices”, 25.59% to “execution, delivery and process management”, 4.97% to “external fraud”, 4.93% to “employment practices and workplace safety”, 0.71% to “damage from external events”, 0.63% to “internal fraud” and the remaining 0.02 to “interrupted operations and IT system dysfunctions”.
The “retail” line of business accounted for the largest share of operating losses, i.e. 72.69%. Following are the “commercial” business lines with 22.83%, “retail intermediation” with 4.46% and the “trading and sales” business, which accounted for 0.02%.

PART F – INFORMATION ON EQUITY

SECTION 1

Equity

A. QUALITATIVE INFORMATION

Definition of equity

The definition of equity used by the Bank corresponds to the sum of the following line items: 130 "Valuation reserves", 140 "Redeemable shares", 150 "Equity instruments", 160 "Reserves", 170 "Additional paid-in capital", 180 "Capital stock", 190 "Treasury shares" and 200 "Net income (loss) for the year" under liabilities in the statement of the financial position.

Management of equity

Information about the way in which the Bank pursues its capital management objectives is provided in section 2.2 below.

Nature of the capital adequacy requirement

Since the Bank carries out lending activities, it is subject to the requirements of art. 29 et seq. of Legislative Decree no. 385 dated 1 September 1993 "Consolidated law on banking and lending" or "TUB". Accordingly, the Bank must comply with the capital adequacy requirements detailed in the above legislation.

Changes in disclosure requirements

The disclosure requirements relating to capital have not undergone any changes compared with the prior year.

B. QUANTITATIVE INFORMATION

B.1 Equity: breakdown

Equity line items	**31/12/2016**	**31/12/2015**
1. Capital stock	677,204	377,204
2. Additional paid-in capital	3,080,275	3,206,573
3. Reserves	329,275	268,824
- from earnings	151,445	256,248
a) legal	135,776	135,776
b) statutory	-	-
c) treasury shares	28,056	100,000
d) other	(12,387)	20,472
- other	177,830	12,576
4. Equity instruments	-	1,415
5. (Treasury shares)	(28,055)	(25,470)
6. Valuation reserves	(44,400)	35,935
- Financial assets available for sale	466,142	543,897
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash-flow hedges	(505,208)	(505,147)
- Exchange differences	-	-
- Non-current assets held for sale and discontinued operations	-	-
- Actuarial gains (losses) on defined-benefit pension plans	(7,668)	(5,149)
- Portion of valuation reserves of equity investments carried at equity	-	-
- Special revaluation laws	2,334	2,334
7. Net income (loss) for the year (+/-)	(1,901,705)	(1,399,393)
Equity	**2,112,594**	**2,465,088**

B.2 Valuation reserves of AFS financial assets: breakdown

Assets/Values	31/12/2016		31/12/2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	446,575	(13,577)	522,439	(1,625)
2. Equities	32,977	(2,182)	25,573	(3,466)
3. Mutual funds	2,432	(83)	976	-
4. Loans	-	-	-	-
Total	**481,984**	**(15,842)**	**548,988**	**(5,091)**

This table reports the positive and negative reserves, net of tax, arising on the fair value measurement of financial assets available for sale.
Among the positive reserves on debt securities are Euro 446,099 thousand of Inflation linked BTP which serve as cash flow hedges against the inflation risk. On the connected hedging derivatives are recorded negative valuation reserves amounting to Euro 505,208 thousand.

B.3 Valuation reserves - AFS financial assets: annual changes

	Debt securities	Equities	Mutual funds	Loans
1. Opening balance	**520,814**	**22,107**	**976**	**-**
2. Positive changes	**388,399**	**11,400**	**2,655**	**-**
2.1 Increases in fair value	348,571	11,394	2,650	-
2.2 Release negative reserves to income statement	2,427	-	-	-
- from impairment	-	-	-	-
- from disposals	2,427	-	-	-
2.3 Other changes	37,401	6	5	-
3. Negative changes	**476,215**	**2,712**	**1,282**	**-**
3.1 Decreases in fair value	13,956	989	408	-
3.2 Impairment writedowns	-	84	-	-
3.3 Release positive disposal reserves to income statement	462,259	813	7	-
3.4 Other changes	-	826	867	-
4. Closing balance	**432,998**	**30,795**	**2,349**	**-**

B.4 Valuation reserves on defined-benefit plans: annual changes

	Defined-benefit plan
Opening balance	**(5,149)**
Positive changes	**-**
Positive changes on actuarial gains and losses	-
Negative changes	**(2,519)**
Negative changes on actuarial gains and losses	(2,519)
Closing balance	**(7,668)**

SECTION 2

Own funds and capital adequacy ratios

2.1 Own funds

The Bank's Own funds and the prudential ratios at 31 December 2016 were determined in accordance with the regulatory framework of Basel 3, including the transitory provisions and the national discretionary powers, that came into effect starting from 1 January 2014 subsequent to the issuing of the Regulation (EU) 575/2013 dated 26 June 2013 (CRR) and the Directive 2013/36/EU dated 26 June 2013 (CRD IV).

A. QUALITATIVE INFORMATION

1. Common Equity Tier 1 (CET 1) capital

At 31 December 2016, Common Equity Tier 1 capital consists of the various items of the Bank's Equity, net of the treasury shares.

The financial instruments computed in Common Equity Tier 1 capital relate to the ordinary shares issued by the Bank. In this regard, it should be specified that the shares issued within the capital increase operations reserved for new stockholders completed in 2013 and in 2014, totalling Euro 200 million, were excluded from the aggregate for the portion (Euro 40.3 million) financed by the issuer, as allowed by the regulations of the aforesaid operations.

"Prudential filters" make corrections to equity in order to safeguard the quality of regulatory capital and reduce the potential volatility deriving from the application of IFRS. "Prudential filters" include the DTAs connected to multiple frankings of the same goodwill, the accumulated net gains recorded in the income statement referring to changes in the Bank's own credit rating, the valuation reserves referring to hedges on the cash flows of assets and liabilities not measured at fair value and, lastly, "prudent valuation" the amount of which was determined in accordance with the simplified approach. For complete disclosure, it should be pointed out that the "prudential filters" also include the neutralisation (Euro 250.8 million) from the calculation of Own Funds with respect to which a correlation was found to exist between purchases/subscriptions of BPVi shares and loans disbursed to certain Members/Stockholders, i.e., in relation to which certain anomaly profiles were detected that require it to be deducted from the Common Equity Tier 1 capital elements pursuant to Art. 36 of Regulation (EU) no. 575/2013.

"Deductions" from Common Equity Tier 1 capital pertain to the intangible assets recorded in the financial statements, including the differences in equity recorded in the Group's consolidated financial statements to increase the book value of the equity investments held in associated companies, to deferred tax assets that depend on future profitability and do not arise from temporary differences, to the common equity instruments issued by entities in the financial sector in which the Group holds a significant investment, and deferred tax assets that depend on future profitability and arise from temporary differences whose amount exceeds the thresholds prescribed by current regulations, taking into account the transitional provisions on this matter.

Lastly, it should be noted that, until 30 September 2016, the Bank exercised its right to sterilise the valuation reserves relating to debt securities issued by central governments of European Union countries held in the "Financial assets available for sale" portfolio, including the related cash flow hedge reserve on the same securities. Given the novelties introduced by the Regulations (EU) no. 2016/445 of the ECB in terms of treatment of the valuation reserves referring to the exposures toward Central Administration (Government bonds) classified in the category "Assets available for sale", beginning on 1 October 2016, said reserves are calculated under Own Funds taking into account the national discretionary provisions set forth in this area.

2. Additional Tier 1 (AT1) capital

The Bank has not issued any financial instruments that can be computed in additional tier 1 capital.

3. Tier 2 (T2) capital

Tier 2 capital comprises certain subordinated bonds issued by the Bank which were computed net of any buy-backs and taking into account the transitional provisions. The principal contractual characteristics of the subordinated liabilities issued are presented below.

ISIN code	Issue date	Maturity	Balance sheet item[1]	Interest rate	Nominal value	Book value	Portion included in Tier 2 Capital
XS1300456420 (2)	29/09/2015	29/09/2025	30 P.P.	9.50%	200,000	190,432	189,498
XS0336683254 (2)	20/12/2007	20/12/2017	30 P.P.	Euribor3m + 2,35	200,000	200,108	38,795
IT0004657471 (2)(5)	15/12/2010	15/12/2017	30 P.P.	4.60%	50,000	51,406	30,000
IT0004548258 (2)(3)	31/12/2009	31/12/2016	30 P.P.	3.70%	85,622	87,206	-
XS1300818785 (2)	02/10/2015	02/10/2025	30 P.P.	9.50%	50,000	48,741	47,359
IT0004781073 (2)(5)	28/12/2011	28/12/2018	30 P.P.	8.50%	31,323	31,378	18,794
IT0004724214 (2)(4)	24/06/2011	24/06/2018	30 P.P.	6.65%	39,244	36,122	-
				Total	**656,189**	**645,393**	**324,446**

(1) 30 P.P. = Debt securities in issue.

(2) The bonds with a subordination clause whereby, if the Bank were to be wound up, they would be redeemed only after all other creditors, not subordinated to the same extent, have been satisfied.

(3) Bonds convertible into ordinary shares of Banca Popolare di Vicenza. The repayment of this bond took place on 2 January 2017.

(4) Zero coupon bond, issued under the Exchange Tender Offer promoted during the year on index linked policies issued by the affiliates Berica Vita and Cattolica Life, placed with Group clients and having as underlying assets securities issued by Icelandic banks in default. This liability is not included in the calculation of Own Funds as it does not meet all the conditions required by regulatory provisions for the inclusion.

(5) Starting in 2014, admissibility in Own Funds is limited to the "grandfathering" clauses that regulate the gradual shift from the previous Basel 2 rules to the current Basel 3 rules.

