CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

Banca Sistema Group

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INDEX

REPORT ON OPERATIONS

COMPOSITION OF PARENT COMPANY'S ADMINISTRATIVE BODIES

Board of Directors (*)

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

CEO

CEO	Mr.	Gianluca Garbi

Board of Statutory Auditors (**)

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

Executive Committee

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

Internal Control Committee

Chairman	Prof.	Giorgio Basevi
Members	Mr.	Pierluigi Sovico, lawyer
	Mr.	Michele Calzolari

Appointments and Remuneration Committee

Chairman	Prof.	Giovanni Puglisi
Members	Prof.	Giorgio Basevi
	Mr.	Michele Calzolari

Ethics Committee

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

Supervisory Authorities

Chairman	Mr.	Michele Calzolari
Members	Prof.	Giorgio Basevi
	Mr.	Franco Pozzi

(*) Board of Directors and CEO appointed by the Shareholders' Meeting of 29 June 2011. Any changes that occurred during the course of 2013 are reported below:

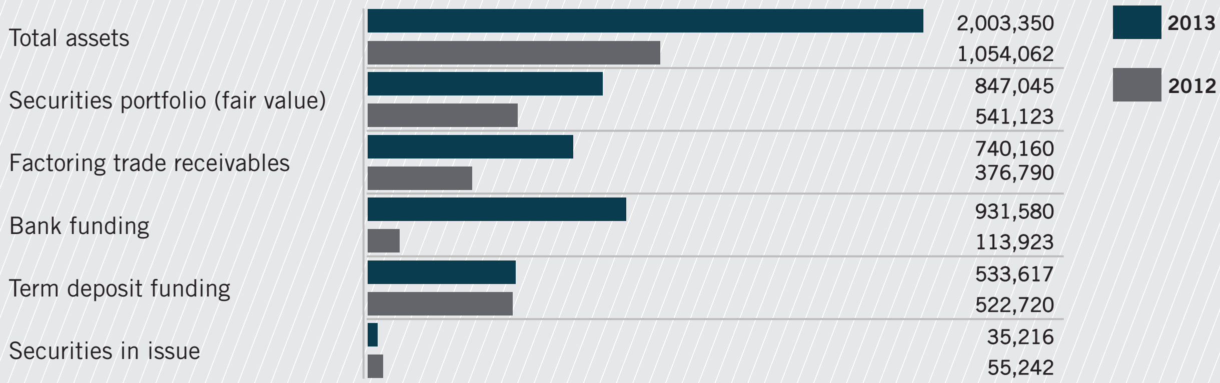
- On 24 April 2013, the Shareholders' Meeting appointed Michele Calzolari as Director.
- On 15 May 2013, the Board of Directors qualified Mr. Michele Calzolari as Independent Director, subsequently appointing him as a Member of the Internal Audit Committee, the Appointments and Remuneration Committee and the Supervisory Authority.
- On 27 June 2013, the Supervisory Authority appointed Mr. Michele Calzolari as Chairman.

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

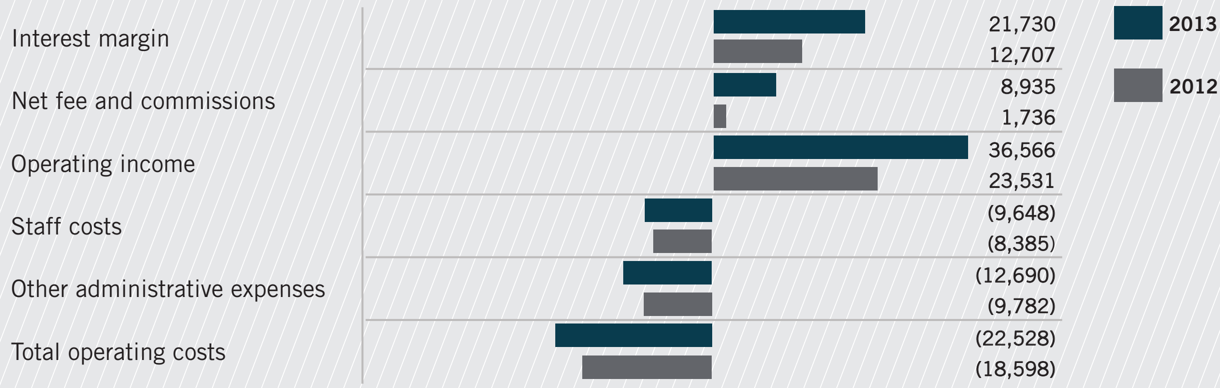
- On 24 April 2013, the Shareholders' Meeting appointed Mr. Marco Armarolli as Alternate Auditor.

