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AS AT 31

DECEMBER

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**Banca Sistema S.p.A.**

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**FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2012**

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**BANCA**  
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## REPORT ON OPERATIONS

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## COMPOSITION OF PARENT COMPANY'S ADMINISTRATIVE BODIES

### Board of Directors (\*)

Chairman	Prof.	Giorgio Basevi (Independent)
CEO	Mr	Gianluca Garbi
Directors	Mr	Claudio Pugelli, lawyer
	Prof.	Giovanni Puglisi
	Mr	Pierluigi Sovico, lawyer
	Ms	Lindsey McMurray
	Prof.	Giorgio Barba Navaretti (Independent)
	Mr	Mark Jonathan Hickey

### Board of Statutory Auditors (\*\*)

Chairman	Prof.	Maurizio Caserta
Standing Auditors	Mr	Daniele Pittatore
	Mr	Massimo Conigliaro
Substitute Auditors	Mr	Marco Sanchini

### Executive Committee

Chairman	Mr	Gianluca Garbi
Member	Ms	Lindsey McMurray
	Prof.	Giorgio Barba Navaretti

### Internal Control Committee

Chairman	Prof.	Giorgio Basevi
Member	Mr	Pierluigi Sovico, lawyer

### Appointments and Remuneration Committee

Chairman	Prof.	Giovanni Puglisi
Member	Prof.	Giorgio Basevi

### Ethics Committee

Chairman	Mr	Marco Pompeo, lawyer
Members	Mr	Gianluca Garbi
	Prof.	Giorgio Basevi

### Supervisory Authorities

Chairman	Prof.	Giorgio Basevi
Members	Mr	Franco Paolo Pozzi

(\*) Board of Directors and CEO appointed by the Shareholders' Meeting of 29 June 2011. Any changes that occurred during the course of 2012 are reported below:

- On 16 January 2012, Mr Howard Garland announced his resignation as Director and, consequently, his position as a member of the Executive Committee. On 1 February 2012 Mr Garland was replaced by Ms Lindsey McMurray as a member of the Executive Committee.
- On 9 March 2012, Mr Patrizio Messina was replaced by Prof. Giorgio Basevi as a member of the Appointments and Remuneration Committee. On 4 April 2012, Mr Messina announced his resignation as Director and, resigning also from his positions as a member of the Executive Committee and the Ethics Committee.
- On 26 April 2012, Mr Michele Calzolari announced his resignation as Director, and his post as member of the Internal Audit Committee and the Appointments and Retribution Committee.
- On 27 April 2012, the Shareholders' Meeting appointed Mr Peter Wilkin as Director, who then handed in his resignation as of 21 May 2012.
- On 26 September 2012, the Board of Directors co-opted Mr Mark Jonathan Hickey and Prof. Giorgio Barba Navaretti as Directors, with Prof. Giorgio Barba Navaretti as an Independent Director, following his appointment as Member of the Executive Committee.
- On 8 October 2012, Prof. Alessandro Danovi announced his resignation as Chairman of the Board of Statutory Auditors. In accordance with the law, Mr Massimo Conigliaro came in as Standing Auditor and Mr Franco Pozzi became Chairman of the Board of Statutory Auditors.
- On 28 November 2012, the Shareholders' meeting appointed (i) Mr Mark Jonathan Hickey and Prof. Giorgio Barba Navaretti as Directors and (ii) Prof. Maurizio Caserta as Chairman of the Board of Statutory Auditors and Mr Massimo Conigliaro as Alternate Auditor.
- On 11 December 2012, Mr Franco Pozzi announced his resignation as Standing Auditor to join the bank as the Head of the Internal Audit department and, in accordance with the law, Mr Massimo Conigliaro took over the position.
- On 19 December 2012, the Board of Directors confirmed the appointment of Prof. Giorgio Barba Navaretti as Member of the Executive Committee.

(\*\*) The Board of Statutory Auditors was appointed by the Shareholders' Meeting of 29 June 2011.

The majority of the changes to the Board of Directors and the Board of Statutory Auditors were the result of the introduction of standards relating to Interlocking imposed by Art. 36 of the "salva-Italia" decree. When noting the resignations, the Bank presented its own position to the Supervisory Authorities to prevent recurrence of the conditions triggering application of the prohibition to the two cases in question. These conditions could be only found if the standard is interpreted in a significantly different way and not in line with the reasoning of the standard itself.



## LETTER FROM THE CHAIRMAN

Dear Shareholders,

The year 2012 was marked by the achievement of excellent results for the Bank which exceeded the expectations set out in the corporate plan despite the unfavourable economic situation of Italy.

More specifically, from Banca Sistema's point of view, 2012 marked the consolidation of its business model launched in July 2011.

The core business was very successful and volumes increased continuously. Non-recourse loans were purchased for more than Euro 585 million compared to Euro 110 in the second half of 2011.

Customer funding through the SI conto! DEPOSITO was unexpectedly successful. At year end the Bank had more than 11,000 customers compared to 380 in 2011 and deposits totalling more than Euro 515 million compared to slightly less than Euro 17 million at the end of the previous year.

The Bank also completed its organisational structure in terms of human resources and technological infrastructure in line with the growth and development plan of Banca Sistema. Since the Bank's start, the recruitment trend has continued, with 36 new resources increasing the professionalism and skills necessary to provide qualified support for the main areas of business, such as factoring and banking.

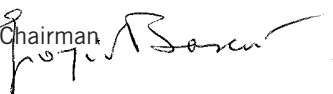
A significant contribution to the economic results was also made by the attentive management of the government bonds portfolio which made it possible to exploit market opportunities as they came up.

In 2013 a further growth in commercial investments is expected through the acquisition of new customers and the offer of new factoring products, such as factoring with recourse, factoring of VAT receivables and reverse factoring.

The banking activities will be further developed by offering customers new services and products linked to current accounts and administered accounts.

At the end of the letter to shareholders of last year I thanked management and our staff for embarking on the new banking project with creative enthusiasm, facing the risks associated with any new enterprise but magnified by the difficult economic situation in Italy.

Even though our country is still mired in crisis a year later, thanks to the management and our whole staff, I believe we can confirm that the Bank managed to obtain positive results for its shareholders, and also helped companies to weather the consequences caused by financial difficulties and bureaucratic inefficiency of Public Administrations within our specific sphere of influence.

the Chairman  




## SUMMARY DATA AS AT 31 DECEMBER 2012

### Balance Sheet figures (in thousands of euros)

Total Assets		197,671	2011
		999,561	2012
Securities portfolio (fair value)		63,812	2011
		541,123	2012
Factoring trade receivables		83,043	
		329,735	
Bank funding		77,209	
		113,923	
Term deposit funding		16,922	
		522,720	
Securities in issue		53,907	
		55,242	

### Economic indicators (in thousands of euros)

Interest margin		1,471	2011
		11,933	2012
Net fee and commissions		(162)	2011
		(1,880)	2012
Operating income		2,015	
		19,184	
Net profit (loss) from financial management		1,781	
		18,442	
Staff costs	(2,884)		
	(6,405)		
Other administrative expenses	(2,073)		
	(7,003)		
Operating costs	(5,071)		
	(13,412)		
EBT		(3,290)	
		5,030	

### Performance indicators

Cost/income ratio		252%	2011
		70%	2012
Return on assets		-1.7%	2011
		0.5%	2012
Return on equity *		1.0%	
		32.2%	
Tier 1 Ratio		33.9%	
		19.0%	
Total Capital Ratio		51.1%	
		28.5%	
Duration of Investments in 2012 (months)		10.9	
Duration of Collection in 2012 (months)		15.3	

\* ROE 2012 calculated using mean shareholders' equity

The reclassified financial statements were presented in the report on operations, from which these indices were calculated.



## MAIN EVENTS OF 2012

### Partnerships

The Bank has the infrastructures required to operate efficiently in the monetary and stock markets and is part of the following systems:

- Bank of Italy TARGET2 Trans-European Automated Real-time Gross settlement Express Transfer: Euro system real-time gross settlement system.
- e-MID Mercato Interbancario dei Depositi: a multilateral platform for negotiating inter-bank deposits.
- MTS Repo, Money Market Facility (MMF): a market that permits the funding or use of liquidity by supplying or receiving Italian Government Securities as consideration in the technical form of repurchase transactions. It participates on the market through indirect membership of the central counterparty (Compensation and Guarantee Fund).
- Abaco: the technological infrastructure of the Bank allows it to use its own trade receivables as guarantees for the management of finances with the ECB (European Central Bank).

The Bank has also drawn up an agreement with Cassa Depositi e Prestiti, which has allowed it to access credit facilities for funding to support SMEs (Small and Medium Enterprises) who are owed money from the Public Administration.

### Products and services

The business model of Banca Sistema is focused on services for businesses that operate with the Public Administration. In addition, during 2012, it also developed a significant segment dedicated to retail customers.

In addition to consolidating the “deposit account” product, the Bank revised and commenced the on-line management procedure for the “current account” product; this was completed in the first quarter of 2013.

From November onwards, these products and services for businesses have found a vehicle in the Bank’s new branch, the prototype for other branches that will be opened during 2013.

The main products and services released or commenced in 2012 are summarised below:

- Updating of the on-line platform that allows the deposit account to be opened and two new expiry dates to be inserted: 30 and 36 months.
- Update of the Home Banking platform for managing current accounts. More specifically the Bank has introduced the opportunity to arrange bank transfers, control movements and expenses, pay utility bills and pay MAV, RAV and F24 notes thereby allowing the customer to use his/her current account with complete independence 24 hours a day.

All the initiatives and development activities associated with the products and services that the Bank makes available to its private Customers and businesses are designed to obtain financial results from managing the businesses, whilst always seeking to maintain a low financial risk profile for these activities. Banca Sistema’s financial management is aimed towards a risk management method that keeps the economic returns from the various activities without assuming risk positions.





## DESCRIPTION OF BANCA SISTEMA

Banca Sistema is an independent bank which was founded in the Summer of 2011 by three Banking Foundations (Fondazione Sicilia, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria) and the Management and Royal Bank of Scotland Special Opportunities Fund.

With registered offices in Milan, London and Rome, the Banca Sistema Group has become part of a specialised section of the Italian financial sector, designed to provide liquidity to companies by managing receivables due from the Public Administration.

One of the primary objectives of Banca Sistema is to redirect the financial requirements of businesses by bringing together the public and private sectors, supporting businesses in managing relations with public debtors and increasing the efficiency of the national economy.

Banca Sistema operates by balancing the requirement by businesses to sustain their own growth with the requirement that the Public Administration complies with their financial commitments.

More specifically, Banca Sistema takes pride in its high standards of quality and offers an extended range of long-term non-recourse factoring solutions for managing payment delays by the Public Administrations. Existing and/or future receivables are preferably acquired on a revolving basis in accordance with national and international accounting principles.

In addition to this the Bank also offers more traditional products, from current accounts to deposit accounts and securities accounts that allow it to act as an intermediary for shareholdings, bond securities, ETFs and Funds on Italian and foreign markets.

## SHAREHOLDING STRUCTURE

Balanced governance and adequate capitalisation represents the philosophy adopted by Banca Sistema to operate well. The current shareholding structure may be broken down as follows:

<b>SHAREHOLDERS</b>		<b>% HELD</b>
Fondazione Sicilia	8.44%	
Fondazione Cassa di Risparmio di Alessandria	8.44%	<b>51.67%</b>
Fondazione Pisa	8.44%	
SGBS S.r.l. (Management Company)	26.35%	
Royal Bank of Scotland SOF LUXCO (Private Equity)	46.63%	<b>46.63%</b>
Other Shareholders	1.70%	<b>1.70%</b>

The above-mentioned shareholders have signed two five-year Shareholder Agreements as described below:

- on 20 June 2011, a Shareholder Agreement was signed between SGBS S.r.l., Fondazione Sicilia, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria, designed to regulate those aspects associated with the appointment of the Board of Directors by means of “List Voting”.
- on 21 June 2011, a second shareholder agreement was signed, again between SGBS Srl, Fondazione Sicilia, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria and a new subscriber - Royal Bank

of Scotland SOF LUXCO - designed, together with the contents of the Articles of Association, to govern relations between the parties with regard to the corporate governance and investment structure aspects.

This second Shareholder Agreement was subsequently amended on 29 June 2011 and 1 February 2012 with reference, respectively, to (i) assigning the powers to be conveyed on the CEO and (ii) the possession of the statutory independence requirements by Members of the Executive Committee selected from those directors not appointed by SGBS.

## STRUCTURE OF THE GROUP

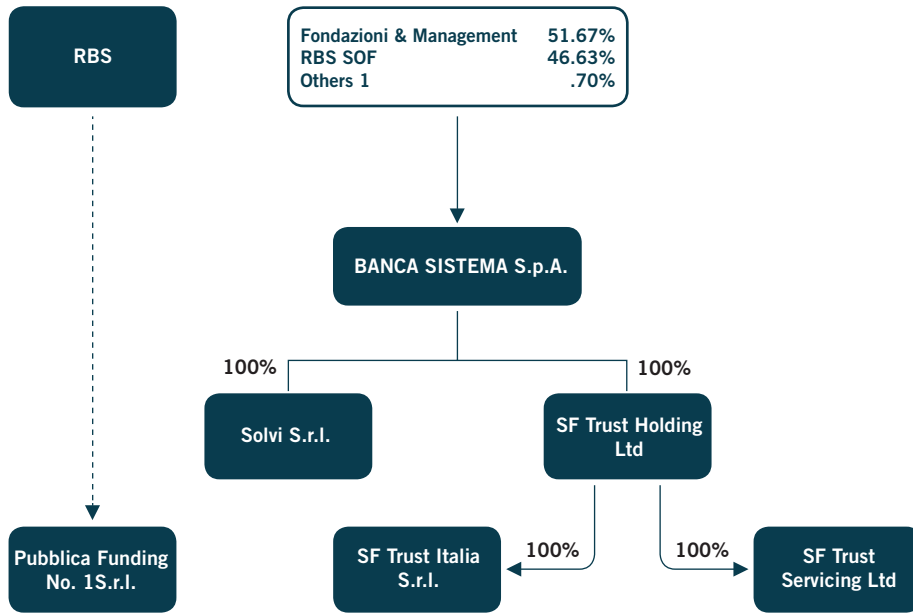
On 31 December 2012, the Banca Sistema Group comprised the Parent Company, Banca Sistema S.p.A., with a share capital of Euro 7,860,741.96, fully paid up, (Euro 8,450,526.24 following the increase in share capital recorded on 19 February 2013), with registered offices in Milan, at Corso Monforte 20, and the following companies:

- **Specialty Finance Trust Holding Limited**, a company governed by English law, with registered offices at Dukes House 32-38 Dukes Place, London EC3A 7LP UK. Share capital of Euro 24,425,205, 100% owned by Banca Sistema. Said company directly controls 100% of Specialty Finance Trust Servicing Ltd and S.F. Trust Italia S.r.l.. The company provides administrative services to Pubblica Funding No. 1 S.r.l. and Banca Sistema with regard to the receivables acquired from them.
- **Specialty Finance Trust Servicing Ltd**, with registered offices at Dukes House 32-38 Dukes Place, London EC3A 7LP UK. Share capital of Euro 1,574,750.

This is a special purpose vehicle that will be placed into liquidation.

- **SF Trust Italia S.r.l.**, a company established in accordance with Art. 106 Legis. Decree 385/1993, with a share capital of 1,850,000, fully paid up, and registered offices in Rome, at Piazzale delle Belle Arti 8, REA 1179983, VAT number and tax code 05783310963. Until 30 June 2011, the company was mainly involved in origination activities when acquiring trade receivables owed by the public sector.
- **Solvi S.r.l.**, 100% controlled by Banca Sistema as of 31 December 2012. Registered office in Milan, at Galleria Sala dei Longobardi, 2, with share capital of Euro 200,000, fully paid up, and a single shareholder, tax code 11294960155 and registered on the Milan Companies Register under number REA [Economic and Administrative Repertoire] no. 1454875; the company is involved in credit collection and management for companies from the Pubblica Funding No. 1 S.r.l. Group and third parties.

The table below shows the Group and the companies within the scope of consolidation:



## EXTRAORDINARY TRANSACTIONS

### REORGANISATION OF THE GROUP

On 26 September 2012, the Board of Directors of Banca Sistema S.p.A., as part of its original reorganisation plan of 27 April 2012, approved the integration of this project designed to merge Solvi S.r.l. into Banca Sistema S.p.A. through incorporation, subject to the Bank's acquisition of the entire holding in SF Trust Italia S.r.l. For a more detailed description of the transaction, please refer to the section "Significant events during the year" in this document.

On 19 December 2012, formalities were completed for the Bank's acquisition of 100% of the share capital of Solvi S.r.l. owned by SF Trust Italia for a price of Euro 2,655,000 calculated on the basis of a sworn independent expert's report. On receipt of authorisation from the Bank of Italy, pursuant to Art. 57, Solvi will be directly merged with the Bank.

Also in December, the transfer to the Bank of the residual share of 3% of the share capital of Specialty Finance Trust Limited was completed.

### INCREASE IN SHARE CAPITAL

Following the decision by the Board of Directors of Banca Sistema S.p.A, on 1 December 2011 - in relation to the proposed share capital increase - application was made to the Bank of Italy on 7 December 2011, who - by letter dated 30 October 2012 and by virtue of an order made that day - issued the assessment order regarding the share capital increase, including the share premium, of a maximum of Euro 5,000,000 and amendment to Articles 4, 10, 11, 13 and 14 of the Company's Articles of Association.

The Extraordinary Shareholders' Meeting of Banca Sistema S.p.A. held on 28 November 2012 (i) conferred the Board of Directors, pursuant to art. 2443 of the Italian Civil Code, with the powers to increase the share capital from Euro 7,860,741.96 to Euro 8,460,741.96, by issuing a maximum number of 5,000,000 shares,

each worth 1 Euro, with Euro 0.12 being the par value and Euro 0.88 the premium, to be offered to shareholders and, if not subscribed within thirty days from the option being recorded in the Companies' Register, with the power to place any shares not taken up with third parties, including at a price higher than that reserved for shareholders and (ii) approved the amendment to Articles 4, 10, 11, 13 and 14 of the Company's Articles of Association.

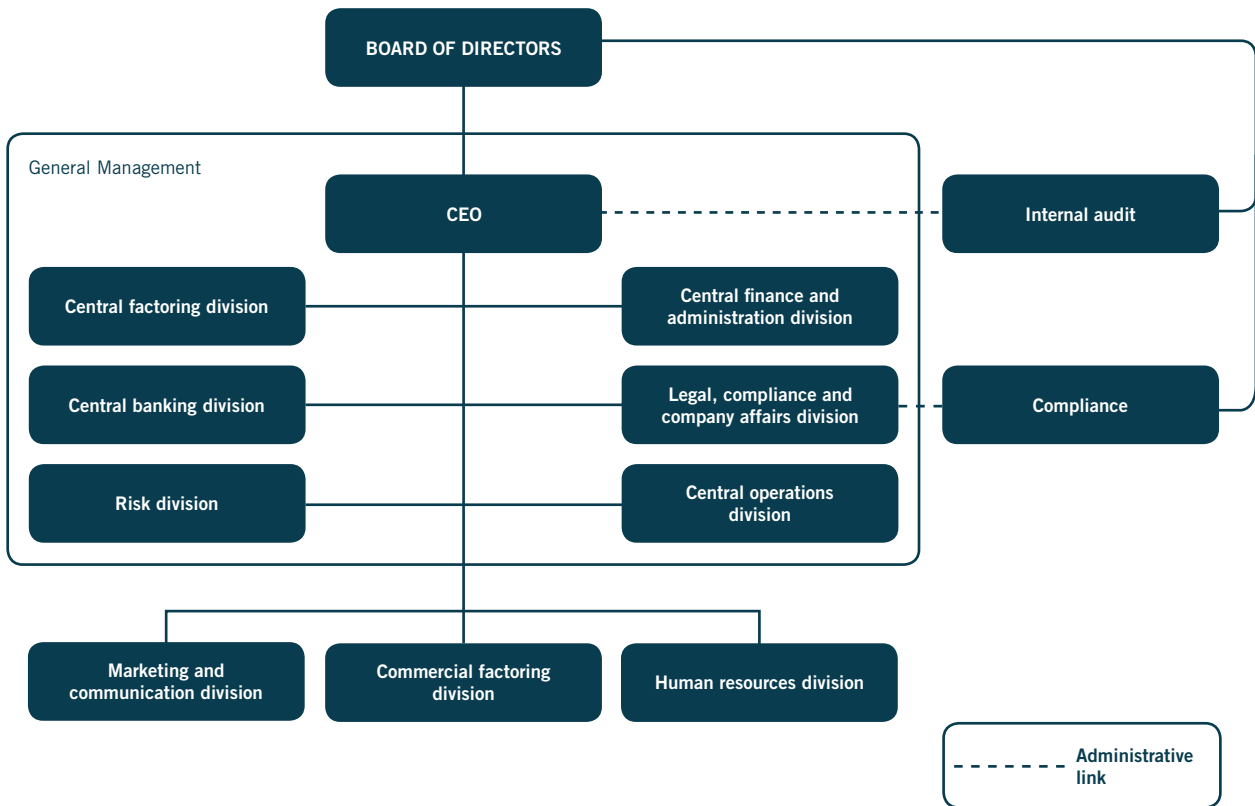
Following the issue by the Bank of Italy of the confirmation of compliance on 14 December 2012 which confirmed the validity of the amendments approved by the Extraordinary Shareholders' Meeting, on 19 December 2012 the Board of Directors approved the capital increase by the overall amount of Euro 5 million.

Therefore, the Option Offering Notification was sent to Shareholders, in accordance with Art. 2441 paragraph 2 of the Italian Civil Code, recorded in the Milan Companies Register on 28 December 2012, stating that, if the subscription was not fully taken up within 30 (thirty) days, the right was granted, for a further 30 days, to place any unsubscribed shares with third parties, even if at a price higher than that reserved for shareholders. On 31 December 2012, the following payments have been made to the future capital increase account in the Bank's favour: (i) shareholder, Fondazione Pisa: Euro 421,956.00; shareholder Fondazione Cassa di Risparmio di Alessandria: Euro 421,956.00; shareholder Fondazione Sicilia: Euro 421,956.00; shareholder SGBS S.r.l.: Euro 1,317,537; shareholder SOF Lux Co S.a.r.l.: Euro 2,331,464.00.

On 19 February 2013, the new Articles of Association were lodged with the Milan Companies Register for Banca Sistema S.p.A. following the implementation of the capital increase decided by the Extraordinary Shareholders' Meeting held on 28 November 2012. As of 19 February 2013, the share capital amounts to Euro 8,450,526.24, divided into 70,421,052 shares with par value of Euro 0.12 each and a share premium reserve of Euro 4,325,085.

## ORGANISATIONAL STRUCTURE

The organisational chart of Banca Sistema updated on 31 December 2012 is shown below:



## GENERAL MANAGEMENT

The CEO is responsible for the following positions:

- Financial Manager
- Risk Manager
- Operations Manager
- Legal and Company Affairs Manager
- Banking Manager
- Central Factoring Manager
- Factoring Commercial Manager
- Marketing and Communication Manager
- Human Resources Manager

## ORGANISATIONAL PROFILES

The human resources within the Group are summarised as follows:

	31.12.2012	31.12.2011
Managers	10	4
Executives	15	6
Other staff	40	11
<b>Total</b>	<b>65</b>	<b>21</b>

## THE BANCA SISTEMA BRANCHES

### Milan

Corso Monforte, 20  
20122 Milan - IT

### Rome

Piazzale delle Belle Arti, 8  
00196 Rome - IT

### London

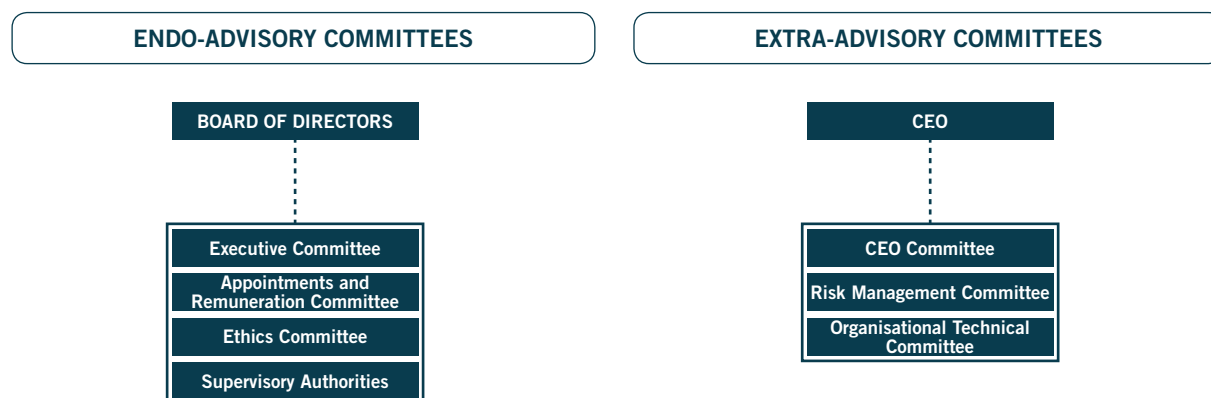
Dukes House 32-38 Dukes Place  
London EC3A 7LP - UK

### Solvi S.r.l.

Galleria Sala dei Longobardi, 2  
20121 Milan - IT

## COMMITTEES

In order to ensure an efficient system that ensures that the Board of Directors can effectively evaluate the specific issues that it has to deal with, specific Committees have been set up and granted powers and responsibilities with regard to the various issues.



### ENDO-ADVISORY COMMITTEES

The powers, responsibilities and composition of the internal advisory Committees established by the Board of Directors on 29 June 2011 are described below:

- Executive Committee
- Internal Control Committee
- Appointments and Remuneration Committee
- Ethics Committee
- Supervisory Authorities

#### Executive Committee

The Executive Committee is delegated specific powers in support of the Board of Directors for the day-to-day management of the Bank, which is always carried out in accordance with the guidelines and principles drawn up by the Board, subject to the Board remaining responsible for the duties reserved to itself. This collegiate body comprises three members of the Board of Directors, of which the CEO has the right to be a member, and who chairs the Committee. The Board of Statutory Auditors will also attend Executive Committee meetings in accordance with Art. 2405 of the Italian Civil Code.

### Internal Control Committee

This committee assists the Board of Directors in defining the guidelines for the internal controls system and the periodic checks carried out to ensure that it is fit for purpose and functioning correctly, whilst also ensuring that the main business risks are properly identified and managed in accordance with the proposed company functions. It is made up of three non-executive Directors, two of whom must satisfy the independence requirement.

#### Appointments and Remuneration Committee

This committee supports the Board of Directors in defining the Bank's system of governance, its company structure and the Governance guidelines and models. It defines the policies for appointing Directors, members of the Committees, Top Management and Officials of the Banking Group, and their remuneration. It is made up of three non-executive Directors, two of whom must satisfy the independence requirement.

#### Ethics Committee

The Ethics Committee supports the Board of Directors in identifying and assessing ethical principles for the definition of the conduct policies. It assesses the extent to which these principles must be applied to the

business, supervising publication of the Code of Ethics and the relevant guidelines governing external business communications.

The following will permanently form part of the Ethics Committee: the Chairman of the Board of Directors, the Deputy Chairman of the Board of Directors, the CEO and the Legal and Company Affairs Manager.

### **Supervisory Authorities pursuant to Legislative Decree 231/01**

In accordance with Legislative Decree 231/01, the Supervisory Authorities, appointed by the Board of Directors in compliance with the provisions introduced by Legislative Decree 231 of 8 June 2001 on administrative offences, is assigned the task of monitoring the function and observance of the Organisation and Management Model provided under Legislative Decree 231 of 8 June 2001 and check the consistency and validity of the Model over time. The composition of the Bank's Supervisory Body is defined by the relevant Organisational Model.

## **EXTRA-ADVISORY COMMITTEES**

### **CEO's Committee**

The CEO's Committee (Management Committee or CEO Committee) has the task of assisting the CEO in the governance of the Bank, managing any critical issues, promoting the dissemination of information and defining the proposed agenda for the meetings of the Board of Directors and the Executive Committee. It also has the task of sharing the CEO's decisions with the Bank's senior management. It supports the CEO in defining development policies for human resources and bonus systems. The Function managers will report to the Committee on the activities carried out and future programmes.

### **Risk Management Committee**

The Risk Management Committee supports the CEO in defining strategies, risk policies and profitability targets,

by proposing interventions and adjustment tactics. It monitors capital adequacy with regard to the risk/yield objectives, taking into account the various types of risks and the correlations between them. It also continuously supervises compliance with the capital limits per area/type of risk and ensures that the frameworks (roles, methods and instruments) are adequate for identifying, measuring and reporting the various types of risk identified.

### **Organisational Technical Committee**

The Organisational Technical Committee supports the CEO in monitoring the technical and functional requirements of the organisation by drawing up proposals for intervention and improvement and supervising the implementation and development of the organisational model. It collects and examines the organisational proposals from the various departments and contributes to defining the interventions for improvement and coordinating new projects, defining priorities and regulating implementation. It helps draft procedures and circulates them within the Bank. It also drafts the contracts for outsourcing functions, policies and strategies of goods and services procurement, the Contingency Plan, the Business Continuity Plan and the Programme Security Document. It supervises the effectiveness and efficiency of business processes and computer systems, the adequacy of controls with regard to strategic objectives and business characteristics. It deals with the monitoring and proposal of personnel requirements in terms of size. It is responsible for supervising compliance with safety in the workplace obligations.

## **WORKING GROUPS**

The Bank's management is also supported by working groups which have specific areas assigned to them including the factoring, banking and internal control departments.



## MACROECONOMIC SCENARIO AND REFERENCE SECTOR

The worldwide economy continued to worsen in 2012 and despite the signs of encouragement in some emerging countries, growth forecasts are still subject to considerable uncertainty, mainly associated with development of the Euro zone crisis and managing the public finances in the United States.

According to the latest OECD estimates, global production which increased by 2.9% in 2012, will increase by 3.4% in 2013 and 4.2% in 2014. The rate of expansion will differ in the various economies, from the stagnation of the Euro zone, to less than one percent growth in the United Kingdom and Japan and 2.0% in the United States. However, GDP will grow more in the main emerging economies, and will improve over the previous year.

Within the Euro zone, it is estimated that GDP will fall by 0.4% in 2012 and should stabilise in 2013 if financial markets are not subject to further stresses (-0.1 on 2013), with moderate growth only in 2014 (+1.3%).

Lack of growth is just one of the many causes of tension on the financial markets along with increased unemployment and lack of consumer confidence since they have seen their spending power reduced resulting in a collapse in internal demand.

Companies' investments have been reduced by low levels of production capacity use, the downturn in demand forecasts, increased uncertainty and unfavourable credit conditions in some countries.

Net exports continue to contribute to positive growth levels even though this is mainly due to the weak import trends.

The recession in Italy eased off in the second half of the past year although there are no concrete signs of the trend reversing. According to forecasts, GDP will actually fall by 1% in 2013, with a slight increase (0.7%) only in 2014.

Product dynamics continue to reflect the weakness of internal demand that demonstrates the lack of consumer confidence and the fall-off in investments. Consumption

levels remained low at the end of 2012 and, based on projections, this negative trend is expected to continue in the next few months. The consumer confidence index has stabilised at historically low levels due to pessimism regarding the general economic climate and the worsening prospects of the employment sector.

With regard to employment, the increase in labour supply continues to push the unemployment rate upwards even though there is substantial stability in the number of people employed. Real salaries, which are already lower than those in the rest of Europe, continue to decrease, although at a slower pace than the previous year. The fall in the demand for employees by companies has almost entirely offset the increase in the number of self-employed workers. Companies continue to favour temporary positions in the current context at the expense of permanent job positions despite recent legislative changes made to correct and limit this situation.

Industrial manufacturing, in parallel with investment trends, continues to fall, albeit to a lesser extent than last year. The Italian business community remain largely pessimistic about the general situation.

In the banking sector, funding conditions for Italian intermediaries have slightly improved, benefiting from the reduction in pressure in the sovereign debt area. Although growth in resident customer deposits continues to be steady, it is accompanied by a low demand for loans from companies and families and a resizing of the product related to the deterioration of credit quality.

Average interest rates applied to the current accounts of businesses and families, the principal component of retail deposits, stayed the same in the second half of 2012, whereas there was a slight decrease in the return paid on new deposits with a one-year duration, standing at 2.7%. The return from new bond issues fell by around one percentage point.

Bank loans to the private sector continued to fall, showing a 2.6% drop in the final part of 2012. The cost of credit to families showed a slight drop with a variation

of two tenths (3.5%) for variable rate operations that represent over two thirds of all disbursements; the fixed rate percentage remains unchanged at 4.8%. Although benefiting from a reduction in the stresses affecting the financial markets, the reduction in taxes was countered by the perception of an increased credit risk by the intermediaries.

The profitability of the main banking groups has increased slightly: the drop in interest margins and net fee and commissions have been more than offset by the increase in revenue from trading activities.

At European level, an agreement has been reached to set up a single banking supervisory authority (Single Supervisory Mechanism, SSM). Single supervision represents a significant step towards achieving banking union, which, in the medium term, will provide a joint mechanism for resolving crises and a harmonised system for guaranteeing deposits. When the SSM is operative, it will be possible to recapitalise banks directly without the relevant country having to intervene. The SSM will be made up of the ECB and the national supervisory bodies of the countries involved and will cover the banks of all countries. The ECB will provide direct supervision of the credit institutions considered to be significant or who received financial assistance from the European Financial Stability Facility (EFSF) or the European Stability Mechanism (ESM). Duties and powers will be delegated to the national authorities for the other banks. The ECB may, however, assume direct supervision of any credit institution at any time. The ECB may assume all the powers assigned to it from 1 March 2014 or twelve months after the SSM entered into effect.

Announced by the President of the ECB, Mario Draghi, in September 2012, the OMT (Outright Monetary Transactions), also known as the “anti- spread plan”, is the measure identified by the European Central Bank

to intervene in and stem the problems linked to the debt crisis in the Eurozone countries. This is a plan that the ECB could implement for the countries that request it and entails the unrestricted acquisition of short-term State securities - due between 1 and 3 years - on the secondary market, with the aim of reducing pressure from the spread and placating fears of the financial markets. The plan is subject to strict conditions that beneficiary countries would have to satisfy who must first request and obtain the anti-spread protection already provided for under the EU anti-crisis fund, the ESM (European Stability Mechanism).

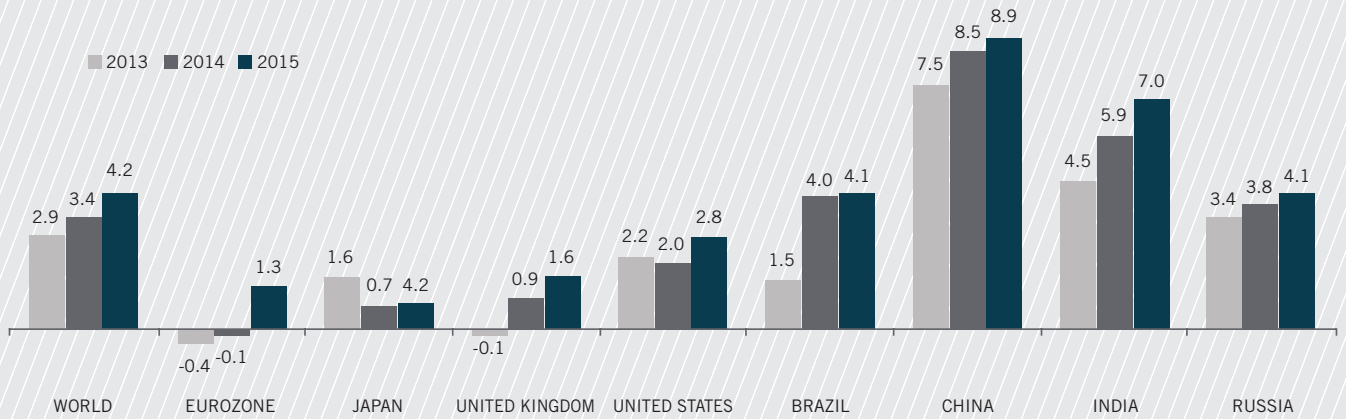
The investment made by Banca Sistema in Italian government issues with a maximum duration of 1 year will fall completely within the WTO, thereby guaranteeing the profitability of said investment.

The spread between Italian and German securities - which had a differential of 378.96 bps on 2 January 2012, showed significant improvement by 19 March 2012 and had fallen 275.75 bps. However the spread grew significantly - mainly due to the worsening economic situation - and reached a maximum of 531 bps by 24 July 2012.

The Monti Government intervened and by year-end, the spread had fallen to 316.59 bps.