B. QUANTITATIVE INFORMATION

	31/12/2016	31/12/2015
A. CET1 before the application of prudential filters	**2,072,343**	**2,404,095**
of which CET1 instruments object of transitional disposals	-	-
B. Prudential filters of Tier 1 capital	(308,796)	(377,108)
C. CET1 before deductions and transitional arrangements effects (A+/-B)	1,763,547	2,026,987
D. Deductions from CET1	324,903	605,632
E. Transitional arrangements - Impact on CET1 (+/-), minority interests object of transitional disposal included	155,752	228,129
F. Total Common Equity Tier 1 - CET1 (C-D+/-E)	**1,594,396**	**1,649,484**
G. Additional Tier 1 - AT1 before deductions and transitional arrangements effects	-	-
of which AT1 instruments object of transitional disposals	-	-
H. Deductions from AT1	-	-
I. Transitional arrangements - Impact on AT1 (+/-), minority interests object of transitional disposal included	-	-
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**-**	**-**
M. Tier 2 - T2 before deductions and transitional arrangements effects	324,446	435,318
of which T2 instruments object of transitional disposals	*48,794*	*102,395*
N. Deductions from T2	-	-
O. Transitional arrangements - Impact on T2 (+/-), minority interests object of transitional disposal included	(22,431)	(64,300)
P. Total Tier 2 - T2 (M-N+/-O)	**302,015**	**371,018**
Q. Total Own Funds (F+L+P)	**1,896,411**	**2,020,502**

At 31 December 2016, Own funds amounted to Euro 1,896.4 million, versus Euro 2,020.5 million at 31 December 2015.

The loss for the year was entirely deducted from "Common Equity Tier 1 (CET 1) capital before the application of the prudential filters".

Moreover, despite elements of uncertainty concerning the legitimacy of the decision by Cattolica Assicurazioni to exercise the unilateral right of withdrawal from the partnership in place with the Bank, and consequently of the validity of Cattolica's right to sell the 60% equity investments held in the capital of Berica Vita, Cattolica Life and ABC Assicura, the entire price of exercise of Cattolica's potential right to sell its investments in the aforesaid insurance companies (Euro 178.5 million), was deducted from Own funds at 31 December 2016, taking into account the provisions (including transitional provisions) contained in Regulation (EU) no. 575/2013.

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

The capital management policies adopted by the Banca Popolare di Vicenza Group are intended to ensure that Tier 1 capital is consistent with the overall level of risk accepted and the plans for the expansion of the Group, as well as to optimise the composition of capital by recourse to various financial instruments that minimise the related cost.

B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/ Requirements	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
A. RISK ASSETS				
A.1 Credit and counterparty risk	**33,938,991**	**37,415,844**	**17,196,586**	**20,374,003**
1. Standard methodology	33,744,733	37,254,367	16,842,624	20,163,644
2. Methodology based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	194,258	161,477	353,962	210,359
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 Credit and counterparty risk			**1,375,727**	**1,629,920**
B.2 Adjustment credit valuation risk			8,560	33,276
B.3 Regulamentary risk			-	-
B.4 Market risks			27,993	22,428
1. Standard methodology			27,993	22,428
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risks			**109,508**	**127,630**
1. Basic method			109,508	127,630
2. Standard method			-	-
3. Advanced method			-	-
B.6 Other elements of calculation			-	-
B.7 Total prudential requirements			**1,521,788**	**1,813,254**
RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			19,022,353	22,665,676
C.2 CET1 capital/ Risk-weighted assets (CET1 capital ratio)			8.38%	7.28%
C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			8.38%	7.28%
C.4 Regulatory capital including TIER 3/Risk-weighted assets (Total capital ratio)			9.97%	8.91%

The Common Equity Tier 1 Ratio and the Tier 1 Ratio both stand at 8.38% (7.28% at 31 December 2015), while the Total Capital Ratio is 9.97% (8.91% at 31 December 2015). At 31 December 2016, the Bank's capital exceeded the minimum regulatory requirements of Article 92 of the CRR by Euro 374.6 million.

However, the Basel 3 framework also prescribes establishing additional capital reserves above the regulatory minimums in order to provide banks with high quality capital means to be used at times of market stress to prevent dysfunctions in the banking system and avoid interruptions in the loan granting process and to address risks deriving from the systemic relevance of banks at the global or domestic level.

In this regard, in addition to the already implemented "capital conservation buffer"[34], as at 1 January 2016, the "counter-cyclical buffer"[35], "entities with global systemic relevance buffer" (G-SII buffer) and "other entities with global systemic relevance" (O-SII buffer)[36] were also applied. The total amount of the aforesaid additional capital reserves is called "combined capital reserve requirement" and banks are obligated to address it with Common Equity Tier 1 (CET1) capital.

At 31 December 2016, the Bank had a surplus of Euro 255.7 million in the "combined capital reserve requirement" prescribed by the prudential regulations.

Capital adequacy requirements were calculated using the following methods:

- risk-weighted assets used for determining the credit and counterparty risk requirement have been quantified using the standard method and credit risk mitigation (CRM) simplified by adopting unsolicited external ratings provided by the DBRS ECAI for the supervisory portfolio "Exposures to Central governments or central banks", by the Moody's, S&P and Fitch ECAIs for the supervisory portfolio "Elements that represent positions relating to securitisations", and unsolicited ratings by the Cerved Group ECAI for the supervisory portfolio "Exposures to Companies";
- the market risk requirement is determined using the standard method, under which sensitivity models are used to represent derivatives involving interest rates and debt securities;
- the operational risks requirement was determined using the basic method.

[34] For banks belonging to banking groups, the capital conservation reserve is equal to 0.625% of total risk exposure.

[35] The Bank of Italy has published the decision with which it set, for the fourth quarter of 2016, the coefficient of the countercyclical capital buffer applicable to exposures towards Italian counterparties, at zero percent.

[36] The requirements for entities with global systemic relevance or for the other entities with systemic relevance do not apply to the Bank and to the Group.

PART G – BUSINESS COMBINATIONS

SECTION 1

Transactions during the year

The Bank has not carried out business combinations between entities under common control during 2016.

SECTION 2

Operations carried out after the end of the year

The Bank has not carried out any business combinations involving companies or business units after 31 December 2016.

SECTION 3

Retrospective adjustments

In accordance with IFRS 3, paragraphs 61, 62 and 63, we point out that no changes have occurred during the year 2016 on goodwill.

PART H – RELATED-PARTY TRANSACTIONS

1. Information on the remuneration of key management personnel

The following table reports the remuneration paid to key management personnel during the year 2016.

		Managers with strategic responsibilities
a)	Short-term benefits	6,249
b)	Post-employment benefits	208
c)	Other long-term benefits	-
d)	Indemnities due on termination of employment	2,011
e)	Share-based payments	-
Total		**8,468**

Key management personnel comprise members of General Management, as defined in the Bank's Articles of Association, as well as its serving Directors and Statutory Auditors in office at Banca Popolare di Vicenza. The above table includes the remuneration paid to key managers who left office during the year.

The remuneration categories included in the above table comprise:

f) Short-term benefits: the item includes: i) for members of the General Management team: wages, salaries and related social security contributions, payment in lieu of vacation and sick leave, incentives and benefits in kind, such as medical assistance, housing, company cars and goods or services provided free or at reduced cost; ii) for Directors and Statutory Auditors: attendance fees and remuneration for the performance of their duties;

g) Post-employment benefits: these include the company contributions to pension funds (pension and retirement plans, life insurance and health care subsequent to termination) and the provision for severance indemnities recorded on the basis required by law and in-house agreements;

h) Other long-term benefits: there are no other long-term benefits worthy of mention (such as leave of absence or sabbaticals related to length of service, bonuses linked to anniversaries, other benefits linked with length of service, disability benefits and, if due more than twelve months after the reporting date for the period, profit share, incentives and deferred remuneration);

i) Indemnities due on termination of employment: these include the amounts paid for early termination prior to pensionable age, incentives for voluntary redundancy and incentives for early retirement;

j) Share-based payments: these include the cost of shares assigned on attaining a certain length of service or specific objectives.

2. Information on related-party transactions

"Related-party transactions" are defined as all transactions with parties defined as such in IAS 24.

More specifically, with reference to the Bank's organisation and governance, the following parties are deemed to be "related parties":

- *subsidiary companies*: companies belonging to the Banca Popolare di Vicenza Group over which the Parent Bank Banca Popolare di Vicenza exercises direct or indirect control;
- *companies under joint control:* companies over which the Group exercises joint control, whether directly or indirectly;
- *associated companies:* companies over which the Group exercises significant influence, whether directly or indirectly;
- *key management personnel*, i.e. members of General Management and the Directors and Statutory Auditors of the Bank;
- *"close family" of key management personnel;*
- *companies controlled by, jointly controlled by or associated with key management personnel or their close family;*
- *parties that manage pension plans for the Bank's employees and any other parties related to the Bank.*

"Close family" is deemed to be: (a) the partner and children of the related party; (b) the children of the partner; (c) the dependents of the related party or his/her partner.

The following tables summarise the balances and related-party transactions during the period and their impact on cash flow, according to their classification at 31 December 2016.

Statement of financial position

Related parties	Loans and advances to banks	Loans and advances to customers	Other assets[1]	Due to banks	Due to customers	Other liabilities[2]	Guarantees and commitments
- Subsidiary companies	1,618,756	517,204	4,110	1,303,470	122,286	3,310	210,193
- Associated companies	-	6,929	-	-	24,512	86,532	1,116
- Companies under joint control	-	-	-	-	-	-	-
- Managers with strategic responsibilities	-	225	-	-	379	5	-
- Other related parties[3]	52	293	-	7	18,549	10,102	4
Total	**1,618,808**	**524,651**	**4,110**	**1,303,477**	**165,726**	**99,949**	**211,313**
Total reported in balance sheet	**3,716,654**	**19,536,385**	**6,562,014**	**9,770,509**	**11,811,851**	**7,025,900**	**1,476,199**
% incidence	*43.56%*	*2.69%*	*0.06%*	*13.34%*	*1.40%*	*1.42%*	*14.31%*

[1] *Asset line items 20, 30, 40 and 150 of the statement of financial position.*

[2] *Liability line items 30, 40, 50 and 100 from the statement of financial position.*

[3] *Include the close family of key management personnel, companies controlled by, jointly controlled by or associated with key management personnel or their close family, and parties that manage pension plans for the Bank's employees and any other parties related to the Bank.*

"Loans and advances to customers" include net non-performing loans to the subsidiary for Euro 3,988 thousand (subject to value adjustment for a total of Euro 2,657 thousand).