SUMMARY DATA AS AT 31 DECEMBER 2013

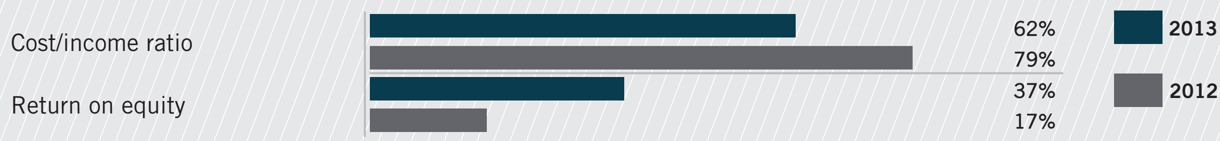
Balance Sheet figures (in thousands of euros)



Economic indicators (in thousands of euros)



Performance indicators



The Return on equity (ROE) was calculated as the ratio of net profit to average shareholders' equity.

PROFILE OF THE PARENT COMPANY

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

The Bank's core business is the disposal of receivables due from the Public Administration, supporting companies, corporate entities and SMEs, with the management of relations with public debtors and with the proper balancing of financial demand. In addition to these activities, that are structured into a series of Factoring services and Servicing, the Bank also provides more traditional products.

MAIN EVENTS OF 2013

One of the primary objectives of Banca Sistema is to properly satisfy the financial requirements of businesses by bringing together the public and private sectors. In particular, Banca Sistema offers purchase services, management and recovery of receivables from the Public Administration, allowing companies to improve their balance sheet ratios, eliminate fluctuations due to payment times and ensure certain cash flows.

Products and services

In order to get even closer to the needs and requirements of its Customers, in 2013, Banca Sistema developed additional tailor-made products and services for both companies and professionals, and for private entities.
For Business customers, Banca Sistema has signed some agreements with brokers specialised in sureties and security deposits, so that companies and professionals that work with the Bank can draw a competitive and management advantage from them, access public tenders, request VAT refunds or guarantee other requirements necessary for their growth. Furthermore, through high operating standards, the Bank has implemented factoring solutions already available on the market for managing payment delays by the Public Administrations. In addition to non-recourse factoring services, recourse factoring services have also been put in place for companies that requested it; an innovative solution was introduced for the disposal of annual VAT receivables, which allows customers to improve their liquidity ratio and increase their debt capacity, as well as immediately convert receivables to cash. In order to facilitate SMEs and professionals in particular, reverse Factoring agreements were signed with more than 15 Public Entities, including Regions, Provinces and Municipalities.

In 2013, the Bank continued, based on a diversification approach, to achieve significant development of the segment for services and products dedicated to Retail customers with the consolidation of current account and deposit account products.

The Bank is also structured to guarantee services to customers in the private segment.

The main products and services released or commenced in 2013 are summarised below:

- Updating of the on-line platform that allows the deposit account to be opened and introduction of new expiry dates of up to 60 months.
- Launch of the new product “SI conto! SUBITO”, reserved to “SI conto! DEPOSITO” holders, which makes it possible to access a guaranteed fixed-rate and zero cost loan, without having to release sums deposited and the relative interest.
- Review of the Home Banking platform for current

account management; in particular, 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.

- Extension of the on-line platform for opening a current account to companies and professionals too.
- Introduction of the Private Banking service enriched by all the main products such as Credit Lombard, Current Accounts in foreign currency (for the settlement of transactions in securities). Partnerships were also established for the placement of Funds and SICAVs with the main players in the sector for the management of financial assets.
- Activation of a new on-line section dedicated entirely to companies to offer rapid access to products and services that the Bank reserves to companies and professionals.

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.

In addition to the new products and services offered to private customers and companies, throughout 2013, the Bank continued to increase the efficiency of its operating processes and the adaptation of its technological and application infrastructure in order to guarantee adequate support for growth of the structure and the volumes of business in particular.

SHAREHOLDING STRUCTURE

Balanced governance and adequate capitalisation represents the philosophy adopted by Banca Sistema to operate well.

The Parent Company's current shareholding structure may be broken down as follows:

<table>
<tr><th>SHAREHOLDERS</th><th></th><th>% HELD</th></tr>
<tr><td>Fondazione Sicilia</td><td>8.45%</td><td rowspan="4">51.73%</td></tr>
<tr><td>Fondazione Cassa di Risparmio di Alessandria</td><td>8.45%</td></tr>
<tr><td>Fondazione Pisa</td><td>8.45%</td></tr>
<tr><td>SGBS S.r.l. (Management Company)</td><td>26.38%</td></tr>
<tr><td>Royal Bank of Scotland SOF LUXCO (Private Equity)</td><td>46.69%</td><td>46.69%</td></tr>
<tr><td>Other Shareholders</td><td>1.58%</td><td>1.58%</td></tr>
</table>

Some shareholders have signed two five-year Shareholder Agreements as described below:

- on 20 June 2011, a Shareholder Agreement was signed (modified in 2011 and 2012) 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 S.r.l., 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.