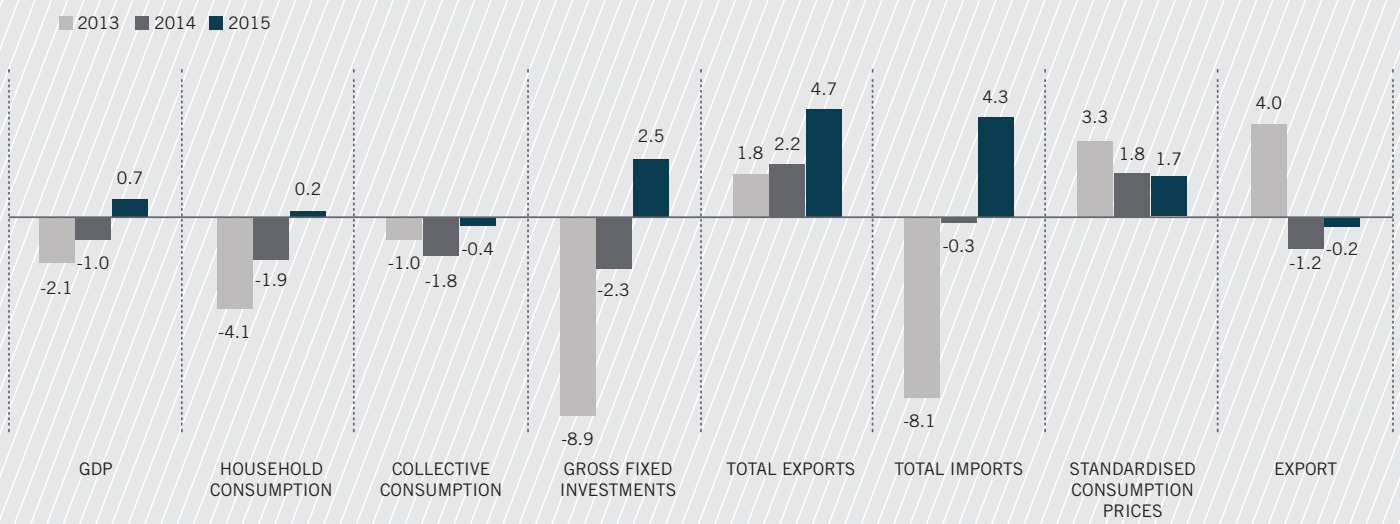
The year 2012 was characterised by increased volatility of the exchange rate between the Euro and the US Dollar. It was not as much due to the differential between the values on 2 January 2012 (1.2934) and the fixing value of 31 December 2012 (1.3193) as much as the range covered over the year which reached a minimum of 1.2061 and a maximum of 1.3293, corresponding to a 9.38% variation. This volatility was mainly due to the difficulties encountered by peripheral European countries.

### Worldwide macroeconomic scenario (GDP % change)



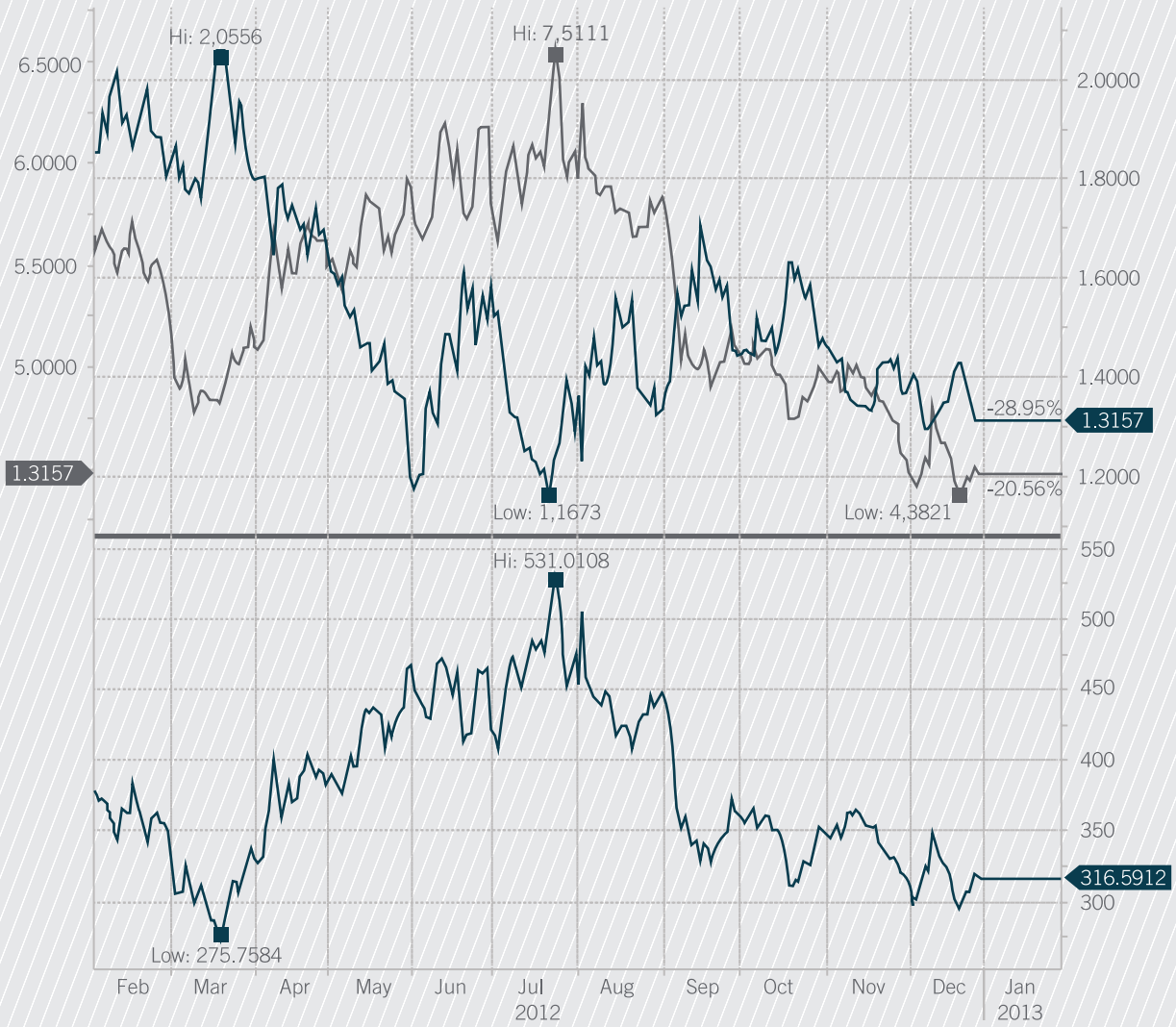
(Source: OECD)

### Macroeconomic situation in ITALY (% change)



■ BTPS 5 ½ 11/01/22 - Ask Yield To Convention (L1) 4.4817

■ DBR 1 ½ 02/15/23 - Bid Yield To Convention (R1) 1.3157



■ BTPS 5 ½ 11/01/22 - DBR 1 ½ 02/15/23 316.5912



# FACTORING

## ITALIAN FACTORING MARKET

The Italian factoring market is the third largest in the world (after the United Kingdom and France) with a quota of around 9%. Despite the international economic situation, the volumes acquired grew (over Euro 170 billion, equal to 11% of the GDP), 4% up on the previous year.

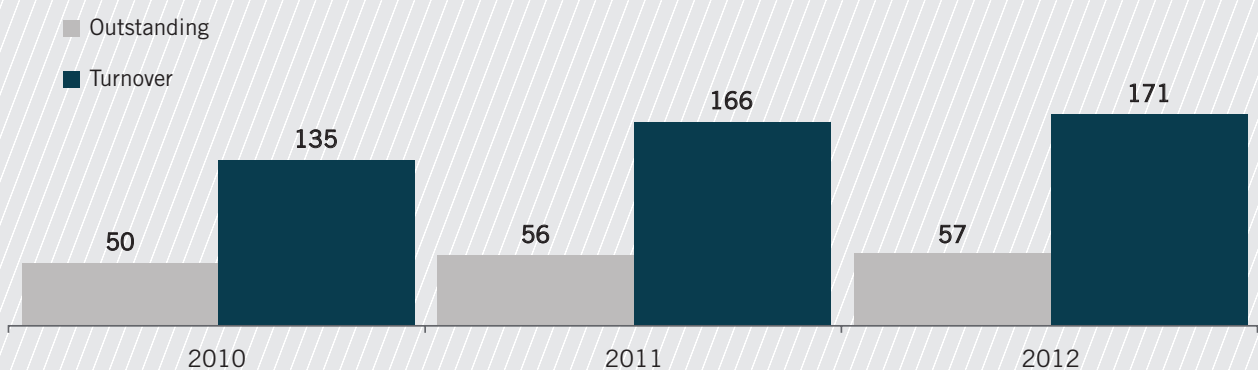
Many businesses continue to use factoring to tackle payment delays, which are longer in Italy than in the rest of Europe. The delays result in significant costs for creditor companies and, more specifically, for SMEs who are more vulnerable to cash-flow variations and depend on a limited number of customers.

At a European level, the average payment period (DSO - Days Sales Outstanding, i.e. average collection period) is 65 days for commercial transactions with the Public Administration and 52 days for transactions between private companies.

In Italy, the situation is worse than average with 180 day payment periods for commercial transactions with the Public Administration (an average of 90 days delay) and 96 days in transactions between private companies.

However this data does not come from guaranteed sources since neither the State General Accountancy nor the Bank of Italy have actual figures available but merely estimates.

Factoring in Italy (millions of Euros)



(Source: Assifact)

## **NATIONAL HEALTH SYSTEM IN ITALY**

The 2013 Stability Law slightly reduced the amount given by the National health Fund to the Regions, although this was still close to Euro 107 billion.

In 2012, there was a slight improvement in terms of the DSO in the health sector according to the estimates of Assobiomedica.

DSO times in the Italian health sector are longer than for other Public Administration areas and longer than in other European countries (Germany and Switzerland 30 days, United Kingdom and France 34-60 days).

By December 2012, DSO times amounted to 276 days (around 10% less than the same period in 2011). The average DSO for the year remains a little below 300 days.

### **Certification of receivables**

Following the amendment to the regulation relating to the certification of receivables (law 2 as amended of 28.1.2009), the Public Administrations are obliged (with exemptions for Regional Health Bodies subject to health repayment schedules) to certify trade receivables if a creditor submits an application. The certification must also include the final date for payment of the credit, which cannot exceed 12 months, and makes it obligatory for the requesting party to refrain from implementing forced receivable collection during this period. If the certification is not made in accordance with the rules, an external commissioner will be appointed by the State Accountancy Division. A computerised system for the certification procedure has been set up, with a portal available which is not yet fully functioning however. In addition, most debtor bodies have not yet been accredited to the portal which cannot be subject to computer data flows, thereby forcing operators to issue invoices that have to be checked manually one at a time.

The worry is that this architecture represents yet another slowdown of the payment process, making timely payers less virtuous and giving debtors who have historically been slow payers yet another excuse.

## **New European standard**

The new standard regarding the delay in payments for commercial transactions between private companies and between private companies and Public Administrations has been adopted (Directive 2011/7/EU), in accordance with which the interest on arrears is increased by one percentage point (ECB +8%) with effect from 1 January 2013, making both the interest on arrears and terms of payment by the Public Administration binding. This standard has not had any positive effects to date. It is feared that the changes made will not result in any significant improvements in terms of the payment of trade payables by the Public Administrations, but could actually worsen and further delay the payment periods of the debt accumulated by the public sector up to 31 December 2012.

### **Receivables between the Public Administrations and subsidiaries**

In an admittedly brief analysis of the public sector, we must note that a significant part of the Public Administration's debt is the debt between itself and its subsidiaries. There is a considerable amount of debt owed to companies with private legal status, but which are fully or partially owned by public companies. For example, this is the case with numerous municipalised companies in Italy.

### **Prohibition on seizures**

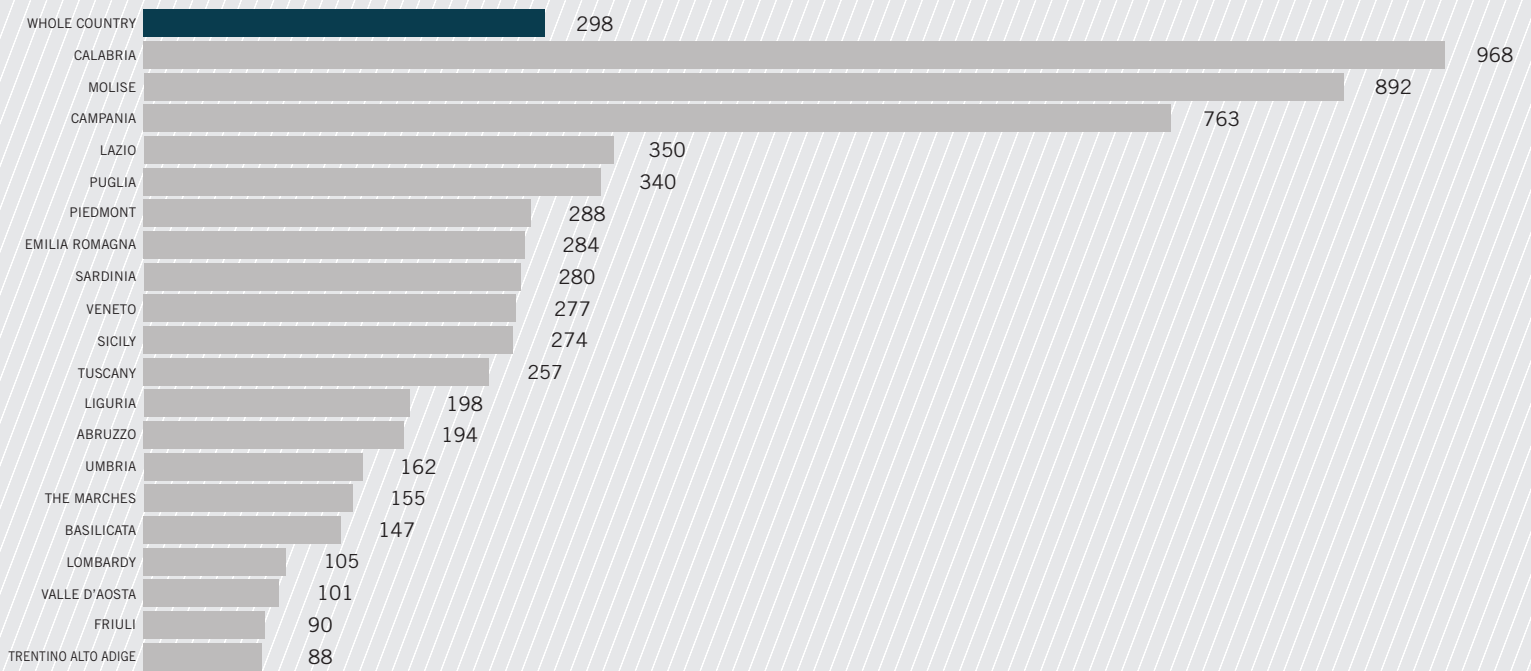
Again, in 2013, the legislator, by means of Art.6 of Law Decree no. 158 of 13 September 2012, extended the so-called 'prohibition on seizures' system for the third consecutive year with regard to the national health service bodies of the regions under external administration or subject to health system payment restructuring plans. With regard to these expectations, which are bad news for the rights of creditors of the Public Administrations, an announcement on the issues of unconstitutionality of the regulations made by various ordinary and administrative courts is still pending. The ongoing effects of the regulation in question continue to delay the possibility of implementing any actions to protect the rights of the creditors.

A summary of the average Public Administration payment terms is set out below.

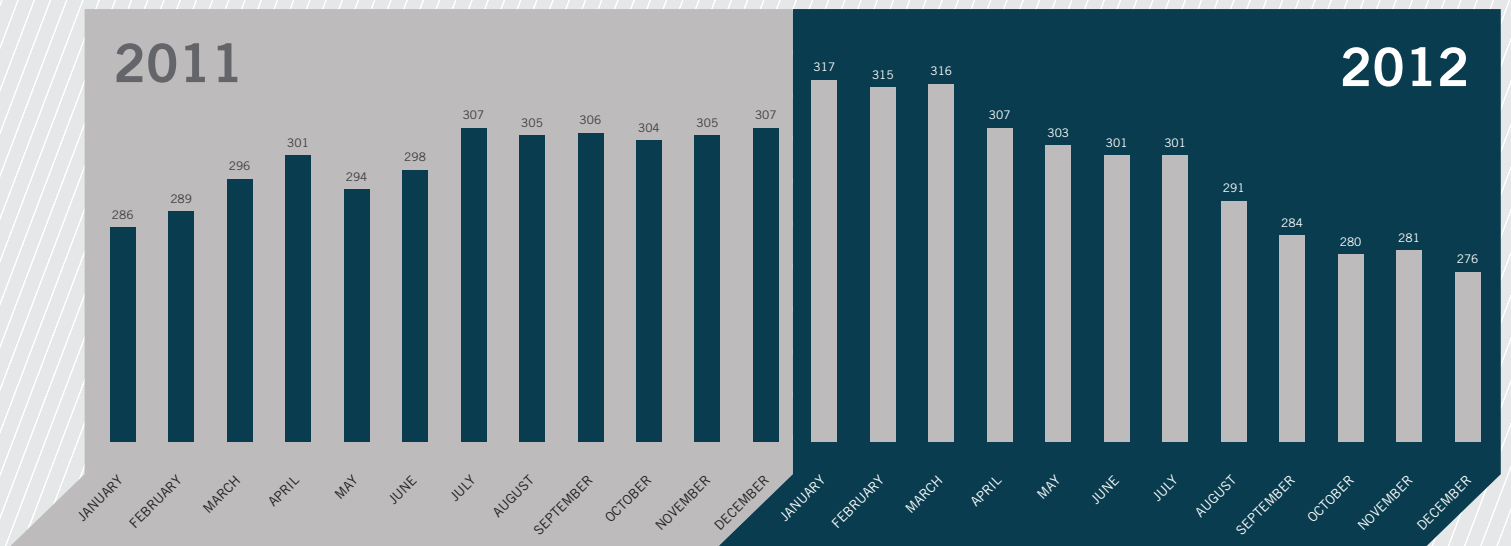
### Health System DSOs - Historic Trends



### DSO 2012 - Average per Region



### DSO Trend - 2011/2012



## **BANCA SISTEMA AND FACTORING ACTIVITIES**

Banca Sistema has set itself the target of helping companies meet their funding requirements, acting as a link between the public and private sectors, supporting companies in their management of relations with public debtors and improving the efficiency of the national economy.

More specifically, Banca Sistema takes pride in its high standards of quality and offers an extended range of long-term non-recourse factoring solutions for managing payment delays by the Public Administrations. Existing and/or future receivables are preferably acquired on a revolving basis in accordance with national and international accounting principles.

More specifically, Banca Sistema is targeting businesses that intend to liquidate their credit portfolios by non-recourse transaction; businesses looking for a strategic partner specialising in credit management and receivable collection with regard to the Public Administration and businesses that aim to reduce payment times. Banca Sistema works in both direct transfers by companies and with regard to regional agreements for restructuring or re-organising public entity debts.

Banca Sistema acquired non-recourse loans of over Euro 585 million in 2012. The amount existing at year-end stood at Euro 350 million. These operations include traditional factoring contracts, as well as reverse factoring contracts with Public Entities with a high level of reliability who are interested in using factoring with their suppliers in their role as debtors.

Even though most of the Bank's investments include the acquisition of health system receivables, the business also includes other more commercial receivables and tax receivables.

### **Non-health system related trade receivables**

Banca Sistema started to diversify the receivables acquired by assignment in 2012. In the past, assigned debts were only those related to the public health sector, local health authorities or public hospitals but debtors also included the central State authorities (6.9%),

regional authorities (0.2%) and local bodies (22.5%) as at 31 December.

Opening up to debtors who are outside the health care world has allowed three significant objectives to be targeted:

1. ensuring greater diversification of the risk;
2. approaching new listed supplier companies besides local health authorities and hospitals;
3. offsetting the weighting increases for capital absorption purposes.

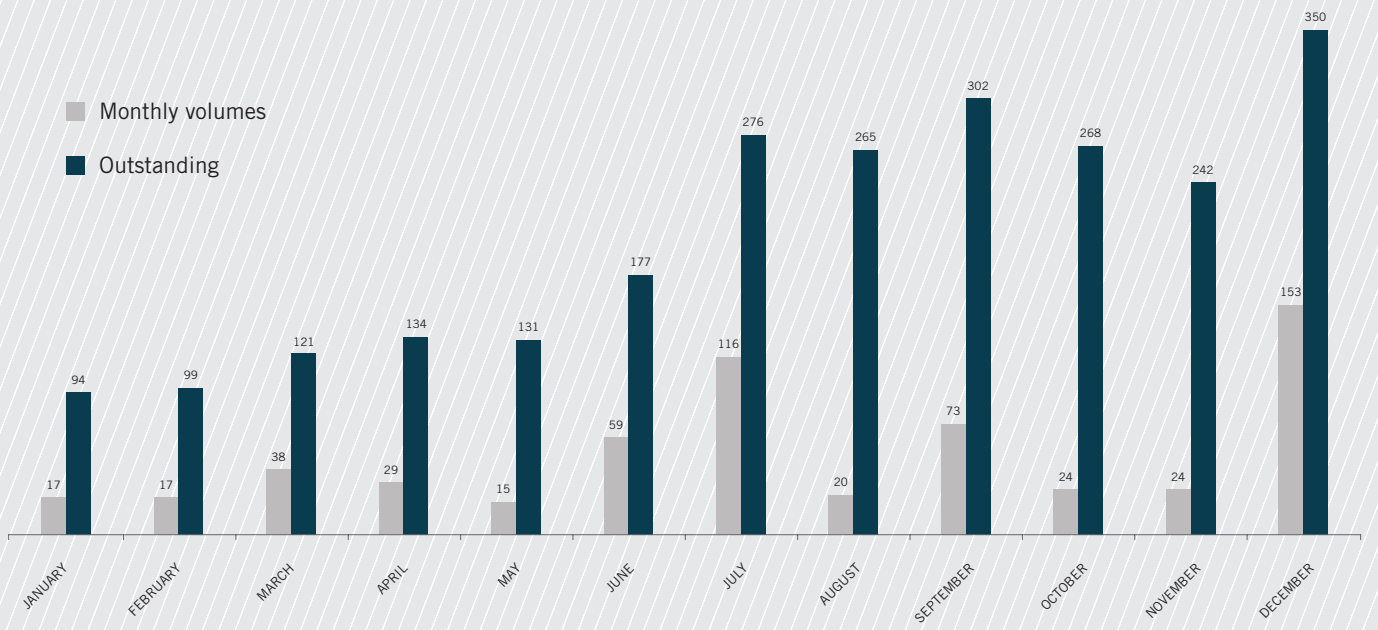
The breakdown of the Bank's factoring portfolio at 31 December 2012 is reported below.

Banca Sistema developed a new service dedicated to VAT receivables in the second half as part of its involvement in the factoring sector; this became operative in February 2013. The credit is also acquired on a without recourse basis in this case, allowing the assigning company to remove the receivable from its balance sheet and transfer the risks relating to the repayment time to the assignee. More specifically, the assignments are managed via an online platform, which can be accessed through the bancasistema.it website; this allows Customers to obtain an indicative price for the assignment promptly and also to transmit the documentation so that the credit verification procedure can be started as soon as possible.

The receivable collection process is managed by the subsidiary Solvi S.r.l. as well as other third party companies.

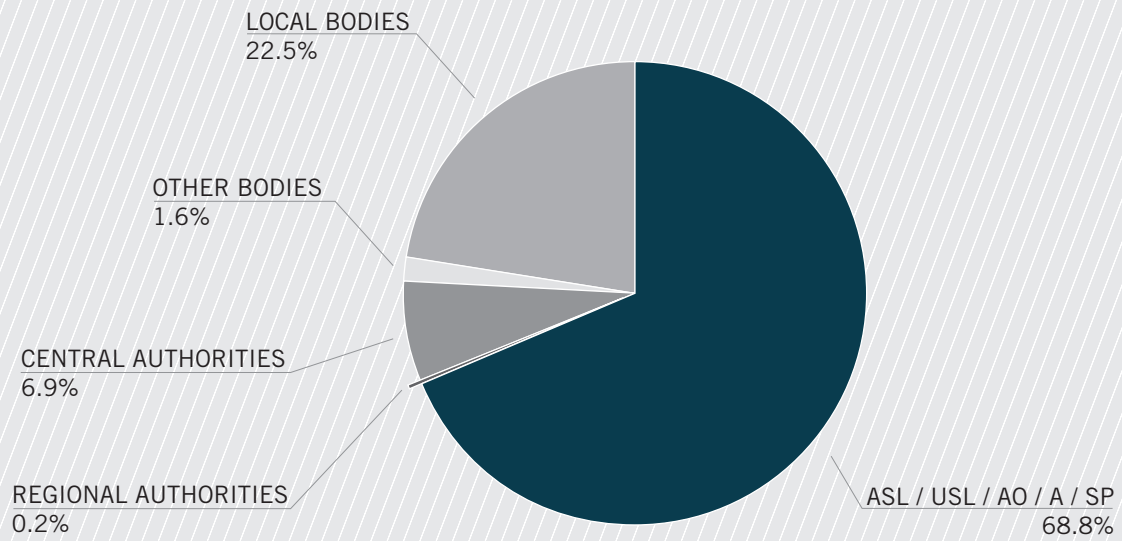


### Factoring receivables - Banca Sistema



(amounts in millions of Euros)

### Volumes existing by type



## BANKING

The net funding from SI Conto! DEPOSITO in 2012 totalled Euro 499 million, a significant increase over the Euro 16.8 million recorded on 31 December 2011. Total deposits on 31 December 2012 amounted to Euro 515 million.

The distribution of the preselected term deposits shows a prevalence of 12-month deposits although this

represents only 40% of the total.

11,215 customers had opened term deposits by 31 December 2012 compared with 383 on 31 December 2011.

Managed funds amount to Euro 104 million with Euro 87 million from institutional customers and the rest from private customers.

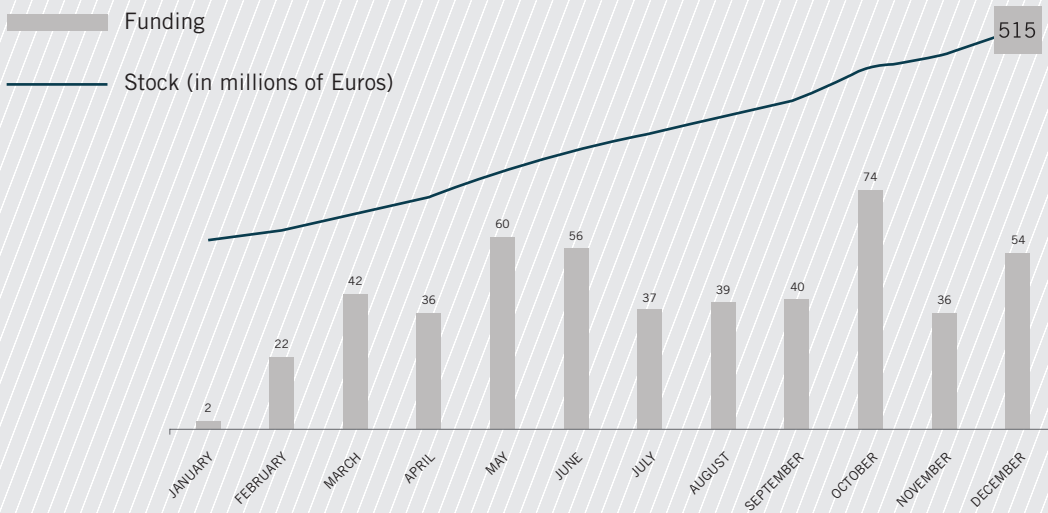
### NEW SUBSIDIARY

In November 2012, Banca Sistema opened its first subsidiary, a prototype for other subsidiaries that will be opened in the future. Based on the plans of the archi-star Daniel Libeskind, who is responsible for the design and lay-out of the internal spaces, and thanks to a collaboration with Cisco Systems, the new subsidiary has introduced multimedia instruments and high-definition video-communication that have helped create

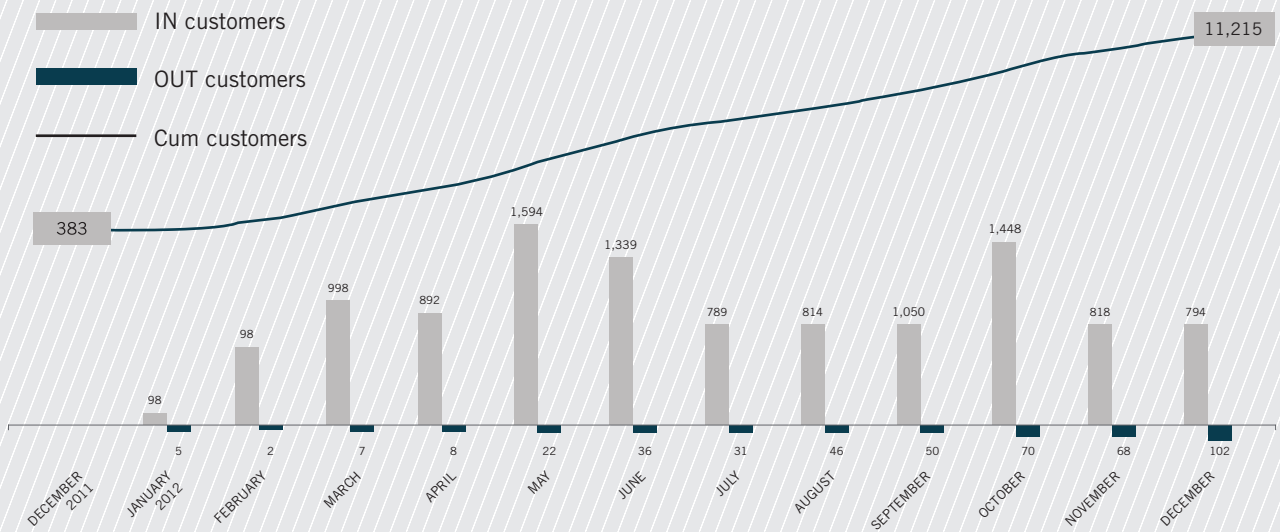
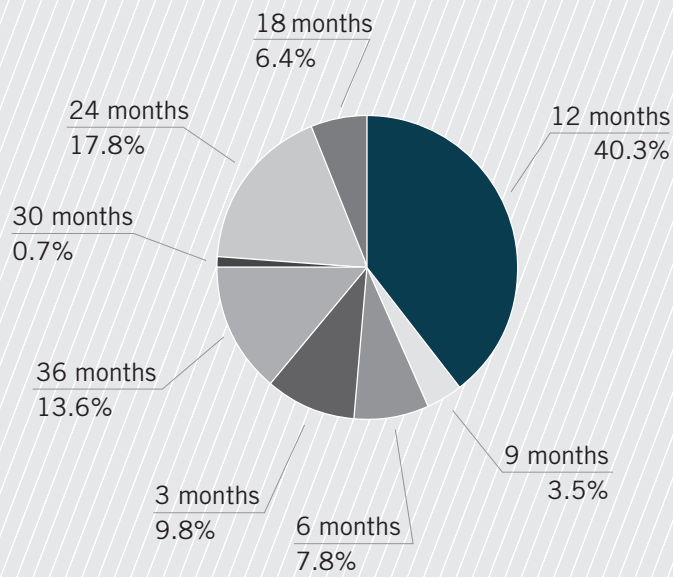
a state-of-the-art bank branch in terms of Bank-customer interaction and consultancy.

The new subsidiary, at Corso Monforte 20 Milan, supported by Cisco technology, means that - amongst other things - the Bank-Customer relationship can be enhanced by the skills of professionals who manage it on a daily basis from the head office, through interaction between the parties regardless of location.

### Deposits in SI conto! DEPOSITO



### Breakdown by restriction - December 2012



## TREASURY ACTIVITY - PROPERTY PORTFOLIOS

Transactions in securities are mainly related to Treasury activities and significantly increased with the growth in deposits from the SI conto! DEPOSITO and with the increase in factoring.

The reference context was characterised by a gradual improvement in the prices of Italian government securities compared to German government securities as a result of the fall in yields and consequent price increase.

A comparison of the curves at 31 December 2011 with those of 31 December 2012 shows a 200 bps difference in returns on all public debt issues.

Following the decisions by the Board of Directors, investment in Italian government securities has been increased up to Euro 550 million in accordance with provisions of the articles of association which provide for investments with maximum duration of one year.

The total value of the transactions made during the entire year in purchases and sales amounted to Euro 3.8 billion; these transactions were possible as the bank participates directly in the TARGET2 settlement system and the MTS REPO telematic markets, with settlement

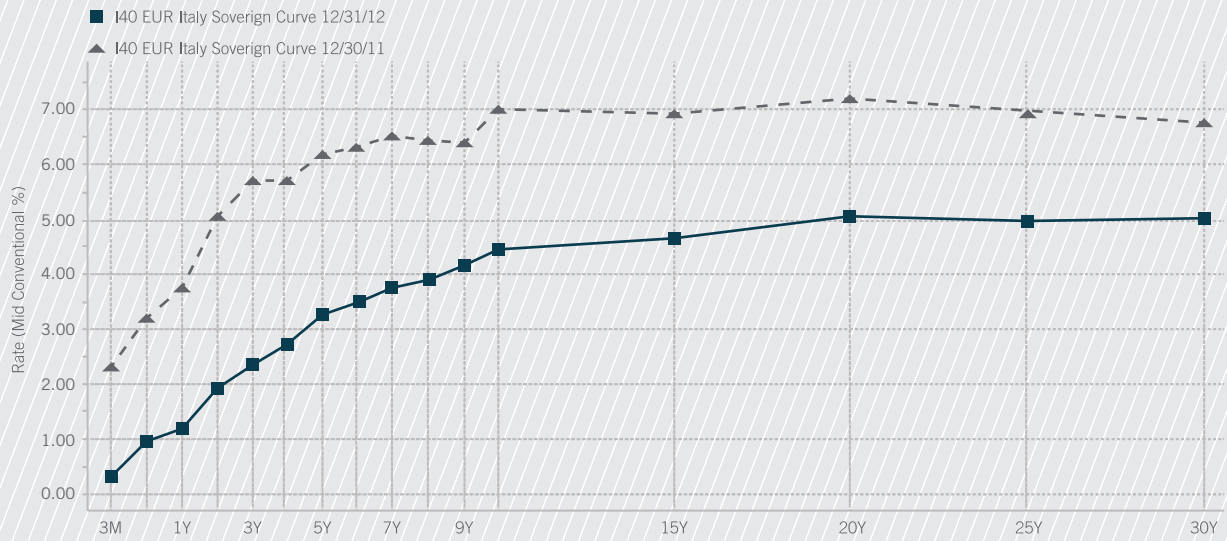
through Controparte Centrale and E-mid for the exchange of inter-bank deposits.

The participation in telematic markets allows the Bank to adequately support the increase in managed funds along with the development of adequate lines of credit.

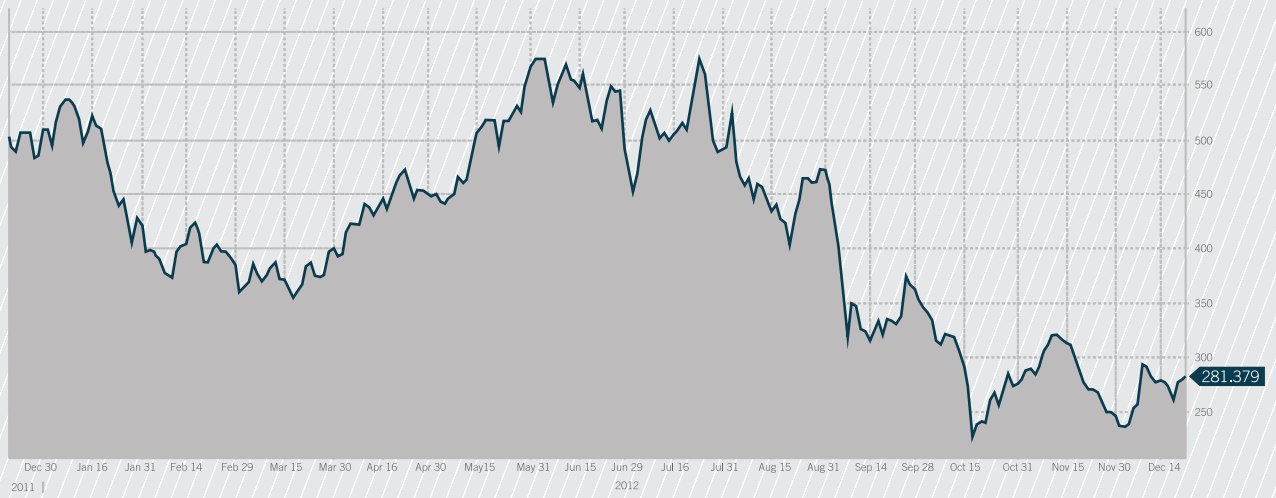
The investment activities were started up using the short-term funding facility technical method with primary banking companies. This technical method is a way of providing finance over a maximum period of three months.