"Guarantees and commitments" include net non-performing unsecured loans to associated companies for Euro 24 thousand (subject to value adjustment for a total of Euro 24 thousand).

Income statement

Related parties	Interest income	Interest expense	Net fee and commission income	Dividend	Other income / other cost [1]
- Subsidiary companies	46,143	(53,423)	(253)	13,996	(27,530)
- Associated companies	73	(4,388)	12,047	13,034	(39,748)
- Companies under joint control	-	-	-	-	-
- Managers with strategic responsibilities	7	(13)	22	-	(8,468)
- Other related parties [2]	187	(396)	108	-	-
Total	**46,410**	**(58,220)**	**11,924**	**27,030**	**(75,746)**
Total reported in balance sheet	**729,686**	**(453,638)**	**191,846**	**31,004**	**(585,170)**
% incidence	*6.36%*	*12.83%*	*6.22%*	*87.18%*	*12.94%*

[1] *Line items 150 and 190 from income statement. These include the remuneration paid to key management personnel.*

[2] *Include the close family of key management personnel, companies controlled by, jointly controlled by or associated with key management personnel or their close family, and parties that manage pension plans for the Bank's employees and any other parties related to the Bank.*

It should be noted that the investment held by the Bank in Cattolica Assicurazioni was reclassified in the last quarter of the year under line item "Assets available for sale", since a significant influence ceased to exist. This reclassification entailed also the termination, as at the reclassification date, of the qualification of Cattolica as a "Related party", pursuant to the international accounting principles IAS 24. For reasons of completeness, with reference to the former associate, following are the cost components of the income statement at the date of reclassification:

– adjustments of Euro 220,144 thousand within the scope of the impairment test carried out on the equity investment in accordance with IAS 36;
– capital losses of Euro 80,858 thousand relating to Cattolica Assicurazioni's right to sell to the BPVi the 60% equity investments held in Berica Vita S.p.A., Cattolica Life DAC and ABC Assicura S.p.A. (corresponding to the differential between the theoretical maximum price of the afore said right to sell and the corresponding pro-rata embedded value of Cattolica in Berica Vita S.p.A. and Cattolica Life DAC, and the equity of ABC Assicura S.p.A.);
– provisions for risks and charges of Euro 6,230 thousand in relation to the potential risk arising from the settlement, at the effective date of the withdrawal - should it be deemed legitimately exercised - of the bonus and penalty schemes conventionally provided in relation to the performance of Berica Vita S.p.A., Cattolica Life DAC and ABC Assicura S.p.A.

Cash flows

Cash flows	31/12/2016
Loans and advances to banks	(383,760)
Loans and advances to customers	414,519
Other assets [1]	42,361
Total cash flows with related parties	**73,120**
Total net liquidity absorbed by financial assets	**1,605,029**
% incidence	**4.56%**

[1] *Asset line items 20, 30, 40 and 150 from the statement of financial position.*

Cash flows	31/12/16
Due to banks	275,382
Due to customers	(69,824)
Other liabilities [2]	(64,100)
Total cash flows with related parties	**141,458**
Total net liquidity generated by financial liabilities	**(2,765,802)**
% incidence	**-5.11%**

[2] *Liability line items 30, 40, 50 and 100 from the statement of financial position.*

Cash flows	31/12/16
Interest income and similar revenues	46,410
Interest expense and similar charges	(58,220)
Net fee and commission income	11,924
Other income/other costs [3]	(75,746)
Total cash flows with related parties	**(75,632)**
Total net liquidity by operations	**(369,395)**
% incidence	**20.47%**

[3] *Line items 150 and 190 from income statement.*

Cash flows	31/12/16
Dividend	27,030
Total cash flows with related parties	**27,030**
Total net liquidity generated by investing activities	**(142,377)**
% incidence	**-18.98%**

As regards transactions with Group companies - which represent most of the related-party transactions - it should be noted that the Bank has carried out with these companies transactions of a commercial and financial nature.

Such commercial and financial transactions with Group companies reflect a multifunctional organisational and strategic model, involving on the one hand centralisation under the Parent Bank of the key activities of governance and control and assistance in legal, economic, organisational and personnel management matters and on the other hand, outsourcing of back office and support services to some of the Group's support companies. In particular, intra-group transactions are based on rules that define contractual formats and principles for determining and recharging costs for the services provided. The contractual formats involve master agreements and specific service level agreements (SLAs), which define the level of service and applicable economic terms and conditions. The consideration agreed upon for services under such agreements is determined with reference to specific quantitative criteria and conditions judged to be in line with market ones, or if no suitable external parameters are available, on the basis of the cost incurred. However, there is no guarantee that if such transactions had been entered between or with third parties, such parties would have negotiated the related contracts, or carried out the same transactions, under the same conditions or in the same way.

The following tables detail year-end asset and liability balances with companies in the Banca Popolare di Vicenza Group, as well as the related income and expenses during the year.

Asset and liability balances with subsidiaries

Related parties	Loans and advances to banks	Loans and advances to customers	Other assets[1]	Due to banks	Due to customers	Other liabilities[2]	Guarantees and commitments
Banca Nuova SpA	1,228,073	-	2,847	1,246,003	-	1,188	951
BPV Finance International PLC	-	122,778	-	-	36,144	-	158,000
Immobiliare Stampa SCpA	-	280,476	447	-	76,442	164	5
Nem SGR	-	-	-	-	3,428	-	51,237
PrestiNuova SpA	-	113,950	450	-	538	-	-
Servizi Bancari SCpA	-	-	366	-	5,430	1,540	-
Farbanca SpA	390,683	-	-	57,467	-	12	-
BPVI Multicredito - Agenzia in attività finanziaria Spa	-	-	-	-	304	406	-
Total	**1,618,756**	**517,204**	**4,110**	**1,303,470**	**122,286**	**3,310**	**210,193**

[1] *Asset line items 20, 30, 40 and 150 from the statement of financial position.*

[2] *Liability line items 30, 40, 50 and 100 from the statement of financial position.*

The assets and liabilities presented above mostly refer to financial relationships forming a part of normal banking activities, associated with the need to ensure rational, effective management of liquidity at a Group level.

In particular, the amounts due to and from banks relate to loans granted and received, as well as the balance on correspondent accounts with Group banks.

Income and expenses with subsidiaries

Related parties	Interest income	Interest expense	Net fee and commission income	Dividend	Other costs / other revenues [1]
Banca Nuova SpA	31,092	(52,617)	(39)	-	3,164
BPV Finance International PLC	3,294	-	-	-	12
Immobiliare Stampa SCpA	2,423	(27)	22	-	(18,650)
Nem SGR	-	(18)	1	1,092	395
PrestiNuova SpA	2,523	(213)	884	9,853	802
Servizi Bancari SCpA	-	(138)	5	-	(14,088)
Farbanca SpA	6,811	(410)	-	1,949	656
Monforte 19 Srl	-	-	-	793	-
BPVI Multicredito - Agenzia in attività finanziaria Spa	-	-	(1,248)	309	179
Industrial Opportunity Fund	-	-	122	-	-
Total	**46,143**	**(53,423)**	**(253)**	**13,996**	**(27,530)**

[1] *Line items 150 and 190 from income statement. Do not include profits and losses on trading in securities, currency and other instruments between Group companies, settled under market rates.*

Interest income and expense represent the remuneration, at market rates, on loans granted and received or on bonds subscribed and issued. Net fee and commission income comprises the remuneration earned by the Bank's commercial network for placing the products of Group companies, net of the costs incurred for services provided by the various Group companies to the Bank. Dividends refer to the Bank's interests in the various Group companies. Lastly, other revenues/other costs refer to the recharge of Bank personnel seconded to Group companies or to other services provided/received.

PART I – EQUITY-SETTLED PAYMENT ARRANGEMENTS

There are no outstanding equity-settled payment arrangements.

PART L – SEGMENT INFORMATION

In accordance with par. 4 of IFRS 8, this part is not supported on the grounds that such information is stated in the Consolidated Financial Statements at 31 December 2016 of the Banca Popolare di Vicenza Group.

CERTIFICATION OF THE SEPARATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO.11971 OF MAY 14, 1999, AS AMENDED AND UPDATED

2. The undersigned

   – Gianni Mion, as Chairman of the Board of Directors, and
   – Massimiliano Pellegrini, as Financial Reporting Manager of Banca Popolare di Vicenza S.p.A., taking into account of the provisions of Article 154-bis, paragraphs 3 and 4 of Legislative Decree No. 58 of 24 February 1998, do hereby certify:

   • the adequacy in relation to the enterprise's characteristics and

   • the effective application

   of the administrative and accounting procedures for preparing the separated financial statements, during 2016.

2. The adequacy of the accounting and administrative processes for preparing the separated financial statements at 31 december 2016 has been evaluated on the basis of an internal procedure established by Banca Popolare di Vicenza S.p.A. in compliance with the Internal Control - Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which are internationally accepted frameworks for internal control system.

3. It’s also certified that:

   3.1 The separated financial statements as at 31 December 2016:

   a) have been prepared in compliance with applicable international accounting standards recognized by the European Community pursuant to European Parliament and Council Regulation no. 1606/2002 of 19 July 2002;
   b) correspond to the results of the book and accounts;
   c) give a true and fair presentation of the balance sheet, profit and loss and financial position of the issuer.

   3.2 The report on operations contains a reliable analysis of the business trends and results, as well as the general situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Vicenza, March 28, 2017

The Chairman of the Board of Directors	Financial Reporting Manager
Gianni Mion	Massimiliano Pellegrini

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

BANCA POPOLARE DI VICENZA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the Shareholders of
Banca Popolare di Vicenza SpA

Report on the financial statements

We have audited the accompanying financial statements of Banca Popolare di Vicenza SpA, which comprise the statement of financial position as of 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005 and article 43 of Legislative Decree no. 136/15.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree no. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banca Popolare di Vicenza SpA as of 31 December 2016 and of the result of its operations and cash flows for the year then ended, in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005 and article 43 of Legislative Decree no. 136/15.

Emphasis of matter

Without modifying our opinion, we draw attention to the following circumstances, more extensively described in "Section 2 – Basis of preparation" of the notes to the financial statements and in the directors' report on operations:

- the specific situation of Banca Popolare di Vicenza Group – particularly with regard to its economic and financial situation, which shows as at 31 December 2016 a failure to comply with the ECB's capital requirements under the 2016 SREP Decision and a liquidity coverage ratio below the regulatory requirements - required a careful evaluation by management of the going concern requirements and of the existence of realistic alternatives to winding up.

  Within this framework, the directors have taken actions to restore and preserve a financial position consistent with the ECB requirements, providing exhaustive information in the mentioned section of the explanatory notes, to which reference is made. With particular regard to the capital strengthening actions, in the absence of a clear expression of willingness by the shareholder Atlante Fund to provide further capital support to the Bank, the directors informed the Ministry of Economy and Finance, Bank of Italy and the ECB about the Bank's intention to apply for the extraordinary and temporary financial support by the Italian government ("precautionary recapitalisation"), pursuant to Legislative Decree no. 237/2016 as amended and converted into Law no. 15 on 17 February 2017.

  Although the directors believe that the Bank fulfils the law requirements to obtain the precautionary recapitalisation, to date several factors exist which create uncertainty on whether, to what extent and how soon the Bank will actually be able to obtain support from the government, and therefore meets its temporary capital needs through this measure.

  In light of the overall situation as outlined above, the actions taken and underway, and in view of the status of the discussions initiated with the institutions in connection with the foregoing, the directors deemed appropriate to apply the going concern assumption for the preparation of the financial statements at 31 December 2016, as they concluded that the uncertainty described above, though it may raise significant doubts regarding the going concern assumption, is not such as to suggest that there are currently no realistic alternatives to liquidation.

- With respect to the inspection performed by the ECB during 2016 concerning management and valuation processes and the internal control system on credit and counterparty risks, the directors highlighted that, even though the financial statements at 31 December 2016 have already reflected the valuation differences emerged during the ECB inspection, uncertainties remain regarding the possible future impacts of more conservative policies, processes and procedures associated with credit and counterparty risk, whose application to the entire loan portfolio will presumably have a significant negative impact, which cannot currently be determined, on the financial and economic situation of the Bank, already in 2017.

Other matter

The financial statements of Banca Popolare di Vicenza SpA for the year ended 31 December 2015 were audited by other auditors, which expressed an unqualified opinion on said financial statements on 29 February 2016.

Report on compliance with other laws and regulations

Opinion on the consistency with the financial statements of the report on operations and of the information required by paragraph 2, letter b) of article 123-bis of Legislative Decree No. 58/1998

We have performed the procedures required under auditing standard (SA Italia) no. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Banca Popolare di Vicenza SpA, with the financial statements of Banca Popolare di Vicenza SpA as of 31 December 2016. In our opinion, the report on operations and the information mentioned above are consistent with the financial statements of Banca Popolare di Vicenza SpA as of 31 December 2016.

Milan, 6 April 2017

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not reviewed the translation of the financial statements referred to in this report.

FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES

BANCA NUOVA S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS			31.12.2016		31.12.2015
10.	Cash and balances with central banks		32,656,242		34,496,211
20.	Financial assets held for trading		3,692,878		6,394,581
40.	Financial assets available for sale		11,660,197		12,088,139
60.	Loans and advances to banks		1,266,916,596		1,064,595,555
70.	Loans and advances to customers		2,671,252,707		2,841,639,917
80.	Hedging derivatives		146,012		90,689
90.	Fair value change of assets in hedged portfolios (+/-)		(133,773)		26,595,824
100.	Equity investments		536,940		536,940
110.	Property, plant and equipment		7,550,625		8,918,241
120.	Intangible assets		672,589		348,837
130.	Tax assets		64,868,981		78,947,899
	a) current	*6,330,980*		*6,840,815*	
	b) deferred	*58,538,001*		*72,107,084*	
	of which: - L.214/2011	*30,875,004*		*61,315,592*	
150.	Other assets		87,742,726		86,963,875
	Total Assets		**4,147,562,720**		**4,161,616,708**

BANCA NUOVA S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES			**31.12.2016**		**31.12.2016**
10.	Deposits from banks		830,839,716		515,316,237
20.	Due to customers		2,397,153,532		2,572,830,202
30.	Debt securities in issue		655,431,771		762,482,333
40.	Financial liabilities held for trading		3,457,577		5,398,719
50.	Financial liabilities at fair value		29,404,054		57,319,075
60.	Hedging derivatives		-		26,332,729
80.	Tax liabilities:		1,621,969		1,635,055
	b) deferred	*1,621,969*		*1,635,055*	
100.	Other liabilities		40,038,411		42,449,549
110.	Provision for severance indemnities		8,740,492		8,644,232
120.	Provisions for risks and charges		20,399,264		10,995,201
	b) other provisions	*20,399,264*		*10,995,201*	
130.	Valuation reserves		(962,297)		(759,755)
160.	Reserves		(144,150,392)		5,333,787
170.	Additional paid-in capital		96,522,015		96,522,015
180.	Capital stock		256,300,000		206,300,000
200.	Net income (loss) for the year (+/-)		(47,233,392)		(149,182,671)
Total Equity and Liabilities			**4,147,562,720**		**4,161,616,708**

BANCA NUOVA S.P.A.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

			31.12.2016		31.12.2015
10	Interest income and similar revenues		137,406,519		158,451,004
20	Interest expense and similar charges		(61,765,249)		(68,105,551)
30	**Net interest income**		**75,641,270**		**90,345,453**
40.	Fee and commission income		40,579,208		50,227,576
50.	Fee and commission expense		(4,305,696)		(5,884,658)
60.	**Net fee and commission income**		**36,273,512**		**44,342,918**
70.	Dividend and similar income		25,322		172,500
80.	Net trading income		(602,637)		946,498
90.	Fair value adjustments in hedge accounting		(1,826,444)		5,882,536
100.	Gains (losses) on disposals/repurchases of:		1,177,393		17,968
	a) loans and advances	*422,326*		*39,349*	
	b) financial assets available for sale	-		*(41,671)*	
	d) financial liabilities	*755,067*		*20,290*	
110.	Net change in financial assets and liabilities at fair value		22,940		(70,865)
120.	**Net interest and other banking income**		**110,711,356**		**141,637,008**
130.	Net impairment adjustments to:		(71,813,432)		(89,199,807)
	a) loans and advances	*(71,683,091)*		*(91,585,595)*	
	b) financial assets available for sale	*(138,066)*		-	
	d) other financial transactions	*7,725*		*2,385,788*	
140.	**Net income from financial activities**		**38,897,924**		**52,437,201**
150.	Administrative costs:		(104,553,416)		(102,882,558)
	a) payroll	*(50,669,126)*		*(48,367,468)*	
	b) other administrative costs	*(53,884,290)*		*(54,515,090)*	
160.	Net provisions for risks and charges		(7,794,958)		(6,634,823)
170.	Net adjustments to property, plant and equipment		(2,408,016)		(2,777,549)
180.	Net adjustments to intangible assets		(380,837)		(329,431)
190.	Other operating charges/income		11,598,665		5,856,004
200	**Operating costs**		**(103,538,562)**		**(106,768,357)**
230.	Goodwill impairment		-		(110,000,000)
240.	Gains (losses) on disposal of investments		(103,944)		(4,503)
250.	**Profit (loss) from current operations before tax**		**(64,744,582)**		**(164,335,659)**
260.	Income taxes on current operations		17,511,190		15,152,988
270.	**Profit (loss) from current operations after tax**		**(47,233,392)**		**(149,182,671)**
290.	**Net income (loss) for the year**		**(47,233,392)**		**(149,182,671)**

FARBANCA S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS		31.12.2016		31.12.2015
10. Cash and balances with central banks		22,671		68,267
20. Financial assets held for trading		-		29
40. Financial assets available for sale		22,482		110
60. Loans and advances to banks		57,542,838		2,700,397
70. Loans and advances to customers		524,210,443		526,641,576
100. Equity investments		40,988		40,988
110. Property, plant and equipment		101,041		90,556
120. Intangible assets		24,652		4,351
130. Tax assets		2,672,774		3,102,683
a) current	*149,565*		*495,812*	
b) deferred	*2,523,209*		*2,606,871*	
of which: - L.214/2011	*2,369,731*		*2,494,453*	
150. Other assets		34,797,220		15,130,214
Total Assets		**619,435,109**		**547,779,171**

FARBANCA S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES			31.12.2016		31.12.2015
10.	Deposits from banks		243,374,956		160,151,814
20.	Due to customers		158,189,447		140,049,385
30.	Debt securities in issue		152,074,629		185,807,888
80.	Tax liabilities:		1,783,071		-
	a) current	*1,775,669*		-	
	b) deferred	*7,402*		-	
100.	Other liabilities		1,397,255		1,334,759
110.	Provision for severance indemnities		152,476		186,545
120.	Provisions for risks and charges		331,951		124,956
	b) other provisions	*331,951*		*124,956*	
130.	Valuation reserves		(29,846)		(25,305)
160.	Reserves		8,871,252		8,723,127
170.	Additional paid-in capital		13,215,691		13,215,691
180.	Capital stock		35,308,150		35,308,150
200.	Net income (loss) for the year (+/-)		4,766,077		2,902,161
Total Equity and Liabilities			**619,435,109**		**547,779,171**