This prepares the way for the optimisation of shorter-term investments, has allowed us to compensate for some of the decrease in yields from the Italian government securities.

The duration of the securities portfolio has never exceeded 12 months. In some phases, it has been reduced to below 12 months to deal with forecast periods of turbulence and to take advantage of the market. Within the context of a prudent management approach, the Bank has succeeded in taking full advantage of the market opportunities that are the result of the present price volatility and the short deadlines of Government securities.



**BTP-BUND spread performance from 31/12/2011 to 31/12/2012:**



## THIRD PARTY SERVICES

The Banca Sistema Group provides credit management and receivable collection services through Solvi S.r.l., one of the Group's companies which has been in operation since 1995.

Thanks to Solvi's experience, Banca Sistema can provide its customers with a constant and gradual reduction in payment periods with regard to Public Administration. Solvi manages the relationship between public and private structures and departments by using its own network of specialised staff that operates throughout Italy.

More specifically, Solvi uses an innovative technological platform for the following:

- the electronic filing of all the documentation required for the management and collection of receivables with immediate access;
- the digital filing of all the documentation sent to/

received from the debtor;

- personalised receivable collection in accordance with the customer's objectives;
- the calculation of interest on arrears;
- tracing all invoices showing the reasons that prevent payment on them;
- the reconciliation of payments and identification of exceptions;
- the management of legal actions in agreement with the customer;
- support for and construction of interfaces to form part of regional disinvestment transactions.

The platform's main function is to protect the customer and provide adequate support for commercial relations.

In 2012, Solvi recorded asset commissions of Euro 3.2 million, with Euro 1.9 million referring to third-party customers.

## THE MAIN BALANCE SHEET AGGREGATES

The comments on the main aggregates on the asset side of the balance sheet are shown below.

ASSETS	(Amounts in thousands of Euros)		
	31.12.2012	31.12.2011	Delta
Cash and cash equivalents	3,697	7	3,690
Held-for-trading financial assets	129	623	(494)
Available-for-sale financial assets	540,994	63,189	477,805
Loans to banks	5,344	20,875	(15,531)
Loans to customers	440,142	105,157	334,985
Equity investments	3,042	375	2,667
Property, plant and equipment	345	54	291
Intangible assets	38	7	31
Tax assets	3,640	4,956	(1,316)
Other assets	2,190	2,428	(238)
<b>Total assets</b>	<b>999,561</b>	<b>197,671</b>	<b>801,890</b>

The Bank's total assets essentially amounted to Euro 1 billion, an increase of Euro 802 million compared to 31 December 2011. A description of the main financial statement items is provided below.

(Amounts in thousands of Euros)

<b>SECURITIES PORTFOLIO</b>	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>Delta (Euros)</b>	<b>Delta (%)</b>
Held-for-trading financial assets	129	623	(494)	-79.3%
Available-for-sale financial assets	540,994	63,189	477,805	756.2%
<b>Total</b>	<b>541,123</b>	<b>63,812</b>	<b>477,311</b>	<b>748.0%</b>

The Bank, has Euro 541 million invested in securities, almost all of which are in the "Available-for-sale financial assets" category and are Italian government securities, with an average duration of less than one year. The total valuation reserve on 31 December 2012, before prepaid taxes, amounted to Euro 561 thousand. The portfolio of Euro 100 million built up over the year and classified under the "Held-to-maturity financial assets" category was entirely disinvested in the last quarter of 2012; it had been created to take advantage of opportunities resulting from developments on the Italian Government securities market.

(Amounts in thousands of Euros)

<b>LOANS TO CUSTOMERS</b>	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>Delta (Euros)</b>	<b>Delta (%)</b>
Factoring	329,735	82,855	246,880	298.0%
Repurchase agreements	99,700	18,409	81,291	441.6%
Compensation and guarantee fund	6,867	-	6,867	n.a.
Current accounts	3,840	3,705	135	3.6%
<b>Total</b>	<b>440,142</b>	<b>104,969</b>	<b>335,173</b>	<b>319.3%</b>

The item "Loans to customers" is mainly made up of current investments in the factoring receivables portfolio, equal to Euro 330 million. The Bank acquired non-recourse loans of over Euro 585 million in 2012. The current amount of impaired loans, which are entirely due to late payments, is Euro 472 thousand. The Bank has earmarked a collective adjustment of the portfolio equal to 0.3% of the book value. The probability of recovering said loans is 100% since Public Administrations are not subject to insolvency procedures leading to bankruptcy which could result in the creditor's rights being extinguished.

The "Loans to customers" include financial investments which can be mostly traced back to repurchase transactions with customers for Euro 100 million and receivables from the cash invested in the Compensation and Guarantee Fund to operate the repurchase transactions with institutional customers.

The item "Other assets" is made up of items being processed or spanning the year-end period. The reduction from the previous financial year is due to more careful and prompt management of the items being processed.

Comments on the main aggregates of balance sheet liabilities are given below:

(Amounts in thousands of Euros)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY ITEMS</b>	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>Delta</b>
Due to banks	113,923	77,209	36,714
Due to customers	798,377	49,058	749,319
Securities in issue	55,242	53,907	1,335
Tax liabilities	1,200	138	1,062
Other liabilities	15,008	8,822	6,186
Post-employment benefits	540	272	268
Provisions for risks and charges	5	105	(100)
Valuation reserves	407	210	197
Reserves	4,276	13	4,263
Capital	7,861	7,861	-
Profit for the year	2,722	76	2,646
<b>Total liabilities and shareholders' equity</b>	<b>999,561</b>	<b>197,671</b>	<b>801,890</b>

Bank deposits are mainly from customers, and more especially term deposits.

“Due to banks” can be broken down as follows:

(Amounts in thousands of Euros)

<b>DUE TO BANKS</b>	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>Delta (Euros)</b>	<b>Delta (%)</b>
Due to central banks	100,772	-	100,772	n.a.
Due to banks	13,151	77,209	(64,058)	-83.0%
<i>Current accounts and demand deposits</i>	12,568	8,778	3,790	43.2%
<i>Other debts</i>	583	68,431	(67,848)	-99.1%
<b>Total</b>	<b>113,923</b>	<b>77,209</b>	<b>36,713</b>	<b>47.6%</b>

Bank funding, compared with the previous financial year, has been repositioned to include funding from the ECB of Euro 100 million with due date in 2015. There was less use made of lines of credit and repurchase agreements with banks.



Customer funding, the breakdown of which is reported below, has significantly increased:

(Amounts in thousands of Euros)

<b>DUE TO CUSTOMERS</b>	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>Delta (Euros)</b>	<b>Delta (%)</b>
Term deposits	522,720	16,922	505,798	2989.0%
Funding (repurchase agreements)	249,012	-	249,012	n.a.
Current accounts and demand deposits	14,338	25,027	(10,689)	-42.7%
Second instalments	12,249	7,109	5,140	72.3%
Other debts	58	-	58	n.a.
<b>Total</b>	<b>798,377</b>	<b>49,058</b>	<b>749,319</b>	<b>1527.4%</b>

The significant increase is due to the positive net inflows from the term deposits linked to the Si conto! deposito which increased exponentially during 2012.

The last quarter showed an increase in the short-term funding in repurchase agreements with financial bodies; the balance of operations open at the end of the year was Euro 249 million. The repurchase agreements have never had a duration of longer than 1 week.

The total for the second instalment debts include the debts to original assignors for receivables not yet collected.

Even though the securities issued are aligned in terms of amounts for the two periods, they are very different; more specifically, note the following transactions compared to those of the previous year:

- redemption of the bond with Fondazione Pisa of Euro 40 million;
- the issue of a CLN of Euro 35 million at the fixed rate of 5.1%;
- the issue of a bond calculable at TIER1 of Euro 5 million at a rate of 7%;
- redemption of the subordinate bond of Euro 10 million with simultaneous issue of a new bond of an equal amount calculable for the purposes of TIER2, issued at the Euribor 6-month + 5.5% rate.

“Other liabilities” mainly include payments received spanning year-end by the assigned debtors and which were being assigned on 31 December, items being processed for the days following year-end and trade payables and tax liabilities.

## REGULATORY CAPITAL AND PRUDENTIAL SUPERVISORY REQUIREMENTS

The information below relates to the regulatory capital and the capital adequacy of Banca Sistema.

(Amounts in thousands of Euros)

	31.12.2012
Tier 1 capital	19,820
<i>of which: innovative capital instruments</i>	5,000
<b>Regulatory capital</b>	<b>29,746</b>
Credit and counterparty risk (standardised method)	9,892
Operating risk (basic method)	1,202
Market risk (standardised method)	23
Reduction in requirements for banks belonging to groups	(2,779)
<b>Total capital requirements</b>	<b>8,338</b>
<b>Total risk-weighted assets</b>	<b>104,225</b>
<b>Surplus capital</b>	<b>21,408</b>
<b>Tier 1</b>	<b>19.0%</b>
<i>Core Tier 1</i>	14.2%
<b>Tier 2 Total capital ratio</b>	<b>28.5%</b>

## FINANCIAL RESULTS

(Amounts in thousands of Euros)

	2012	2011	Delta
Interest margin	11,933	1,471	10,462
Net fee and commissions	(1,880)	(162)	(1,718)
Net income from trading activities	150	570	(420)
Profit from disposal or repurchase of financial assets	8,981	136	8,845
<b>Operating income</b>	<b>19,184</b>	<b>2,015</b>	<b>17,169</b>
Net value adjustments due to loan impairment	(742)	(234)	(508)
<b>Net profit (loss) from financial management</b>	<b>18,442</b>	<b>1,781</b>	<b>16,661</b>
Administrative expenses	(13,408)	(4,956)	(8,452)
Net value adjustments/write-backs on property, plant and equipment	(53)	(24)	(29)
Net value adjustments/write-backs to intangible assets	(11)	(110)	99
Other operating costs/income	60	19	41
<b>Operating costs</b>	<b>(13,412)</b>	<b>(5,071)</b>	<b>(8,341)</b>
<b>Profit from current operations before taxes</b>	<b>5,030</b>	<b>(3,290)</b>	<b>8,320</b>
Income taxes for the year	(2,308)	3,366	(5,674)
<b>Profit for the year</b>	<b>2,722</b>	<b>76</b>	<b>2,646</b>

On 31 December 2012, the income statement showed a profit of Euro 2,722 thousand, after taxes.

The year 2012 cannot be directly compared with the previous year since the Bank started its factoring operations in the second half of 2011 following the change to the current shareholding structure in

June 2011.

The operating income, which is described below in more detail, amounts to Euro 19 million, following the positive contribution made by the interest margin of Euro 12 million and the profits from security management of Euro 9.1 million.

The reconciliation statement between the statutory income statement and the reclassified statement for management purposes is shown below.

(Amounts in thousands of Euros)

Items	31.12.2012 statutory	Reclassification	31.12.2012 management
30. <b>Interest margin</b>	<b>11,933</b>	-	11,933
40. Commission income	323	-	323
50. Commission expense	(539)	(1,664)	(2,203)
<i>of which services by collectors</i>	-	(1,337)	(1,337)
<i>of which services for origination activities</i>	(329)	(327)	(656)
60. <b>Net fee and commissions</b>	<b>(216)</b>	-	(1,880)
80. Net income from trading activities	150	-	150
100. Profit from disposal or repurchase of financial assets:	8,981	-	8,981
120. <b>Operating income</b>	<b>20,848</b>	-	19,184
130. Net value adjustments due to loan impairment	(742)	-	(742)
140. <b>Net profit (loss) from financial management</b>	<b>20,106</b>	-	18,442
150. Administrative expenses:	(15,072)	-	(13,408)
a) personnel costs	(6,405)	-	(6,405)
b) other administrative expenses	(8,667)	1,664	(7,003)
<i>of which services by collectors</i>	(1,337)	1,337	-
<i>of which services for origination activities</i>	(327)	327	-
170. Net value adjustments/write-backs to property, plant and equipment	(53)	-	(53)
180. Net value adjustments/write-backs to intangible assets	(11)	-	(11)
190. Other operating costs/income	60	-	60
200. <b>Operating costs</b>	<b>(15,076)</b>	-	(13,412)
250. <b>Current operating profit (losses) before taxes</b>	<b>5,030</b>	-	5,030
260. Income taxes for the period for current operations	(2,308)	-	(2,308)
270. <b>Profit for the year</b>	<b>2,722</b>	-	2,722

Interest income is mainly made up of interest from the factoring receivables portfolio for Euro 20.2 million and from the securities portfolio for Euro 7.5 million.

However, Euro 10.9 million of interest payable is mainly related to the funding made through Si conto! Deposito and Euro 2.6 million is from bond loans issued, with the increase mainly due to the calculation for the entire year

of the subordinate loan that was fully repaid in 2012 and replaced by the issue of a Credit Linked Note (“CLN”).

The interest margin is essentially from the significant term deposits and partially from the restructuring of the bonds described above which took place at the end of 2012.

(Amounts in thousands of Euros)

	2012	2011	Delta (Euros)	Delta (%)
<b>Interest income and similar income</b>				
Interest income - Factoring portfolio	20,209	2,710	17,499	645.7%
Interest income - Securities portfolio	7,460	320	7,140	2231.3%
Interest income - Other	382	187	195	104.3%
<b>Total interest income</b>	<b>28,051</b>	<b>3,217</b>	<b>24,834</b>	<b>772.0%</b>
<b>Interest expense and similar charges</b>				
Interest expense - Due to banks	(1,153)	(386)	(767)	198.7%
Interest expense - Due to customers	(11,374)	(236)	(11,138)	4719.5%
Interest expense - Securities in issue	(2,627)	(1,124)	(1,503)	133.7%
Interest expense - Customer Current Accounts	(964)		(964)	n.a.
<b>Total interest expense</b>	<b>(16,118)</b>	<b>(1,746)</b>	<b>(14,372)</b>	<b>823.1%</b>
<b>Interest margin</b>	<b>11,933</b>	<b>1,471</b>	<b>10,462</b>	<b>711.2%</b>

Commission income mainly includes the commissions from factoring activities. Commission expenses include Euro 809 thousand of payments to third parties who originated investments and returns to third party intermediaries for placement of the SI conto! DEPOSITO. The commission expenses given back to Solvi for the

collection services total Euro 1,337 thousand. The other commissions predominantly include commissions for collection and payment services and placement of shares. Net fee and commissions, compared with 2011, include higher placement costs and placement in line with the increase in the bank investments.

(Amounts in thousands of Euros)

	2012	2011	Delta (Euros)	Delta (%)
<b>Commission income</b>				
Commission income - Factoring assets	291	-	291	n.a.
Commission income - Other	32	140	(108)	-76.9%
<b>Total Commission income</b>	<b>323</b>	<b>140</b>	<b>183</b>	<b>130.7%</b>
<b>Commission expense</b>				
Commission expense - Placement	(809)	(281)	(528)	188.0%
Commission expense - Collection	(1,337)	-	(1,337)	n.a.
Commission expense - Other	(57)	(22)	(35)	156.9%
<b>Total Commission expense</b>	<b>(2,203)</b>	<b>(303)</b>	<b>(1,900)</b>	<b>627.0%</b>
<b>Commission margins</b>	<b>(1,880)</b>	<b>(163)</b>	<b>(1,717)</b>	<b>1053.3%</b>

The profit came from the Group's brokerage on its own account and is mainly related to the sales made in March, when the spread got narrower and returns fell.

(Amounts in thousands of Euros)

	2012	2011	Delta (Euros)	Delta (%)
<b>Net income from trading activities</b>				
Profits realised on trading portfolio debt securities	150	570	(420)	-73.7%
<b>Total</b>	<b>150</b>	<b>570</b>	<b>(420)</b>	<b>-73.7%</b>
<b>Profit from disposal or repurchase</b>				
Profits on AFS portfolio debt securities	6,765	136	6,629	4874.3%
Profits on HTM portfolio debt securities	1,992	-	1,992	n.a.
Profits on financial liabilities	224	-	224	n.a.
<b>Total</b>	<b>8,981</b>	<b>136</b>	<b>8,845</b>	<b>6503.7%</b>
<b>Total profit (loss) from securities portfolio</b>	<b>9,131</b>	<b>706</b>	<b>8,425</b>	<b>1193.3%</b>

There were 65 people employed by the Bank (21 on 31 December 2011). The total cost of Euro 6.5 million is in line with the increase in personnel linked to the Bank's growth.

"Other administrative costs", totalling Euro 7 million, include non-recurrent costs of Euro 217 thousand for the independent auditors' fees and consultancy costs associated with the Group restructuring. They also include Euro 121 thousand for the K4F project, the new system for managing factoring receivables which the Bank migrated to at the end of the financial year.

(Amounts in thousands of Euros)

	2012	2011	Delta (Euros)	Delta (%)
<b>Personnel costs</b>				
Salaries and wages	(5,011)	(2,150)	(2,861)	133.1%
Contributions and other expenses	(1,043)	(346)	(697)	201.5%
Directors' and statutory auditors' remuneration	(351)	(388)	37	-9.6%
<b>Total</b>	<b>(6,405)</b>	<b>(2,884)</b>	<b>(3,521)</b>	<b>122.1%</b>

## RISK MANAGEMENT AND SUPPORT CONTROL METHODS

In order to manage the significant risks to which it is or could be exposed, the Bank has set up a risk management system that reflects the characteristics, size and complexity of its operations.

The Bank's Risk Management System operates by constantly ensuring that it has sufficient capital adequacy with respect to its business.

As part of the risk management system, the Bank carries out the following activities:

- identification of risks;
- measuring and assessing risks;
- defining and checking risk mitigation systems;
- monitoring and reporting risks.

The Risk Management Committee, whose mission is to support the CEO in defining strategies, risk policies and yield targets, allows the Bank to monitor, on a continuous basis, the relevant risks and any new risks, even if they are only potential risks, resulting from changes in the working environment or the planned Bank and Group operations.

When identifying the relevant risks, the Bank primarily refers to those indicated in the current Prudential Supervisory provisions.

The methods used by the Bank to measure, assess and combine risks are approved by the Parent Company's Board of Directors, upon proposal of the Risk Division subject to approval by the Risk Management Committee.

In order to measure the "Pillar I and Pillar II" risks, the Bank has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes. If there are no such indications, standard market practices by operators that work at a level of complexity and operation that is comparable to the Bank are assessed.

With reference to the Regulatory Capital, the Bank implemented a number of different actions to strengthen its capital base in 2012. Specifically, this involved

a capital increase (by 31 December this manoeuvre had not been formally completed, but had generated increased reserves of Euro 4,914,869); the issue of a non-innovative capital Tier 1 instrument for Euro 5,000,000 million, that is fully calculable (Basel 3 compliant); the swap of a subordinate Tier 2 loan of Euro 10,000,000 with a new loan that can be accounted for entirely in the Regulatory Capital. These operations meant that the Bank could record a Regulatory Capital of Euro 29.7 million on the reference date compared with Euro 12 million at the end of 2011.

With reference to the "New rules on the functioning of the internal controls system", the Bank set up the "Control Functions Working Group" in the second half of 2012. The Working Group was made up of second level (Risks and Compliance Division) and third level (Internal Audit) control departments. The objective of the Working Group was to promote interaction between the control departments in the exercise of their policy, implementation, checking and assessment duties between company bodies and the other committees. In the first few months of 2013, the Control Departments' Working Group set up a Risk Self Assessment (RSA) project in order to improve the identification and assessment of all the risks relating to individual company processes, allowing the Bank to implement corrective actions that can reduce any risks detected.

When calculating the weighting coefficients used to calculate the amount of equity required to cover credit risks, without specific valuations by rating agencies of the Bank's business or clarifications by the Supervisory Authority or the European Community on the misalignment of capital absorption within the EU for the same risks, the Group decided to use the evaluations issued by the ECAI (External Credit Assessment Institute) Dominion Bond Rating Service (DBRS), instead of the evaluations provided by the Fitch rating agency and adopted on 31 December 2012. DBRS was recognized as an ECAI by the Supervisory Authority on 11 March 2013.

In any case, the assessments issued by the rating agencies are not enough to complete creditworthiness assessment process that the Group carries out with respect to its customers, but rather provide a greater contribution to the definition of the information framework on the customer's credit-worthiness.

After analysing the main sources of risk to the Bank, specific relevance is attached to the Factoring Portfolio, with the main types of counterparts being public entities, and more specifically, Local Health Authorities and Hospital Groups (ASL/AO), Regions, Provinces, Municipalities and Ministries. At the end of December 2012, the Factoring Portfolio was broken down as follows, by regulatory category: Public Administration 6.4%, Territorial Entities 19.3% and Public Sector Entities (ESPs which also include the ASL/AOs) 74.3%

The national prudential standard assigns Territorial Bodies a risk weighting coefficient of 20%, independently of the rating assigned to Italy. In this regard, however, the ASL/AOs do not clarify if they have to be treated in the same way as Territorial Entities or the ESPs to which a coefficient is applied that depends on the Italian State coefficient (more specifically the weighting factors applied to the ESPs provide for exposures with respect to the supervised intermediaries belonging to the same State).

It does not seem justified to assign a worse risk treatment to the healthcare businesses than to the Regions that they belong to since the local health authorities - even though they have independent legal status under public law - must be considered as entities that are fully instrumental and part of the Regions and entirely dependent on them.

This is clear from the institutional standard of health businesses (Leg. Dec. 502/1992), which states that "The Regions, through the local healthcare units, ensure essential levels of assistance". The healthcare businesses are merely intermediaries between citizens and the Region for the provision of health services in a defined regional geographic area, functional organisational units dotted around the territory (like the old USLs - local health units) with the Region having the

authority to consolidate, shut down or reorganise them at its own discretion; the Regions even exercise control over the appointment of the managers of the healthcare businesses. The Regions are obliged to settle the healthcare business deficits, even by increasing regional tax levels and implementing specific restructuring plans to deal with healthcare deficits; there are no bankruptcy or insolvency procedures for healthcare businesses and their solvency depends entirely on regional and, indirectly, on state grants.

Therefore, as legally autonomous bodies under public law, local health authorities are closely linked to and structurally dependent on the Region they are in, with respect to the institutional, functional, economic-financial and political aspects. In addition and not necessarily in confirmation of this interdependence which is based on a close link of dependence, it is enough to read the recent decrees issued by the MEF on the certification of receivables by companies due from the Public Administrations, where the legislator has put the national health system bodies with the Regions and the local entities and the regulations on the repayment plans and the block on seizures that are never addressed to the individual healthcare companies but to all the businesses that belong to a Region subject to the repayment plan.

For the aforementioned reasons, the healthcare businesses may be compared - even under a prudential regulatory profile - to the Regions and, as such, be included in the broadest category of Territorial Entities that includes the Regions and the local entities such as Provinces and Municipalities. If we analyse the European panorama - in France and Spain - on the basis of the same international prudential regulations (Basel 2 and 3), with regard to national health systems and their finance methods which are roughly equivalent to the Italian methods, we can see that the national health service bodies are weighted at the same level as the Central government (i.e. at 0%) in France, and equal to the Regions (i.e. at 20%) in Spain and are not linked to fluctuations in the rating of the Central government in any way. This issue was formally raised with the Supervisory



Authorities, and ASSIFACT – the main association for institutes that grant funding to businesses in the form of with recourse and without recourse factoring – presented a formal request to the Bank of Italy last April to clarify the weighting to be applied to healthcare businesses in accordance since they are totally dependent on the Regions. To date, there has been no formal response to this query. This prudential approach means that the funding of a healthcare company “consumes” bank capital that is five times higher than a loan for the same amount granted to a Municipality, Province or Region.

Due to this regulatory anomaly, banks would have no incentive to grant loans to a healthcare company compared to a Municipality or Region unless it received a higher return, and consequently obtained more advantageous conditions and more onerous conditions for the healthcare company compared to those applied by the bank to a Municipality or Region. Since the National Health Service is mainly financed through factoring, the reduction of these loans first damages suppliers who - due to the more onerous loan terms offered by the banks - reduce transfers of receivables to the banks and the factors, unless they intend to recover them on a judicial basis by charging high community penalty interest to the Public Administration; If they use the loans in any case, companies would be forced to add the increased financial charges to the price of the supplies provided to the Public Administration, thereby feeding the vicious spiral of public debt.

In accordance with the above, the Factoring Portfolio accounts for 33% of the Bank Regulatory Capital, net of any mitigation, in terms of capital requirements (if the Bank considered local health authorities as 20% RWA Territorial Bodies, this percentage would be halved).

The Bank continuously performs analyses and assessments for all credit risk exposure, aimed at classifying exposures where considered necessary among the problematic credit risk categories. A number of Central Banca Sistema structures are also involved

to guarantee more efficiency and homogeneity in terms of tackling the credit risk and monitoring the individual positions using specialist resources and separating the functions at each decision-making level.

The Bank has set up the “Collection Working Group” to provide improved monitoring of the factoring portfolio. The Working Group carries out checks and assessments on the factoring portfolio based on the guidelines defined in the “Collection policies”. In order to simplify the ascertainment and remove any obstacles that could delay and/or prevent payment, meetings and direct contacts with the entities are provided for monitoring the credit payment status.

The Collection Manager of the Bank coordinates its monitoring and any non-judicial collections with the Group collecting agency, Solvi S.r.l. With respect to credit risk mitigation, in order to reduce exposure of the factoring portfolio, and more specifically its exposure with regard to the local health authorities (ASL), the Bank has drawn up specific standard hedging credit default swap (CDS) contracts and credit linked notes (CLN) compliant with international regulations in terms of ISDA (International Swaps and Derivatives Association) derivatives.

These types of instruments allow the Bank to improve its capital ratios through the hedging generated by the instrument and the amounts taken in from the subscription of the notes and also to reduce exposures to Risk Concentration Limit levels.

In December, Banca Sistema issued the first CLN (ISIN IT0004881436) at a nominal value of Euro 35 million, with a duration of eighteen months with the underlying asset being the healthcare receivables of the ASL/AO. It issued the first CDS in January 2013. The amounts paid were considered as financial guarantees in cash.

More details can be found in Part E of the Notes to the financial statements regarding the methods and information on calculations of the capital requirements necessary to deal with all the risks to which the Bank is exposed.

## RESEARCH AND DEVELOPMENT ACTIVITIES

No specific research and development activity was carried out in 2012.

## TREASURY SHARES

In 2012, no treasury shares were purchased or sold, directly or through trust companies or third parties.

## TRANSACTIONS WITH SUBSIDIARIES AND RELATED PARTIES

### TRANSACTIONS WITH SUBSIDIARIES

The table below summarises the capital stock at the end of the period and the positive and negative final income elements as at 31 December 2012.

(Amounts in thousands of Euros)

	S.F. TRUST HOLDING	S.F. TRUST SERVICING	S.F. TRUST ITALIA	SOLVI
<b>Total Assets/(Liabilities)</b>	1,400	(629)	901	(1,600)
<b>Total (Costs)/Revenue</b>	(512)	(502)	(397)	(1,106)

### RELATIONS WITH RELATED PARTIES

In order to ensure constant compliance with legislative and regulatory provisions currently in place with respect to corporate disclosure and regarding transactions with related parties, the transactions are generally carried out under the similar terms to those applied for transactions entered into with independent third parties.

The assets, liabilities, costs, revenues and guarantees and covenants in place as at 31 December 2012 are shown in the statement below, separated by type of related party in accordance with IAS 24, intended also in accordance with article 2427, paragraph 22 bis of the Italian Civil Code:

1. the parties that directly or indirectly, including through one or more intermediaries:
  - a) control the company, are controlled by the company or are subject to joint control;
  - b) have a sufficient shareholding in the company to allow them to exercise a significant influence<sup>4</sup> over it;
  - c) have joint control of the company.
2. the party is an affiliated company<sup>5</sup>;
3. the party is a joint venture in which the company is a shareholder;
4. the party is one of the managers, with key responsibilities, of the company or a subsidiary;
5. the party is a close family member of one of the parties described in the aforementioned 1) and 4);
6. the party is a subsidiary, under joint control is a party subject to significant influence of one of the parties described in 4) or 5), or those parties hold, directly or indirectly, a significant portion of the voting rights.

(4) Influence is assumed when at least one fifth of the votes can be exercised at the shareholders' meetings or a tenth if the company has shares.

(5) Companies are considered to be affiliated when one company has a significant influence over the other.

	Type	Asset	Liability	Revenue	Costs
6	SF Trust Holding Ltd.	1,906	506	50	562
6	SF Trust Servicing Ltd.	-	629	13	515
6	SF Trust Italia S.r.l.	901	-	197	594
6	Solvi S.r.l.	9	1,609	-	1,106
4	Corporate officers	99	83	-	1
1	Shareholders - SGBS	-	-	-	-
1	Shareholders - Sof Luxco	-	498	-	-
1	Shareholders - Fondazione Pisa	-	31,809	-	2,863
1	Shareholders - Fondazione CR Alessandria	-	353	-	-
1	Shareholders - Fondazione Sicilia	-	10	-	1
		<b>2,915</b>	<b>35,497</b>	<b>260</b>	<b>5,642</b>

## SIGNIFICANT EVENTS DURING THE YEAR

The Board of Directors of Banca Sistema S.p.A. approved the Code of Ethics and the MiFID Policy of the Bank on 1 February 2012.

In a letter dated 27 February 2012, the Bank of Italy confirmed that Banca Sistema was a member of the Banking Groups Register, in accordance with Art. 64 Consolidated Law on Banking ("TUB") to take effect from 1 September 2011. The Banca Sistema Bank Group comprises the following companies: Banca Sistema S.p.A. (Parent company), Specialty Finance Trust Holdings Ltd, Specialty Finance Trust Servicing Ltd, Specialty Finance Trust Italia S.r.l., Solvi S.r.l. - which carries out insignificant activities on behalf of the Group - remains outside the banking group.

An three-year Long Term Refinancing Operation ("LTRO") was proposed by the ECB, and the bank signed this on 29 February 2012. The statements made by the President of the ECB did not confirm any further LTROs that were not already scheduled for the current year.

The Board of Directors of Banca Sistema S.p.A. approved the Bank's New Organisational Model on 9 March 2012, in accordance with Leg. Decree 231/2001, the Business Policy and the Compliance Department's Mandate, adopted in accordance with the provisions of Bank of Italy and Consob, and the Programme Security Document and General Regulations. The Board of Directors also drew up the Supervisory and Management Bodies Self-Assessment Document which lists the methods and results of the self-assessment process carried out by the Bank.

The Banca Sistema S.p.A. meeting, held on 27 April 2012, following the proposal by the Board of Directors on 11 April 2012, approved the "Remuneration Policies and Incentive Plan" on behalf of supervisory, management, control and staff bodies of the Banca Sistema Banking Group.

On 27 April 2012 the Board of Directors of Banca Sistema S.p.A. approved an addition to the "Group Company Reorganisation Plan".

On 14 May 2012, a letter was sent to the Supervisory Authorities containing a detailed description of the operations to be carried out with an indication of the relevant time periods. The Board of Directors also approved the "Risk Division Activity Guidelines", the "Contingency Funding Plan", the "ICAAP Process Organisation Model" and the "Results of the internal assessment process of the Group's current and future capital adequacy as at 31 December 2011" document. On the same date, the Board of Directors carried out the checks required by the recently issued regulations that introduced the 'interlocking prohibition' and sent the related communications to the competent authorities.

On 28 May 2012, the Board of Directors of Banca Sistema S.p.A. authorised publication of the "New prudential supervisory provisions, information for the public Third Pillar", in accordance with instructions provided under the regulations.

With regard to the "Group Company Restructuring Plan" (approved by the Board of Directors of Banca Sistema S.p.A. at its meeting held on 27 April 2012, dated 12 June 2012 - starting as of 1 July 2012), the business branch sales contract was drawn up between SF Trust Italia and the Bank relating to contracts regarding the factoring relationships, all employees and some accessory assets, with the assets and liabilities relating to the Pubblica Funding securitisation expressly excluded from the sale.

On 28 June 2012, the Board of Directors of Banca Sistema S.p.A. approved the operation to replace the current subordinated security (lower tier II issued by Banca Sistema) through the exchange with a subordinate security of Euro 10,000,000.00, newly issued with the same subordination terms: the operation was formalised on 15 November 2012.

On the same date, the Board of Directors also approved the “Policies relating to investments in non-instrumental companies” and “Policies relating to operations with associated parties” documents in addition to the periodic reports and programmes drawn up by the Internal Audit and Compliance departments.

On 26 July 2012, the Board of Directors of Banca Sistema S.p.A. approved the Compliance Department Regulation, the Non-Compliance Risk Policy Regulation, the MiFID Policy update, the Internal Audit Department Regulation, as well as institution of the Internal Control Departments Working Group and the regulations governing the Internal Control Departments Working Group.

On 26 September 2012, the Board of Directors of Banca Sistema S.p.A. (i) approved the change to the organisational structure, including reporting directly to the CEO and no longer the Operations Manager of the Human Resource department, (ii) the creation of the new Collection Management Department, the direct reporting of the Factoring Director, with the duty to manage the monitoring, management and credit portfolio receivable collection activities of the Bank ensuring compliance with the Collection Policies by the entities of the Banca Sistema Group and (iii) centralisation of the Underwriting Department in Milan. The Board of Directors also approved the Collection Policies, the Claims Policy and the Anti-money-laundering Regulation.

On 25 September 2012, the company transfer agreement was entered into in accordance with which Specialty Finance Trust Holdings Ltd. acquired - with effect from 1 October 2012 - all the assets and liabilities of SF Trust Servicing Ltd. In addition, on 13 September 2012 and 18 September 2012, respectively, two inter-

company service agreements were entered into for financial years 2012 and 2013 with SF Trust Servicing, for administrative, IT, pricing and HR services, and with Solvi S.r.l., for management and factoring receivable collection services.

On 31 October 2012, the Board of Directors of Banca Sistema S.p.A. approved the offer to buy back the bond loan issued for the nominal amount of Euro 45,000,000.00: the operation was only partly settled on 14 December with the buy-back by Fondazione Pisa of shares with a nominal value of Euro 40 million. The other 5 million are still outstanding since the holders did not subscribe to the offering.

The Board of Directors decided to issue the Tier 1 Subordinate Bond Loan in the form of a non-innovative irredeemable capital instrument: the placement was offered to all shareholders in the syndicated agreement on a pro-rata basis in accordance with their capital holding and was fully settled on 18 December 2012 for an overall nominal value of Euro 5 million.

On 18 December 2012, the Bank issued a Credit Linked Note with a nominal value of Euro 35,000,000.00 to cover exposures in relation to local healthcare businesses and hospitals. The note was subscribed to by a supervised intermediary. On the same date, the Board of Directors approved the Operations Policy for Current Account Product Receivables.

The provisions of the SFT Group purchase contract were carried out in 2012, with the transfer to the Bank of the remaining 3% share of the share capital of Specialty Finance Trust Limited, previously held by minority shareholders.

## SIGNIFICANT EVENTS AFTER YEAR-END

As of 5 February 2013, the new rates for SI conto! DEPOSITO. Existing agreements and promotions will stay in effect and there will be new promotions initiated to encourage the opening of the SI conto!. The range of instruments and services was also broadened to tie up/withdraw amounts on/from the SI conto!: cheques (including by correspondence) and cash were also added to the bank transfers from predefined current accounts (in the Branch).

On 26 February 2013, the legally prescribed time expired for enforcement of the decision made by the Board of Directors on 19 December 2012, in accordance with which the Bank had to power to place the unopted shares left over by the shareholders after the first 30 days of the subscription period with third parties, even at higher prices than the price reserved to shareholders.

Therefore, since no expressions of interest were made by the end of that period for the subscription of 85,131 shares which were still unopted, the share capital of Banca Sistema S.p.A. increased by a total of 4,914,869 shares (subscribed to by the majority shareholders only) with respect to the expected increase of 5,000,000 shares.

In view of the above, the share capital of Banca Sistema S.p.A. amounted to Euro 8,450,526.25 as at 26 February 2013, divided into 70,421,052 shares with a par value of Euro 0.12 each.

On 8 March 2013, Fitch ratings agency decided to lower its rating of Italian sovereign debt by two notches: from A- to BBB+, with a negative outlook.

## OTHER INFORMATION

### PRIVACY MEASURES

Confirmation was given that the Programme Security Document would be updated in 2012, in accordance with art. 34, paragraph 1, letter g) of Legislative Decree no. 196 of 30 June 2003 ("Personal data protection code"). This document describes the measures issued to ensure the security of personal data.

### COMMUNICATION AND PUBLIC RELATIONS

The 2012 communication campaign mainly related to the launch of the SI conto! term deposit account.

The national launch took place in February 2012 through a radio campaign on several frequencies and continued into May.

At various times during the year and to support the radio campaign, agreements were concluded with more traditional on-line sites and dynamic poster displays.

In the first half of the year, external relations were mainly related to promoting the SI conto! DEPOSITO product, and then focused on a broader positioning of the Banking Group and services offered. In the second half of the year, the public relations office has been dealing with higher level issues, promoting the growth of the Bank's image and providing a broader presentation of its business activities. SI conto! DEPOSITO has consolidated its position as a favourite in opinion pieces and market analyses and reports comparing products available on the market; and has been frequently praised for its leadership in terms of value and ease of use.

The new web-site has played an essential part in promoting the Bank's image. This choice of communication reaches beyond the classic advertising route to focus on the quality and immediacy of the services and give

a fresh corporate image, enhanced by Corporate Social Responsibility initiatives in art and social issues.

### CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Banca Sistema is promoting a culture of philanthropy, civil commitment and cooperation.

For this reason the Bank opted to promote awareness-raising campaigns relating to significant issues such as childhood, culture and the environment in 2012, in partnership with other non-government bodies and organisations.

Charity projects were initiated with Unicef, the World Food Programme of the United Nations and FAI (Italian Environmental Fund).

More specifically, with FAI, Banca Sistema chose to become an institutional member of the Corporate Golden Donor programme, aimed at companies that decide to commit themselves to building a better Italy all year round.

Within the scope of the Corporate Social Responsibility initiatives, Banca Sistema chose to set up a project dedicated to art and the creative resources of young Italian artists, "Banca SISTEMA ARTE".

This initiative was started up to give visibility and promote Italian talent in the arts, leading to the exhibition of the work of 5 artists at the Bank's branches in Rome and Milan. Young painters and photographers of between 29 and 34 whose creativity and work was promoted through a new way of supporting their potential for growth. In two cases, the exhibitions also benefitted from the patronage of the Italian Committee for the World Food Programme and the UNICEF collaboration for Universal children's day.



## SUBSEQUENT EVENTS AND OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

Commercial investments are expected to continue to increase in 2013 thanks to the acquisition of new customers and the availability of new factoring products. Net interest income will benefit from the increase in investments and the expected reduction in funding costs. In addition, access to the ECB funding mechanism is expected to increase through guarantee of its commercial investments.

In accordance with its business plan, the Bank has planned significant developments for 2013 and an update of its business model, with an increase in investment volumes, including through significant investments in marketing and advertising. The Bank will continue to obtain funds in 2013 through deposit accounts and current accounts. It will continue to be committed to factoring with respect to the Public Administration, and the products will evolve further from the standard non-recourse products to other products such as reverse factoring, factoring of

tax receivables and other types. Any excess amounts will continue to be invested in Italian government securities pending their use in the factoring. The banking service will aim to consolidate the relationship with retail customers, and will be enhanced by new services and products connected to the current accounts.

Even though the macroeconomic situation is still highly uncertain in terms of both general performance and rates and the spread on government securities, we expect the interest margin to improve.

The objective is to broaden the customer base and exploit opportunities presented by the excellent strategic position on the Italian market.

Profits should increase further with respect to the previous year and be in line with the final part of 2012, unless unexpected events occur which could affect the general performance of the Bank.

## PLAN OF ALLOCATION OF PROFIT FOR THE YEAR

Dear Shareholders,

We submit for your approval the financial statements relating to the year ended at 31 December 2012 which posted a profit for the period of Euro 2,721,708.

As regards the distribution of profit, we propose the following allocation:

- Euro 136,085, equal to 5.0% of the profit, to the Legal Reserve;
- the residual amount of Euro 2,585,623 as Retained earnings.

Milan, 27 March 2013

On behalf of the Board of Directors

  
The Chairman



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# FINANCIAL STATEMENTS

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## BALANCE SHEET

		(Amounts in Euros)	
Assets		31.12.2012	31.12.2011
10.	Cash and cash equivalents	3,697,322	7,389
20.	Held-for-trading financial assets	128,577	622,704
40.	Available-for-sale financial assets	540,994,081	63,188,770
60.	Loans to banks	5,344,025	20,875,058
70.	Loans to customers	440,141,980	105,157,272
100.	Equity investments	3,041,613	375,000
110.	Property, plant and equipment	344,691	54,332
120.	Intangible assets	38,089	7,399
130.	Tax assets	3,639,904	4,955,036
	a) current	69,342	105,483
	b) prepaid	3,570,562	4,849,553
150.	Other assets	2,190,884	2,428,161
	<b>Total assets</b>	<b>999,561,166</b>	<b>197,671,121</b>

		(Amounts in Euros)	
Liabilities and shareholders' equity		31.12.2012	31.12.2011
10.	Due to banks	113,923,395	77,208,571
20.	Due to customers	798,377,365	49,058,137
30.	Securities in issue	55,242,107	53,907,216
80.	Tax liabilities	1,200,280	137,998
	a) current	1,042,972	55,450
	b) deferred	157,308	82,548
100.	Other liabilities	15,008,529	8,822,439
110.	Post-employment benefits	539,516	272,039
120.	Provisions for risks and charges	4,903	104,903
	b) other provisions	4,903	104,903
130.	Valuation reserves	406,761	209,668
160.	Reserves	4,275,860	13,139
180.	Capital	7,860,742	7,860,742
200.	Profit for the year	2,721,708	76,269
	<b>Total liabilities and shareholders' equity</b>	<b>999,561,166</b>	<b>197,671,121</b>

## INCOME STATEMENT

(Amounts in Euros)

Items	31.12.2012	31.12.2011
10. Interest income and similar income	28,050,529	3,217,209
20. Interest expense and similar charges	(16,117,723)	(1,746,160)
<b>30. Interest margin</b>	<b>11,932,806</b>	<b>1,471,049</b>
40. Commission income	322,532	140,098
50. Commission expense	(539,088)	(302,536)
<b>60. Net fee and commissions</b>	<b>(216,556)</b>	<b>(162,438)</b>
80. Net income from trading activities	150,453	570,290
100. Profits (losses) from disposal or repurchase of:	8,981,089	135,950
b) available-for-sale financial assets	6,765,202	135,950
c) held-to-maturity financial assets	1,992,153	-
d) financial liabilities	223,734	-
<b>120. Operating income</b>	<b>20,847,792</b>	<b>2,014,851</b>
130. Net value adjustments/write-backs due to impairment of:	(742,402)	(233,910)
a) receivables	(742,402)	(233,910)
<b>140. Net profit (loss) from financial management</b>	<b>20,105,390</b>	<b>1,780,941</b>
150. Administrative expenses:	(15,071,271)	(4,956,175)
a) personnel costs	(6,404,505)	(2,883,626)
b) other administrative expenses	(8,666,766)	(2,072,549)
170. Net value adjustments/write-backs to property, plant and equipment	(52,762)	(23,608)
180. Net value adjustments/write-backs to intangible assets	(11,206)	(110,593)
190. Other operating costs/income	59,948	19,223
<b>200. Operating costs</b>	<b>(15,075,291)</b>	<b>(5,071,153)</b>
<b>250. Profit from current operations before taxes</b>	<b>5,030,099</b>	<b>(3,290,212)</b>
260. Income taxes for the period for current operations	(2,308,391)	3,366,481
<b>290. Profit for the year</b>	<b>2,721,708</b>	<b>76,269</b>

## STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Euros)

Items	31.12.2012	31.12.2011
<b>10. Profit for the year</b>	<b>2,721,708</b>	<b>76,269</b>
<b>Other net of tax income items</b>		
20. Available-for-sale financial assets	197,093	209,668
30. Property, plant and equipment	-	-
40. Intangible assets	-	-
50. Foreign investment hedges	-	-
60. Cash flow hedges	-	-
70. Exchange differences	-	-
80. Non-current assets being disposed of	-	-
90. Actuarial profits (losses) on defined benefit plans	-	-
100. Share of the valuation reserves of equity investments designated at equity	-	-
<b>110. Total other income items net of taxes</b>	<b>197,093</b>	<b>209,668</b>
<b>120. Comprehensive income (Items 10 + 110)</b>	<b>2,918,801</b>	<b>285,937</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2012

(Amounts in Euros)	Balance at 31.12.2011	Change in opening balances	Balance at 01.01.2012	Allocation of net result from previous year		Changes to reserves	Changes during the year						Shareholders' equity at 31.12.2012		
				Reserves	Dividends and other allocations		Equity transactions								
							Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in capital instruments	Derivatives on treasury shares	Stock Options			
Capital															
a) ordinary shares	<b>7,860,742</b>	-	7,860,742	-	-	-	-	-	-	-	-	-	-	-	<b>7,860,742</b>
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves															
a) earnings	13,139	-	13,139	76,269	-	4,186,452	-	-	-	-	-	-	-	-	<b>4,275,860</b>
b) other	-	-	-	76,269	-	-	-	-	-	-	-	-	-	-	<b>76,269</b>
	13,139	-	13,139	-	-	4,186,452	-	-	-	-	-	-	-	-	<b>4,199,591</b>
Valuation reserves	209,668	-	209,668	-	-	-	-	-	-	-	-	-	-	197,093	<b>406,761</b>
Capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Profit for the year</b>	<b>76,269</b>	-	<b>76,269</b>	<b>(76,269)</b>	-	-	-	-	-	-	-	-	-	2,721,708	<b>2,721,708</b>
<b>Shareholders' equity</b>	<b>8,159,818</b>	-	<b>8,159,818</b>	-	-	<b>4,186,452</b>	-	-	-	-	-	-	-	<b>2,918,801</b>	<b>15,265,071</b>



## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2011

(Amounts in Euros)	Balance at 31.12.2010	Change in opening balances	Balance at 01.01.2011	Allocation of net result from previous year		Changes during the year							Shareholders' equity at 31.12.2011		
				Reserves	Dividends and other allocations	Changes to reserves	Equity transactions					Comprehensive income for 2011			
							Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in capital instruments	Derivatives on treasury shares			Stock Options	
Capital	7,559,999	-	7,559,999	-	-	-	3,360,000	-	-	(3,059,257)	-	-	-	-	7,860,742
a) ordinary shares	7,559,999	-	7,559,999	-	-	-	3,360,000	-	-	(3,059,257)	-	-	-	-	7,860,742
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves	1,584,974	-	1,584,974	(1,790,247)	-	(2,840,845)	-	-	-	3,059,257	-	-	-	-	13,139
a) earnings	(1,255,871)	-	(1,255,871)	(1,790,247)	-	(13,139)	-	-	-	3,059,257	-	-	-	-	-
b) other	2,840,845	-	2,840,845	-	-	(2,827,706)	-	-	-	-	-	-	-	-	13,139
Valuation reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	209,668
Capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the year	(1,790,247)	-	(1,790,247)	1,790,247	-	-	-	-	-	-	-	-	-	76,269	76,269
<b>Shareholders' equity</b>	7,354,726	-	7,354,726	-	-	(2,840,845)	3,360,000	-	-	-	-	-	-	285,937	8,159,818

## CASH FLOW STATEMENT (DIRECT METHOD)

(Amounts in Euros)

A. OPERATING ACTIVITIES	2012	2011
<b>1. Management</b>	<b>(3,136,752)</b>	<b>(2,922,102)</b>
▪ interest income collected	28,050,529	3,217,209
▪ interest expense paid	(16,117,723)	(1,746,160)
▪ net fee and commissions	(216,556)	(162,438)
▪ personnel costs	(6,246,184)	(2,883,627)
▪ other costs	(8,606,818)	(2,072,549)
▪ other revenues	-	725,463
<b>2. Cash flows generated by/used for financial assets</b>	<b>(782,663,500)</b>	<b>(152,892,687)</b>
▪ held-for-trading financial assets	644,579	7,533,976
▪ available-for-sale financial assets	(470,843,017)	(63,188,770)
▪ held-to-maturity financial assets	1,992,153	-
▪ loans to customers	(335,727,110)	(77,980,281)
▪ loans to banks: on demand	15,531,033	(17,490,999)
▪ loans to banks: other loans	-	(249,877)
▪ other assets	5,738,862	(1,516,736)
<b>3. Cash flow generated/absorbed by the financial liabilities</b>	<b>792,541,815</b>	<b>155,491,163</b>
▪ due to banks: on demand	36,714,823	59,223,283
▪ due to customers	749,319,228	39,962,545
▪ financial liabilities	223,734	-
▪ securities in issue	1,334,892	48,901,391
▪ other liabilities	4,949,138	7,403,944
<b>Net cash flow generated/used by operations</b>	<b>6,741,563</b>	<b>(323,626)</b>
<b>B. INVESTMENT ACTIVITY</b>		
<b>1. Cash flows generated by</b>	<b>-</b>	<b>(42,576)</b>
▪ sale of property, plant and equipment	-	(42,576)
<b>2. Cash flows absorbed by</b>	<b>(3,051,629)</b>	<b>(388,168)</b>
▪ purchases of equity investments	(2,666,613)	(375,000)
▪ purchases of property, plant and equipment	(343,120)	-
▪ purchases of intangible assets	(41,896)	(13,168)
<b>Net cash flow generated/used by investment activities</b>	<b>(3,051,629)</b>	<b>(430,744)</b>
<b>C. FUNDING ACTIVITY</b>	<b>-</b>	<b>-</b>
▪ dividend distribution and other purposes	-	728,823
<b>Net cash flow generated/used by funding activities</b>	<b>-</b>	<b>728,823</b>
<b>NET CASH FLOW GENERATED/USED DURING THE YEAR</b>	<b>3,689,934</b>	<b>(25,547)</b>
<b>RECONCILIATION</b>		
<b>Financial statement items</b>		
Cash and cash equivalents at the beginning of the year	7,389	32,936
Net cash flow generated/used during the year	3,689,934	(25,547)
Cash and cash equivalents at year-end	3,697,322	7,389

## CONTENT AND FORM OF THE FINANCIAL STATEMENTS

### PART A - ACCOUNTING POLICIES

#### A.1 - GENERAL PART

##### SECTION 1 - Statement of compliance with international accounting standards

The Financial Statements of the Banca Sistema S.p.A. group as at 31 December 2012 were drawn up in accordance with international accounting standards - called IAS/IFRS - issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by art. 1 of Legislative Decree of 28 February 2005 no. 38 and considering circular by the Bank of Italy no. 262 of 22 December 2005, regarding the forms and rules for drafting the Banks' Financial Statements, as amended by the first update of 18 November 2009. The International Accounting Standards are applied by referring to the "Systematic framework for preparing and presenting financial statements" (Framework). If there is no standard or interpretation that applies specifically to a transaction, other event or circumstance, the Board of Directors uses its judgement to develop and apply an accounting standard in order to provide disclosure that:

- is relevant to the purposes of the financial decisions made by the users;
- reliable, so that the consolidated financial statements:
  - faithfully represent the capital/financial position, the profit and loss and the cash flows of the entity;

- reflect the economic substance of the operations, other events and circumstances and not merely the legal form;
- are neutral, i.e. devoid of prejudice;
- are prudent;
- are complete, with reference to all relevant aspects.

When exercising the afore-mentioned judgement, the Board of Directors of the Bank has made reference to and considered the applicability of the following sources, described in descending order of importance:

- the provisions and application guidelines contained in the Principles and Interpretations governing similar or related cases;
- the definitions, recognition criteria and measuring concepts for accounting for the assets, liabilities, revenues and costs contained in the "Systematic framework".

When expressing an opinion, the Board of Directors may also consider the most recent provisions issued by other bodies that rule on accounting standards that use a "Systematic framework" similar in concept to developing accounting standards, other accounting literature and consolidated practices in the sector.

In accordance with art. 5 of Legislative Decree no. 38 of 28 February 2005, if, in exceptional cases, the application of a provision imposed by the international accounting standards is incompatible with the true and correct representation of the capital or financial position or the profit and loss result, the provision will not be applied. The justifications for any exceptions and their influence on the representation of the capital situation or financial position or profit and loss will be explained in the Notes

to the financial statements. Any profits resulting from the exception are recorded in a non-distributable reserve if they do not correspond to the recovered value in the financial statements.

## **SECTION 2 - General accounting policies**

The Financial Statements are drawn up with clarity and are a true and faithful representation of the capital and financial position and the profit and loss for the year, the changes in shareholders' equity and the cash flows and comprise the balance sheet, the income statement, statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements. The financial statements are accompanied by the Director's Report on Management Performance. If the information required by the international accounting principles and provisions contained in Circular no. 262 of 22 December 2005 and/or the subsequent update of 18 November 2009 issued by the Bank of Italy is not sufficient to give a true and correct representation that is relevant, reliable, comparable and understandable, the notes to the financial statements provide the additional information required.

The general principles that underlie the drafting of the financial statements are set out below:

- the measurements were made considering that the company will continue as an ongoing business guaranteed by the financial support of the shareholders;
- costs and revenue are accounted for on an accrual basis;
- in order to ensure the comparability of the data and information in the financial statements and the notes to the financial statements, the methods of representation and classification are kept constant over time unless they are changed to present the data more appropriately;
- each significant class of similar items is separately indicated in the balance sheets and income statements; items with dissimilar natures or uses are presented separately unless they are considered to be irrelevant;

- accounts that have no associated sums for the financial year or for the previous financial year are not indicated in the balance sheet or the income statement;
- if an element of the assets or liabilities comes under several items in the equity statement, the notes to the financial statements make reference to the other items under which it is recorded if it is necessary for a better understanding of the financial statements;
- the items are not offset against one another unless it is expressly requested or allowed by an international accounting standard or an interpretation or the provisions of the aforementioned Circular no. 262 of 22 December 2005 as amended by the Bank of Italy;
- the financial statements are drafted by favouring substance over form and in accordance with the principle of relevance and significance of the information;
- comparative data for the previous financial year are presented for each account of the balance sheet and income statement; if the accounts are not comparable to those of the previous year, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the financial statements; they were not presented if they were not applicable to the Bank's business.

Within the scope of drawing up the financial statements in accordance with the IAS/IFRS, company management must make assessments, estimates and hypotheses that influence the amounts of the assets, liabilities, costs and returns for the period.

As provided in IAS 8, it is essential to make reasonable estimates when preparing the financial statements. The estimates that had to be made when drawing up these financial statements do not adversely affect their reliability; these estimates are regularly revised and are mainly based on previous experience.

Any changes resulting from the revision of the accounting estimates are reported in the period in which the revision

is made if it relates only to that period. If the revision relates to either current or future periods, the change is reported in the period in which the revision is made and in the relevant future periods.

Pursuant to the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements use the Euro as the currency for accounting purposes. In particular, the financial statements are drafted in Euros, with the exception of the notes to the financial statements which are drafted in thousands of Euro. Note the following in reference to regulatory developments in the IAS/IFRS international accounting standards.

### **Main international accounting standards in effect from 2012**

The provisions of EU Regulation no. 1205/2011 came into effect during 2012 which amended IFRS 7 “Financial instruments: disclosures” with specific regard to disclosure regarding the transfers of financial assets. These amendments had no effect on drafting the financial statements as at 31 December 2012.

### **Main international accounting standards that will take effect after the 2012 financial statements**

The following EU Regulations were issued during 2012, after the endorsement process of the international accounting standards by the European Commission:

#### 1. EU Regulation 475/2012<sup>3</sup>:

- amends IAS 1 “Presentation of financial statements” with respect to the “Statement of comprehensive income” where the items are broken down into:
  - items that are subsequently transferred back to the income statement (e.g. cash flow hedge reserve and available-for-sale (AFS) valuation reserve); and

- items that are not transferred back to the income statement (e.g. reserve for post-employment benefit actuarial gains/losses).

- substantially introduces a new version of IAS 19 “Employee benefits” which provides for - among the other things - elimination of the “corridor method” for recording actuarial gains/losses, changes in the ways to determine the interest on plan assets, the accounting for “service costs” and the introduction of new disclosure requirements.

#### 2. EU Regulation 1254/2012<sup>4</sup>:

- introduces IFRS 10 “Consolidated financial statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of interests in other entities”; and
- amends IAS 27 “Consolidated and separate financial statements” and 28 “Investments in associates”, basically introducing certain changes to the rules governing the drafting and obligatory information in the consolidated financial statements and separate financial statements.

#### 3. EU Regulation 1255/2012<sup>5</sup>:

- introduces the accounting standard IFRS 13 “Fair value measurement” applicable to the assets and liabilities that have to be measured at fair value (apart from certain specific exceptions provided for in application of standard<sup>6</sup>) or disclosure in the financial statements regarding their fair values. This standard basically provides common guidelines to use for all the items measured at fair value in accordance with the provisions of the IAS/IFRS, introducing a standard framework in the way that fair value has to be measured and requiring further disclosures beyond those already provided for in the other accounting standards;
- amendment to IAS 12 “Income taxes” introducing an exception to the measurement standard provided for

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(3) The provisions must be applied starting from 1/1/2013

(4) The provisions must be applied starting from 1/1/2014

(5) The provisions must be applied starting from 1/1/2013

(6) For example, the provisions of IFRS 13 do not apply to the share-based payments (IFRS 2), leases (IAS 17), or measurements that are similar to fair value measurements (such as the net realisable value of inventories as provided by IAS 2 and the value in use as provided by IAS 36).

in IAS 12 regarding deferred taxation in the form of a relative presumption whereby the book value of a property investment (properties previously covered by IAS 40) measured with the fair value model can be recovered through sale and an entity would have to use the tax rate applicable to the sale of the asset in question;

- amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards”;
- introduces IFRIC 20 “Stripping costs in the Production Phase of a Surface Mine”.

#### 4. EU Regulation 1256/2012:

- amends IFRS 7 “Financial instruments: disclosures”<sup>7</sup> regarding the additional disclosures regarding offsetting financial assets and liabilities with special regard to:
  - all financial instruments subject to offsetting in accordance with IAS 32;
  - those financial instruments that are subject to “master netting arrangements” - or similar types of agreements - where the effects - or potential effects - on the financial position of the entity can be indicated to the users;
- amends IAS 32 “Financial instruments - presentation”<sup>8</sup> in order to provide additional guidelines to reduce inconsistencies in the practical application of the standard regarding the offsetting of financial assets and liabilities.

Regarding the adoption of the new standards and amendments that must be applied starting from 1/1/2013, we believe that they will not have significant effects on the financial statements of the Banca Sistema Group.

#### **Amendments to IAS 39**

IAS 39 is currently undergoing full revision and at the moment the IASB has not issued any documents that have yet been approved by the European Commission. With respect to the obligatory adoption of the new accounting rules, the IASB issued the “Mandatory Effective Date of IFRS 9 and Transition Disclosures” amendment on 16 December 2011, which postpones the term to 1 January 2015, noting the following regarding the three separate phases of the project.

#### Phase I - Classification and Measurement

An Exposure Draft was published in December 2012 which provides for limited amendments to the previous versions of the standard that had been issued in November 2009 and October 2010 respectively. The Exposure Draft proposes the introduction of a third category classified by financial asset, the Fair value/OCI, intended to include the debt instruments that the company can hold with the intention of both cashing the contractual flows and of selling them.

#### Phase II - Impairment methodology

Publication of a new Exposure Draft is expected in the first quarter of 2013 on the basis of the analyses and decisions made by the IASB following publication, in January 2011, of the Supplementary Document. This impairment methodology should be applied to all the financial assets valued at amortised cost, the financial assets that will be recorded in the aforesaid new Fair Value/OCI category and to the loans to be granted and the financial guarantees that are not valued at fair value with an impact on the income statement.

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(7) The provisions must be applied starting from 1/1/2013

(8) The provisions must be applied starting from 1/1/2014

### Phase III - Hedge Accounting

On 7 September 2012, a Staff Draft relating to General Hedge Accounting was published, following the consultation process to which the Exposure Draft of December 2010 was subject, with the provisions basically aimed at both moving the hedging accounting entries closer to the logic of risk management and introducing a standard that is more focused on the objective intended to be reached through the hedging and the methods of attaining said objective.

The new provisions of the Staff Draft can be summarised as follows:

- elimination of the quantitative test requirement to check the effectiveness in favour of the entity having the choice of using a quantitative rather than a qualitative method, applied on a more consistent basis in accordance with what is considered to be more appropriate to capture the significant characteristics of the hedging relationship (and the reasons underlying its ineffectiveness);
- if ineffective, the need to rebalance the hedging relations (known as rebalancing) working on the hedged item or on the hedging instrument if the risk management strategy that initiated the hedge stayed the same instead of discontinuing it;
- ability to hedge net positions.

A Discussion Paper is planned to be published in 2013 on “Macro hedge accounting”, which the IASB intends to be issued separately after the entire project from which the new IFRS 9 standard will originate.

### **SECTION 3 - Area and methods of consolidation**

With regard to IAS 10, after 31 December 2012, the reference date of the financial statements, and up to 27 March 2013, the date that the draft financial statements were authorised by the Board of Directors when submitted to the Shareholders' Meeting, no events occurred that would require any adjustments to the figures in the financial statements.

### **SECTION 4 - Subsequent events**

The company's financial statements were approved by the Board of Directors on 27 March 2013, which authorised the public distribution of the key data. The entire document was filed at the competent offices and institutions pursuant to law. There are no further aspects to note.

List of main IAS/IFRS standards approved by the European Commission

<b>IAS/IFRS</b>	<b>ACCOUNTING STANDARDS</b>	<b>APPROVAL</b>
IAS 1	Presentation of financial statements	Reg. 1274/08, 53/09, 70/09, 494/09, 243/10, 149/11, 475/12, 1254/12, 1255/12
IAS 2	Inventories	Reg. 1126/08, 1255/12
IAS 7	Statement of cash flows	Reg. 1126/08, 1274/08, 70/09, 494/09, 243/10, 1254/12
IAS 8	Accounting policies, changes in accounting estimates and errors	Reg. 1126/08, 1274/08, 70/09, 1255/12
IAS 10	Events after the reporting period	Reg. 1126/08, 1274/08, 70/09, 1142/09, 1255/12
IAS 11	Construction contracts	Reg. 1126/08, 1274/08
IAS 12	Income taxes	Reg. 1126/08, 1274/08, 495/09, 475/12, 1254/12, 1255/12
IAS 16	Property, plant and equipment	Reg. 1126/08, 1274/08, 70/09, 495/09, 1255/12
IAS 17	Leasing	Reg. 1126/08, 243/10, 1255/12
<b>IAS/IFRS</b>	<b>ACCOUNTING STANDARDS</b>	<b>APPROVAL</b>
IAS 18	Revenue	Reg. 1126/08, 69/09, 1254/12, 1255/12
IAS 19	Employee benefits	Reg. 1126/08, 1274/08, 70/09, 475/12, 1255/12
IAS 20	Accounting for government grants and disclosure of government assistance	Reg. 1126/08, 1274/08, 70/09, 475/12, 1255/12
IAS 21	The effects of changes in foreign exchange rates	Reg. 1126/08, 1274/08, 69/09, 494/09, 149/11, 475/12, 1254/12, 1255/12
IAS 23	Borrowing costs	Reg. 1260/08, 70/09
IAS 24	Related party disclosures	Reg. 632/10, 475/12, 1254/12
IAS 26	Pension funds	Reg. 1126/08
IAS 27 (*)	Separate financial statements	Reg. 1254/12
IAS 28 (*)	Investments in associates and joint ventures	Reg. 1254/12
IAS 29	Financial reporting in hyperinflationary economies	Reg. 1126/08, 1274/08, 70/09
IAS 31 (**)	Interests in joint ventures	Reg. 1126/08, 70/09, 494/09, 149/11, 1255/12
IAS 32	Financial instruments: presentation	Reg. 1126/08, 1274/08, 53/09, 70/2009, 495/09, 1293/09, 149/11, 475/12, 1254/12, 1255/12, 1256/12
IAS 33	Earnings per share	Reg. 1126/08, 1274/08, 495/09, 475/12, 1254/12, 1255/12
IAS 34	Interim financial reporting	Reg. 1126/08, 1274/08, 70/09, 495/09, 149/11, 475/12, 1255/12
IAS 36	Impairment of assets	Reg. 1126/08, 1274/08, 69/09, 70/09, 495/09, 243/10, 1254/12, 1255/12
IAS 37	Provisions, contingent liabilities and contingent assets	Reg. 1126/08, 1274/08, 495/09
IAS 38	Intangible assets	Reg. 1126/08, 1274/08, 70/09, 495/09, 243/10, 1254/12, 1255/12
IAS 39	Financial instruments: recognition and measurement	Reg. 1126/08, 1274/08, 53/2009, 70/09, 494/09, 495/09, 824/09, 839/09, 1171/09, 243/10, 149/11, 1254/12, 1255/12
IAS 40	Investment property	Reg. 1126/08, Reg. 1274/08, Reg. 70/09, 1255/12
IAS 41	Agriculture	Reg. 1126/08, 1274/08, 70/09, 1255/12
IFRS 1	First-time adoption of international financial standards	Reg. 1126/09, 1164/09, 550/10, 574/10, 662/10, 149/11, 475/12, 1254/12, 1255/12



IFRS 2	Share-based payments	Reg. 1126/08, 1261/08, 495/09, 243/10, 244/10, 1254/12, 1255/12
IFRS 3	Business combinations	Reg. 495/09, 149/11, 1254/12, 1255/12
IFRS 4	Insurance contracts	Reg. 1126/08, 1274/08, 1165/09, 1255/12
IFRS 5	Non-current assets held-for-sale and discontinued operations	Reg. 1126/08, 1274/08, 70/09, 494/09, 1142/09, 243/10, 475/12, 1254/12, 1255/12
IFRS 6	Exploration and evaluation of mineral resources	Reg. 1126/08
IFRS 7	Financial instruments: disclosure	Reg. 1126/08, 1274/08, 53/09, 70/2009, 495/09, 824/09, 1165/09, 574/10, 149/11, 1205/11, 475/12, 1254/12, 1255/12, 1256/12
IFRS 8	Operating segments	Reg. 1126/08, 1274/08, 243/10, 632/10, 475/12
IFRS 10	Consolidated financial statements	Reg. 1254/12
IFRS 11	Joint arrangements	Reg. 1254/12
IFRS 12	Disclosure of interests in other entities	Reg. 1254/12
IFRS 13	Fair value measurement	Reg. 1255/12

<b>SIC/IFRIC</b>	<b>INTERPRETATIVE DOCUMENTS</b>	<b>APPROVAL</b>
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities	Reg. 1126/08, 1274/08
IFRIC 2	Members' shares in cooperative entities and similar instruments	Reg. 1126/08, 53/09, 1255/12
IFRIC 4	Determining whether an arrangements contains a lease	Reg. 1126/08, 70/09, 1255/12
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	Reg. 1126/08, 1254/12
IFRIC 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment	Reg. 1126/08
IFRIC 7	Applying the restatement approach under IAS 29 "Financial reporting in hyperinflationary economies"	Reg. 1126/08, 1274/08
IFRIC 9	Reassessment of embedded derivatives	Reg. 1126/08, 495/09, 1171/09, 243/10, 1254/12
IFRIC 10	Interim financial reporting and impairment	Reg. 1126/08, 1274/08
IFRIC 12	Service concession arrangements	Reg. 254/09
IFRIC 13	Customer loyalty programmes	Reg. 1262/08, 149/11, 1255/12
IFRIC 14	Prepayments of a minimum funding requirement	Reg. 1263/08, Reg. 1274/08, 633/10, 475/12
IFRIC 15	Agreements for the construction of real estate	Reg. 636/09
IFRIC 16	Hedges of a net investment in a foreign operation	Reg. 460/09, Reg. 243/10, 1254/12
IFRIC 17	Distributions of non-cash assets to owners	Reg. 1142/09, 1254/12, 1255/12
IFRIC 18	Transfers of assets from customers	Reg. 1164/09
IFRIC 19	Extinguishing financial liabilities with equity instruments	Reg. 662/10, 1255/12
IFRIC 20	Stripping costs in the production phase of a surface mine	Reg. 1255/12
SIC 7	Introduction of the Euro	Reg. 1126/08, 1274/08, 494/09
SIC 10	Government assistance – No specific relation to operating activities	Reg. 1126/08, 1274/08

SIC 12 (**)	Consolidation – Special purpose entities	Reg. 1126/08
SIC 13	Jointly controlled entities – Non-monetary contributions by venturers	Reg. 1126/08, 1274/08
SIC 15	Operating leases – Incentives	Reg. 1126/08, 1274/08
SIC 21 (***)	Income Taxes – Recovery of revalued non-depreciable assets	Reg. 1126/08
SIC 25	Income taxes – Changes in the tax status of an enterprise or its shareholders	Reg. 1126/08, 1274/08
SIC 27	Evaluating the substance of transactions in the legal form of a lease	Reg. 1126/08
SIC 29	Service concession arrangements: disclosures	Reg. 1126/08, 1274/08, 70/09
SIC 31	Revenue – Barter transactions involving advertising services	Reg. 1126/08
SIC 32	Intangible assets – Web site costs	Reg. 1126/08, 1274/08

## **A.2 - INFORMATION ON THE MAIN ITEMS OF THE FINANCIAL STATEMENTS**

### **1. Held-for-trading financial assets**

#### **Classification criteria**

This item classifies the financial instruments on a cash basis held for trading. A financial asset or liability is classified as held-for-trading (so-called Fair Value Through Profit or Loss - FVPL), and recorded under “20 Held-for-trading financial assets” or “40 Held-for-trading financial liabilities”, if it is:

- purchased or held mainly to sell it or repurchase it in the short term;
- part of a portfolio of identified financial instruments managed on a single basis and where there is evidence of a recent and effective strategy aimed at obtaining profit in the short term;
- a derivative (apart from designated derivatives that are effective hedging instruments - see paragraph below on this issue).

#### **Recognition criteria**

Initial recognition of the held-for-trading financial assets occurs: i) at the settlement date for debt securities, capital and shares in UCITS; ii) at the subscription date for derivative contracts. The initial recognition of held-for-trading financial assets is at fair value, not including any transaction costs or income that are directly recognised on the income statement even though directly attributable to the instrument. The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

#### **Measurement and recognition criteria for income components**

Following initial recognition, held-for-trading financial assets are measured at fair value, and any changes are recorded in the income statement. For more details on the methods of calculating the fair value please refer to

paragraph 17.3 below “Criteria for calculating the fair value of financial instruments”.

Gains and losses on disposal or redemption and unrealised gains or losses resulting from changes in the fair value of held-for-trading financial assets are recognised on the income statement under “net income from trading activities”.

#### **Derecognition criteria**

Held-for-trading financial assets are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the assets.

### **2. Available-for-sale financial assets**

#### **Classification criteria**

This category includes the non-derivative financial assets not classified otherwise as “Held-for-trading financial assets” or “Held-to-maturity financial assets” or “Financial assets carried at fair value” or “Receivables”.

The investments “available for sale” are financial assets that are intended to be retained for an indefinite period of time and that may be sold for reasons of liquidity, changes in interest rates, exchange rates or market prices.

A financial instrument is designated to the category in question when it is initially recorded or following any reclassifications in accordance with paragraphs 50 to 54 of IAS 39, as amended by Regulation (EC) no 1004/2008 of the European Commission of 15 October 2008.

#### **Recognition criteria**

Initial recognition of available-for-sale financial assets is at the date of settlement, based on their fair value including the costs/income of the transaction directly attributable to the acquisition of the financial instrument. Costs/income having the aforesaid characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

### **Measurement and recognition criteria for income components**

Following initial recognition, available-for-sale financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost, recorded in a specific equity reserve recorded in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recorded. For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for calculating the fair value of financial instruments". With reference to the valuation reserves relating to debt securities issued by the Central Authorities of countries belonging to the European Union, the Bank of Italy issued an order on 18 May 2010 recognising - for the purposes of calculating the regulatory capital (prudential filters) - the option of fully neutralising the capital gains and losses reported in the aforesaid reserves after 31 December 2009. The Bank availed of that option starting from calculation of the regulatory capital (see also Part F - Information on equity).

Impairment testing is performed in accordance with paragraphs 58 et seq. of IAS 39 at every year end. As regards equity securities listed on an active market, a significant or prolonged reduction of the fair value below the purchase cost is also evidence of impairment.

If the fair value is reduced in cost by more than 50% or in duration by more than 18 months, the impairment is considered to be permanent. If, however, the decrease in the fair value of the cost of the instrument is lower than or equal to 50% but above 20%, or in duration by not more than 18 months but not less than 9, the Bank will analyse other income and market indicators. If the results of said analysis are such as to shed doubt on the possibility of recovering the amount originally invested, permanent impairment will be recognised. The amount

transferred to the income statement is therefore equal to the difference between the book value (acquisition cost net of any losses due to impairment already reported in the income statement) and the current fair value.

The amount of any impairment is recorded under the income statement item "net value adjustments/write-backs due to impairment of available-for-sale financial assets". This amount also includes the reversal to the income statement of any profits/losses from the measurement previously recorded in the specific shareholders' equity reserve. If, in a subsequent period, the fair value of the financial instrument increases and this increase may be objectively related to an event that occurred after the impairment was reported in the income statement, the impairment must be eliminated by reporting the write-back under the same income statement item where monetary elements (for example, debt securities) and shareholders' equity if they relate to non-monetary items are reported (for example, equity securities). The write-back in the income statement may not, in any event, exceed the amortised cost that the instrument would have had in the absence of the previous adjustments.

Interest income on the aforesaid financial assets is calculated by applying effective interest rate criteria with recognition of the result under the income statement item "interest income and similar income".

The profits and losses deriving from the disposal or reimbursement of the aforementioned financial assets are reported in the income statement item "Profits (losses) from disposal or repurchase of: available-for-sale financial assets" and include the possible reversal to the income statement of the profits/losses previously recorded in the specific shareholders' equity reserve.