FARBANCA S.P.A.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

			31.12.2016		31.12.2015
10	Interest income and similar revenues		22,217,993		21,296,065
20	Interest expense and similar charges		(7,867,311)		(8,032,899)
30	**Net interest income**		**14,350,682**		**13,263,166**
40.	Fee and commission income		2,623,736		2,608,321
50.	Fee and commission expense		(364,433)		(463,015)
60.	**Net fee and commission income**		**2,259,303**		**2,145,306**
70.	Dividend and similar income		1		-
80.	Net trading income		(69,908)		(111,955)
100.	Gains (losses) on disposals/repurchases of:		1,048		(905)
	d) financial liabilities	*1,048*		*(905)*	
120.	**Net interest and other banking income**		**16,541,126**		**15,295,612**
130.	Net impairment adjustments to:		(4,152,777)		(6,225,504)
	a) loans and advances	*(4,137,835)*		*(6,242,770)*	
	b) financial assets available for sale	*(7,292)*		-	
	d) other financial transactions	*(7,650)*		*17,266*	
140.	**Net income from financial activities**		**12,388,349**		**9,070,107**
150.	Administrative costs:		(6,097,665)		(5,958,504)
	a) payroll	*(2,916,054)*		*(2,699,330)*	
	b) other administrative costs	*(3,181,611)*		*(3,259,174)*	
160.	Net provisions for risks and charges		3,710		175,000
170.	Net adjustments to property, plant and equipment		(31,052)		(26,848)
180.	Net adjustments to intangible assets		(10,168)		(6,943)
190.	Other operating charges/income		774,495		564,635
200	**Operating costs**		**(5,360,680)**		**(5,252,661)**
250.	**Profit (loss) from current operations before tax**		**7,027,669**		**3,817,446**
260.	Income taxes on current operations		(2,261,593)		(915,285)
270.	**Profit (loss) from current operations after tax**		**4,766,076**		**2,902,161**
290.	**Net income (loss) for the year**		**4,766,076**		**2,902,161**

PRESTINUOVA S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS			31.12.2016		31.12.2015
60.	Loans and advances		346,929,155		384,935,244
90.	Equity investments		34,528		34,528
100.	Property, plant and equipment		49,992		74,127
110.	Intangible assets		4,001,085		4,001,695
120.	Tax assets		2,027,381		2,332,255
	a) current	*445,170*		*256,680*	
	b) deferred	*1,582,211*		*2,075,575*	
	of which: - L.214/2011	*890,955*		*999,004*	
140.	Other assets		771,132		481,118
Total Assets			**353,813,273**		**391,858,967**

PRESTINUOVA S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES			**31.12.2016**		**31.12.2015**
10.	Payables		296,011,422		332,754,050
50.	Hedging derivatives		450,451		486,001
70.	Tax liabilities:		3,292,055		3,181,778
	a) current	*3,283,206*		*3,161,867*	
	b) deferred	*8,849*		*19,911*	
90.	Other liabilities		11,144,496		10,674,496
100.	Provision for severance indemnities		93,876		106,767
110.	Provisions for risks and charges		345,620		263,346
	b) other provisions	*345,620*		*263,346*	
120.	Capital stock		25,263,160		25,263,160
150.	Additional paid-in capital		7,401,387		7,401,387
160.	Reserves		2,204,117		1,682,194
170.	Valuation Reserve		(286,759)		(328,768)
180.	Net income (loss) for the year		7,893,448		10,374,556
Total Equity and Liabilities			**353,813,273**		**391,858,967**

PRESTINUOVA S.P.A.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

			31.12.2016		31.12.2015
10	Interest income and similar revenues		22,966,625		25,334,808
20	Interest expense and similar charges		(7,322,240)		(5,947,221)
	Net interest income		**15,644,385**		**19,387,587**
30	Fee and commission income		1,257,298		2,447,174
40.	Fee and commission expense		(1,421,686)		(2,997,152)
	Net fee and commission income		**(164,388)**		**(549,978)**
60	Net trading income		(186,460)		(142,488)
	Net interes and other banking income		**15,293,537**		**18,695,121**
100.	Net impairment adjustments to:		33,929		693,469
	a) loans and advances	*33,929*		*693,469*	
110.	Administrative costs:		(4,002,075)		(4,246,402)
	a) payroll	*(1,311,858)*		*(1,374,307)*	
	b) other administrative costs	*(2,690,217)*		*(2,872,095)*	
120.	Adjustments to property, plant and equipment		(24,301)		(26,704)
130.	Adjustments to intangible assets		(610)		(190)
150.	Net provisions for risks and charges		(52,652)		(140,746)
160.	Other operating expenses and income		732,340		441,131
	Net profit from operating activities		**11,980,168**		**15,415,679**
180.	Gains (losses) from sale of investments		-		(1,989)
	Profit (loss) from current operations before tax		**11,980,169**		**15,413,691**
190.	Income taxes on current operations		(4,086,721)		(5,039,135)
	Profit (loss) from current operations after tax		**7,893,448**		**10,374,556**
	Net income (loss) for the year		**7,893,448**		**10,374,556**

BPV FINANCE (INTERNATIONAL) PLC

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS	31.12.2016	31.12.2015
Cash and cash equivalents	36,920,138	64,172,676
Financial assets	71,627,243	381,330,371
-Held for trading investments	-	*2,959,710*
-Available for sale investments	*71,627,243*	*378,370,661*
Loans and advances	24,975,467	197,891,296
Trade and other receivables	37,078	6,379,759
Deferred tax assets	2,169,316	1,991,988
Total Assets	**135,729,242**	**651,766,090**

BPV FINANCE (INTERNATIONAL) PLC

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

LIABILITIES	31.12.2016	31.12.2015
Interest bearing loans and borrowing	95,322,009	581,625,618
Trade and other payables	906,815	1,266,677
Derivative liabilities	-	14,322,692
Liquidation Fund	27,917,602	20,209,207
Total Liabilities	**124,146,426**	**617,424,194**
Net Assets	**11,582,816**	**34,341,896**
CAPITAL AND RESERVES		
Called up share capital	103,291	103,291
Capital contribution	148,619,364	113,619,364
Available for sale reserve	-	13,454,084
Accumulated surplus/(deficit)	(137,139,839)	(92,834,844)
Shareholders' funds - equity	**11,582,816**	**34,341,896**

BPV FINANCE (INTERNATIONAL) PLC

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

	31.12.2016	**31.12.2015**
Interest receivable and similar income	5,704,665	25,955,556
Interest payable and similar charges	(4,144,199)	(14,341,883)
Net interest income	**1,560,466**	**11,613,673**
Trading (expense)/income	2,889,979	(34,170,104)
Other income/expense	(36,819,612)	(53,351,233)
Administrative expenses	(2,037,050)	(2,061,813)
Foreign exchange gains	(4,083)	(9,429)
Profit on ordinary activities before taxation	**(34,410,300)**	**(77,978,907)**
Tax on profit on ordinary activities	(37,067)	6,938,511
Profit for the financial year	**(34,447,367)**	**(71,040,395)**
Impact of decision to wind up	(9,857,629)	(28,771,461)
Profit/(Loss) for the financial year	**(44,304,996)**	**(99,811,856)**

BPVI MULTICREDITO S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS			31.12.2016		31.12.2015
10.	Cash and balances with central banks		318		813
60.	Loans and advances		709,765		1,068,260
100.	Property, plant and equipment		10,023		26,101
120.	Tax assets		368,654		341,516
	a) current	*242,903*		*227,636*	
	b) deferred	*125,751*		*113,880*	
140.	Other assets		4,390		5,578
	Total Assets		**1,093,150**		**1,442,268**

BPVI MULTICREDITO S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES		31.12.2016		31.12.2015
70. Tax liabilities:		-		27,064
a) current	*-*		*27,064*	
90. Other liabilities		231,977		401,931
110. Provisions for risks and charges		523,072		472,968
b) other provisions	*523,072*		*472,968*	
120. Capital stock		120,000		120,000
160. Reserves		110,705		92,673
180. Net income (loss) for the year (+/-)		107,396		327,632
Total Equity and Liabilities		**1,093,150**		**1,442,268**

BPVI MULTICREDITO S.P.A.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

			31.12.2016		31.12.2015
10	Interest income and similar revenues		32		40
20	Interest expense and similar charges		(6)		(41)
	Net interest income		**26**		**(1)**
30.	Fee and commission income		1,881,713		5,157,372
40.	Fee and commission expense		(1,175,056)		(3,776,990)
	Net fee and commission income		**706,657**		**1,380,382**
	Net interest and other banking income		**706,683**		**1,380,381**
110.	Administrative costs:		(489,501)		(702,709)
	a) payroll	*(237,137)*		*(354,100)*	
	b) other administrative costs	*(252,364)*		*(348,609)*	
120.	Adjustments to property, plant and equipment		(5,952)		(9,781)
150	Net provisions for risks and charges		(50,104)		(165,254)
160	Other operating expenses and income		1,246		4,859
	Net profit from operating activities		**162,372**		**507,496**
180.	Profit (loss) from equity method investments		(2,093)		-
	Profit (loss) from current operations before tax		**160,279**		**507,496**
190.	Income taxes on current operations		(52,883)		(179,864)
	Profit (loss) from current operations after tax		**107,396**		**327,632**
	Net income (loss) for the year		**107,396**		**327,632**

NEM SGR S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS			31.12.2016		31.12.2015
10.	Cash and balances with central banks		88		1,311
40.	Financial assets available for sale		453,961		870,194
60.	Loans and advances		3,443,049		2,982,942
	b) other loans and advances	*3,443,049*		*2,982,942*	
100.	Property, plant and equipment		10,326		12,319
120.	Tax assets		88,364		47,218
	a) current	*9,887*		*32,889*	
	b) deferred	*78,477*		*14,329*	
140.	Other assets		533,994		439,468
	Total Assets		**4,529,782**		**4,353,452**

NEM SGR S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES			31.12.2016		31.12.2015
70.	Tax liabilities:		412,572		87,324
	a) current	*412,572*		*87,324*	
90.	Other liabilities		189,699		239,949
100.	Provision for severance indemnities		160,661		131,246
110.	Provisions for risks and charges		227,766		6,374
	b) other provisions	*227,766*		*6,374*	
120.	Capital stock		1,200,000		1,200,000
160.	Reserves		1,583,757		1,582,438
170.	Valuation reserves		(24,438)		12,802
180.	Net income (loss) for the year (+/-)		779,765		1,093,319
	Total Equity and Liabilities		**4,529,782**		**4,353,452**

NEM SGR S.P.A.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

			31.12.2016		31.12.2015
10	Fee and commission income		3,084,458		3,504,060
20	Fee and commission expense		(1,251)		(1,337)
	Net fee and commission income		**3,083,207**		**3,502,723**
40.	Interest income and similar revenues		17,745		16,920
	Net interest and other banking income		**3,100,952**		**3,519,643**
110.	Administrative costs:		(1,942,175)		(2,118,261)
	a) payroll	*(1,306,573)*		*(1,322,860)*	
	b) other administrative costs	*(635,602)*		*(795,401)*	
120.	Net adjustments to property, plant and equipment		(5,297)		(7,446)
150.	Net provisions for risks and charges		(221,392)		(6,374)
160.	Other operating expenses		294,955		276,874
	Net profit from operating activities		**1,227,043**		**1,664,436**
	PROFIT (LOSS) FROM CURRENT OPERATIONS BEFORE TAX		**1,227,043**		**1,664,436**
190.	Income taxes on current operations		(447,278)		(571,117)
	Profit (loss) from current operations after tax		**779,765**		**1,093,319**
	Net income (loss) for the year		**779,765**		**1,093,319**

SERVIZI BANCARI S.C.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS		31.12.2016	31.12.2015
B)	**Fixed assts**		
	I. Intangible fixed assets		
	4) Concessions, licenses, trademarks and similar rights	9,448	14,019
	5) Goodwill	58,981	104,051
	7) Other	29,321	69,175
	Total	**97,750**	**187,245**
	II. Tangible fixed assets		
	2) Plant and machinery	8,497	18,389
	4) Other assets	226,848	295,413
	Total	**235,345**	**313,802**
	III. Financial fixed assets		
	1) Equity investments in:		
	d) other companies	87,527	107,593
	2) Receivables:		
	d) due from third parties	2,893	2,973
	3) Other	1,508,340	3,839,773
	Total	**1,598,760**	**3,950,339**
	Total fixed assets (B)	**1,931,855**	**4,451,386**
C)	**Current assets**		
	II. Loans and advances		
	1) Due from customers	41,667	25,000
	4) Due from parent companies	-	14,406
	5) Due from companies subject to the control of the parent	94,454	28,412
	5- bis) Due from tax authorities	794,436	889,011
	5- ter) Deferred tax assets		
	within 12 months	19,841	18,910
	beyond 12 months	218,111	237,215
	5- quater) Due from third parties	248,862	150,254
	Total	**1,417,371**	**1,363,208**
	IV. Liquid funds		
	1) Bank and post office accounts	5,429,895	2,559,080
	3) Cash and cash equivalents	151	276
	Total	**5,430,046**	**2,559,356**
	Total current assets (C)	**6,847,417**	**3,922,564**
D)	**Accrued income and prepaid expenses, indicating discounts on loans separately**	**53,192**	**32,694**
Total Assets		**8,832,464**	**8,406,644**

SERVIZI BANCARI S.C.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

LIABILITIES AND STOCKHOLDERS' EQUITY		31.12.2016	31.12.2015
A)	**Stockholders' equity:**		
	I. Capital stock	120,000	120,000
	IV. Legal reserve	25,144	25,144
	VII. Other reserves	807,600	807,600
	- Extraordinary reserve	*703,663*	*703,663*
	- Merger surplus	*103,937*	*103,937*
	Total stockholders' equity (A)	**952,744**	**952,744**
B)	**Provisions for risks and charges**		
	3) Other	2,472,523	1,629,585
	Total provisions for risks and charges (B)	**2,472,523**	**1,629,585**
C)	**Provisions for severance indemnities**	**2,627,138**	**2,753,908**
D)	**Payables, indicating amounts due beyond 12 months separately for each payables account:**		
	7) Due to suppliers	598,656	758,724
	11) Due to parent companies	365,915	-
	11) bis) - Due from companies subject to the control of the parent	65,858	12,709
	12) Due to tax authorities	521,762	551,194
	13) Due to social security and pension institutions	628,129	657,680
	14) Other payables	549,913	1,036,495
	Total payables (D)	**2,730,233**	**3,016,802**
E)	**Accrued expenses and deferred income, indicating premiums on loans separately**	**49,826**	**53,605**
Total Equity and Liabilities		**8,832,464**	**8,406,644**

SERVIZI BANCARI S.C.P.A.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

	31.12.2016	31.12.2015
A) Value of production:		
1) Revenues from sales and services	20,843,846	20,944,087
5) Other revenues and income	249,094	436,101
Total value of production (A)	**21,092,940**	**21,380,188**
B) Production costs		
6) Raw, ancillary and consumable materials	61,706	74,231
7) Services received	4,868,423	5,249,650
8) Leases and rentals	693,046	689,147
9) Personnel:		
a) wages and salaries	10,571,008	11,090,232
b) social security contributions	2,850,673	2,970,242
c) severance indemnities	650,235	768,862
d) pensions and similar commitments	265,090	308,616
e) other costs	939,153	61,557
10) Amortization, depreciation and writedowns		
a) depreciation of intangible fixed assets	90,312	115,536
b) depreciation of tangible fixed assets	89,789	55,791
13) Other provisions	-	84,056
14) Other operating expenses	19,022	22,787
Total production costs (B)	**21,098,457**	**21,490,707**
Difference between value and cost of production (A-B)	**(5,517)**	**(110,519)**
C) Financial income and charges		
15) Income from companies		
- subject to the control of the parent	316	-
16) Other financial income		
b) from securities held as fixed assets	137,939	164,320
d) income other than the above	-	-
- from parent company	214	214
17) Interest and other financial charges		
- from parent company	83	-
- other	-	8
Total financial income and charges (C)	**138,386**	**164,526**
D) Adjustments to financial assets		
19) Writedowns:		
a) equity method investments	(20,066)	-
Total adjustments to financial assets (D)	**(20,066)**	-
Results before taxes (A-B +/-C+/-D)	**112,803**	**54,007**
22) Income taxes for the year	**112,803**	**54,007**
- current taxes	94,630	(14,650)
- deferred taxes	18,173	68,657
Net income (loss) for the year	**-**	**-**

IMMOBILIARE STAMPA S.C.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS	31.12.2016	31.12.2015
B) Fixed assets, indicating those under finance lease separately:		
I. Intangible fixed assets		
1) Start-up and expansion costs	3,506	7,270
3) Industrial patent and intellectual property rights	6,710	11,527
4) Concessions, licenses, trademarks and similar rights	111,151	195,710
5) Goodwill	-	2,700
7) Other	66,909	89,286
Total	188,276	306,493
II. Tangible fixed assets		
1) Land and buildings	393,463,216	311,831,872
2) Plant and machinery	389,967	423,212
4) Other assets	162,306	188,956
5) Assets under construction and advance payments	6,714,613	8,253,307
Total	400,730,102	320,697,347
III. Financial fixed assets, indicating amounts due within 12 months separately for each receivables account		
2) Receivables:		
a) due from subsidiary companies	61,586,847	-
d) due from third parties		
beyond 12 months	1,809	4,707
Total	61,588,656	4,707
Total fixed assets (B)	**462,507,034**	**321,008,547**
C) Current assets:		
I. Inventories		
4) Raw, ancillary and consumable materials	7,570,881	-
Total	7,570,881	-
II. Receivables, indicating amounts due within 12 months separately for each receivables account:		
1) Due from customers	120,702	16,537
4) Due from parent companies	-	149,235
5) Due from companies subject to the control of the parent	426,081	573,820
5- bis) Due from tax authorities	173,818	204,260
5- ter) deferred		
within 12 months	1,386,352	10,282
beyond 12 months	4,777,792	4,777,792
5) quater) Due from third parties	128,887	58,660
Total	7,013,632	5,790,586
IV. Liquid funds:		
1) Bank and post office accounts	15,004,308	8,017,430
3) Cash and cash equivalents	622	261
Total	15,004,930	8,017,691
Total current assets (C)	**29,589,443**	**13,808,277**
D) Accrued income and prepaid expenses, indicating discounts on loans separately	**148,068**	**131,829**
Total Assets	**492,244,545**	**334,948,653**

IMMOBILIARE STAMPA S.C.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES	31.12.2016	31.12.2015
A) Stockholders' equity:		
I. Capital stock	214,400,000	214,400,000
IV. Legal reserve	1,831,369	1,831,369
VII. Other reserves, indicated separately	3,170,060	431,082
- Fusion surplus	2,738,978	-
- Extraordinary reserve	431,082	431,082
VIII. Retained earnings (accumulated losses)	(10,578,118)	-
IX. Net income (loss) for the year	(4,484,204)	(10,578,118)
Total stockholders' equity (A)	**204,339,107**	**206,084,333**
B) Provisions for risks and charges		
2) Provision for taxation	1,628,364	2,125,324
3) Other	239,924	70,000
Total provisions for risks and charges (B)	**1,868,288**	**2,195,324**
C) Provisions for severance indemnities	**863,348**	**885,538**
D) Payables, indicating amounts due beyond 12 months separately for each payables account:		
3) Due to shareholders for loans		
within 12 months	5,140,097	7,866,405
beyond 12 months	275,220,418	115,764,671
4) Due to banks		
within 12 months	82,123	79,336
beyond 12 months	784,114	866,237
7) Due to suppliers	141,693	503,026
11) Due to parent companies	447,140	13
11) bis) - Due from companies subject to the control of the parent	421	631
12) Due to tax authorities	2,975,316	293,274
13) Due to social security and pension institutions	110,437	112,666
14) Other payables		
within 12 months	67,403	243,441
beyond 12 months	41,970	44,789
Total payables (D)	**285,011,132**	**125,774,489**
E) Accrued expenses and deferred income, indicating premiums on loans separately	**162,670**	**8,969**
Total Liabilities and Stockholders' equity	**492,244,545**	**334,948,653**