### **Derecognition criteria**

Available-for-sale financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the financial assets.

### 3. Held-to-maturity financial assets

Held-to-maturity financial assets (HTM) are non-derivative financial assets, with fixed or calculable payments and fixed maturities for which there is the objective intention and capacity to hold them to maturity.

The following are not included:

- those held for trading and those designated at fair value upon initial recognition recognised in the income statement (see previous paragraph);
- those designated as available for sale (see previous paragraph);
- those that meet the definition of receivables and loans (see paragraph below).

When the financial statements or interim accounts are being drafted, the intention and capacity to hold financial assets to maturity is assessed.

These assets are reported under item “50 Held-to-maturity financial assets”.

#### Recognition criteria

The held-to-maturity financial assets are initially reported when, and only when, the company becomes party to the contractual clauses of the instrument, or at the time of settlement, at a value equal to the cost, inclusive of any directly attributable costs and income. If the reporting of this asset in this category derives from reclassification from the “Available-for-sale financial assets” or - only in rare circumstances if the asset is no longer owned for the purpose or selling or repurchasing it in the short term - by the “Held-for-trading financial assets”, the fair value of the asset, recorded at the time of transfer, is taken as the new measurement of the amortised cost of this asset.

#### Measurement criteria

The held-to-maturity financial assets are valued at the amortised cost, using the effective interest rate method (for a definition of this, please refer to the paragraph below “Receivables and Loans”). The result from applying this method is charged to the income statement in item “10 Interest income and similar income”.

Impairment testing of the assets is performed when drafting the financial statements or the interim reports. If there is impairment, the difference between the book value of the asset and the current value of the estimated future cash flows, discounted at the original effective interest rate, is charged to the income statement under “130 Net value adjustments/write-backs due to impairment of c) held-to-maturity financial assets”. The same income statement item also reports any write-backs recorded if the reasons behind the previous value adjustments are no longer valid.

The fair value of the held-to-maturity financial assets is determined for information purposes or to ensure effective hedging against exchange risk or credit risk (in relation to the risk subject to hedging) and is estimated in accordance with the more detailed description in Section A.3.2 of the Notes to the financial statements “Hierarchy of fair value”.

#### Derecognition criteria

Held-to-maturity financial assets are derecognised when the contractual rights on the cash flows deriving from the assets are expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the assets. The result of the disposal of the held-to-maturity financial assets is charged to the income statement under “100 Profits (losses) from the disposal or repurchase of c) held-to-maturity financial assets”.

### 4. Receivables

#### 4.1. Loans to banks

##### Classification criteria

This category includes cash financial assets held at banks that provide for fixed or calculable payments and are not listed on an market (current accounts, guarantee deposits, debt securities etc.). It also includes amounts due from Central Banks that are not demand deposits (which are recorded under “cash and cash equivalents”).

Please refer to paragraph 4.2 below “Loans to customers” for information regarding reporting, measurement,

derecognition and recognition of the income items of the receivables.

#### **4.2. Loans to customers**

##### **Classification criteria**

Loans to customers include unstructured cash financial assets for customers that have fixed or calculable payments and that are not quoted on an active market.

Most loans to customers comprise on demand advances to customers as part of the factoring of non-recourse receivables acquired with respect to the Public Administration, where there are no contractual clauses that would prevent them from being registered.

In accordance with the general principle of the precedence of economic substance over legal form, a company may cancel a financial asset from its financial statements only if it is through a transfer of the risks and benefits related to the transferred instrument.

IAS 39 provides that a company can only cancel a financial asset from its financial statements if and only if:

- the financial asset is transferred and, with this, essentially all of the risks and contractual rights to the financial flows deriving from the asset mature;
- the benefits attached to ownership of the asset are no longer valid.

The following conditions must be checked on an alternative basis in order for the financial asset to be transferred:

- the company has transferred the rights to receive financial flows from the financial asset;
- the company has maintained the right to receive the cash flows from the financial asset, but has assumed the obligation to pay them to one or more beneficiaries as part of an agreement in which the following conditions are met:
  - the company is under no obligation to pay predetermined sums to any beneficiary apart from what is received from the original financial asset;
  - the company may not sell or pledge the financial asset;

- the company is under an obligation to transfer any financial flow that it collects, on behalf of any beneficiaries, without delay. Any investment of the financial flows for a period between cashing them and payment must take place only with financial assets that are equivalent to cash and therefore with no right to any interest that has matured on said invested sums.

In order to verify the transfer of a financial asset that results in the cancellation of the assignor from the financial statements, for each transfer the assigning company must assess the extent of any risks and benefits connected to the financial asset it holds.

In order to evaluate the actual transfer of the risks and benefits, the exposure of the assigning company must be compared with the variability of the current value or the financial flows generated by the financial asset transferred, before and after the assignment.

The assigning company essentially maintains all the risks and benefits when its exposure to the “variability” of the current value of the net future financial flows does not change significantly following its transfer. However, there is a transfer when the exposure to this “variability” is no longer significant.

In summary, there can be three situations and each has specific effects, namely:

- if the company transfers almost all of the risks and benefits of ownership of the financial asset, it must ‘write-off’ the financial asset and record the rights or obligations deriving from the assignment separately as assets or liabilities;
- if the company maintains almost all of the risks and benefits of ownership of the financial asset, it must continue to recognise the financial asset;
- if the company does not transfer or maintain almost all of the risks and benefits of ownership of the financial asset, it must evaluate the elements of control of the financial asset, and:
  - if it does not have control, it must write-off the financial asset and separately recognise the

individual assets/liabilities resulting from the rights/obligations of the assignment;

- if it maintains control, it must continue to recognise the financial asset up to the limit of its investment commitment.

In order to check control, the discriminating factor to consider is the beneficiary's capacity to unilaterally assign the financial asset without any restrictions by the assigning company. If the beneficiary of a financial asset transfer can sell the entire financial asset to a non-related third party and can do it unilaterally without having to impose any further limitations on the transfer, the assigning company no longer controls the financial asset. In all other cases, it maintains control over the financial asset.

The most frequently used forms of assigning a financial instrument may have profoundly different accounting effects:

- in the case of non-recourse transactions (with no guarantee restrictions), the assigned assets may be deleted from the assigning company's financial statements;
- in the case of a with-recourse assignment, in the majority of cases the risk connected to the transferred asset remains with the seller and, therefore the assignment does not meet the requirements to have the instrument sold written off on an accounting basis.

As stated above, the Bank only acquires non-recourse receivables due from the Public Administration.

### **Recognition criteria**

Initial recognition of a receivable is at the date of settlement on the basis of its fair value including the costs/income of the transaction directly attributable to the acquisition of the receivable. Costs/income having the aforesaid characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial instrument is usually equivalent to the amount granted or the cost incurred by the acquisition.

### **Measurement and recognition criteria for income components**

Following initial recognition, loans to customers are stated at amortised cost, equal to the initial recognition value reduced/increased by capital repayments, by any value adjustments/write-backs and the amortisation – calculated on the basis of the effective interest rate – of the difference between the amount provided and that repayable at maturity, usually the cost/income directly attributed to the individual loan.

The effective interest rate is the rate that discounts the flow of future payments estimated for the expected duration of the loan, in order to obtain the exact net book value at the time of initial recognition, which includes both the directly attributable transaction costs and all of the fees paid or received between the parties.

This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the receivable.

The estimation of the flows and of the contractual duration of the loan takes into account all contractual clauses that may influence the amounts and the maturities (such as, for example, early extinction and various exercisable options), without considering, on the other hand, any losses expected on the loan.

Furthermore, an analysis is always performed to identify problem loans that show objective evidence of possible impairment at year end. With regard to past due exposures relating to the Public Administration, referring to receivables acquired on a definitive basis as part of the Factoring, it was decided that the conditions for making value adjustments were not present considering the quality of the receivable and the debtor counterparties. Given the above, since the new activity started during the financial year, a prudential write-down of the receivables of 0.3% was applied. This prudential write-down was made even though there were no specific, analytical

risks that could be classified as non-performing loans, watchlist loans or past due loans.

Those receivables for which there was no objective evidence of loss are subject to collective write-down.

Neither “repurchase agreement” transactions nor amounts due from Group companies are written down.

The amount of value adjustments net of previous provisions and the partial or full recovery of amounts previously written-down are recorded in the income statement under “net value adjustments/write-backs due to loan impairment”.

#### **Derecognition criteria**

Loans are derecognised from the financial statements when they are deemed totally unrecoverable or if transferred, when this entails the substantial transfer of all loan-related risks and benefits.

#### **5. Financial assets carried at fair value**

At the date of the financial statements, the Bank did not hold any “Financial assets carried at fair value”.

#### **6. Hedging transactions**

At the date of the financial statements, the Bank had not made any “Hedging transactions”.

#### **7. Equity investments**

##### **Classification criteria**

This category includes investments in subsidiaries, associates and joint ventures by Banca Sistema.

##### **Recognition criteria**

Equity investments are recorded in the financial statements at purchase cost.

##### **Measurement criteria**

If there is evidence that the value of an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value

of future cash flows that the investment could generate, including the final disposal value of the investment and/or other measurement elements.

The amount of any impairment, calculated on the basis of the difference between the book value of the investment and its recoverable value is recorded in the income statement under “profits (losses) from equity investments”.

If the reasons for impairment are removed following an event occurring after recognition of the impairment, write-backs are made to the income statement under the same item as above to the extent of the previous adjustment.

#### **Derecognition criteria**

Equity investments are derecognised from the financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and benefits.

#### **Recognition criteria of income components**

In accordance with IAS 18, dividends are recorded when the right of the shareholder to receive payment has been established and, therefore, after the date of resolution of the Shareholders’ Meeting of the investee company.

#### **8. Property, plant and equipment**

##### **Classification criteria**

This item includes assets for permanent use, held to generate income, to be leased, or for administrative purposes, such as land, functional property, property investments, technical installations, furniture and fittings and equipment of any nature and works of art.

They also include costs for improvements to third party assets if they can be separated from the assets in question. If the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recorded under “other assets” and are depreciated over the



shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease. Depreciation is recognised under other operating charges/income.

Property, plant and equipment also include payments on account for the purchase and restructuring of assets not yet part of the production process and therefore not yet subject to depreciation.

“Functional” property, plant and equipment are represented by assets held for the provision of services or for administrative purposes, while property held for “investment purposes” are those held to collect lease rentals and/or held for capital appreciation.

#### **Recognition criteria**

Property, plant and equipment are initially recorded at cost, including all costs directly attributable to installation of the asset.

Extraordinary maintenance costs and costs for improvements leading to actual improvement of the asset, or an increase in the future benefits generated by the asset, are attributed to the reference assets and are depreciated on the basis of their residual useful life.

#### **Measurement and recognition criteria for income components**

Following initial recognition, “functional” property, plant and equipment are recorded at cost, less accumulated depreciation and any write-downs for impairment losses, in line with the “cost model” illustrated in paragraph 30 of IAS 16. More specifically, property, plant and equipment are systematically depreciated each year on the basis of their estimated useful life, using the straight line basis method apart from:

- land, regardless of whether this was purchased separately or was incorporated into the value of the building, which, insofar as it has an indefinite useful life, is not depreciated;
- works of art, which are not depreciated as their useful life cannot be estimated and their value typically appreciates over time;

- property investments which are recorded at fair value in accordance with IAS 40.

For assets acquired during the financial year, depreciation is calculated on a daily basis from the date of entry into use of the asset. For assets transferred and/or disposed of during the financial year, depreciation is calculated on a daily basis until the date of transfer and/or disposal.

At the end of each year, if there is any evidence that property, plant or equipment that is not held for investment purposes may have suffered an impairment loss, a comparison is made between its book value and its recoverable amount, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the actual value of future cash flows expected from the asset. Any adjustments are recognised to the income statement under “net value adjustments on property, plant and equipment”.

If the reasons that led to recognition of the impairment loss cease to apply, a write-back is recorded that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses. For property, plant and equipment held “for investment purposes”, which come within the area of application of the IAS 40, the measurement is made at the market value determined using independent surveys and the changes in fair value are recorded in the income statement under the item “net result of the fair value measurement of property, plant and equipment and intangible assets”.

#### **Derecognition criteria**

Property, plant and equipment is derecognised from the balance sheet upon disposal thereof or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal.

### **9. Intangible assets**

#### **Classification criteria**

This item includes non-monetary assets without physical substance that satisfy the following requirements:

- they can be identified;
- they can be monitored;
- they generate future economic benefits.

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recorded as a cost in the year in which it was incurred.

Intangible assets include, in particular, software to be used over several years and other identifiable assets generated by legal or contractual rights. Goodwill is also included under this item, representing the positive difference between the acquisition cost and fair value of the assets and liabilities acquired as part of a business combination. Specifically, an intangible asset is recognised as goodwill when the positive difference between the fair value of equity components acquired and the acquisition cost represents the future capacity of the equity investment to generate profit (goodwill). If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the equity elements acquired, it is recognised directly to the income statement.

## **10. Non-current assets and groups of assets held for disposal**

### **Classification criteria**

All non-current assets and groups of assets held for disposal in accordance with IFRS 5 are classified in this item, namely all the “non-current individual assets” or “groups of assets” being disposed of (by convention indicated as “individual assets”) whose book values will be recovered mainly through their sale rather than through their ongoing use, and the “operating units held for disposal” (by convention indicated as “groups of assets held for disposal”).

### **Measurement criteria**

These non-current individual assets or the groups of assets held for disposal are measured at the lower of their book value and their fair value net of selling costs, with

the exclusion of the following assets which continue to be measured in accordance with the reference principle:

- deferred tax assets;
- assets deriving from employee benefits;
- financial instruments;
- property investments.

## **Recognition criteria of income components**

Income (interest income, dividends etc.) and charges (interest expense, amortisation and depreciation, etc.) that refer to the non-current individual assets or groups of assets held for disposal and related liabilities being disposed of continue to be recorded under their own items while the income (interest income, dividends, etc.) and charges (interest payable, amortisation, etc.) that refer to the operating units held for disposal, net of current and deferred tax are recorded under “profit (loss) of non-current assets held for disposal, net of taxes” in the income statement.

Assuming that the assets being disposed of are depreciable, the depreciation process ceases starting from financial year in which they are classified among non-current assets held for disposal.

## **11. Current and deferred taxes**

Income taxes for the period, calculated in compliance with prevailing tax regulations, are recorded in the income statement based on the accrual criteria, in accordance with the recognition in the financial statements of the costs and of the revenues that generated them, apart from those referring to the items directly debited or credited to the shareholders’ equity, where the recognition of the tax is made on the shareholders’ equity in order to be consistent.

Allocations for income taxes are calculated on the basis of a prudential estimate of the current, prepaid and deferred tax burden. More specifically, prepaid and deferred taxes are determined on the basis of the temporary differences between the book value of assets and liabilities and their value for taxation purposes. Prepaid tax assets are recorded in the financial statements to the extent that it

is probable that they will be recovered on the basis of the Bank's ability to continue to generate positive taxable income.

Prepaid and deferred taxes are accounted for at equity level with open balances and without offsetting entries, recording the former under "Tax assets" and the latter under "Tax liabilities".

With respect to current taxes, at the level of individual taxes, the prepayments made are offset with the relevant tax charge, indicating the net imbalance under "current tax assets" or the "current tax liabilities" depending on whether it is positive or negative.

## **12. Provisions for risks and charges**

In line with the requirements of IAS 37, provisions for risks and charges cover liabilities, the amount or timing of which is uncertain, related to current obligations (legal or implicit), owing to a past event for which it is likely that financial resources will be used to fulfil the obligation, on condition that an estimate of the amount required to fulfil said obligation can be made at the financial statements reference date. Where the temporary deferral in sustaining the charge is significant, and therefore the extent of the discounting will be significant, provisions are discounted at current market rates.

The provisions are reviewed at each financial statements reference date and adjusted to reflect the current best estimate. These are recorded under their own items in the income statement in accordance with a cost classification approach based on the "nature" of the cost. Provisions related to future charges for employed personnel relating to the bonus system appear under "personnel costs". The provisions that refer to risks and charges of a fiscal nature are reported as "income taxes", whereas the provisions connected to the risk of potential losses not directly chargeable to specific items in the income statement recorded as "net provisions for risks and charges".

## **13. Payables and securities in issue**

### **Classification criteria**

Amounts due to banks and due to customers include the various forms of inter-banking or customer funding deposits (current accounts, demand and bonded deposits, loans, repurchasing agreements, etc.) whereas securities in issue include all the liabilities issued (bond loans not classified as "financial liabilities carried at fair value", etc.). All the financial instruments issued by the Bank are expressed in the financial statements net of any amounts repurchased and include those that have matured as at the reference date but have not yet been reimbursed.

### **Recognition criteria**

These financial liabilities are initially recognised when the deposits are received or when the debt securities are issued. Initial recognition is based on the fair value of the liabilities, increased by the costs/income of the transaction directly attributable to the acquisition of the financial instrument.

Costs/income having the aforesaid characteristics that will be repaid by the creditor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial liability is usually equivalent to the amount cashed. Any derivative contracts included in said financial liabilities, which are subject to the assumptions of IAS 32 and 39, are broken down and measured separately.

### **Measurement criteria**

After the initial recognition, the aforesaid financial liabilities are valued at amortised cost with the effective interest rate method.

### **Derecognition criteria**

The above financial liabilities are derecognised from the balance sheet at maturity or when they are extinguished. They are derecognised also in the event of repurchase, even temporary, of the previously-issued securities. Any difference between the book value of the

extinguished liability and the amount paid is recorded in the income statement, under “profit (loss) from disposal or repurchase of: financial liabilities”. If the Bank, subsequent to the repurchase, re-replaces its own securities on the market, said transaction is considered a new issue and the liability is recorded at the new placement price.

#### **14. Held-for-trading financial liabilities**

At the date of the financial statements, the Bank did not have any “Held-for-trading financial liabilities”.

#### **15. Financial liabilities carried at fair value**

At the date of the financial statements, the Bank did not hold any “Financial liabilities carried at fair value”.

#### **16. Currency transactions**

The currency assets and liabilities include, in addition to those explicitly designated in a currency other than the Euro, those that include financial indexing clauses associated with the Euro exchange rate with a designated currency or a designated bundle of currencies. In accordance with the conversion methods to be used, the assets and liabilities in currencies are subdivided between monetary and non-monetary items.

#### **Recognition criteria**

Foreign currency transactions are recorded, at the time of initial recognition, in Euro, applying the spot exchange rates in force on the date of the transaction to the amount in foreign currency.

#### **Measurement criteria**

At each financial statements reference date:

- The monetary elements in foreign currencies are converted using the exchange rate in force at the end of the financial year.
- The non-monetary components valued at historical cost are converted at the exchange rate in effect on the date of the transaction.

- The non-monetary components carried at fair value in a foreign currency are converted at the exchange rate in effect on the date the fair value is determined.

The differences in the exchange rates that result from the settlement of monetary elements or the conversion of monetary elements at rates that differ from the initial conversion rates, or the conversion rates on the date of the previous financial statements, are reported in the income statement for the financial year in which they occur in the “Net profit from trading” or if they relate to financial assets/liabilities for which the fair value option is used in accordance with IAS 39, in the “Net result of the financial assets and liabilities carried at fair value”.

When a profit or a loss relative to a non-monetary component is recorded in shareholders’ equity, the exchange difference relative to said component is also recognised in shareholders’ equity in the year in which it occurs. On the other hand, if the profits or losses of a non-monetary element are reported in the income statement, the difference in the exchange rate is also reported in the income statement in the year in which they occur as stated above.

#### **17. Other information**

##### **17.1. Post-employment benefits**

According to the IFRIC, post-employment benefits can be likened to a “benefit following the employment relationship” of the “Defined-benefit plan” type for which its value is determined using actuarial type methods in accordance with IAS 19. Consequently, at year end, they are measured on the basis of the accrued benefits method using the Projected Unit Credit Method. This method entails forecasting future payments on the basis of historic, statistical and probabilistic analyses and the adoption of appropriate demographic data. This allows the accrued post-employment benefits to be calculated on a certain date in an actuarial sense, distributing the charge over the years of the estimated working life remaining for workers and no longer as charges to be paid if the company ceases operation on the date of the financial statements.

The actuarial gains and losses, defined as the difference between the book value of the liability and the current value of the obligation at the end of the period, are recognised on the income statement.

The measurement of the post-employment benefits of employees was made by an independent actuary in accordance with the above-mentioned method.

### **17.2. Repurchase agreement transactions**

“Repurchase agreement” transactions which make it obligatory for the transferee to forward repurchase or sell the assets in question (for example securities) and “securities lending” where the guarantee is in cash, are classified as items carried forward and therefore amounts received and paid are shown in the financial statements as payables and receivables. More specifically, the aforesaid “repurchase agreements” and “securities lending” transactions are recognised as payables using the amount due in the spot transaction, whilst the investment transactions are recognised as receivables using the amount paid in the spot transaction. These transactions do not lead to changes in the securities portfolio. Likewise, the cost of funding and the income resulting from the investment, represented by coupons matured on the securities and by the spread between spot price and forward price, are recorded on an accruals basis under interest items in the income statement.

### **17.3. Criteria for determination of fair value of financial instruments**

Fair value is defined by IAS 39 as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction, at a certain measurement date, and not including forced type transactions. Notwithstanding the definition of fair value, there is, in fact a presumption that the company is operational and that there is no intention or need to wind it up, significantly reduce the extent of its business or carry out transactions at unfavourable conditions. In the case of financial instruments quoted on active markets, the fair value is determined on the basis of quotations

(official price or other equivalent price on the last day the market is open in the reference financial year) of the most advantageous market to which the Bank has access. To this end, a financial instrument is considered as quoted on an active market if the quoted prices are promptly and regularly available through a list, operator, intermediary, industrial sector, price determination agency, regulatory authority and these prices represent effective market transactions that occur on a standard basis in normal contract situations.

If there is no active market, the fair value is calculated using measurement techniques that are generally accepted in financial practice, designed to establish what price the financial instrument would have been on the measurement date on an arm’s length basis between knowledgeable and willing parties. These measurement techniques provide for use of the following in the hierarchical order in which they are reported:

1. The most recent NAV (Net Asset Value) published by the harmonised funds management company (UCITS - Undertakings for Collective Investment in Transferable Securities), Hedge Funds and the Sicavs.
2. Recently observable transaction prices on the markets.
3. Price indications that can be inferred from infoproviders (e.g.: Bloomberg, Reuters).
4. The fair value obtained from measurement models (e.g. Discounting Cash Flow Analysis, Option Pricing Models) which estimate all the possible factors affecting the fair value of a financial instrument (cost of money, credit risk, liquidity risk, volatility, exchange rates, payment rates, etc.) based on data that are observable on the market, including in relation to similar instruments, on the measurement date. If, due to one or more risk factors, it is not possible to refer to market data, internally determined parameters are used based on historic/statistical data. The measurement models are subject to periodic revision in order to ensure full and constant reliability.
5. The price indications supplied by the issuing counterparty, corrected where applicable to take into account the counterparty and/or liquidity risk (for example, the price decided by the Board of Directors

and/or Shareholders' meeting for the shares of non-listed people's banks, the share value quoted by the management company for the closed funds reserved to institutional investors and for other types of UCITS other than those reported in point 1, the redemption value determined in accordance with the regulations for issuing insurance contracts).

6. For instruments that represent capital, where the measurement techniques of the previous points are not applicable: i) the value resulting from independent experts, if available; ii) the value corresponding to the share of shareholders' equity held in the last financial statements approved by the company; iii) the cost, where necessary, adjusted to take into account significant impairment when the fair value cannot be calculated reliably.

Based on the afore-mentioned considerations and in accordance with what is stated in IFRS 7, the Bank classifies the measurements at fair value based on a hierarchy of levels that reflects the significance of the inputs used in the measurements. The following levels can be distinguished:

- **Level 1** - prices (without adjustments) reported on an active market: the measurements of the financial instruments quoted on an active market based on quotations that can be understood from the market.
- **Level 2** - input of prices quoted that are different from those in the previous point that are directly (prices) or indirectly (derived from prices) observable on the market: the measurements of financial instruments not quoted on an active market based on measurement techniques that, mainly using observable market data present reduce the margin of discretion (prices calculated from recent transactions, from infoproviders or obtained from measurement models that mainly use market data to estimate the main factors that condition the fair value of the financial instrument). This level also includes measurement of UCITS units based on the NAV (Net Asset Value) communicated by the management company, the value of which is updated and published periodically (at least monthly) and is representative of the amount

at which the position can be liquidated, in whole or in part, at the possessor's initiative.

- **Level 3** - inputs that are not based on observable market data: the measurements of financial instruments not quoted on an active market, based on measurement techniques that use significant inputs that are not observable on the market, involving the adoption of estimates and assumptions by management (prices supplied by the issuing counterparty, taken from independent surveys, prices corresponding to the fraction of the shareholders' equity held in the company or obtained using measurement models that do not use market data to estimate significant factors that condition the fair value of the financial instrument). This level includes measurements of financial instruments at cost price.

#### **17.4 Business combinations**

A business combination involves the combination of separate companies or business activities in a single party who has to draft the financial statements.

A combination may give rise to a participatory relation between the parent company (acquirer) and the subsidiary (acquired). A combination may also provide for the acquisition of the net assets of another entity, including any goodwill, or the acquisition of another entity's capital (mergers and contributions). Based on the provisions of IFRS 3, business combinations must be accounted for by applying the acquisition method, which comprises the following phases:

- identification of the acquirer;
- determination of the cost of the business combination;
- allocation, on the acquisition date, of the business combination cost in terms of the assets acquired and the liabilities and potential liabilities taken on.

More specifically, the cost of a business combination must be determined as the total fair value as at the date of exchange of the assets transferred, liabilities incurred or assumed, capital instruments issued by the acquirer in exchange for control of the acquired company and all costs directly attributable to the business combination.

The acquisition date is the date on which control of the acquired company is actually made. If the acquisition is completed through a single transfer, the date of the transfer will be the acquisition date. If the business combination is carried out through several transfers:

- the cost of the combination is the overall cost of the individual operations;
- the exchange date is the date of each exchange operation (namely the date on which each investment is recorded in the acquiring company's financial statements), whereas the acquisition date is the one on which control is obtained over the acquired company.

The cost of a business combination is assigned by recording the assets, liabilities and potential liabilities that are identifiable in the acquired company, at the relevant fair values at the date of acquisition. The assets, liabilities and potential liabilities that can be identified in the acquired company are recorded separately on the acquisition date only if, on this date, they meet the following criteria:

- if an asset is not an intangible asset, it is probable that any future connected economic benefits will flow to the acquiring company and it is possible to assess its fair value reliably;
- if a liability is not a potential liability, it is probable that, in order to extinguish the obligation, investment in resources will be required to produce economic benefits and it is possible to assess the fair value reliably;
- in the case of an intangible asset or a potential liability, the relevant fair value may be assessed reliably.

The positive difference between the cost of the business combination and the acquiring body's profit-sharing at the fair value net of the assets, liabilities and potential identifiable liabilities, must be accounted for as goodwill.

After the initial recognition, the goodwill acquired in a business combination is measured at the relevant cost and is submitted to an impairment test at least once a year. If the difference is negative, a new measurement is

made. This negative difference, if confirmed, is recorded immediately as revenue in the income statement.

### **17.5 Derecognition**

This is the removal from the balance sheet of a financial asset or liability that had previously been recognised.

Before assessing the existence of the conditions for removing financial assets from the financial statements, it has to be checked whether these conditions must be applied to these assets as a whole or only in part in accordance with IAS 39. The cancellation rules are applied to the part of the financial assets to be transferred only if at least one of the following requirements have been met:

- the part comprises only cash flows that relate to a financial asset (or a group of assets) that are specifically identified (for example, only the portion of interest relating to the asset);
- the part comprises the cash flows in accordance with a precisely identified percentage of their total (for example, 90% of all cash flows deriving from the asset);
- the part includes a precisely identified portion of specifically identified cash flows (for example, 90% of cash flows only of the portion relating to the asset).

If the afore-mentioned criteria are not met, the cancellation standards must apply to the financial asset (or group of financial assets) as a whole.

The conditions for the complete cancellation of a financial asset are the extinction of the contractual rights, such as their natural maturity, or the transfer to another counterparty of cash flows deriving from this asset. Payment rights are considered to be transferred if contractual rights are held to receive the financial flows from the asset, but an obligation is assumed to pay these flows to one or more entities and all three of the following conditions are satisfied (pass-through agreement):

- the Bank is under no obligation to pay any unpaid amounts from the original asset;

- the sale and offering as guarantees of the original asset is prohibited, except if it guarantees the obligation to pay financial flows;
- the Bank is obliged to transfer immediately all the financial flows that it receives and has no right to invest them, except for investments in liquid assets during the short period between the collection and payment dates, on condition that the interest matured over the period is paid.

In addition, the elimination of a financial asset is subject to a check being carried out that all the risks and benefits deriving from holding the rights have effectively been transferred (true sale). If there is a transfer of substantially all the risks and benefits, the transferred asset (or group of assets) will be cancelled and the rights and obligations relating to the transfer will be recorded as assets or liabilities. On the other hand, if the risks and benefits are maintained, the transferred asset (or group of activities) must continue to be recognised. In this case, a liability also needs to be recorded that corresponds to the amount received as a payment for the transfer and, subsequently, all revenue matured from the asset and any charges incurred on the liability must be recognised.

The main operations that do not allow a financial asset to be cancelled fully are the receivable securitisation operations, the repurchase agreements and the security lending transactions based on the afore-mentioned rules.

In the case of repurchase agreements and security lending transactions, the assets that are the object of the transactions are not removed from the financial statements since the terms of the transactions require all the associated risks and benefits to be maintained.



### A.3 - INFORMATION ON FAIR VALUE

#### A.3.1 Transfers between portfolios

No financial instruments were transferred between portfolios.

#### A.3.2 Fair value hierarchy

##### A.3.2.1 Accounting portfolios: breakdown by fair value levels

Financial assets/liabilities carried at fair value	2012			2011		
	L1	L2	L3	L1	L2	L3
1. Held-for-trading financial assets	129	-	-	-	623	-
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	540,994	-	-	63,189	-	-
4. Hedging derivatives	-	-	-	-	-	-
<b>TOTAL</b>	<b>541,123</b>	<b>-</b>	<b>-</b>	<b>63,189</b>	<b>623</b>	<b>-</b>
1. Held-for-trading financial liabilities	-	-	-	-	-	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

#### A.3.3 Disclosure on the "day one profit/loss"

Nothing to note.

## PART B - INFORMATION ON THE BALANCE SHEET

### ASSETS

#### SECTION 1 - Cash and cash equivalents - Item 10

##### 1.1 Cash and cash equivalents: breakdown

Items / Values	31.12.2012	31.12.2011
a. Cash	46	7
b. Demand deposits at Central Banks	3,651	-
<b>TOTAL</b>	<b>3,697</b>	<b>7</b>

“Demand deposits at Central Banks” refer to the direct deposit with the Bank of Italy opened during 2012.

#### SECTION 2 - Held-for-trading financial assets - Item 20

##### 2.1 Held-for-trading financial assets: breakdown by type

Items / Values	31.12.2012			31.12.2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>A. Cash assets</b>						
1. Debt securities	129	-	-	-	623	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	129	-	-	-	623	-
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>TOTAL A</b>	<b>129</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>623</b>	<b>-</b>
<b>B. Derivative instruments</b>						
1. Financial derivatives	-	-	-	-	-	-
1.1 trading	-	-	-	-	-	-
1.2 related to fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 related to fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
<b>TOTAL B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL (A+B)</b>	<b>129</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>623</b>	<b>-</b>

This item includes bonds from leading Italian banks, at variable rates.

## 2.2 Held-for-trading financial assets: break-down by debtor/issuer

Items / Values	31.12.2012	31.12.2011
<b>A. CASH ASSETS</b>		
<b>1. Debt securities</b>	<b>129</b>	<b>623</b>
a. Governments and Central Banks	-	-
b. Other public entities	-	-
c. Banks	129	623
d. Other issuers	-	-
<b>2. Equity securities</b>	-	-
a. Banks	-	-
b. Other issuers	-	-
▪ insurance companies	-	-
▪ financial companies	-	-
▪ non-financial companies	-	-
▪ other	-	-
<b>3. UCITS units</b>	-	-
<b>4. Loans</b>	-	-
a. Governments and Central Banks	-	-
b. Other public entities	-	-
c. Banks	-	-
d. Other entities	-	-
<b>TOTAL A</b>	<b>129</b>	<b>623</b>
<b>B. DERIVATIVE INSTRUMENTS</b>	-	-
a. Banks	-	-
▪ fair value	-	-
b. Customers	-	-
▪ fair value	-	-
<b>TOTAL B</b>	-	-
<b>TOTAL (A+B)</b>	<b>129</b>	<b>623</b>

### 2.3 Held-for-trading cash financial assets: annual changes

	Debt securities	Equity securities	UCITS units	Loans	Total
<b>A. Opening balance</b>	<b>623</b>	-	-	-	<b>623</b>
<b>B. Increases</b>	<b>15,923</b>	-	-	-	<b>15,923</b>
B1. Purchases	15,745	-	-	-	15,745
B2. Increases in fair value	153	-	-	-	153
B3. Other changes	25	-	-	-	25
<b>C. Decreases</b>	<b>16,417</b>	-	-	-	<b>16,417</b>
C1. Sales	15,918	-	-	-	15,918
C2. Reimbursements	428	-	-	-	428
C3. Decreases in fair value	2	-	-	-	2
C4. Transfers to other portfolios	-	-	-	-	-
C5. Other changes	69	-	-	-	69
<b>D. Closing balance</b>	<b>129</b>	-	-	-	<b>129</b>

**SECTION 4 - AVAILABLE-FOR-SALE FINANCIAL ASSETS - ITEM 40**

**4.1 Available-for-sale financial assets: breakdown by type**

Items / Values	31.12.2012			31.12.2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	540,994	-	-	63,189	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	540,994	-	-	63,189	-	-
2. Equity securities	-	-	-	-	-	-
2.1 Measured at fair value	-	-	-	-	-	-
2.2 Measured at cost	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
<b>TOTAL</b>	<b>540,994</b>	<b>-</b>	<b>-</b>	<b>63,189</b>	<b>-</b>	<b>-</b>

The AFS portfolio mainly comprises Italian Government securities with short term maturity dates.

**4.2 Available-for-sale financial assets: breakdown by debtors/issuers**

Items / Values	31.12.2012	31.12.2011
<b>1. Debt securities</b>	<b>540,994</b>	<b>63,189</b>
a. Governments and Central Banks	540,994	63,189
b. Other public entities	-	-
c. Banks	-	-
d. Other issuers	-	-
<b>2. Equity securities</b>	-	-
a. Banks	-	-
b. Other issuers:	-	-
▪ insurance companies	-	-
▪ financial companies	-	-
▪ non-financial companies	-	-
▪ other	-	-
<b>3. UCITS units</b>	-	-
<b>4. Loans</b>	-	-
a. Governments and Central Banks	-	-
b. Other public entities	-	-
c. Banks	-	-
d. Other entities	-	-
<b>TOTAL</b>	<b>540,994</b>	<b>63,189</b>

#### 4.4 Available-for-sale financial assets: annual changes

	Debt securities	Equity securities	UCITS units	Loans	Total
<b>A. Opening balance</b>	<b>63,189</b>	-	-	-	<b>63,189</b>
<b>B. Increases</b>	<b>2,096,075</b>	-	-	-	<b>2,096,075</b>
B1. Purchases	2,085,892	-	-	-	2,085,892
B2. Increases in fair value	670	-	-	-	670
B3. Write-backs	-	-	-	-	-
▪ Charged to the income statement	-	-	-	-	-
▪ Charged to the shareholders' equity	-	-	-	-	-
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other changes	9,513	-	-	-	9,513
<b>C. Decreases</b>	<b>1,618,270</b>	-	-	-	<b>1,618,270</b>
C1. Sales	1,502,949	-	-	-	1,502,949
C2. Reimbursements	114,618	-	-	-	114,618
C3. Decreases in fair value	109	-	-	-	109
C4. Write-downs for impairment	-	-	-	-	-
▪ Charged to the income statement	-	-	-	-	-
▪ Charged to the shareholders' equity	-	-	-	-	-
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other changes	594	-	-	-	594
<b>D. Closing balance</b>	<b>540,994</b>	-	-	-	<b>540,994</b>

**SECTION 5 - HELD-TO-MATURITY FINANCIAL ASSETS - ITEM 50**

**5.4 Held-to-maturity financial assets: annual changes**

	Debt securities	Loans	Total
<b>A. Opening balance</b>	-	-	-
<b>B. Increases</b>	<b>127,854</b>	-	<b>127,854</b>
B1. Purchases	125,231	-	125,231
B2. Write-backs	-	-	-
B3. Transfers from other portfolios	-	-	-
B4. Other changes	2,623	-	2,623
		-	
<b>C. Decreases</b>	<b>127,854</b>	-	<b>127,854</b>
C1. Sales	127,854	-	127,854
C2. Reimbursements	-	-	-
C3. Value adjustments	-	-	-
C4. Transfers to other portfolios	-	-	-
C5. Other changes	-	-	-
		-	
<b>D. Closing balance</b>	-	-	-

The portfolio of Euro 100 million built up over the year and classified under the “Held-to-maturity financial assets” category was entirely disinvested in the last quarter of 2012; it had been created to take advantage of opportunities resulting from developments on the Italian Government securities market.