IMMOBILIARE STAMPA S.C.P.A.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

	31.12.2016	31.12.2015
A) Value of production:		
1) Revenues from sales and services	26,929,522	21,921,317
5) Other income and revenues, indicating contributions for operating expenses separately	334,314	293,861
Total value of production (A)	**27,263,836**	**22,215,178**
B) Production costs:		
6) Raw, ancillary and consumable materials	12,346	16,873
7) Services received	1,835,222	2,142,961
8) Leases and rentals	361,665	381,608
9) Personnel:		
a) wages and salaries	1,802,827	2,035,579
b) social security contributions	487,938	558,880
c) severance indemnities	111,181	143,020
d) pensions and similar commitments	35,482	45,720
e) other costs	181,142	23,753
10) Amortization, depreciation and writedowns		
a) depreciation of intangible fixed assets	126,253	136,768
b) depreciation of tangible fixed assets	14,078,365	11,031,824
c) other devaluation of tangible assets	6,459,023	14,671,454
d) writedown of receivables included in current assets and liquid funds	60,000	50,000
14) Other operating expenses	4,224,497	2,933,617
Total production costs (B)	**29,775,941**	**34,172,057**
Difference between value and cost of production (A-B)	**(2,512,105)**	**(11,956,879)**
C) Financial income and charges:		
16) Other financial income		
d) income other than the above, indicating that from subsidiary, associated and parent companies separately	28,124	671
- from parent company	*26,885*	*669*
- other	*1,239*	*2*
17) Interest and other financial charges, indicating those from subsidiary, associated and parent companies separately	2,429,165	2,189,184
- due to parent company	*2,422,922*	*2,180,163*
- other	*6,243*	*9,021*
Difference (16-17)	**(2,401,041)**	**(2,188,513)**
Results before taxes (A - B ± C ± D ± E)	**(4,913,146)**	**(14,145,392)**
22) Income taxes for the year (current and deferred)	(428,942)	(3,567,274)
23) Net income (loss) for the year	**(4,484,204)**	**(10,578,118)**

INDUSTRIAL OPPORTUNITY FUND

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

	ASSETS	31.12.2016	31.12.2015
A.	**FINANCIAL INSTRUMENTS**	**9,749,975**	**12,034,028**
	Unlisted financial instruments	**9,749,975**	**12,034,028**
	A2. Non-controlling interests	9,749,975	10,291,975
	A3. Other equity	-	-
	A4. Debt securities	-	1,742,053
C.	**LOANS**	**8,263,130**	**7,960,253**
	C2. Other	8,263,130	7,960,253
F.	**NET LIQUIDITY POSITION**	**28,590**	**18,916,711**
	F1. Liquidity avalaible	28,590	18,916,711
G.	**OTHER ASSETS**	**2,779,993**	**3,283,240**
	G2. Accurred income and prepaid expenses	79,408	582,655
	G3. Tax savings	2,700,585	2,700,585
	TOTAL ASSETS	**20,821,688**	**42,194,232**

INDUSTRIAL OPPORTUNITY FUND

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES		31.12.2016	31.12.2015
H.	**FUNDING RECEIVED**	**-**	**-**
	H3. Other	-	-
M.	**OTHER LIABILITIES**	**90,491**	**185,607**
	M1. Fees and charges accrued but not paid	18,211	97,826
	M3. Accruals and deferred income	72,280	87,781
	TOTAL EQUITY AND LIABILITIES	**90,491**	**185,607**
	TOTAL NET VALUE OF THE FUND	**20,731,197**	**42,008,625**
	of which: total net value refers to shares of class A	*20,439,208*	*41,416,954*
	of which: total net value refers to shares of class B	*291,989*	*591,671*
	Units outstanding	**142**	**142**
	of which: shares of class A	*140*	*140*
	of which: shares of class B	*2*	*2*
	Net assest value of the shares		
	shares of class A	*145,994.345*	*295,835.387*
	shares of class B	*145,994.345*	*295,835.387*
	Redemption or distributed per share in the period		
	of which: shares of class A	*131,940.895*	*17,746.479*
	of which: shares of class B	*131,940.895*	*17,746.479*
	Total of the amounts to be called	**6,309,100**	**7,505,478**
	of which: shares of class A	*6,220,239*	*7,399,767*
	of which: shares of class B	*88,861*	*105,711*
	Net assets value of the units to be recalled		
	shares of class A	*44,430.279*	*52,855.479*
	shares of class B	*44,430.279*	*52,855.479*
	Amount of repayments	**21,255,607**	**2,520,000**
	of which: shares of class A	*20,956,232*	*2,484,507*
	of which: shares of class B	*299,375*	*35,493*
	Net assets value of the shares redeemed		
	shares of class A	*149,687.373*	*17,746.479*
	shares of class B	*149,687.373*	*17,746.479*

INDUSTRIAL OPPORTUNITY FUND

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

		31.12.2016	31.12.2015
A.	**FINANCIAL INSTRUMENTS**		
	Unlisted financial instruments	**(2,306,831)**	**5,170,042**
	A1. EQUITY INVESTMENTS	(542,000)	5,033,367
	A1.2 profit/loss to perform	-	8,598,556
	A1.3 gains/losses	(542,000)	(3,565,189)
	A2. OTHER UNLISTED FINANCIAL INSTRUMENTS	(1,764,831)	136,675
	A2.1 interests, dividends and other operating income	82,070	136,675
	A2.3 gains/losses	(1,846,901)	-
	Result of financial instruments management	**(2,306,831)**	**5,170,042**
C.	**LOANS**		
	C1. Interest income and similar revenues	112,278	1,425,891
	Result of credit management	**112,278**	**1,425,891**
H.	**BORROWING COSTS**		
	H1. INTERESSI PASSIVI SU FINANZIAMENTI RICEVUTI	-	(117,545)
	H1.2 on other loans	-	(117,545)
	H2. OTHER FINANCIAL CHARGES	(335,052)	(221,298)
	Net result of feature management	**(2,529,605)**	**6,257,090**
I.	**MANAGEMENT CHARGES**		
	I1. Management SGR commission	(996,379)	(1,242,500)
	of which: shares of class A	*(982,345)*	*(1,225,000)*
	of which: shares of class B	*(14,034)*	*(17,500)*
	I2. Custodian fees	(8,777)	(18,027)
	I5. Other operating charges	(176,047)	(301,432)
L.	**OTHER REVENUES AND EXPENSES**		
	L1. Interest earned on cash and cash equivalents	-	408
	L3. Other charges	(3,315)	(3,292)
	Result before taxes	**(3,714,123)**	**4,692,247**
M.	**TAXES**		
	M3. Other taxes	(24,076)	(30,535)
	of which: shares of class A	*(21,038)*	*(30,035)*
	of which: shares of class B	*(3,038)*	*(500)*
	Net income (loss) for the year	**(3,738,199)**	**4,661,712**
	of which: shares of class A	*(3,685,548)*	*4,591,125*
	of which: shares of class B	*(52,651)*	*65,587*

NEM IMPRESE FUND

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS		31.12.2016	31.12.2015
A.	**FINANCIAL INSTRUMENTS**	**7,733,475**	**7,733,475**
	Unlisted financial instruments	**7,733,475**	**7,733,475**
	A2. Non-controlling interests	7,733,475	7,733,475
C.	**LOANS**	**1,552,902**	**1,250,025**
	C2. Other	1,552,902	1,250,025
F.	**NET LIQUIDITY POSITION**	**176,549**	**210,592**
	F1. Liquidity avalaible	176,549	210,592
G.	**OTHER ASSETS**	**306,000**	**496,600**
	G2. Accurred income and prepaid expenses	58,552	249,152
	G3. Tax savings	247,448	247,448
	TOTAL ASSETS	**9,768,926**	**9,690,692**

NEM IMPRESE FUND

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES	31.12.2016	31.12.2015
M. OTHER LIABILITIES	**15,460**	**6,705**
M1. Fees and charges accrued but not paid	15,460	6,705
TOTAL EQUITY AND LIABILITIES	**15,460**	**6,705**
TOTAL NET VALUE OF THE FUND	**9,753,466**	**9,683,987**
Units outstanding	**120**	**120**
Net assest value of the shares	**81,278.883**	**80,699.892**
Total of the amounts to be called	**2,237,204**	**2,237,204**
Net assets value of the units to be recalled	**18,643.367**	**18,643.367**
Amount of refunds	**17,322,798**	**17,322,798**
Unit value of shares redeemed	**144,356.650**	**144,356.650**

NEM IMPRESE FUND

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

		31.12.2016	31.12.2015
A.	**FINANCIAL INSTRUMENTS**		
	Strumenti finanziari non quotati	**-**	**(851,778)**
	A1. EQUITY INVESTMENTS	-	(851,778)
	A1.1 dividends and other income	-	-
	A1.2 profit/loss to perform	-	-
	A1.3 gains/losses	-	(851,778)
	Result of financial instruments management	**-**	**(851,778)**
C.	**LOANS**		
	C1. Interest income and similar revenues	112,278	104,594
	Result of credit management	**112,278**	**104,594**
I.	**MANAGEMENT CHARGES**		
	I1. Management SGR commission	-	(143,549)
	I2. Custodian fees	(3,250)	(3,252)
	I5. Other operating charges	(36,762)	(5,489)
L.	**OTHER REVENUES AND EXPENSES**		
	L1. Interest earned on cash and cash equivalents	-	6
	L3. Other charges	(48)	(48)
	Result before taxes	**72,218**	**(899,516)**
M.	**TAXES**		
	M1. Sets the replacement exercise	-	-
	M2. Tax savings	-	-
	M3. Other taxes	(2,738)	-
	Net income (loss) for the year	**69,480**	**(899,516)**

NEM IMPRESE II FUND

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS		31.12.2016	31.12.2015
A.	**FINANCIAL INSTRUMENTS**	**26,937,950**	**36,390,104**
	Unlisted financial instruments	**26,937,950**	**36,390,104**
	A1. Controlling interests	6,665,000	-
	A2. Non-controlling interests	20,272,950	21,176,000
	A4. Debt securities	-	15,214,104
C.	**LOANS**	**-**	**157,403**
	C2. Other	-	157,403
F.	**NET LIQUIDITY POSITION**	**452,157**	**10,669,064**
	F1. Liquidity avalaible	452,157	10,669,064
G.	**OTHER ASSETS**	**392,004**	**605,627**
	G2. Accurred income and prepaid expenses	34,753	248,374
	G3. Tax savings	357,251	357,251
	G4. Other	-	2
	TOTAL ASSETS	**27,782,111**	**47,822,198**