**SECTION 6 - LOANS TO BANKS - ITEM 60**

**6.1 Loans to banks: breakdown by type**

Type of Transaction / Values	31.12.2012	31.12.2011
<b>A. Loans to Central Banks</b>	<b>4,183</b>	-
1. Term deposits	-	-
2. Compulsory reserves	4,183	-
3. Repurchase agreements	-	-
4. Other	-	-
<b>B. Loans to Banks</b>	<b>1,161</b>	<b>20,875</b>
1. Current accounts and demand deposits	1,161	20,572
2. Term deposits	-	303
3. Other loans:	-	-
3.1 Repurchase agreements	-	-
3.2 Financial lease	-	-
3.3 Other	-	-
4. Debt securities	-	-
4.1 Structured securities	-	-
4.2 Other debt securities	-	-
<b>TOTAL (book value)</b>	<b>5,344</b>	<b>20,875</b>
<b>TOTAL (fair value)</b>	<b>5,344</b>	<b>20,875</b>

This item mainly includes the bank liquidity deposited with other banks in online current accounts and the compulsory reserve with the Bank of Italy. The Bank has been a direct member of the gross settlement system Target II since August 2012.



**SECTION 7 - LOANS TO CUSTOMERS - ITEM 70**
**7.1 Loans to customers: breakdown by type**

Type of Transaction / Values	31.12.2012		31.12.2011	
	Performing	Impaired	Performing	Impaired
1. Current accounts	3,840	-	3,705	-
2. Repurchase agreements	99,700	-	18,409	-
3. Mortgages	-	-	-	-
4. Credit cards, personal loans, and salary-backed loans	-	-	-	-
5. Financial lease	-	-	-	-
6. Factoring	329,263	472	82,855	188
7. Other transactions	6,867	-	-	-
8. Debt securities	-	-	-	-
8.1 Structured securities	-	-	-	-
8.2 Other debt securities	-	-	-	-
<b>TOTAL (book value)</b>	<b>439,670</b>	<b>472</b>	<b>104,969</b>	<b>188</b>
<b>TOTAL (fair value)</b>	<b>458,517</b>	<b>472</b>	<b>104,969</b>	<b>188</b>

This mainly includes the amount of receivables acquired by the Bank on a definitive basis as part of its factoring business and advances on invoices. The sole debt exposure is to the Public Administration, and more specifically to the local health authorities and hospital groups. The item also includes repurchase agreements amounting to Euro 99.7 million signed by Institutional customers. The item “other transactions” includes the interest-bearing guarantee deposits and the variation margins at the Compensation and Guarantee Fund.

**7.2 Loans to customers: debtors/issuers**

Type of Transaction / Values	31.12.2012		31.12.2011	
	Performing	Impaired	Performing	Impaired
<b>1. Debt securities</b>	-	-	-	-
a. Governments	-	-	-	-
b. Other public entities	-	-	-	-
c. Other issuers	-	-	-	-
▪ non-financial companies	-	-	-	-
▪ financial companies	-	-	-	-
▪ insurance	-	-	-	-
▪ other	-	-	-	-
<b>2. Loans to:</b>	<b>439,670</b>	<b>472</b>	<b>104,969</b>	<b>188</b>
a. Governments	23,932	-	-	-
b. Other public entities	305,332	472	82,855	188
c. Other entities	110,406	-	22,114	-
▪ non-financial companies	-	-	954	-
▪ financial companies	109,374	-	21,160	-
▪ insurance	-	-	-	-
▪ other	1,032	-	-	-
<b>TOTAL</b>	<b>439,670</b>	<b>472</b>	<b>104,969</b>	<b>-</b>

**SECTION 10 - EQUITY INVESTMENTS - ITEM 100**
**10.1 Equity investments in subsidiaries, jointly controlled entities or entities subject to a considerable influence: information on equity relations**

Company	Head Office	Types of relationship (1)	Quota held		
			Investee company	% held	% voting rights held (2)
1. S.F. Trust Holdings Ltd	London	1	Banca Sistema	100%	100%
2. Solvi S.r.l.	Italy	1	Banca Sistema	100%	100%

**10.2 Equity investments in subsidiaries, jointly controlled entities or entities subject to considerable influence: other information**

Items / Technical forms	Total assets	Total revenues	Profit (loss)	Shareholders' equity	Book value
A. Wholly-owned subsidiaries					
1. S.F. Trust Holdings Limited	2,316	328	(2,203)	(711)	387
2. Solvi S.r.l.	2,829	3,277	598	1,305	2,655
<b>Total</b>	<b>5,145</b>	<b>3,605</b>	<b>(1,605)</b>	<b>594</b>	<b>3,042</b>

Even though the company SFT Holding has a negative shareholders' equity, the shareholding was not written down since the shareholders' equity of the Group company SF Trust is higher than the current book value (Euro 844 thousand as at 31 December 2012).

**10.3 Equity investments: annual changes**

Type of Transaction / Values	31.12.2012	31.12.2011
<b>A. Opening balance</b>	<b>375</b>	-
<b>B. Increases</b>	<b>2,667</b>	<b>375</b>
B.1 Purchases	2,667	375
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
<b>C. Decreases</b>	-	-
C.1 Sales	-	-
C.2 Value adjustments	-	-
C.3 Other changes	-	-
<b>D. Closing balance</b>	<b>3,042</b>	<b>375</b>
<b>E. Total revaluations</b>	-	-
<b>F. Total adjustments</b>	-	-

On 19 December 2012, Banca Sistema purchased the entire shareholding of the company Solvi S.r.l. from the group company S.F. Trust Italia. The price amounted to Euro 2,655,000 in accordance to a sworn appraisal by an independent expert. The remaining increase in the "purchases" refer to the purchase of the remaining 3% of the company S.F. Trust Holding by private shareholders, completed in December.

**SECTION 11 - PROPERTY, PLANT AND EQUIPMENT- ITEM 110**

**11.1 Property, plant and equipment: breakdown of assets carried at cost**

Assets / Values	31.12.2012	31.12.2011
<b>A. Assets for business use</b>		
<b>1.1 owned</b>	<b>345</b>	<b>54</b>
a. land	-	-
b. buildings	-	-
c. furniture	156	20
d. electronic systems	189	34
e. other	-	-
<b>1.2 acquired by financial leases</b>	-	-
a. land	-	-
b. buildings	-	-
c. furniture	-	-
d. electronic systems	-	-
e. other	-	-
<b>TOTAL A</b>	<b>345</b>	<b>54</b>
<b>B. Assets held for investment</b>		
<b>2.1 owned</b>	-	-
a. land	-	-
b. buildings	-	-
<b>2.2 acquired by financial leases</b>	-	-
a. land	-	-
b. buildings	-	-
<b>TOTAL B</b>	-	-
<b>TOTAL (A+B)</b>	<b>345</b>	<b>54</b>

Property, plant and equipment are recorded in the financial statements according to the general acquisition cost criterion, including accessory expenses and any other costs incurred to put the assets in a condition to be used by the company, as well as indirect costs for the portion reasonably attributable to the asset and refer to the costs incurred at the close of 2012.

Depreciation percentages:

office furniture:	12%
furnishings:	15%
electronic machines and various equipment:	20%
assets with a value of less than 516 euro:	100%

### 11.3 Property, plant and equipment for business use: annual changes

	Land	Buildings	Moveable assets	Electronic systems	Other	Total
<b>A. Gross opening balance</b>	-	-	<b>547</b>	<b>358</b>	<b>39</b>	<b>944</b>
A.1 Net total impairment	-	-	527	324	39	<b>866</b>
<b>A.2 Net opening balance</b>	-	-	<b>20</b>	<b>34</b>	-	<b>54</b>
<b>B. Increases</b>	-	-	<b>161</b>	<b>183</b>	-	<b>344</b>
B.1 Purchases	-	-	161	183	-	<b>344</b>
B.2 Expenditure for capitalised improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value charged to:						
a. shareholders' equity	-	-	-	-	-	-
b. income statement	-	-	-	-	-	-
B.5 Positive currency differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	-	-	-	-
B.7 Other changes - (from business combinations)	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	<b>25</b>	<b>28</b>	-	<b>53</b>
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation and amortisation	-	-	25	28	-	<b>53</b>
C.3 Value adjustments from impairment charged to:						
a. shareholders' equity	-	-	-	-	-	-
b. income statement	-	-	-	-	-	-
C.4 Decreases in fair value charged to:						
a. shareholders' equity	-	-	-	-	-	-
b. income statement	-	-	-	-	-	-
C.5 Negative currency differences	-	-	-	-	-	-
C.6 Transfers to:						
a. property, plant and equipment held for investment	-	-	-	-	-	-
b. assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
<b>D. Net closing balance</b>	-	-	<b>156</b>	<b>189</b>	-	<b>345</b>
D.1 Net total impairment	-	-	552	352	39	<b>943</b>
<b>D.2 Gross closing balance</b>	-	-	<b>708</b>	<b>541</b>	<b>39</b>	<b>1,288</b>
<b>E. Valuation at cost</b>	-	-	<b>156</b>	<b>189</b>	-	<b>345</b>

**SECTION 12 - PROPERTY, PLANT AND EQUIPMENT- ITEM 120**

**12.1 Intangible assets: breakdown by type of asset**

Assets / Values	31.12.2012		31.12.2011	
	Fixed term	Non-fixed term	Fixed term	Non-fixed term
A.1 Goodwill				
A.2.1 Assets valued at cost:	38	-	7	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	38	-	7	-
A.2.2 Assets valued at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
<b>TOTAL</b>	<b>38</b>	<b>-</b>	<b>7</b>	<b>-</b>

Intangible fixed assets are recognised at purchase cost, including accessory costs. This item mainly comprises software that is amortized over 3 years.

## 12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		Fixed	Non-fixed	Fixed	Non-fixed	
<b>A. Opening balance</b>	-	-	-	<b>2,884</b>	-	<b>2,884</b>
A.1 Net total impairment	-	-	-	2,877	-	2,877
<b>A.2 Net opening balance</b>	-	-	-	<b>7</b>	-	<b>7</b>
<b>B. Increases</b>	-	-	-	<b>42</b>	-	<b>42</b>
B.1 Purchases	-	-	-	42	-	42
B.2 Increases in internal intangible assets	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	-	<b>11</b>	-	<b>11</b>
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	11	-	11
C.3 Negative changes in fair value	-	-	-	-	-	-
D.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative currency differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
<b>D. Net closing balance</b>	-	-	-	<b>38</b>	-	<b>38</b>
D.1 Total net value adjustments	-	-	-	2,888	-	2,888
<b>E. Gross closing balance</b>	-	-	-	<b>2,926</b>	-	<b>2,926</b>
<b>F. Valuation at cost</b>	-	-	-	-	-	-

**SECTION 13 - TAX ASSETS AND LIABILITIES - ITEM 130 UNDER ASSETS AND ITEM 80 UNDER LIABILITIES**

**13.1 Deferred tax assets: breakdown**

The balance shows the deferred tax assets for IRES (Corporate Income Tax) recorded in correspondence to the tax losses of the company, including those for the tax periods for the years ended from 31 December 2006 to 31 December 2011, reduced by the IRES calculated for 2012.

**13.2 Deferred tax liabilities: breakdown**

The amounts take account of the deferred tax liabilities resulting from the adjustments necessary in the FTA (Euro 3 thousand) and the valuation reserve amount for the available-for-sale financial assets at year-end (Euro 154 thousand), recorded with a balancing entry in shareholders' equity.

**13.3 Changes in prepaid taxes (with a balancing entry in the income statement)**

	31.12.2012	31.12.2011
<b>1. Opening balance</b>	<b>4,850</b>	<b>1,483</b>
<b>2. Increases</b>	<b>20</b>	<b>3,367</b>
2.1 Prepaid taxes recorded during the year	20	3,367
a. relating to previous years	-	2,623
b. due to change in accounting standards	-	-
c. write-backs	-	-
d. other	-	744
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>1,616</b>	<b>-</b>
3.1 Prepaid taxes cancelled during the year	1,616	-
a. reversals	1,616	-
b. write-downs due to non-recoverability	-	-
c. change of accounting standards	-	-
d. other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Final amount</b>	<b>3,254</b>	<b>4,850</b>

**13.4 Changes in deferred taxes (a balancing entry to the income statement)**

	31.12.2012	31.12.2011
<b>1. Opening balance</b>	3	3
<b>2. Increases</b>	-	-
2.1 Prepaid taxes recorded during the year	-	-
a. relating to previous years	-	-
b. due to change in accounting standards	-	-
c. other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	-	-
3.1 Prepaid taxes cancelled during the year	-	-
a. reversals	-	-
b. change of accounting standards	-	-
c. other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Final amount</b>	<b>3</b>	<b>3</b>

**13.5 Changes in prepaid taxes (a balancing entry to the shareholders' equity)**

	31.12.2012	31.12.2011
<b>1. Opening balance</b>	-	-
<b>2. Increases</b>	<b>355</b>	-
2.1 Prepaid taxes recorded during the year	-	-
a. relating to previous years	-	-
b. due to change in accounting standards	-	-
c. other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	355	-
<b>3. Decreases</b>	<b>38</b>	-
3.1 Prepaid taxes cancelled during the year	-	-
a. reversals	-	-
b. write-downs due to non-recoverability	-	-
c. due to change in accounting standards	-	-
d. other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	38	-
<b>4. Final amount</b>	<b>317</b>	-



Prepaid taxes are recorded in the financial statements against a tax benefit resulting from the possibility of deducting the imbalance of Euro 1,074 thousand over 18 years (art. 103, paragraph 3-bis of D.P.R. no. 917 of 22/12/1986 (TUIR) from the purchase of the business branch from the subsidiary SFT Italia. This branch, which presented a positive imbalance of Euro 1,074 thousand, was recorded as a reduction of the reserves as it relates to a transaction of a company “under common control”.

### 13.6 Changes in the deferred taxes (a balancing entry to the shareholders' equity)

	31.12.2012	31.12.2011
<b>1. Opening balance</b>	<b>80</b>	-
<b>2. Increases</b>	<b>154</b>	<b>80</b>
2.1 Deferred taxes recorded during the year	154	80
a. relating to previous years	-	-
b. due to change in accounting standards	-	-
c. other	154	80
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>80</b>	-
3.1 Deferred taxes cancelled during the year	80	-
a. reversals	80	-
b. write-downs due to non-recoverability	-	-
c. due to change in accounting standards	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Final amount</b>	<b>154</b>	<b>80</b>

## SECTION 15 - OTHER ASSETS - ITEM 150

### 15.1 Other assets: breakdown

	31.12.2012	31.12.2011
Work in progress	826	1,857
Improvements on third party assets	766	110
Tax advances	218	148
Prepaid expenses not related to the item	123	113
Accrued income not related to the item	37	-
Guarantee deposits	35	18
Other	186	182
<b>TOTAL</b>	<b>2,191</b>	<b>2,428</b>

“Work in progress” mainly relates to transfers attributable to the item and fully set to zero in January 2013. The increase in “improvements on leased assets” mainly relates to the extraordinary maintenance carried out when the new branch was opened in November.

## LIABILITIES

### SECTION 1 - DUE TO BANKS - ITEM 10

#### *1.1 Due to banks: breakdown by type*

Type of Transaction / Values	31.12.2012	31.12.2011
<b>1. Due to central banks</b>	<b>100,772</b>	-
<b>2. Due to banks</b>	<b>13,151</b>	<b>77,209</b>
2.1 Current accounts and demand deposits	12,568	8,778
2.2 Term deposits	-	-
2.3 Loans	-	68,431
2.3.1 Reverse repurchase agreements	-	68,431
2.3.2 Other	-	-
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other amounts due	583	-
<b>TOTAL</b>	<b>113,923</b>	<b>77,209</b>
<b>Fair value</b>	<b>113,923</b>	<b>77,209</b>

The amounts due to central banks refer to Bank investments in “LTRO” refinancing transactions proposed by the European Central Bank with maturity at 3 years.

### SECTION 2 - DUE TO CUSTOMERS - ITEM 20

#### *2.1 Due to customers: breakdown by type*

Type of Transaction / Values	31.12.2012	31.12.2011
1. Current accounts and demand deposits	14,338	25,027
2. Term deposits	522,720	16,922
3. Loans	249,012	-
3.1 Reverse repurchase agreements	249,012	-
3.2 Other	-	-
4. Liabilities for commitments to repurchase own equity investments	-	-
5. Other amounts due	12,307	7,109
<b>TOTAL</b>	<b>798,377</b>	<b>49,058</b>
<b>Fair value</b>	<b>798,377</b>	<b>49,058</b>

The item “other payables” refers principally to payables to be recognised to assignors as part of factoring transactions.

**SECTION 3 - SECURITIES IN ISSUE - ITEM 30**
**3.1 Securities in issue: breakdown by type**

Type of security / Values	Total 2012				Total 2011			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Securities</b>								
1. bonds	55,242	-	55,242	-	53,907	-	53,907	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	55,242	-	55,242	-	53,907	-	53,907	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>55,242</b>	<b>-</b>	<b>55,242</b>	<b>-</b>	<b>53,907</b>	<b>-</b>	<b>53,907</b>	<b>-</b>

This item includes the issue of a CLN security of Euro 35 million at the fixed rate of 5.1% accounted for as a “financial guarantee” in accordance with the provisions of IAS 39.

**3.2 Details of Item 30 “Securities in issue”: subordinated securities**

		Type of issue	Type of issue	Maturity date	Nominal value	IAS value
<b>Tier 1 capital</b>	Banca Sistema S.p.A.	Innovative equity instruments: blended rate - ISIN IT0004881444	Up to 13 June 2023 flat rate of 7% From 14 June 2023 variable rate Euribor 6m + 5.5%	Perpetual	5,000	5,010
<b>Tier 2 capital</b>	Banca Sistema S.p.A.	Ordinary subordinated loans (Lower Tier 2): ISIN IT0004869712	Euribor 6 months + 5.5%	15-11-2022	10,000	10,075
<b>TOTAL</b>					<b>15,000</b>	<b>15,085</b>

## SECTION 8 - TAX LIABILITIES - ITEM 80

The breakdown and changes in the deferred tax liabilities were illustrated in part B, Section 13 of the assets in these notes to the financial statements.

## SECTION 10 - OTHER LIABILITIES - ITEM 100

### 10.1 Other liabilities: breakdown

	Total 2012	Total 2011
Payments received during the reconciliation	4,606	4,063
Work in progress	3,560	2,276
Taxes payable to the tax authorities and other entities	2,734	221
Trade payables	1,468	468
Payables to employees	1,207	518
Accrued expenses	653	46
Payables to Group companies	509	762
Pension payments	256	101
Other	15	367
<b>TOTAL</b>	<b>15,008</b>	<b>8,822</b>

The item "Payments received during reconciliation" mainly refers to the amounts from the local health authorities used to close the bank's credit positions which were then redirected to close the credit item in the periods following year-end.

The "Work in progress items" mainly relate to transfers which have not yet been allocated, and fully set to zero in January 2013.

The increase in "Trade payables" is due to the invoices received and to receive mainly related to restructuring premises and the projects in place at year-end.

## SECTION 11 - POST-EMPLOYMENT BENEFITS - ITEM 110

The actuarial value of the fund was calculated by an external actuary who issued a report on the matter.

### 11.1 Post-employment benefits: annual changes

	Total 2012	Total 2011
<b>A. Opening balance</b>	272	242
<b>B. Increases</b>	295	66
B.1 Provisions for the year	172	66
B.2 Other changes (from integration transactions)	123	-
<b>C. Decreases</b>	27	36
C.1 Amounts paid out	13	36
C.2 Other changes	14	-
<b>D. Closing balance</b>	540	272
<b>TOTAL</b>	<b>540</b>	<b>272</b>

The actuarial valuation of the post-employment benefits was made for the group on a closed basis, i.e. the new staff hired during the reference time period were not considered. With respect to the aforementioned international accounting standards, the actuarial simulations were carried out in accordance with the matured benefit method using the unit credit criteria provided for.

The unit credit criteria provides that the costs incurred during the year to establish the post-employment benefits are calculated on the basis of the services provided during that year. In accordance with the matured benefits method, the obligation with respect to the worker is determined on the basis of the work provided up to the valuation date and on the basis of the salary reached at the date the work relationship is terminated.

With respect to the interest rate to use in the simulations, it is important to remember that IAS 19 provides for correspondence between the rates used and expiry of the quantity with which the valuation is made. An annual tax of 11% on the revaluation of the post-employment benefit reserve is used in the calculations.

The technical measurements were made on the basis of the hypotheses described in the table below:

Annual discount rate	3.25%
Annual inflation rate	2.00%
Total annual pay increase rate	3.00%
Annual post-employment benefit increase rate	3.00%

With respect to the discounting rate, the value of the Iboxx Eurozone Corporates Index was used with a duration equal to that of the collective item being valued.

If the Bank had made the actuarial valuation using rates based on the AA curve, the amount of post-employment benefits would have been Euro 562,536.

**SECTION 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120**

**12.1 Provisions for risks and charges: breakdown**

Type of Transaction / Values	Total 2012	Total 2011
1. Company pension funds	-	-
2. Other provisions for risks and charges	5	105
2.1 legal disputes	-	100
2.2 personnel charges	-	-
2.3 other	5	5
<b>TOTAL</b>	<b>5</b>	<b>105</b>

**12.2 Provisions for risks and charges: annual changes**

	Pension funds	Other provisions	Total
<b>A. Opening balance</b>	-	<b>105</b>	<b>105</b>
<b>B. Increases</b>	-	-	-
B.1 Provisions for the year	-	-	-
B.2 Changes due to the passage of time	-	-	-
B.3 Changes due to discount rate adjustments	-	-	-
B.4 Other changes	-	-	-
<b>C. Decreases</b>	-	100	100
C.1 Use during the year	-	<b>100</b>	<b>100</b>
C.2 Changes due to discount rate adjustments	-	-	-
C.3 Other changes	-	-	-
<b>D. Closing balance</b>	-	<b>5</b>	<b>5</b>

**12.4 Provisions for risks and charges - other provisions**

Euro 5 thousand of the “other provisions” comprised the remaining provisions left over from previous years for legal disputes.

**SECTION 14 - COMPANY EQUITY - ITEMS 130, 150, 160, 170, 180, 190 AND 200**

**14.1 “Capital” and “Treasury shares”: breakdown**

Share capital is composed entirely of 65,506,183 ordinary shares with a par value of Euro 0.12 each, divided as follows:

SOF LUXCO S.a.r.l.	30,545,061	46.63%
SGBS S.r.l. (Management Company)	17,261,363	26.35%
Fondazione Alessandria	5,528,148	8.44%
Fondazione Pisa	5,528,148	8.44%
Fondazione Sicilia	5,528,148	8.44%
Other private shareholders	1,115,315	1.70%

The Bank does not hold any treasury shares.

The Bank shareholders' equity is outlined below:

	Total 2012	Total 2011
1. Capital	7,861	7,861
2. Share premiums	-	-
3. Reserves	4,276	13
4. (Treasury shares)	-	-
5. Valuation reserves	407	210
6. Capital instruments	-	-
7. Profit for the year	2,722	76
<b>TOTAL</b>	<b>15,266</b>	<b>8,160</b>

As regards movements in the item reserves, please refer to the statement on shareholders' equity.

## 14.2 Capital - Number of shares: annual changes

Items / Types	Ordinary	Other
<b>A. Shares existing at the beginning of the period</b>	<b>65,506,183</b>	-
▪ fully paid-up	65,506,183	-
▪ not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
<b>A.2 Shares in issue: opening balance</b>	<b>65,506,183</b>	-
<b>B. Increases</b>	-	-
B.1 New issues	-	-
▪ against payment:	-	-
- business combinations	-	-
- bond conversions	-	-
- warrant exercises	-	-
- other	-	-
▪ free of charge	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Disposal of treasury shares	-	-
B.3 Other changes	-	-
<b>C. Decreases</b>	-	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Sale of businesses	-	-
D.4 Other changes	-	-
<b>D. Shares outstanding: closing balance</b>	<b>65,506,183</b>	-
D.1 Treasury shares (+)	-	-
D.2 Shares existing at the end of the period	65,506,183	-
▪ fully paid-up	65,506,183	-
▪ not fully paid-up	-	-



#### 14.4 Profit reserves: other information

In compliance with art. 2427, no. 7 bis of the Italian Civil Code, details of items of shareholders' equity are shown below, with an indication of the origin and possibility of use and distributability.

	Value at 31.12.2012	Possibility of use	Available share
<b>A. Capital</b>	<b>7,861</b>	-	-
<b>B. Capital reserves:</b>	-	-	-
Share premiums reserves	-	-	-
Reserve for loss accruing	-	-	-
<b>C. Profit reserves:</b>	-	-	-
Legal reserve	4	B	-
Valuation reserve	407	A,B,C	-
Extraordinary reserve	13	A,B,C	-
Profit from previous year	72	A,B,C	-
Payment to future share capital increase account	4914	A	-
<b>D. Other reserves</b>	(728)	-	-
<b>Total</b>	<b>12,543</b>	-	-
Net profit	2,722	-	-
<b>Total shareholders' equity</b>	<b>15,265</b>	-	-

**Key:**

A = for share capital increase

B = to cover losses

C = for distribution to shareholders

## OTHER INFORMATION

### 1. Guarantees issued and commitments

“Financial guarantees issued - banks” includes the loans taken on within the interbank guarantee systems; “Irrevocable commitments to grant finance” relate to the amount of securities to be received for transactions to be settled.

Transactions	Total 2012	Total 2011
1. Financial guarantees issued	1,295	60
a) Banks	1,295	60
b) Customers	-	-
2. Commercial guarantees issued	67	67
a) Banks	45	45
b) Customers	22	22
3. Irrevocable commitments to grant finance	4,977	19,682
a) Banks	4,977	19,682
▪ for certain use	4,977	19,682
▪ for uncertain use	-	-
b) Customers	-	-
▪ for certain use	-	-
▪ for uncertain use	-	-
4. Commitments underlying credit derivatives: protection sales	-	-
5. Assets lodged as security for minority obligations	-	-
6. Other commitments	-	-
<b>TOTAL</b>	<b>6,339</b>	<b>19,809</b>

### 2. Assets pledged to guarantee own liabilities and commitments

Portfolios	Total 2012	Total 2011
1. Held-for-trading financial assets	-	-
2. Financial assets carried at fair value	-	-
3. Available-for-sale financial assets	327,120	63,189
4. Held-to-maturity financial assets	-	-
5. Loans to banks	-	-
6. Loans to customers	-	-
7. Property, plant and equipment	-	-

#### 4. Management and brokerage on behalf of third parties

Type of services	Total 2012
<b>1. Orders on behalf of customers</b>	-
a) purchases	-
1. settled	-
2. not settled	-
b) sales	-
1. settled	-
2. not settled	-
<b>2. Portfolio management</b>	-
a) individual	-
b) collective	-
<b>3. Custody and administration of securities</b>	<b>617,412</b>
a) third party securities held on deposit: related to depositary bank function (not including assets under management)	-
1. securities issued by the bank that draws up the financial statements	-
2. other securities	-
b) third party securities held on deposit (excluding assets under management): other	71,670
1. securities issued by the bank that draws up the financial statements	12,809
2. other securities	58,861
c) third-party securities deposited with third parties	71,670
d) owned securities deposited with third parties	545,742
<b>4. Other transactions</b>	-

## PART C - INFORMATION ON THE INCOME STATEMENT

### SECTION 1 - INTEREST - ITEMS 10 AND 20

#### 1.1 Interest income and similar income: breakdown

Items / Technical forms	Debt securities	Loans	Other transactions	Total 2012	Total 2011
1. Held-for-trading financial assets	18	-	-	18	122
2. Available-for-sale financial assets	5,360	-	-	5,360	198
3. Held-to-maturity financial assets	2,100	-	-	2,100	-
4. Loans to banks	-	39	-	39	187
5. Loans to customers	-	20,533	-	20,533	2,710
6. Financial assets carried at fair value	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	-
<b>TOTAL</b>	<b>7,478</b>	<b>20,572</b>	<b>-</b>	<b>28,050</b>	<b>3,217</b>

This mainly comprises interest on receivables from customers relating to factoring activities.

With respect to the portfolio of receivables still in place, the Bank accrued the right, as at 31 December 2012, to request penalty interest for a total amount of Euro 9.6 million, an amount not posted under the revenues for the year, while with respect to the portfolio of receivables cashed, the Bank accrued the right to request penalty interest for a total amount of Euro 9.7 million, an amount also not recorded in the financial statements.

#### 1.4 Interest expense and similar charges: breakdown

Items / Technical forms	Payables	Securities	Other transactions	Total 2011	Total 2011
1. Due to central banks	792	-	-	792	-
2. Due to banks	361	-	-	361	386
3. Due to customers	12,338	-	-	12,338	236
4. Securities in issue	-	2,627	-	2,627	1,124
5. Held-for-trading financial liabilities	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
<b>TOTAL</b>	<b>13,491</b>	<b>2,627</b>	<b>-</b>	<b>16,118</b>	<b>1,746</b>

**SECTION 2 - COMMISSIONS - ITEMS 40 AND 50**

**2.1 Commission income: breakdown**

Service type / Values	Total 2012	Total 2011
a. guarantees issued	1	1
b. credit derivatives	-	-
c. management, brokerage and consulting services	21	133
1. financial instrument trading	-	-
2. currency trading	-	-
3. portfolio management	-	1
3.1 individual	-	1
3.2 collective	-	-
4. securities custody and administration	1	3
5. depositary bank	-	-
6. placement of securities	9	103
7. order receipt and transmission work	11	26
8. consultancy services	-	-
8.1 on investments	-	-
8.2 on financial structures	-	-
9. distribution of third-party services	-	-
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	-	-
9.3 other products	-	-
d. collection and payment services	1	2
e. servicing for securitisation transactions	-	-
f. services for factoring transactions	291	-
g. tax collection services	-	-
h. managing multilateral trading systems	-	-
i. maintaining and managing current accounts	9	4
j. other services	-	-
<b>TOTAL</b>	<b>323</b>	<b>140</b>

## 2.2 Commission income: distribution channels for products and services

Services / Amounts	Total 2012	Total 2011
<b>a. at own branches:</b>	<b>9</b>	<b>103</b>
1. portfolio management	-	1
2. placement of securities	9	102
3. third-party products and services	-	-
<b>b. off-site offers:</b>	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-
<b>c. other distribution channels:</b>	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-

## 2.3 Commission expense: breakdown

Services / Amounts	Total 2012	Total 2011
<b>a. guarantees received</b>	-	-
<b>b. credit derivatives</b>	-	-
<b>c. management and brokerage services:</b>	<b>162</b>	<b>57</b>
1. financial instrument trading	7	13
2. currency trading	-	-
3. portfolio management:	-	-
3.1 own	-	-
3.2 on behalf of third parties	-	-
4. securities custody and administration	-	-
5. financial instruments placement	155	44
6. off-site sale of financial instruments, products and services	-	-
<b>d. collection and payment services</b>	<b>37</b>	<b>3</b>
<b>e. other services</b>	<b>340</b>	<b>243</b>
<b>TOTAL</b>	<b>539</b>	<b>303</b>

**SECTION 4 - NET INCOME FROM TRADING ACTIVITIES - ITEM 80**

**4.1 Net income from trading activities: breakdown**

Income Transactions / Components	Capital Gains (A)	Profits from trading (B)	Capital Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
<b>1. Held-for-trading financial assets</b>	-	<b>152</b>	<b>(1)</b>	<b>(1)</b>	<b>150</b>
1.1 Debt securities	-	152	(1)	(1)	150
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
<b>2. Held-for-trading financial liabilities</b>	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
<b>3. Financial assets and liabilities: exchange rate differences</b>	-	-	-	-	-
<b>4. Derivative instruments</b>	-	-	-	-	-
4.1 Financial derivatives:	-	-	-	-	-
▪ On debt securities and interest rates	-	-	-	-	-
▪ On equity securities and share indices	-	-	-	-	-
▪ On currency and gold	-	-	-	-	-
▪ Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
<b>TOTAL</b>	-	<b>152</b>	<b>(1)</b>	<b>(1)</b>	<b>150</b>

**SECTION 6 - PROFITS (LOSSES) FROM DISPOSAL/REPURCHASES - ITEM 100**

**6.1 Profit (Loss) from disposal/repurchase: breakdown**

Items/Income components	Total 31-12-2012			Total 31-12-2011		
	Profits	Losses	Net result	Profits	Losses	Net result
<b>Financial assets</b>						
1. Loans to banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Available-for-sale financial assets	6,899	(134)	6,765	136	-	136
3.1 Debt securities	6,899	(134)	6,765	136	-	136
3.2 Equity securities	-	-	-	-	-	-
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity financial assets	1,992	-	1,992	-	-	-
<b>Total assets</b>	<b>8,891</b>	<b>(134)</b>	<b>8,757</b>	<b>136</b>	<b>-</b>	<b>136</b>
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	224	-	224	-	-	-
<b>Total liabilities</b>	<b>224</b>	<b>-</b>	<b>224</b>	<b>-</b>	<b>-</b>	<b>-</b>



**SECTION 8 - NET VALUE ADJUSTMENTS/WRITE-BACKS DUE TO IMPAIRMENT - ITEM 130**

**8.1 Net value adjustments due to loan impairment: breakdown**

Transactions / Income components	Value adjustments (1)			Write-backs (2)				Total 2012	Total 2011
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Loans to banks	-	-	-	-	-	-	-	-	-
▪ Loans	-	-	-	-	-	-	-	-	-
▪ Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers	-	-	(742)	-	-	-	-	(742)	(234)
▪ Loans	-	-	(742)	-	-	-	-	(742)	(234)
▪ Debt securities	-	-	-	-	-	-	-	-	-
<b>C. Total</b>	-	-	<b>(742)</b>	-	-	-	-	<b>(742)</b>	<b>(234)</b>

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

Furthermore, an analysis is always performed to identify problem loans that show objective evidence of possible impairment at year end. With regard to past due exposures relating to the Public Administration, referring to receivables acquired on a definitive basis as part of the factoring, it was decided that the conditions for making value adjustments were not present considering the quality of the receivable and the debtor counterparties. Given the above, since the new activity started the previous year, a prudential write-down of the receivables of 0.3% was applied, amounting to € 742 thousand. This prudential write-down was made even though there were no specific, analytical risks that could be classified as non-performing loans, watchlist loans or past due loans.

## SECTION 9 - ADMINISTRATIVE EXPENSES - ITEM 150

### 9.1 Personnel costs: breakdown

Type of expenditure / Values	Total 2012	Total 2011
1) Employees	5,040	1,700
a) wages and salaries	3,812	1,324
b) social security charges	731	233
c) post-employment benefits	-	-
d) social security costs	-	-
e) provisions to post-employment benefits	172	66
f) provisions for pension fund and similar commitments:	-	-
▪ defined contribution plans	-	-
▪ defined benefit plans	-	-
g) amounts paid to external complementary social security funds:	141	23
▪ defined contribution plans	141	23
▪ defined benefit plans	-	-
h) costs arising on payment agreements based on own equity instruments	-	-
i) other benefits in favour of employees	184	54
2) Other working staff	187	94
3) Directors and Statutory Auditors	351	476
4) Laid-off personnel	-	-
5) Cost recovery for employees seconded to other companies	-	(79)
6) Cost reimbursement for third party staff seconded to the company	827	693
<b>TOTAL</b>	<b>6,405</b>	<b>2,884</b>

### 9.2 Average number of employees by category

#### Employees

a) Managers:	8
b) Line managers:	11
c) Remaining employees:	27

#### Other staff

The average number of other personnel - project collaborators - amounts to 5.

### 9.4 Other benefits in favour of employees

Within the scope of the incentive plan approved by the Shareholders' Meeting of Banca Sistema S.p.A., shares in the company SGBS S.r.l. were assigned to the "most significant personnel". This transfer was made in part at the fair value of the shares and in part at a lower value than their fair value. Since the shares assigned are for a company that does not fall under the definition of a "Group Entity" of Banca Sistema, IFRS 2 does not apply.