NEM IMPRESE II FUND

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES		31.12.2016	31.12.2015
M.	**OTHER LIABILITIES**	**24,937**	**91,621**
	M1. Fees and charges accrued but not paid	24,937	43,675
	M3. Accruals and deferred income	-	47,946
	TOTAL EQUITY AND LIABILITIES	**24,937**	**91,621**
	TOTAL NET VALUE OF THE FUND	**27,757,174**	**47,730,577**
	of which: total net value refers to shares of class A	*27,595,202*	*47,452,054*
	of which: total net value refers to shares of class B	*161,972*	*278,523*
	Units outstanding	**4,627**	**4,627**
	of which: shares of class A	*4,600*	*4,600*
	of which: shares of class B	*27*	*27*
	Net assest value of the shares		
	shares of class A	*5,998.957*	*10,315.664*
	shares of class B	*5,998.957*	*10,315.664*
	Redemption or distributed per share in the period		
	of which: shares of class A	*6,731.839*	*2,031.746*
	of which: shares of class B	*6,731.839*	*2,031.746*
	Total of the amounts to be called	**43,143,464**	**51,478,564**
	of which: shares of class A	*42,891,708*	*51,178,170*
	of which: shares of class B	*251,756*	*300,394*
	Net assets value of the units to be recalled		
	shares of class A	*9,324.284*	*11,125.689*
	shares of class B	*9,324.284*	*11,125.689*
	Amount of repayments	**38,883,387**	**9,400,887**
	of which: shares of class A	*38,656,490*	*9,346,030*
	of which: shares of class B	*226,897*	*54,857*
	Net assets value of the shares redeemed		
	shares of class A	*8,403.585*	*2,031.746*
	shares of class B	*8,403.585*	*2,031.746*

NEM IMPRESE II FUND

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

		31.12.2016	31.12.2015
A.	**FINANCIAL INSTRUMENTS**		
	Unlisted financial instruments	**3,492,757**	**9,330,914**
	A1. EQUITY INVESTMENTS	3,372,183	9,034,149
	A1.1 dividends and other income	1,020,980	10,535,000
	A1.2 profit/loss to perform	9,606,269	6,395,546
	A1.3 gains/losses	(7,255,066)	(7,896,397)
	A2. OTHER UNLISTED FINANCIAL INSTRUMENTS	120,574	296,765
	A2.1 interests, dividends and other operating income	120,574	296,765
	Financial derivatives	**50,000**	**-**
	A4. FINANCIAL DERIVATIVES	50,000	-
	A4.2 non-hedging	50,000	-
	Result of financial instruments management	**3,542,757**	**9,330,914**
I.	**MANAGEMENT CHARGES**		
	I1. Management SGR commission	(2,082,150)	(2,082,150)
	of which: shares of class A	*(2,070,000)*	*(2,070,000)*
	of which: shares of class B	*(12,150)*	*(12,150)*
	I2. Custodian fees	(15,748)	(23,746)
	I5. Other operating charges	(212,415)	(437,646)
L.	**OTHER REVENUES AND EXPENSES**		
	L1. Interest earned on cash and cash equivalents	-	118
	L2. Other revenues	-	1
	L3. Other charges	(11,285)	(11,249)
	Result before taxes	**1,221,159**	**6,776,242**
M.	**TAXES**		
	M3. Other taxes	(47,161)	(77,159)
	of which: shares of class A	*(46,886)*	*(76,709)*
	of which: shares of class B	*(275)*	*(450)*
	Net income (loss) for the year	**1,173,998**	**6,699,083**
	of which: shares of class A	*1,167,147*	*6,659,992*
	of which: shares of class B	*6,851*	*39,091*

SAN MARCO S.R.L.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS	31.12.2016	31.12.2015
A) Receivables from shareholders for outstanding payments	30	-
B) Fixed assets, indicating those under finance lease separately:		
II. Tangible fixed assets	7,790,000	7,790,000
III. Financial fixed assets, indicating amounts due within 12 months separately for each receivables account	-	945
Total fixed assets (B)	**7,790,000**	**7,790,945**
C) Current assets:		
II. Receivables, indicating amounts due within 12 months separately for each receivables account:	490,889	470,312
within 12 months	490,889	470,312
beyond 12 months	-	-
IV. Liquid funds:	1,293,564	44,615
Total current assets (C)	**1,784,453**	**514,927**
D) Accrued income and prepaid expenses, indicating discounts on loans separately	**251**	**253**
Total Assets	**9,574,704**	**8,306,125**

SAN MARCO S.R.L.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES		31.12.2016	31.12.2015
A)	**Stockholders' equity:**		
	I. Capital stock	100,000	15,080
	III. Revaluation reserve	-	630,681
	IV. Legal reserve	-	4,214
	VI. Other reserves	1,548,951	2,756,740
	VII. Cash flow hedge reserve	-	1,093,096
	VIII. Retained earnings (accumulated losses)	-	(14,283,195)
	IX. Net income (loss) for the year	(1,574,914)	(809,422)
	Total stockholders' equity (A)	**74,037**	**(10,592,806)**
B)	**Provisions for risks and charges**	**1,559,058**	**1,559,058**
D)	**Payables, indicating amounts due beyond 12 months separately for each payables account:**	**7,941,639**	**17,346,644**
	within 12 months	5,937,325	12,737,214
	beyond 12 months	2,004,314	4,609,430
Total Liabilities and Stockholders' equity		**9,574,734**	**8,312,896**

SAN MARCO S.R.L.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

	31.12.2016	31.12.2015
A) Value of production:		
5) Other income and revenues	1	231
Total value of production (A)	**1**	**231**
B) Production costs:		
7) Services received	50,368	132,733
14) Other operating expenses	10,385	7,711
Total production costs (B)	**60,753**	**140,444**
Difference between value and cost of production (A-B)	**(60,752)**	**(140,213)**
C) Financial income and charges:		
16) Other financial income		
d) income other than the above	3	17
- other	*3*	*17*
17) Interest and other financial charges	390,670	871,578
- due to parent company	*390,670*	*871,576*
- other	-	2
Difference (16-17)	**(390,667)**	**(871,561)**
Results before taxes (A - B ± C ± D ± E)	**(451,419)**	**(1,011,774)**
22) Income taxes for the year (current and deferred)	(1,123,495)	195,581
- Current taxes	(1,123,495)	-
- Deferred and Anticipated tax	-	195,581
- Deferred tax assets	-	-
23) Net income (loss) for the year	**(1,574,914)**	**(816,193)**

HDS SPA

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

ASSETS			31.12.2016	31.12.2015
B)	**Fixed assets:**			
	I.	Intangible fixed assets	311,615	633,206
	II.	Tangible fixed assets	278,816	373,782
	III.	Financial fixed assets	40,748	40,849
	Total fixed assets (B)		**631,179**	**1,047,838**
C)	**Current assets**			
	I.	Inventories	5,419,840	4,669,193
	II.	Receivables	16,442,851	17,654,938
	IV.	Liquid funds	203,976	782,729
	Total current assets (C)		**22,066,667**	**23,106,860**
D)	**Accrued income and prepaid expenses, indicating discounts on loans separately**		**111,816**	**79,619**
Total Assets			**22,809,662**	**24,234,317**

HDS S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2016

(in Euro)

EQUITY AND LIABILITIES	31.12.2016	31.12.2015
A) Stockholders' equity:		
I. Capital stock	2,000,000	100,000
IV. Legal reserve	113,332	13,332
Extraordinary or discretionary reserve	6,345,603	9,229,512
IX. Net income (loss) for the year	(1,793,922)	(2,883,908)
Total stockholders' equity (A)	**6,665,013**	**6,458,936**
B) Provisions for risks and charges	**1,142,546**	**1,287,040**
C) Provisions for severance indemnities	**475,049**	**429,037**
D) Payables		
-within 12 months	14,492,054	16,059,304
-beyond 12 months	-	-
Total payables (D)	**14,492,054**	**16,059,304**
E) Accrued expenses and deferred income, indicating premiums on loans separately	**35,000**	**-**
Total Liabilities and Stockholders' equity	**22,809,662**	**24,234,317**

HDS SPA A SOCIO UNICO

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in Euro)

	31.12.2016	31.12.2015
A) Value of production:		
1) Revenues from sales and services	31,198,500	35,063,633
2) Change in inventories of finished, semi-finished and finished products	824,938	(1,104,521)
4) Increases in fixed assets for internal work		127,567
5) Other income and revenues, indicating contributions for operating expenses separately	310,298	440,772
Total value of production (A)	**32,333,736**	**34,527,451**
B) Production costs:		
6) Raw, ancillary and consumable materials	20,556,903	21,572,313
7) Services received	8,028,119	9,319,968
8) Leases and rentals	591,664	873,925
9) Personnel:		
a) wages and salaries	1,631,258	1,765,136
b) social security contributions	457,853	487,952
c) severance indemnities	105,151	113,738
d) pensions and similar commitments		
e) other costs	2,993	10,838
10) Amortization, depreciation and writedowns		
a) depreciation of intangible fixed assets	123,095	184,801
b) depreciation of tangible fixed assets	108,945	214,044
c) other devaluation of tangible assets	228,871	573,314
d) writedown of receivables included in current assets and liquid funds	1,269,362	1,079,130
11) Changes in inventories of raw, ancillary, consumable and commodities	70,079	549,911
12) Provisions for risks		
14) Other operating expenses	919,032	691,660
Total production costs (B)	**34,093,325**	**37,436,730**
Difference between value and cost of production (A-B)	**(1,759,589)**	**(2,909,279)**
C) Financial income and charges:		
16) Other financial income		
d) income other than the above, indicating that from subsidiary, associated and parent companies separately	20,760	12,533
17) Interest and other financial charges, indicating those from subsidiary, associated and parent companies separately	(337,899)	(435,433)
- due to parent company		
- other		
7 - bis) Gains and losses on foreign exchange	(453)	(367)
Difference (16-17)	**(317,592)**	**(423,267)**
D) Adjustments to financial assets		
18) Revaluations	-	-
a) equity method investments	-	-
b) financial fixed assets	-	-
c) securities included among current assets	-	-
19) Writedowns	-	(6,250)
a) equity method investments	-	-
b) financial fixed assets	-	-
c) securities included among current assets	-	-
Difference (18-19)	**-**	**(6,250)**
Results before taxes (A - B ± C ± D ± E)	**(2,077,180)**	**(3,338,796)**
22) Income taxes for the year (current and deferred)	283,258	454,888
- Current taxes	(22,277)	-
- Deferred tax liabilities	-	-
- Deferred tax assets	305,535	454,888
Net income (loss) for the year	**(1,793,922)**	**(2,883,908)**

Gruppo Banca Popolare di Vicenza