### 9.5 Other administrative expenses: breakdown

	Total 2012	Total 2011
Consultancy	1,973	86
Computer expenses - CSE	1,202	291
Service costs	947	128
Legal expenses	675	407
Rent and related fees	642	207
Advertising	604	82
Auditing fees	495	160
indirect duties and taxes	416	66
Car hire and related fees	273	24
Infoprovider expenses	176	12
Other professional services	148	-
Reimbursement of employee expenses	115	46
Postage	113	10
Printed materials and stationery	112	27
Maintenance moveable property and real properties	98	16
Telephone	92	31
Insurance	91	52
Water, lighting, gas and cleaning utility expenses	90	59
Membership fees	80	57
Discretionary payments	67	15
Data transmission lines	64	-
ATM/cashpoint cards	40	-
Other computer expenses	34	-
Entertainment expenses	23	21
Administrative expense reimbursements	23	34
Newspapers/books	22	2
Other	52	239
<b>TOTAL</b>	<b>8,667</b>	<b>2,072</b>

The sharp increase in “consultancy” and “computer expenses - CSE” is mainly due to the project to expand and develop the internal management system for the receivables factoring and related assessment.

**SECTION 10 - NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 160**

**10.1 Net allocations to provisions for risks and charges: breakdown**

In the absence of significant new events, no specific provisions were made in 2012.

**SECTION 11 - NET VALUE ADJUSTMENTS/WRITE-BACKS TO PROPERTY, PLANT AND EQUIPMENT - ITEM 170**

**11.1 Net value adjustments to property, plant and equipment: breakdown**

Assets / Income components	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a+b-c)
<b>A. Property, plant and equipment</b>				
A.1 Owned	53	-	-	<b>53</b>
▪ for functional use	53	-	-	<b>53</b>
▪ for investment	-	-	-	-
A.2 Acquired under financial lease	-	-	-	-
▪ for functional use	-	-	-	-
▪ for investment	-	-	-	-
<b>TOTAL</b>	<b>53</b>	-	-	<b>53</b>

**SECTION 12 - NET VALUE ADJUSTMENTS/WRITE-BACKS TO INTANGIBLE ASSETS - ITEM 180**

**12.1 Net value adjustments to intangible assets: breakdown**

Assets / Income components	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a+b-c)
<b>A. Intangible assets</b>				
A.1 Owned	11	-	-	<b>11</b>
▪ internally generated by the company	-	-	-	-
▪ other	11	-	-	<b>11</b>
A.2 Acquired under financial lease	-	-	-	-
<b>TOTAL</b>	<b>11</b>	-	-	<b>11</b>

**SECTION 13 - OTHER OPERATING INCOME/COSTS - ITEM 190**

**13.1 Other operating costs: breakdown**

	Total 2012	Total 2011
Financial charges: on collection and payment transactions	3	2
Amortisation/depreciation relating to leasehold improvements	47	6
Other costs	25	41
<b>TOTAL</b>	<b>75</b>	<b>49</b>

**13.2 Other operating income: breakdown**

	Total 2012	Total 2011
Reimbursement of expenses on current accounts and deposits for taxes and other	58	51
Recovery of sundry expenses	71	1
Other income	6	16
<b>TOTAL</b>	<b>135</b>	<b>68</b>

**SECTION 18 - INCOME TAXES FOR THE YEAR FOR CURRENT OPERATIONS - ITEM 260**

**18.1 Income tax for the year for current operations: breakdown**

	Total 2012	Total 2011
1   Current taxes (-)	(712)	-
2   Changes in current taxes from previous years (+/-)	-	-
3   Reduction in current taxes for the period (+)	-	-
4   Changes in prepaid taxes (+/-)	(1,596)	3,367
5   Changes in deferred tax liabilities (+/-)	-	-
6   Taxes for the period (-) (-1+/-2+3+/-4+/-5)	(2,308)	3,367

## 18.2 Reconciliation between theoretical tax charge and actual tax charge in financial statements

IRES (Corporate Income Tax)	Taxable	IRES (Corporate Income Tax)	%
<b>Theoretical IRES tax charge</b>	<b>5,030</b>	<b>(1,383)</b>	<b>27.50%</b>
Permanent increases	824	(227)	4.50%
▪ non-deductible interest expense	645	(177)	3.52%
▪ other administrative expenses	-	-	0.00%
▪ other non-deductible charges	179	(49)	0.98%
Temporary increases	500	(138)	2.73%
▪ allocations for risks and charges	500	(138)	2.73%
▪ other charges deductible in cash	-	-	-
Permanent decreases	(590)	162	-3.22%
▪ other changes	(590)	162	-3.22%
<b>Actual IRES tax charge</b>	<b>5,764</b>	<b>(1,585)</b>	<b>31.51%</b>
IRAP (Regional Business Tax)	Taxable	IRAP (Regional Business Tax)	%
<b>Theoretical IRAP tax charge</b>	<b>5,030</b>	<b>(280)</b>	<b>5.57%</b>
Permanent increases	16,587	(924)	18.37%
Permanent decreases	(8,831)	492	-9.78%
<b>Actual IRAP tax charge</b>	<b>12,786</b>	<b>(712)</b>	<b>14.16%</b>
▪ Other tax costs	-	-	-
<b>Total actual IRES and IRAP tax charge</b>	<b>18,550</b>	<b>(2,297)</b>	<b>45.67%</b>

### SECTION 20 - OTHER INFORMATION

There is no further information to report apart from that already provided in the sections above.

## PART D - STATEMENT OF COMPREHENSIVE INCOME

### *Analytical prospectus of the consolidated comprehensive income*

Items	Gross amount	Income tax	Net amount
<b>10. Profit (loss) for the year</b>			<b>2,722</b>
<b>Other income items</b>			
20. Available-for-sale financial assets	272	(75)	197
a. changes in fair value	272	(75)	197
b. reversal to income statement	-	-	-
▪ impairment adjustments	-	-	-
▪ profits/losses on disposal	-	-	-
c. other changes	-	-	-
30. Property, plant and equipment	-	-	-
40. Intangible assets	-	-	-
50. Foreign investment hedges:	-	-	-
a. changes in fair value	-	-	-
b. reversal to income statement	-	-	-
c. other changes	-	-	-
60. Cash flow hedges:	-	-	-
a. changes in fair value	-	-	-
b. reversal to income statement	-	-	-
c. other changes	-	-	-
70. Exchange differences:	-	-	-
a. changes in fair value	-	-	-
b. reversal to income statement	-	-	-
c. other changes	-	-	-
80. Non-current assets held for disposal:	-	-	-
a. changes in fair value	-	-	-
b. reversal to income statement	-	-	-
c. other changes	-	-	-
90. Actuarial profits (losses) on defined benefit plans	-	-	-
100. Proportion of the equity valuation reserve carried at equity:	-	-	-
a. changes in fair value	-	-	-
b. reversal to income statement	-	-	-
▪ impairment adjustments	-	-	-
▪ profits/losses on disposal	-	-	-
c. other changes	-	-	-
<b>110. Total other income items</b>	<b>272</b>	<b>(75)</b>	<b>197</b>
<b>120. Comprehensive income (Item 10+110)</b>	<b>272</b>	<b>(75)</b>	<b>2,919</b>

## PART E - INFORMATION ON RISKS AND RELATIVE HEDGING POLICIES

### SECTION 1 - BANKING GROUP RISKS

Circular no. 263 of 27 December 2006 - “New prudential regulatory provisions for banks” and subsequent updates set out a prudential rule system to make the objective of achieving more accurate measurement of potential risks relating to banking and financial activities more efficient, in addition to requiring capital structures to more accurately reflect the actual exposure to risk of each intermediary.

In order to manage the significant risks to which it is or could be exposed, Banca Sistema has set up a risk management system that reflects the characteristics, size and complexity of the Group’s operations.

The Bank’s “Risk Management System” is constantly monitored by the Risk Management who ensures that it has sufficient capital adequacy with respect to its business.

The Bank does the following within this context: identification, measurement and evaluation, definition and monitoring of mitigation, monitoring and period reporting systems.

In order to reinforce its ability to manage company risks, the Bank established the Risk Management Committee which supports the CEO in defining strategies, risk policies and profitability targets.

The Risk Management Committee continuously monitors the relevant risks and any new risks, even if they are only potential, resulting from changes in the working environment or the planned Bank operations and the Group.

In the second half of 2012, with reference to the new rules on the functioning of the internal controls system,

the Bank set up the “Control Functions Working Group”. The working group comprises second level control functions (Risk Management and Compliance) and third level functions (Internal Audit) and its objective is to promote interaction between the control departments in the exercise of their duties to provide guidelines and to implement, check and make assessments of the company bodies and the other committees.

The methods used by the Bank to measure, assess and combine risks are approved by the Bank’s Board of Directors, upon proposal of the Risk Division subject to approval by the Risk Management Committee.

In order to measure the Pillar I risks, the Group has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes. In order to evaluate non-measurable Pillar II risks, the Bank adopts - where available - the methods provided under supervisory regulations or those established by trade associations. If there are no such indications, standard market practices by operators that work at a level of complexity and operation that is comparable to the Bank are assessed and the Group.

Banca Sistema prepares the Individual Capital Adequacy Assessment Process reports on an annual basis to comply with the obligation to inform the public, using tables, about its capital adequacy, exposure to risks and the general characteristics of the risk management, control and monitoring systems of the risks (“Pillar III”). To that end, the Bank complies with the public disclosure requirements pursuant to the third pillar of circular 263/2006 publishing the aforesaid information on its website. The information will be published at least once a year within the terms provided for publishing financial statements.



## QUALITATIVE INFORMATION

### 1. General aspects

The prudential regulatory provisions give banks the option of establishing the weighting coefficients to calculate their capital requirements with respect to the credit risks within the scope of the method standardised on the basis of the creditworthiness ratings issued by external credit assessment institution sources (ECAI) recognised by the Bank of Italy.

The Bank uses the rating issued by the ECAI “Fitch Ratings”. The identification of a reference ECAI does not represent - with respect to the objective or purpose - an evaluation of merit of the ratings attributed by the ECAs or support for the methods used, for which the external creditworthiness ratings agencies are the only ones in charge. Following 31 December 2012, the Bank decided to use the evaluations issued by the ECAI (External Credit Assessment Institute) Dominion Bond Rating Service (DBRS), instead of the evaluations provided by the Fitch rating agency. DBRS was recognized as an ECAI by the Supervisory Authority on 11 March 2013.

The assessments issued by the rating agencies are not enough to complete the creditworthiness assessment process that the Bank carries out with respect to its customers, but rather provide an additional contribution to the definition of the information framework on the customer’s credit-worthiness.

The adequate assessment of the creditworthiness of the borrower, with respect to equity and income aspects, and the correct remuneration of risk, are made on the basis of documentation acquired by the bank, along with information from the Bank of Italy Central Credit Bureau to complete the information framework, both when deciding on the loan and for the subsequent monitoring.

The credit risk for Banca Sistema, is one of the main components of the overall bank exposure; the credit portfolio composition mainly comprises national Public

Administration entities such as local health services/ hospital groups, territorial entities (Regions, Provinces and Municipalities) and Ministries, who, by definition, have a very low default risk.

The operating components of Banca Sistema that give rise to credit risk are:

- Factoring assets (without recourse);
- Financial instruments held in own accounts;
- Supervised intermediaries.

### 2. Credit risk management policies

#### 2.1 Organisational aspects

Banca Sistema’s organisational model provides that the preliminary investigation of the loan files are made accurately in accordance with the decision-making powers reserved to the decision-making Bodies.

These powers are reserved to the Board of Directors, the Executive Committee and the CEO in consultation with the Risk Management Committee.

In order to keep the credit quality of its credit portfolio high, Banca Sistema ensures that its resources are highly specialised, and that there is a separation of departments at each decision making level, a high level of standardisation in granting loans and strong monitoring of the individual positions.

In view of the above, the analyses carried out to grant loans are made by the Underwriting Office of Banca Sistema. This Department makes assessments aimed at the separate analysis and reliance on the counterparties (assignor, debtor/s) and the management of the related financial relationships which is carried out at all the typical phases of the loan granting process, summarised as follows:

- “analysis and assessment”: the gathering of quantitative and qualitative information from the counterparties and the system ensures that an assessment can be made on the reliability of the parties and aimed at quantifying the proposed credit lines;

- “decision making and formalisation”: once the proposal has been made, the contractual documentation is prepared to be signed by the assigning counterparty;
- “relationship monitoring”: the continuous control of the counterparties, both in relations with the factor and the system, allows any anomalies to be identified leading to timely interventions.

Credit risk is generated as a direct consequence of the acquisition of credit on a definitive basis from customer companies against the insolvency of the assigned debtor.

The Board of Directors and General Management are responsible for providing guidance and specific functions to establish strategies and the company control policies, with specific reference to the risk component.

## ***2.2 Management, measurement and control systems***

With special reference to the factoring activities, the Bank has the specific objective of efficiently managing credit risk through integrated instruments and processes in order to ensure correct credit management at all stages (preliminary, granting credit, monitoring and management, interventions on non-performing loans).

A number of Banca Sistema structures are also involved to guarantee more efficiency and standardisation in terms of tackling the credit risk and monitoring the individual positions using specialised resources and separating the functions at each decision-making level.

Improved support of credit management is provided by the new factoring management system Key for Finance (K4F). The new system went into operation on 1 January 2013.

The new K4F management system, integrated into the central outsourcer system CSE, is a system used by the main intermediaries operating in the reference sector.

The project was carried out under the responsibility of the outsourcer CSE and involved both internal resources (including the second and third level control functions) and external resources of the Bank under the supervision of the Organisation Management and ICT.

The introduction of the new system made the back office processes more efficient, further automating the accounting records and flows to the Supervisory Authorities, with a resulting benefit in terms of efficiency and control on the quality and accuracy of the data registration and classification processes.

With specific reference to monitoring of the factoring activity, the Bank established the “Collection Working Group” to carry out checks and assessments on the factoring portfolio based on the guidelines defined in the “collection policies”. In order to simplify the ascertainment and remove any obstacles that could delay and/or prevent payment, meetings and direct contacts with the entities are provided for monitoring the credit payment status, meetings with the Public Administration and/or debtor companies, telephone contacts, fax, etc.

The Collection Manager of the Bank coordinates its monitoring and any non-judicial collections with the Group collecting agency, Solvi S.r.l.

The Credit Risk framework described above aims to promptly identify any anomalies and/or discontinuities and ensure that a risk profile in line with the strategic indications provided is maintained.

In relation to the credit risk of the bond securities portfolio, government securities continued to be acquired in 2012, classified as available-for-sale financial assets. These financial assets fall within the “banking book” definition due to their classification, even though they fall outside the traditional investment activity of the Bank, and are sources of credit risk. This risk lies in the inability of the issuer to repay all or part of the bonds underwritten at maturity.

The securities held by Banca Sistema exclusively comprise Italian government bonds, with an average portfolio duration of less than a year. The security portfolio meets the requirement of protecting against liquidity risk resulting from the potential volatility of the on-line deposits introduced with the product Si conto!.

In addition, the establishment of an asset portfolio that can be easily liquidated also meets the requirement to stay ahead of prudential regulatory requirements in

relation to the governance and management of liquidity risk management (Basel 3).

With reference to counterparty risk, the Bank has set up extremely prudent repurchase agreements and reverse repurchase agreements since the underlying assets are mainly Italian government securities.

### **2.3 Credit Risk Mitigation Techniques**

Within the scope of the factoring activities and more specifically, with respect to the assigned debtors in the factoring relationships, if it is considered that the evaluation elements available for the assigned debtor are not adequate enough to provide a correct evaluation/ assumption of the credit risk related to the debtor counterparty, the file is rejected by the Risk Management Committee.

In order to reduce exposure of the factoring portfolio, and more specifically its exposure with regard to the Local Health Authorities (ASL), the Bank has drawn up specific standard hedging Credit Default Swap (CDS) contracts and Credit Linked Notes (CLN) compliant with international regulations in terms of ISDA (International Swaps and Derivatives Association) derivatives.

The issue of this type of instrument, catalogued as hedging derivatives, allows the Bank to improve its capital ratios through the hedging generated by the instrument and the amounts taken in from the subscription of the notes and also to reduce exposures to Risk Concentration Limit levels.

As regards credit risk and counterparty risk on the AFS portfolio and repurchase agreements, the risk is reduced by careful management of operating independence, establishing limits both in terms of responsibilities and the extent and composition of the portfolios by type of securities.

### **2.4 Impaired financial assets**

With reference to factoring, customer relations are constantly monitored both by the Commercial Factoring Department and the competent management offices.

If there are any anomalies discovered and/or prejudicial elements regarding the counterparties, the relationship is kept under observation and the Collection Manager supervises it on a direct basis until the problematic issues have been resolved.

If the situation becomes worse and/or more critical, the files are passed to the Legal Department until the critical issues have been resolved or the position starts to perform again.

On the basis of the elements of judgement available, any classification of the counterparty as watch list or non-performing is made in accordance with the guidelines defined in the collection policy.

If the Risk Management Committee meetings decide to make any value adjustments, the Decision-making bodies are then informed.

## QUANTITATIVE INFORMATION

### A. CREDIT QUALITY

#### A.1 Impaired and performing credit exposures: balance, value adjustments, movements and economic and territorial distribution

##### A.1.1 Credit exposures distribution by related portfolio and by credit quality (book values)

Portfolios / Quality	Non-performing loans	Watch-list loans	Restructured exposures	Past due exposures	Other assets	Total
1. Held-for-trading financial assets	-	-	-	-	129	129
2. Available-for-sale financial assets	-	-	-	-	540,994	540,994
3. Held-to-maturity financial assets	-	-	-	-	-	-
4. Loans to banks	-	-	-	-	5,344	5,344
5. Loans to customers	-	-	-	472	439,670	440,142
6. Financial assets carried at fair value	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
<b>Total 2012</b>	-	-	-	472	986,137	986,609
<b>Total 2011</b>	-	-	-	188	189,656	189,844

##### A.1.2 Credit exposures distribution by related portfolio and by credit quality (gross and net values)

Portfolios / Quality	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Held-for-trading financial assets	-	-	-	X	X	129	129
2. Available-for-sale financial assets	-	-	-	540,994	-	540,994	540,994
3. Held-to-maturity financial assets	-	-	-	-	-	-	-
4. Loans to banks	-	-	-	5,344	-	5,344	5,344
5. Loans to customers	473	1	472	440,661	991	439,670	440,142
6. Financial assets carried at fair value	-	-	-	X	X	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
<b>TOTAL 2012</b>	473	1	472	986,999	991	986,137	986,609
<b>TOTAL 2011</b>	188	-	188	189,283	250	189,656	189,844

There were no receivables subject to renegotiation as part of any collective agreements under the “credit exposures to performing customers” as at 31 December 2012.

Portfolios/seniority expired	OTHER EXPOSURES					Total (net exposure)
	Expired by up to 3 months	Expired from 3 to 6 months	Expired from 6 months to 1 year	Expired for over 1 year	Not past due	
1. Held-for-trading financial assets	-	-	-	-	129	129
2. Available-for-sale financial assets	-	-	-	-	540,994	540,994
3. Held-to-maturity financial assets	-	-	-	-	-	-
4. Loans to banks	-	-	-	-	5,344	5,344
5. Loans to customers	4,545	2,641	900	-	431,584	439,670
6. Financial assets carried at fair value	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
<b>Total 2012</b>	<b>4,545</b>	<b>2,641</b>	<b>900</b>	<b>-</b>	<b>978,051</b>	<b>986,137</b>

#### A.1.3 Cash and off-balance sheet credit exposures to banks: gross and net values

Type of exposure / Values	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
<b>A. CASH EXPOSURE</b>				
a. Non-performing loans	-	-	X	-
b. Watchlist loans	-	-	X	-
c. Restructured exposures	-	-	X	-
d. Past due exposures	-	-	X	-
e. Other assets	5,473	X	-	5,473
<b>TOTAL A</b>	<b>5,473</b>	<b>-</b>	<b>-</b>	<b>5,473</b>
<b>B. OFF-BALANCE SHEET EXPOSURES</b>				
a. Impaired	-	-	X	-
b. Other	1,340	X	-	1,340
<b>TOTAL B</b>	<b>1,340</b>	<b>-</b>	<b>-</b>	<b>1,340</b>
<b>TOTAL A+B</b>	<b>6,813</b>	<b>-</b>	<b>-</b>	<b>6,813</b>

#### A.1.4 Cash credit exposures to banks: movements of gross impaired exposures

No impaired exposures to banks were registered.

#### A.1.5 Cash credit exposures to banks: movements of total value adjustments

No impaired exposures to banks were registered.

**A.1.6 Cash and off-balance sheet credit exposures to customers: gross and net values**

Type of exposure / Values	Gross Exposure	Specific value adjustments	Portfolio value adjustments	Gross Exposure
<b>A. CASH EXPOSURE</b>				
a. Non-performing loans	-	-	X	-
b. Watchlist loans	-	-	X	-
c. Restructured exposures	-	-	X	-
d. Past due exposures	473	1	X	472
e. Other assets	981,656	X	991	980,665
<b>TOTAL A</b>	<b>982,129</b>	<b>1</b>	<b>991</b>	<b>981,137</b>
<b>B. OFF-BALANCE SHEET EXPOSURES</b>				
a. Impaired	-	-	-	-
b. Other	4,999	-	-	4,999
<b>TOTAL B</b>	<b>4,999</b>	<b>-</b>	<b>-</b>	<b>4,999</b>

**A.1.7 Cash credit exposures to customers: movements of gross impaired exposures**

Reasons / Categories	Non-performing loans	Watch-list loans	Restructured exposures	Past due exposures
<b>A. Gross opening exposure</b>	-	-	-	<b>188</b>
▪ of which: exposures disposed of and not derecognised	-	-	-	-
<b>B. Increases</b>	-	-	-	<b>473</b>
B.1 income from performing credit exposures	-	-	-	307
B.2 transfers from other categories of impaired exposures	-	-	-	-
B.3 other increases	-	-	-	166
<b>C. Decreases</b>	-	-	-	<b>188</b>
C.1 transferred to performing credit exposures	-	-	-	188
C.2 write-offs	-	-	-	-
C.3 collections	-	-	-	-
C.4 gains on disposals	-	-	-	-
C.5 transfers to other categories of impaired exposures	-	-	-	-
C.6 other decreases	-	-	-	-
<b>D. Gross closing exposure</b>	-	-	-	<b>473</b>
▪ of which: exposures disposed of and not derecognised	-	-	-	-

### A.1.8 Cash credit exposures to customers: movements of total value adjustments

Reasons / Categories	Non-performing loans	Watch-list loans	Restructured exposures	Past due exposures
<b>A. Overall opening adjustments</b>	-	-	-	-
▪ of which: exposures disposed of and not derecognised	-	-	-	-
<b>B. Increases</b>	-	-	-	<b>1</b>
B.1 value adjustments	-	-	-	-
B.2 transfers from other categories of impaired exposures	-	-	-	-
B.3 other increases	-	-	-	1
<b>C. Decreases</b>	-	-	-	-
C.1 value write-backs from revaluation	-	-	-	-
C.2 value write-backs from collections	-	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other categories of impaired exposures	-	-	-	-
C.5 other decreases	-	-	-	-
<b>D. Closing total adjustments</b>	-	-	-	<b>1</b>
▪ of which: exposures disposed of and not derecognised	-	-	-	-

### A.2 Classification of exposures on the basis of external and internal ratings

#### A.2.1 Distribution of cash and "off-balance sheet" exposures by external rating classification

The risk classes for external ratings indicated in this table refer to creditworthiness classes of the debtors/guarantors described in the prudential regulation (see Circular no. 263 of 27/12/2006 on "New prudential regulatory provisions for the Banks" and subsequent amendments).

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposure	711,710	271,740	-	-	-	-	3,159	<b>986,609</b>
B. Derivatives	-	-	-	-	-	-	-	-
B.1 Financial derivatives	-	-	-	-	-	-	-	-
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	-	-	-	-	-	1,362	<b>1,362</b>
D. Commitments to grant finance	-	4,977	-	-	-	-	-	<b>4,977</b>
<b>Total</b>	<b>711,710</b>	<b>276,717</b>	-	-	-	-	<b>4,521</b>	<b>992,948</b>

The bank uses the standardised risk mapping method of the ratings agency, Fitch, as described below.

Long-term rating for exposures to: central authorities and central banks; supervised intermediaries; public sector entities; territorial entities, multilateral development banks; companies to other parties.

Long-term rating

Creditworthiness ratings	Risk weighting ratios				ECAI
	Administrations and central banks	supervised intermediaries, public sector entities territorial entities	Multilateral development banks	Companies and other entities	Fitch Ratings
1	0%	20%	20%	20%	from AAA to AA-
2	20%	50%	50%	50%	from A+ to A-
3	50%	100%	100%	100%	from BBB+ to BBB-
4	100%	100%	100%	100%	from BB+ to BB-
5	100%	100%	100%	100%	from B+ to B-
6	150%	150%	150%	150%	CCC+ and lower

Short-term rating for exposures to supervised intermediaries and companies

Short-term rating

Creditworthiness ratings	Administrations and central banks	ECAI
		Fitch Ratings
1	20%	F1+, F1
2	50%	F2
3	100%	F3
from 4 to 6	150%	lower than F3



### A.3 Distribution of guaranteed exposures by guarantee type

#### A.3.2 Credit exposures to guaranteed customers

	Net exposure value	Guarantees in instalments (1)			CLN	Personal guarantees (2)							Total (1)+(2)		
		Property	Securities	Other collateral securities		Credit derivatives			Credit commitments						
						Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities			
2. Guaranteed cash credit exposures:	138,724	-	-	99,202	34,986	-	-	-	-	-	-	-	-	-	134,188
2.1 fully guaranteed	130,730	-	-	99,202	31,083	-	-	-	-	-	-	-	-	-	130,285
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 part guaranteed	7,994	-	-	-	3,903	-	-	-	-	-	-	-	-	-	3,903
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. "Off balance sheet" guaranteed credit exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 fully guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 part guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

## B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

### B.1 Segment distribution of cash and “off-balance sheet” credit exposures to customers (book value)

Exposures / Counterparties	Governments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific value adjustments	Portfolio value	Net exposure	Specific value adjustments	Portfolio value	Net exposure	Specific value adjustments	Portfolio value	Net exposure	Specific value adjustments	Portfolio value	Net exposure	Specific value adjustments	Portfolio value	Net exposure	Specific value adjustments	Portfolio value
<b>A. Cash exposures</b>																		
A1. Non-performing loans	-	-	X	-	-	X	-	-	-	-	X	-	-	-	-	-	-	X
A2. Watchlist loans	-	-	X	-	-	X	-	-	-	-	X	-	-	-	-	-	-	X
A3. Restructured exposures	-	-	X	-	-	X	-	-	-	-	X	-	-	-	-	-	-	X
A4. Past due exposures	-	-	X	472	1	X	-	-	-	-	X	-	-	-	-	-	-	X
A5. Other exposures	564,926	X	72	305,332	X	919	109,374	X	-	-	X	-	-	-	-	1,032	X	-
<b>TOTAL A</b>	<b>564,926</b>	-	<b>72</b>	<b>305,804</b>	<b>1</b>	<b>919</b>	<b>109,374</b>	-	-	-	-	-	-	-	-	<b>1,032</b>	-	-
<b>B. “Off-balance sheet” exposures</b>																		
B1. Non-performing loans	-	-	X	-	-	X	-	-	-	-	X	-	-	-	-	-	-	X
B2. Watchlist loans	-	-	X	-	-	X	-	-	-	-	X	-	-	-	-	-	-	X
B3. Other impaired assets	-	-	X	-	-	X	-	-	-	-	X	-	-	-	-	-	-	X
B4. Other exposures	4,977	X	-	-	X	-	-	X	-	-	-	-	-	-	-	22	X	-
<b>TOTAL B</b>	<b>4,977</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>22</b>	-	-
<b>TOTAL (A+B) 2012</b>	<b>569,903</b>	-	<b>72</b>	<b>305,804</b>	<b>1</b>	<b>919</b>	<b>109,374</b>	-	-	-	-	-	-	-	-	<b>1,054</b>	-	-
<b>TOTAL (A+B) 2011</b>	<b>63,189</b>	-	-	<b>83,043</b>	-	<b>250</b>	<b>21,975</b>	-	-	-	-	-	<b>954</b>	-	-	-	-	-

**B.2 Geographic distribution of cash and “off-balance sheet” credit exposures to customers (book value)**

Exposures / Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. Cash exposures</b>										
A1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
A2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
A3. Restructured exposures	-	-	-	-	-	-	-	-	-	-
A4. Past due exposures	472	1	-	-	-	-	-	-	-	-
A5. Other exposures	978,758	991	1,907	-	-	-	-	-	-	-
<b>TOTAL A</b>	<b>979,230</b>	<b>992</b>	<b>1,907</b>	-	-	-	-	-	-	-
<b>B. “Off-balance sheet” exposures</b>										
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	4,999	-	-	-	-	-	-	-	-	-
<b>TOTAL B</b>	<b>4,999</b>	-	-	-	-	-	-	-	-	-
<b>TOTAL (A+B) 2012</b>	<b>984,229</b>	<b>992</b>	<b>1,907</b>	-	-	-	-	-	-	-
<b>TOTAL (A+B) 2011</b>	<b>166,617</b>	<b>250</b>	<b>1,729</b>	-	-	-	-	-	-	-

Exposures / Geographic areas	Italy NORTH-WEST		Italy NORTH-EAST		Italy CENTRE		Italy SOUTH and ISLANDS	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. Cash exposures</b>								
A1. Non-performing loans	-	-	-	-	-	-	-	-
A2. Watchlist loans	-	-	-	-	-	-	-	-
A3. Restructured exposures	-	-	-	-	-	-	-	-
A4. Past due exposures	-	-	306	1	-	-	165	-
A5. Other exposures	35,436	105	39,680	119	750,703	307	152,940	460
<b>TOTAL A</b>	<b>35,436</b>	<b>105</b>	<b>39,986</b>	<b>120</b>	<b>750,703</b>	<b>307</b>	<b>153,105</b>	<b>460</b>
<b>B. “Off-balance sheet” exposures</b>								
B1. Non-performing loans	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-
B4. Other exposures	22	-	-	-	4,977	-	-	-
<b>TOTAL B</b>	<b>22</b>	-	-	-	<b>4,977</b>	-	-	-
<b>TOTAL (A+B) 2012</b>	<b>35,458</b>	<b>105</b>	<b>39,986</b>	<b>120</b>	<b>755,680</b>	<b>307</b>	<b>153,105</b>	<b>460</b>
<b>TOTAL (A+B) 2011</b>	<b>10,734</b>	<b>32</b>	<b>9,971</b>	<b>30</b>	<b>117,797</b>	<b>103</b>	<b>28,115</b>	<b>85</b>

### B.3 Geographic distribution of cash and “off-balance sheet” credit exposures to banks (book value)

Exposures / Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. Cash exposures</b>										
A1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
A2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
A3. Restructured exposures	-	-	-	-	-	-	-	-	-	-
A4. Past due exposures	-	-	-	-	-	-	-	-	-	-
A5. Other exposures	5,473	-	-	-	-	-	-	-	-	-
<b>TOTAL A</b>	<b>5,473</b>	-	-	-	-	-	-	-	-	-
<b>B. “Off-balance sheet” exposures</b>										
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	1,340	-	-	-	-	-	-	-	-	-
<b>TOTAL B</b>	<b>1,340</b>	-	-	-	-	-	-	-	-	-
<b>TOTAL (A+B) 2012</b>	<b>6,813</b>	-	-	-	-	-	-	-	-	-
<b>TOTAL (A+B) 2011</b>	<b>21,603</b>	-	-	-	-	-	-	-	-	-

### B.4 Significant exposures

As at 31 December 2012 the significant exposures of Banca Sistema comprise the following:

- a. 685,885 (in thousands)
- b. 30 positions.

On 27 December 2010, the Bank of Italy issued the 6th update of Circular 263 of 27 December 2006 which defines “significant exposures”, the exposures of amounts that equal or exceed 10% of the regulatory capital, where “exposure” refers to the amount of

the risks assets on a cash basis and the off-balance sheet transactions with customers or groups of related customers, as defined by the laws on credit risk and counterparty risk.

As at 31 December 2012, there were 30 cash and off-balance sheet risk assets with respect to customers or groups of related customers that qualified as “significant exposures”, with the exposure amounting to Euro 685,885 thousand and the relative weighted value amounting to Euro 82,376 thousand.

## C. SECURITISATION AND ASSET DISPOSAL TRANSACTIONS

### C.2.1 Financial assets disposed and not derecognised

Types / Portfolio	Held-for-trading financial assets			Financial assets carried at fair value			Available-for-sale financial assets			Held-to-maturity financial assets			Loans to banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		31-12-2012
<b>A. Cash assets</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>149,312</b>	-
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	149,312	-
2. Equity securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>B. Derivative instruments</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total 2012</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>149,312</b>	-
<i>of which impaired</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total 2011</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>of which impaired</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Key:

A = financial assets disposed and fully recognised (book value)

B = financial assets disposed and partly recognised (book value)

C = financial assets disposed and partly recognised (full value)

**C.2.2 Financial liabilities from financial assets disposed but not derecognised**

Liabilities / Asset Portfolio	Held-for-trading financial assets	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity financial assets	Loans to banks	Loans to customers	Total
<b>1. Due to customers</b>	-	-	<b>249,012</b>	-	-	-	<b>249,012</b>
a) corresponding to assets disclosed in full	-	-	249,012	-	-	-	249,012
b) corresponding to assets part-disclosed	-	-	-	-	-	-	-
<b>2. Due to banks</b>	-	-	-	-	-	-	-
a) corresponding to assets disclosed in full	-	-	-	-	-	-	-
b) corresponding to assets part-disclosed	-	-	-	-	-	-	-
<b>Total 2012</b>	-	-	<b>249,012</b>	-	-	-	<b>249,012</b>
<b>Total 2011</b>	<b>6,487</b>	-	-	-	-	-	<b>6,487</b>

## D. Credit risk measurement models

### SECTION 2 - MARKET RISKS

Banca Sistema does not trade its financial instruments. At 31 December 2012 the only active holdings in the trading portfolio for regulatory purposes were represented by certain bond securities issued by leading banks for insignificant amounts.

The limitation system in place sets out a system for the careful, balanced management of operating independence, establishing limits in terms of consistency and portfolio composition in accordance with the type of securities; the Risk Management department produces specific reports by the Risk Management Committee and Board of Directors at different intervals (monthly/quarterly).

#### **2.1 Interest rate risk and pricing risk - regulatory trading portfolio**

### QUALITATIVE INFORMATION

#### **A. General aspects**

Market risk involves the risk of loss that a financial intermediary is exposed to due to carrying out trading operations on financial instruments on the markets. More specifically, it involves the risk of recording losses due to unfavourable market trends that cause unexpected or unforeseeable reductions in the value of the instruments held.

These involve risks generated by operations on the markets regarding the financial instruments and currencies and the important components are:

- general position risk caused by unfavourable price trends in the instruments traded, and specific risk due to factors related to the situation of the issuer;
- settlement risk, which includes transactions which have not yet been settled after expiry exposing the Bank to the risk of loss due to the failure to settle the transaction;
- concentration risk, which provides for specific internal capital for banks which - due to the risks positions

relating to the trading portfolio for regulatory purposes

- exceeds the limit identified by the credit line;

- exchange rate risk which is the risk of suffering loss due to unfavourable changes in the exchange rates in foreign currencies.

#### **B. Interest rate risk and pricing risk management processes and measurement methods**

The calculation of the market risk requirement, known as the building-block approach, is given by the sum of the capital requirements calculated against the individual market risks (position, settlement and concentration risk). This approach is prudential since by summing the individual requirements on a linear basis, the benefits provided by diversification are ignored, therefore obtaining higher internal capital with respect to the risks taken on.

More specifically, the following calculation methods were adopted:

- for the general position risk on debt securities, the internal capital is calculated by a method based on the expiry date;
- for the specific position risk on debt securities, the internal capital is calculated by a method that assigns each security to one of four categories (issuers with zero weighting, qualified issuers, unqualified issuers and high risk issuers) with different weightings, multiplied in turn by 8%;
- for the position risk on equity securities, the internal capital is calculated as the sum of the general requirement (equal to 8% of the net general position) and the specific requirement (equal to 4% of the gross general position);
- for the position risk for the UCITS units, the internal capital is calculated by the residual method, i.e. equal to 32% of the current value of the shares held in the "regulatory trading portfolio";
- for the settlement, concentration and exchange rate risk, the internal capital is calculated with reference to the other rules provided under Prudential Regulatory Regulations.

## QUANTITATIVE INFORMATION

1. Regulatory trading portfolio: breakdown of cash financial assets and liabilities and financial derivatives by residual maturity (date of re-pricing)

Currency: Euro

Type / Residual Duration	on demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Duration not defined
<b>1. Cash assets</b>	-	-	-	-	<b>129</b>	-	-	-
1.1 Debt securities	-	-	-	-	129	-	-	-
▪ with early redemption option	-	-	-	-	-	-	-	-
▪ other	-	-	-	-	129	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	<b>4,977</b>	<b>4,980</b>	-	-	-	-	-
3.1 With underlying security	-	4,977	4,980	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	4,977	4,980	-	-	-	-	-
+ Long positions	-	-	4,980	-	-	-	-	-
+ Short positions	-	4,977	-	-	-	-	-	-
3.2 No underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-



## 2.2 Interest rate and pricing risk - Banking Portfolio

### QUALITATIVE INFORMATION

#### A. General considerations, interest rate risk and pricing risk management procedures and measurement methods

Banca Sistema is not especially exposed to interest rate risk since its sources are mainly from retail customers through the SI conto! deposit accounts and from interbank deposits collateralised at very short-term fixed rates.

Customer deposits with the SI conto! accounts are at fixed rates for the entire duration of the term, reviewed by the Bank on a unilateral basis in accordance with the regulations and the contracts.

The interest rates applied to the customers for the factoring relationships are also at fixed rates and these are also reviewable by the Bank on a unilateral basis in accordance with regulations and contracts.

The bond securities portfolio comprises Government securities with yields indexed at market rates. The remaining part comprises short-term securities at fixed rates. The average financial term of the entire portfolio is slightly less than a year.

The securities held are classified under the Available-for-sale portfolio, and in accordance with the Bank's compliance with the order of the Bank of Italy of 18.05.2010, provides that the change in fair value - in any case modest given the high credit standing and short average financial term - is represented in the capital reserves of the Bank.

The assumption of interest rate risk related to the funding activities of the Treasury Division is carried out in accordance with the policies and limits established by the Board of Directors and is governed by specific authorisations that set independence limits for the parties authorised to work in the Treasury area of the Bank.

The company departments in charge of ensuring the correct management of interest rate risk include the Treasury Division - which is involved in the direct management of funding - and the Risk Management

department - which is in charge of identifying the most suitable risk indicators and monitoring the performance of funding assets and liabilities in relation to the pre-established limits.

This management assesses and monitors the main assets and liabilities subject to interest rate risk through the ALM measuring report.

The results of these analyses are submitted to the Risk Management Committee who evaluates the exposure of the Bank to interest rate risk and proposes investment/funding policies and interest rate risk management policies, and during the year suggests any interventions that should be taken to ensure that it is managed in accordance with the risk policies approved by the Bank.

The interest rate risk position is also subject to periodic reporting to the Board of Directors of the Bank within the scope of the Risk Reporting prepared by the Risk Management Department.

The Interest Rate Risk is considered to be a Pillar II risk, and is kept under continuous assessment by the treasury management and is subject to self-evaluation when drafting the ICAAP (Internal Capital Adequacy Assessment Process) Report. The Interest rate risk was subject to specific measurement in terms of capital requirements in the final document sent to the Supervisory Authority in accordance with the regulations (Circular no. 263 of 27 December 2006 - Title III, Chapter 1, Attachment C). With a warning threshold of 20% of the Regulatory Capital, the risk index value of the Bank was 0.2% as at 31 December 2012.

The Bank does not use interest rate hedging instruments due to the extent of the risk.

#### B. Fair value hedging

The Group did not have any fair value hedging in place as at 31 December 2012.

#### C. Cash flow hedging

The Group did not have any fair value hedging in place as at 31 December 2012.

## QUANTITATIVE INFORMATION

### 1. Banking portfolio: distribution by residual life (re-pricing date) of the financial assets and liabilities

Currency: Euro

Type / Residual Duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Duration not defined
<b>1. Cash assets</b>	<b>19,940</b>	<b>125,988</b>	<b>227,393</b>	<b>501,706</b>	<b>111,453</b>	-	-	-
1.1 Debt securities	-	-	164,047	376,947	-	-	-	-
- With early redemption option	-	-	-	-	-	-	-	-
- Other	-	-	164,047	376,947	-	-	-	-
1.2 Loans to banks	1,161	4,183	-	-	-	-	-	-
1.3 Loans to customers	18,779	121,805	63,346	124,759	111,453	-	-	-
- current accounts	3,840	-	-	-	-	-	-	-
- Other loans	14,939	121,805	63,346	124,759	111,453	-	-	-
- With early redemption option	8,070	22,107	63,346	124,759	111,453	-	-	-
- Other	6,869	99,698	-	-	-	-	-	-
<b>2. Cash liabilities</b>	<b>47,778</b>	<b>342,830</b>	<b>108,190</b>	<b>148,739</b>	<b>320,007</b>	-	-	-
2.1. Due to customers	33,914	342,830	93,105	148,739	179,790	-	-	-
- current accounts	14,338	-	-	-	-	-	-	-
- Other debts	19,576	342,830	93,105	148,739	179,790	-	-	-
- With early redemption option	-	-	-	-	-	-	-	-
- Other	19,576	342,830	93,105	148,739	179,790	-	-	-
2.2 Due to banks	13,864	-	-	-	100,060	-	-	-
- current accounts	3,144	-	-	-	-	-	-	-
- Other debts	10,720	-	-	-	100,060	-	-	-
2.3 Debt securities	-	-	15,085	-	40,157	-	-	-
- With early redemption option	-	-	10,075	-	-	-	-	-
- Other	-	-	5,010	-	40,157	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- With early redemption option	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 No underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

## 2.3 Exchange risk

### QUALITATIVE INFORMATION

#### A. General aspects, management processes and methods of measuring exchange risk

None of the currency items in Euro subject the Bank to exchange rate risk.

## 2.4 Derivative instruments

#### A. Financial derivatives

The Bank does not operate with derivative instruments on its own accounts.

#### B. Credit derivatives

As at 31 December 2012 the bank posted the credit-linked notes (CLN) value as a protection buyer. The “host security” is the security IT0004881436 Banca Sistema 18/07/2014 - 5.1% of nominal value equal to Euro 35 million.

##### B.1 Credit derivatives: notional year-end and average values

Transaction category	Regulatory trading portfolio		Banking portfolio	
	Individual	Basket	Individual	Basket
<b>1. Protection bought</b>	-	-	-	-
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Other	-	-	-	35,000
<b>Total 2012</b>	-	-	-	<b>35,000</b>
Average values	-	-	-	-
<b>Total 2011</b>	-	-	-	-
<b>2. Protection sold</b>	-	-	-	-
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Other	-	-	-	-
<b>Total 2012</b>	-	-	-	-
Average values	-	-	-	-
<b>Total 2011</b>	-	-	-	-

**B.4 Credit derivatives (OTC): gross fair values (positive and negative) by counterparty - contracts that do not come under offsetting agreements**

Contracts that do not come under offsetting agreements	Governments and Central Banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
<b>Regulatory trading</b>	-	-	-	-	-	-	-
<b>1) Protection bought</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>2) Protection sold</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>Bank portfolios</b>	-	-	-	-	-	-	-
<b>1) Protection bought</b>	-	-	<b>35,000</b>	-	-	-	-
- notional value	-	-	35,000	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>2) Protection sold</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

**B.6 Residual maturity of the credit derivatives: notional values**

Underlying / Residual life	Up to 1 year	From 1 year to 5 years	Over 5 years	Total
<b>A. Regulatory trading portfolio</b>	-	-	-	-
A.1 Credit derivatives with "qualified reference obligation"	-	-	-	-
A.2 Credit derivatives with "unqualified reference obligation"	-	-	-	-
<b>B. Banking portfolio</b>	-	<b>35,000</b>	-	<b>35,000</b>
B.1 Credit derivatives with "qualified reference obligation"	-	-	-	-
B.2 Credit derivatives with "unqualified reference obligation"	-	35,000	-	35,000
<b>Total 2012</b>	-	<b>35,000</b>	-	<b>35,000</b>
<b>Total 2011</b>	-	-	-	-

**C. Financial and credit derivatives**

As at 31 December 2012, the item had no amount.

## SECTION 3 - LIQUIDITY RISKS

### QUALITATIVE INFORMATION

#### A. General aspects, management processes and methods of measuring liquidity risk

The liquidity risk is represented by the possibility that the Bank cannot keep its commitments to pay due to its inability to obtain funds or its inability to sell assets on the market in order to deal with any financial imbalances. The inability to obtain new adequate financial resources also represents a liquidity risk, in terms of amount and cost, with respect to the operating requirements/opportunities, forcing the Bank to slow down or stop development of its business, or incurring excessive funding costs to meet its commitments, with significant negative impacts on the profitability of its business.

Funding sources are represented by the capital, customer funding, funding from the Italian and international interbank market and the Eurosystem.

In order to promptly discover and deal with any difficulties in obtaining the funds needed for running its business, Banca Sistema - in accordance with the provisions of the Prudential Regulatory provisions - established its own Contingency Funding Plan, i.e. a set of specific strategies to adopt in the event of liquidity issues, setting out the procedures to obtain funding sources in the event of an emergency. These strategies represent a basic feature in the reduction of liquidity risk.

This policy defines - in terms of liquidity risk - the objectives, processes and strategies to implement in the event of liquidity problems, the organisational structures set up to deal with these strategies, the risk indicators, the calculation methods and warning thresholds and the procedures to adopt to obtain funding sources that can be used in the case of an emergency.

In the past year, the Bank had a particularly prudent funding policy aimed at favouring the stability of the funding, on some occasions obtaining higher funding sources than strictly required for the immediate operating requirements, acting as a stable provider

on the interbank markets, even with extremely short expiry periods. This policy, which sacrificed economic efficiency of treasury management in favour of certainty and stability in terms of liquidity in relation to the rate differential between interbank funding and investments, was proven successful as can be seen by the Bank's profitability levels.

More specifically, at a prudential level, Banca Sistema kept the quality of its securities high and its assets liquid to cover all the funding from the "SI conto!" deposit product; the average percentage of cover of the deposits during the year was around 60% and 80% considering the securities guaranteeing the refinancing transaction with the ECB (LTRO) free.

The Bank departments in charge of ensuring the correct application of the liquidity policies include the Treasury Division - which is involved in the direct management of liquidity - and the Risk Division - which is in charge of identifying the most suitable risk indicators and monitoring their performance in relation to the pre-established limits.

Just as with the interest rate risk, this management assesses and monitors the main assets and liabilities subject to interest rate risk through the ALM (Asset Liability Management) measuring report for the liquidity risk.

The results of these analyses are submitted to the Risk Management Committee which evaluates the exposure of the Bank to liquidity risk and proposes investment/funding policies.

The liquidity risk position is also subject to periodic reporting to the Board of Directors of the Bank within the scope of the Risk Reporting prepared by the Risk Management Department.

## QUANTITATIVE INFORMATION

### 1. Time distribution by residual contract duration of financial assets and liabilities

Currency: Euro

Items / Timescales	on demand	From 1 to 7 days	From 7 to 15 days	From over 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Term not defined
<b>Cash assets</b>	<b>19,949</b>	<b>100,143</b>	<b>646</b>	<b>2,405</b>	<b>18,952</b>	<b>224,867</b>	<b>508,693</b>	<b>116,266</b>	<b>230</b>	<b>4,183</b>
A.1 Government securities	-	-	-	-	-	159,512	376,636	5,000	-	-
A.2 Other debt securities	-	-	-	-	-	-	16	129	230	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	19,949	100,143	646	2,405	18,952	65,355	132,041	111,137	-	4,183
▪ Banks	1,161	-	-	-	-	-	-	-	-	4,183
▪ Customers	18,788	100,143	646	2,405	18,952	65,355	132,041	111,137	-	-
<b>Cash liabilities</b>	<b>47,777</b>	<b>254,125</b>	<b>4,365</b>	<b>7,757</b>	<b>76,583</b>	<b>93,105</b>	<b>148,739</b>	<b>319,850</b>	<b>10,000</b>	<b>5,000</b>
B.1 Deposit and current accounts	34,155	5,131	4,365	7,757	76,583	93,105	148,739	179,790	-	-
▪ Banks	12,568	-	-	-	-	-	-	-	-	-
▪ Customers	21,587	5,131	4,365	7,757	76,583	93,105	148,739	179,790	-	-
B.2 Debt securities	-	-	-	-	-	-	-	40,000	10,000	5,000
B.3 Other liabilities	13,622	248,994	-	-	-	-	-	100,060	-	-

Items / Timescales	on demand	From 1 to 7 days	From 7 to 15 days	From over 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Duration not defined
<b>"Off-balance sheet" transactions</b>	-	<b>4,977</b>	-	-	-	-	-	<b>35,000</b>	-	-
C.1 Financial derivatives with exchange of capital	-	4,977	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	4,977	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	35,000	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	35,000	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-

## SECTION 4 - OPERATIONAL RISKS

### QUALITATIVE INFORMATION

Operational risk is the risk of suffering losses due to the inadequacy or inefficiency of procedures, human resources or internal systems, or by external events. Operational risks include - among other things - losses ensuing from fraud, human error, interruptions of operations, the unavailability of systems, breaches of contract, or natural catastrophes. Operational risk includes legal risk, while strategic risk or reputational risk are not included. Therefore operational risk refers to the various types of events that are not individually significant alone, but only if analysed together and quantified by the entire risk category.

In order to calculate the capital requirements to cover operational risk, Banca Sistema uses the Basic Indicator Approach - BIA - where the capital requirements are calculated by applying a regulatory coefficient to an indicator of the volume of company operations as set out by Title II, chapter 5 of the Supervisory regulations.

#### **A. General aspects, management processes and methods of measuring operational risk**

The Supervisory Authorities acknowledge that the specific approach adopted by individual banks for managing operational risk may depend on a series of factors including the size, organisational set-up and the nature and complexity of the transactions. In this context, there is more internal awareness about operational risk and controls, which, along with the implementation of a functional internal reporting system and the availability of emergency plans, form the essential elements of an effective and efficient operational risk management system.

In order to calculate the capital requirements to cover the operational risk, the Bank - as noted above - adopted the Basic method, which provides that the capital requirements are calculated by applying a regulatory coefficient equal to 15% of an indicator of the volume of company operations identified in the operating income.

More specifically, the Bank evaluates the operational risk related to the introduction of new products, activities, processes and systems and reduces the operational risk by defining specific policies and rules to deal with various issues and matters.

The Risk Division produces and sends the Risk Committee and the CEO a report every quarter which shows - among other things - a concise indicator of the degree of complexity of company operations, the capital requirements generated by the operational risk and their development compared to the previous report.

In the first few months of 2013, the Control Departments' Working Group set up a Risk Self Assessment (RSA) project.

This method implies an initial evaluation of the possible risks related to the actual operations in the company in question, a subsequent analysis of the controls in place that can reduce the theoretical risk which has emerged and a consequential evaluation of the so-called "residual" risk levels, i.e. after the existing controls have been made, allowing the necessary actions to take to be identified.

The objective of the RSA is to provide management with an instrument to manage operational risk, i.e. the possibility of evaluating the existing control system in the Bank in terms of ability to efficiently deal with the risks and reduce the risks identified to an "acceptable" level.



## PART F - INFORMATION ON EQUITY

### SECTION 1 - COMPANY EQUITY

#### A. QUALITATIVE INFORMATION

The company's capital comprises the amount of own funds of the bank, i.e. the set of funds that can be used to achieve the corporate purpose and to deal with the risks faced by the company. Therefore the capital is the main protection against the risks relating to the banking activity and as such, it has to be sufficient to guarantee both adequate margins of entrepreneurial independence in the development and growth of the bank, and ensure the maintenance of a solid, stable company. To that end, the Board of Directors concentrates most attention on the Bank's own capital, aware of both the function in protecting the trust of external financiers, since it can

be used to absorb any losses, and its importance for management for essentially operational and company development reasons.

The Bank is subject to the capital adequacy requirements established by the Basel Committee in accordance with the rules defined by the Bank of Italy. In accordance with these rules, at individual level, the ratio between the capital and the risk-weighted assets must be equal to at least 6%.

The capital adequacy level of the Bank is measured and constantly monitored in terms of adequacy in covering the capital requirements that are needed to sustain the company business (in terms of Total capital ratio and Tier 1 capital ratio) and protection and planning the overall risk level.

## B. QUANTITATIVE INFORMATION

### B.1 Company equity: breakdown

As at 31 December 2012, the company's equity was composed as follows:

Items / Values	Total 2012	Total 2011
1. Capital	7,861	7,861
2. Share premiums	-	-
3. Reserves	4,276	13
▪ earnings	4,276	13
a. legal	4	-
b. articles of association	-	-
c. treasury shares	-	-
d. other	4,272	13
▪ other	-	-
4. Capital instruments	-	-
5. (Treasury shares)	-	-
6. valuation reserves	407	210
▪ Available-for-sale financial assets	407	210
▪ Property, plant and equipment	-	-
▪ Intangible assets	-	-
▪ Foreign investment hedges	-	-
▪ Cash flow hedges	-	-
▪ Exchange differences	-	-
▪ Non-current assets being disposed of	-	-
▪ Actuarial profit (loss) on retirement plans with defined benefits	-	-
▪ Shares of valuation reserves relating to the investee companies valued at equity	-	-
▪ Special revaluation laws	-	-
7. Profit (loss) for the year	2,722	76
<b>Total</b>	<b>15,266</b>	<b>8,160</b>

### B.2 Valuation reserves of available-for-sale financial assets: breakdown

Assets/Values	31.12.2012		31.12.2011	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	486	79	350	140
2. Equity securities	-	-	-	-
3. UCITS units	-	-	-	-
4. Loans	-	-	-	-
<b>Total</b>	<b>486</b>	<b>79</b>	<b>350</b>	<b>140</b>

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

	Debt securities	Equity securities	UCITS units	Loans
<b>1. Opening balance</b>	<b>210</b>	-	-	-
<b>2. Increases</b>	<b>407</b>	-	-	-
2.1 Increases in fair value	407	-	-	-
2.2 Reversal of negative reserves to income statement	-	-	-	-
▪ From impairment	-	-	-	-
▪ From disposals	-	-	-	-
2.3 Other changes	-	-	-	-
<b>3. Decreases</b>	<b>210</b>	-	-	-
3.4 Decrease in fair value	-	-	-	-
3.5 Impairment adjustments	-	-	-	-
3.6 Reversal of positive reserves to income statement: from disposals	210	-	-	-
3.7 Other changes	-	-	-	-
<b>4. Closing balance</b>	<b>407</b>	-	-	-

## SECTION 2 - CAPITAL AND REGULATORY RATIOS

### *2.1 Regulatory capital*

#### **A. QUALITATIVE INFORMATION**

The regulatory capital was calculated in accordance with the Bank of Italy instructions in circular no. 155 of 18.12.1991 and circular no. 263 of 27.12.2006 as amended.

The regulatory capital is monitored and measured on a periodic basis in terms of capital adequacy, capital base index, financial structure and prudential ratios and other regulatory aspects (risk concentration and other prudential rules).

#### **1. Tier 1 capital**

The positive elements that comprise the Tier 1 capital comprise the share capital, the reserves and the registered profit for the year. On 18/12/2012, the subordinated bond IT0004881444 was issued, called "Banca Sistema S.p.A. equal to €5,000,000 of Tier I subordinated bonds at a mixed fixed/variable rate". The security constitutes a "non-innovative capital

instrument" (Tier 1), pursuant to and in accordance with the provisions of Title 1, Chapter 2, Paragraph 4 of Bank of Italy Circular no. 263 of 27 December 2006, as amended, replaced and supplemented from time to time (Circular no. 263) and is calculated entirely in accordance with Circular no. 263 and the regulations applicable to Banca Sistema when issued - in order to form the Tier 1 capital of the Issuer.

#### **2. Tier 2 capital**

Tier II capital comprises the ordinary bond IT0004869712 "Banca Sistema 15 November 2012 - 15 November 2022 SUBORDINATED Lower Tier II, at a variable rate", CALLABLE, non-convertible for Euro 10,000,000, calculable for a total amount of 50% of the Tier I capital.

#### **3. Tier 3 capital**

The Tier III capital covering the capital requirements for market risks is represented by the portion of the subordinated loan not calculable within the limit of 71.4% of the market risk.

## B. QUANTITATIVE INFORMATION

Items / Values	Total 2012	Total 2011
<b>A. Tier 1 capital before application of prudential filters</b>	<b>19,820</b>	<b>7,943</b>
<b>B. Tier 1 capital prudential filters:</b>	-	-
B1 - positive IAS/IFRS prudential filters (+)	-	-
B2 - negative IAS/IFRS prudential filters (-)	-	-
<b>C. Tier 1 capital gross of deductible elements (A+B)</b>	<b>19,820</b>	<b>7,943</b>
<b>D. Elements deductible from Tier 1 capital</b>	-	-
<b>E. Total TIER 1 (C-D)</b>	<b>19,820</b>	<b>7,943</b>
<b>F. Tier 2 capital before application of prudential filters</b>	<b>9,910</b>	<b>3,971</b>
<b>G. Tier 2 capital prudential filters:</b>	-	-
G1 - positive IAS/IFRS prudential filters (+)	-	-
G2 - negative IAS/IFRS prudential filters (-)	-	-
<b>H. Tier 2 capital gross of deductible elements (F+G)</b>	<b>9,910</b>	<b>3,971</b>
<b>I. Elements deductible from Tier 2 capital</b>	-	-
<b>L. Total Tier 2 (H-I)</b>	<b>9,910</b>	<b>3,971</b>
<b>M. Elements deductible from total Tier 1 and Tier 2 capital</b>	-	-
<b>N. Regulatory Capital (E+L-M)</b>	<b>29,730</b>	<b>11,914</b>
<b>O. Tier 3 capital</b>	<b>16</b>	<b>57</b>
<b>P. Regulatory capital including Tier 3 (N+O)</b>	<b>29,746</b>	<b>11,971</b>

## **2.2 Capital adequacy**

### **A. QUALITATIVE INFORMATION**

Since the Bank is a traditional type of bank, the Regulatory capital must guarantee cover of the credit risk, the market risk and the operational risk. The “New regulations for the prudential supervision of Banks” (Circular of the Bank of Italy no. 263 of December 2006 as amended) contains the rules regarding the international convergence of capital measurements and equity ratios (Basel II). To that end, the Bank's assets must represent at least 8% of the total weighted assets (total capital ratio) - reduced by 25% due to the establishment of the new Banking Group Banca Sistema starting from 1 September 2011 - resulting from the risks typical of the banking and financial activities (credit

risk, counterparty risk, market and operational risk) weighted in accordance with the regulatory segmentation of the debtors and taking account of the credit risk mitigation techniques. Therefore, the Bank will examine the Regulatory Capital aggregates on a quarterly basis in order to check the consistency with the risk profile and the adequacy with respect to the current and prospective development plans.

As at 31 December 2012 the Banca Sistema had a ratio between Tier 1 capital and risk-weighted assets of 19.0% and a regulatory capital including Tier 3 capital and risk-weighted assets equal to 28.5%.

## B. QUANTITATIVE INFORMATION

Categories / Values	Unweighted amounts		Weighted amounts / requirements	
	2012	2011	2012	2011
<b>A. RISK ASSETS</b>				
<b>A.1 Credit risk and counterparty risk</b>	859,087	272,828	123,648	27,408
1. Standard method	859,087	272,828	123,648	27,408
2. Method based on internal ratings	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
<b>B. REGULATORY CAPITAL REQUIREMENTS</b>				
<b>B.1 Credit risk and counterparty risk</b>	-	-	9,892	2,193
<b>B.2 Market risk</b>	-	-	23	107
1. Standard method	-	-	23	107
2. Internal models	-	-	-	-
3. Concentration Risk	-	-	-	-
<b>B.3 Operational risk</b>	-	-	1,202	198
1. Basic method	-	-	1,202	198
2. Standard method	-	-	-	-
3. Advanced method	-	-	-	-
<b>B.4 Other prudential requirements</b>	-	-	-	-
<b>B.5 Other calculation elements</b>	-	-	(2,779)	(624)
<b>B.6 Total prudential requirements</b>	-	-	8,338	1,874
<b>C. RISK ASSETS AND REGULATORY RATIOS</b>				
C.1 Risk-weighted assets	-	-	104,225	23,425
C.2 Tier 1 capital / Risk-weighted assets (Tier 1 Capital Ratio)	-	-	19.0%	33.9%
C.3 Regulatory capital including Tier 3 / Risk-weighted assets (Total capital ratio)	-	-	28.5%	51.1%

### Publication of amounts paid to Independent Auditors

In accordance with the provisions of art. 149 *duodecies* of the Consob Issuers' Regulations, the table below shows the information on the payments made to the independent auditors, KPMG S.p.A. and the companies belonging to its network for the following services:

- Auditing services including the following:
  - Checking the annual accounts in order to make a professional judgement.
  - Checking the interim accounts.
- Certification services including tasks with which the auditor evaluates a specific element, where the

calculation is made by another party who is responsible for it, through suitable criteria, in order to reach a conclusion that provides the recipient with a degree of reliability in relation to that specific element.

- Tax consulting services.
- Other services.

The payments shown in the table for 2012 are those which contractually include any indexing (but not also out-of-pocket expenses, any regulatory contributions and VAT).

The payments made to any secondary auditors or parties belonging to the respective networks are not included as per the cited provision.

Type of service	Entity providing the service	Recipient	Remuneration
Independent audit	KPMG S.p.A.	Banca Sistema S.p.A.	77
Limited half-yearly audit	KPMG S.p.A.	Banca Sistema S.p.A.	4
Other services	KPMG S.p.A.	Banca Sistema S.p.A.	41
Other services	KPMG S.p.A.	Banca Sistema S.p.A.	5
Other services (annual auditing of ICAAP Report)	KPMG S.p.A.	Banca Sistema S.p.A.	15
<b>Total</b>			<b>242</b>



## PART H - TRANSACTIONS WITH RELATED PARTIES

With respect to payments made in 2012 to Managers with key responsibility, in addition to the fixed component of their salaries, there is also a variable element linked to reaching strategic objectives of the Group.

With reference to the fixed salary, there is both a monetary element along with benefits which make up the remuneration package such as additional pension, health and accident policies.

More specifically, there are the following remuneration entities (please refer to the accounting standard for the definitions):

- Short-term benefits include salaries, social security charges, remuneration for former holidays not taken, sick leave, paid holidays, and benefits such as medical assistance.
- The post-retirement benefits include social security plans, pension plans and post-employment benefits.

### 1. Information on remuneration of key management personnel

Key management personnel: payments amounted to Euro 635 thousand in 2012.

### 2. Disclosure on transactions with related parties

- Payments made to the Board of directors in 2012 amounted to Euro 334 thousand. These payments do not include charges for social security contributions and VAT. No guarantees were issued in 2012 to directors. Loans to directors for a total of Euro 100 thousand were granted
- Payments made to the Board of Statutory Auditors in 2012 amounted to Euro 75 thousand. These payments do not include charges for social security contributions and VAT. No credit or guarantees were issued in 2012 to the statutory auditors.

The transactions between Banca Sistema and the Group companies were put in place in accordance with the provisions of prevailing law on the basis of mutual cost-effectiveness.

Type	Asset	Liability	Revenue	Costs
6 SF Trust Holding Ltd.	1,906	506	50	562
6 SF Trust Servicing Ltd.	-	629	13	515
6 SF Trust Italia S.r.l.	901	-	197	594
6 Solvi S.r.l.	9	1,609	-	1,106
4 Corporate officers	99	83	-	1
1 Shareholders - SGBS	-	-	-	-
1 Shareholders - Sof Luxco	-	498	-	-
1 Shareholders - Fondazione Pisa	-	31,809	-	2,863
1 Shareholders - Fondazione CR Alessandria	-	353	-	-
1 Shareholders - Fondazione Sicilia	-	10	-	1
	<b>2,915</b>	<b>35,497</b>	<b>260</b>	<b>5,642</b>

## PART I - PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

The institute did not carry out any of these transactions during 2012.

## REPORT OF THE BOARD OF STATUTORY AUDITORS

The attached report of the Board of Statutory Auditors to which reference is made conforms to the one filed at the registered office.

Dear Shareholders,

we examined the draft financial statements of Banca Sistema SpA as at 31 December 2012, composed of the Balance Sheet, Income Statement, Notes to the financial statements, accompanied by the Report on Operations and supplementary information prospectuses, which the Board of Directors provided to us in accordance with the legal terms.

The document was drafted in accordance with international accounting standards (IAS/IFRS), approved by the European Commission and acknowledged in Italy by Legislative Decree no. 38 of 28 February 2005, taking into consideration the instructions of the Bank of Italy, issued in Circular no. 262 of 22 December 2005, as amended by update dated 18 November 2009. Given that the Independent Auditors were assigned with the analytical audit of the merit of the contents of the financial statements, the Board of Statutory Auditors performed monitoring activity to ensure their formation, general approach and structure are in compliance with the applicable legislation and that the Report on Operations provides all the information required by law.

During the year, the necessary contacts were maintained with the representatives of the Independent Auditors KPMG, responsible for the certification of the financial statements and the audit pursuant to art. 2409 bis of the Italian Civil Code and articles 14 and 15 of Legislative Decree no. 39 of 27 January 2010. As part of the mutual exchange of significant data and information, the Independent Auditors did not report any censurable acts or events and reassured us that the accounts were properly kept and that operating events were correctly recorded. KPMG also issued its audit report to the financial statements as at 31/12/2012 on 9 April 2013, which does not contain any remarks or exceptions.

The Board of Statutory Auditors, as "Internal Control and Audit Committee", in accordance with art. 19 of Legislative Decree no. 39 of 27 January 2010, also monitored the process of financial information, the effectiveness of internal control, internal audit and risk management systems, the legal audit of the accounts and the independence of the independent auditors. The independent auditors provided the Board of Statutory Auditors with its report pursuant to parag. 3 of the aforementioned art. 19, which does not highlight any remarks that need to be noted in this report.

The financial statement figures correspond to those in the company accounts, which were properly kept in compliance with the principles and techniques set forth in the applicable legislation. The Report on Operations shows the relations maintained with Group Companies, in compliance with the provisions of both art. 2497 and art. 2428 of the Italian Civil Code, highlighting each type of company with which the relationship was held. In said report, the Directors outline the company risk system made operational within the overall internal control system. However, the Directors indicated in the report that the evaluations were carried out on the basis of the going concern assumption.

The Balance Sheet relating to the financial statements which are subject to approval by the Shareholders' Meeting is summarised by means of the following values (in thousands of Euros):

Assets .....	999,562
Liabilities.....	984,296
Capital, reserves and accumulated losses .....	12,544
Net result for the year .....	2,722

The reclassified Income Statement presents, in summary, the following values:

Operating income .....	19,184
Value adjustments to loans .....	742
Net profit (loss) from financial management .....	18,442
Operating costs .....	(13,412)
Profit from current operations before taxes .....	5,030
Income taxes .....	2,308
Net result for the year .....	2,722

The result for 2012, which presented a profit of € 2,721,708, is decidedly higher than the result of the previous year (profit of € 76,269) since it was the first year that the company was working to full capacity.

We also report below on the activities performed by this Board of Statutory Auditors in accordance with art. 2403 of the Italian Civil Code.

Firstly, the current composition of the Board of Statutory Auditors dates from 11 December 2012 with Mr Massimo Conigliaro taking over the position of standing auditor after the resignation of Mr Franco Pozzi. However, the Chairman of the Board of Statutory Auditors, Prof. Maurizio Caserta was appointed by the Shareholders' Meeting of 28 November 2012.

During the year, the Board monitored observance of the law, the memorandum of incorporation and compliance with the principles of proper administration. The activities were based on the principles of conduct of the Board of Statutory Auditors recommended by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Institute of Chartered Accountants).

In 2012, the Board of Statutory Auditors held 8 meetings, participated in 2 shareholders' meetings, 13 meetings of the Board of Directors and 8 meetings of the Executive Committee, held in compliance with statutory, legislative and regulatory provisions which govern their functioning and on the basis of which we can reasonably ensure that the resolutions adopted conform to the law and to the articles of association, are not manifestly imprudent, hazardous, do not involve a potential conflict of interest, are in keeping with those adopted by the Shareholders' Meeting and are not as such to compromise the integrity of company assets.

The activities of the Board of Statutory Auditors are targeted:

- a. at verifying the adequacy of the organisational structure established on the basis of the strategic objectives, plans and programmes of the Bank;
- b. at verifying the methods and tools for process management and control;
- c. at verifying the reliability of the data measurement processes and data processing and the associated information flows;
- d. compliance of corporate governance and company activities in general, with the applicable legislation and the articles of association;
- e. at monitoring of the conservation of the integrity of company assets;
- f. at verifying the adequacy and effectiveness of the internal control and risk management system.

In carrying out these activities, the Board of Statutory Auditors:

- met the first-level managers of operations and the managers of the internal control and auditing system;

- examined the documents concerning areas subject to control, and consequently conducted analyses and evaluations, which did not bring to light any aspects which may cast doubt on the regularity and correctness, as a whole, of company management, in compliance with the law, the articles of association and the principles of proper administration;
- acquired information on the transactions of the greatest economic, financial and capital significance, which, in any case, were not hazardous and/or prejudicial for the solid performance of the company; the information received in this regard did not highlight any atypical or unusual transactions, either conducted with related parties under conditions not based on market rules or, in any case, without a mutual economic benefit;
- considered the organisational, administrative and accounting structure of the Bank without noting any critical situations, hence confirming its adequacy with respect to the nature and size of activities and the requirements in respect of pursuing the company purpose, strategic objectives and operating needs of the Bank; all the above tasks were carried out by taking into account the phase of company expansion which will make prompt adjustments of the structure necessary, in relation to the growing business dimensions of the bank.
- checked, using the information provided by the various levels of management, the adequacy, as a whole, of the internal control system structured and managed in accordance with the guidelines adopted by the Bank. Its suitability and effectiveness is reinforced by the “Organisation, Management and Control Model” pursuant to Legislative Decree 231/2001 formally adopted by the Board of Directors.

As regards the main events in 2012, there was an increase in capital subscribed to by shareholders which increased from Euro 7,860,741.96 to Euro 8,450,526.24 (concluded on 19 February 2013) and opening of the Milan branch in Corso Monforte, 20 on 20 November 2012.

Pursuant to art. 2408 of the Italian Civil Code, it is hereby stated that, in 2012, no complaints were received from Shareholders, or any other kinds of petition, nor were any censurable events or, in any case, those with a significant negative impact reported by the Independent Auditors or other entities, as such to require reporting to the Bank of Italy and/or mentioning in this report.

Lastly, the Board of Statutory Auditors calls the attention of the Shareholders' Meeting to the following:

Dear Shareholders,

also acknowledging the contents of the report by the independent auditors issued in accordance with article 14 of Legis. Decree 39/2010 which expresses a judgment without remarks or exceptions, it is proposed that the shareholders' meeting approve the financial statements for the year ended 31 December 2012, as drafted by the Directors, together with the Directors' proposal to retain the earnings of € 2,585,623 and allocate the remaining part of € 136,085 to the legal reserve in accordance with the law.

Milan, 09 April 2013

The Statutory auditors

Maurizio Caserta (Chairman)

Massimo Conigliaro

Daniele Pittatore



**KPMG S.p.A.**  
**Auditors**  
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## **Report by the auditing firm in accordance with articles 14 and 16 of Legislative Decree 39 of 27 January 2010**

To the Shareholders of  
Banca Sistema S.p.A.

- 1 We audited the accounts of the financial statements for the year, comprising the balance, sheet, the income statement, the comprehensive statement of income, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements of Banca SISTEMA S.p.A., for the period ended on 31 December 2012. The Directors of Banca SISTEMA S.p.A. are responsible for drawing up the financial statements in accordance with the International Financial Reporting Standards adopted by the European Union and the provisions issued in implementation of article 9 of Legislative Decree 38/05. We are responsible for expressing a professional opinion on the financial statements and based on the audit of the accounts.
- 2 Our inspection was carried out in accordance with the auditing standards and criteria recommended by Consob. In accordance with the aforementioned standards and criteria, the audit was planned to acquire any elements needed to establish whether the financial statements were free from significant errors and to ensure their reliability as a whole. The audit included the inspection, on the basis of sample checks, of evidence to support the balances and the information contained in the financial statements, and the assessment of the adequacy and correctness of the accounting criteria used and the reasonableness of the estimates made by the Directors. We believe that the work carried out provides a reasonable basis on which to express our professional opinion.

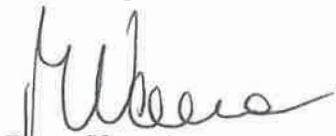
With respect to the opinion of the financial statements for the previous financial year, where the figures were presented for comparative purposes, please refer to the report we issued on 12 April 2012.

- 3 We believe that the financial statements of Banca SISTEMA S.p.A. for the year ended on 31 December 2012 comply with the International Financial Reporting Standards adopted by the European Union and the provisions issued in implementation of article 9 of Legislative Decree 38/05; the financial and capital situation, profit and loss and cash flows of Banca SISTEMA S.p.A. were therefore drawn up clearly, and presented in a fair and truthful manner for the year ended on that date.

- 4 The Directors of Banca SISTEMA S.p.A. are responsible for drawing up the report on operations in accordance with the provisions of prevailing law and regulations. We are responsible for expressing an opinion on the consistency of the report on operations with the financial statements as required by law. To that end, we carried out the procedures set out under auditing standard no. 001 issued by the National Council of Accountants and Accounting Experts and recommended by Consob. We believe that the report on operations is consistent with the financial statements of Banca SISTEMA S.p.A. for the financial year ended on 31 December 2012.

Milan, 9 April 2013

KPMG S.p.A.



Bruno Verona  
Shareholder