EXTRAORDINARY TRANSACTIONS

REORGANISATION OF THE GROUP

Merger by incorporation of Solvi S.r.l. into Banca Sistema S.p.A.

As part of its original reorganisation plan of 27 April 2012, the Board of Directors of Banca Sistema S.p.A. approved, first on 26 September 2012 and then on 27 March 2013, the merger by incorporation of Solvi S.r.l. into Banca Sistema S.p.A..
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. Following the request for authorisation, the Bank of Italy, by means of the letter dated 14 May 2013, approved the transaction. The merger plan was subsequently recorded at the Milan Companies Register on 16 May 2013. The extraordinary shareholders' meeting was held on 19 June which approved the merger by incorporation plan, and the resolution was recorded in the Companies Register on 20 June 2013.
On 15 July 2013, the merger deed was executed, establishing its effectiveness with respect to third parties as 1 August 2013, the day on which Banca Sistema S.p.A. took over all asset and liability relations of Solvi S.r.l.; the transactions were instead booked to the Bank's financial statements effective from 1 January 2013.

Liquidation of SF Trust Servicing Limited

Within the scope of reorganising the Banca Sistema Group as described to the Bank of Italy, when the last update was sent on 27 September 2012, the removal of the subsidiary SF Trust Servicing Ltd had already been announced, in accordance with applicable law (winding it up or striking off due to lack of activity). Therefore, the options available under English law were then examined: it was decided that the most suitable solution would be to wind-up SF Trust Servicing. RSM Tenon Restructuring was hired to wind up the company on 27 February 2013. On 1 July 2013, the Shareholders' Meeting resolved the placement of the company into liquidation, appointing Nicholas Charles Simmonds and Peter Huges-Holland as liquidators.

Transfer of SF Trust Italia S.r.l.

As part of the reorganisation project of the Banca Sistema Group, on 18 October 2013, the entire shareholding in SF Trust Italia S.r.l. was transferred, in fiduciary terms, from Specialty Finance Trust Holdings Ltd, as beneficiary, to the trust company SO.GE.FID. SOCIETA' FIDUCIARIA GENERALE E DI REVISIONE S.p.A.
Subsequently, on 26 November 2013, Specialty Finance Trust Holdings Ltd transferred its effective ownership of the entire shareholding in SF Trust Italia S.r.l. outside the perimeter of the Group.
Therefore, from said date, SF Trust Italia S.r.l. was no longer subject to the control or the management and coordination of Banca Sistema.
It should be noted that SF Trust Italia S.r.l. did not carry out any new transactions from the moment of acquisition of the Specialty Finance Trust Holdings Ltd Group and was limited to managing the existing positions as at 1 July 2011.

INCREASE IN SHARE CAPITAL

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.

On 26 February 2013, with the conclusion of the legal terms for executing the resolution subsequently assumed by the Board of Directors on 19 December 2012 to increase share capital for a total amount of Euro 5 million under the aforementioned conditions but in a single tranche, since no expressions of interest were made by the end of that period for the subscription of 85,131 shares which were still unopted by shareholders in the first 30 days of the subscription period, 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.

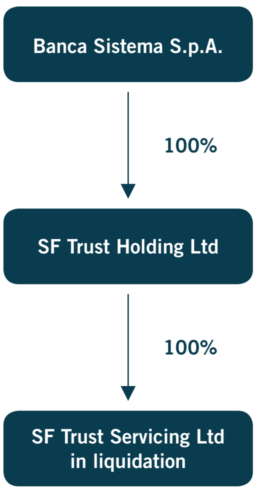
COMPOSITION AND STRUCTURE OF THE GROUP

On 31 December 2013, the Banca Sistema Group comprised the Parent Company, Banca Sistema S.p.A., with a share capital of Euro 8,450,526.24, registered office in Milan, 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.
- **Specialty Finance Trust Servicing Ltd** in liquidation, directly 100% owned by Specialty Finance Trust Holding Limited SFTH, with registered office in London (UK), in liquidation from 1 July 2013.

Therefore, the Group's scope of consolidation changed following the transfer of the company SF Trust Italia S.r.l.

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



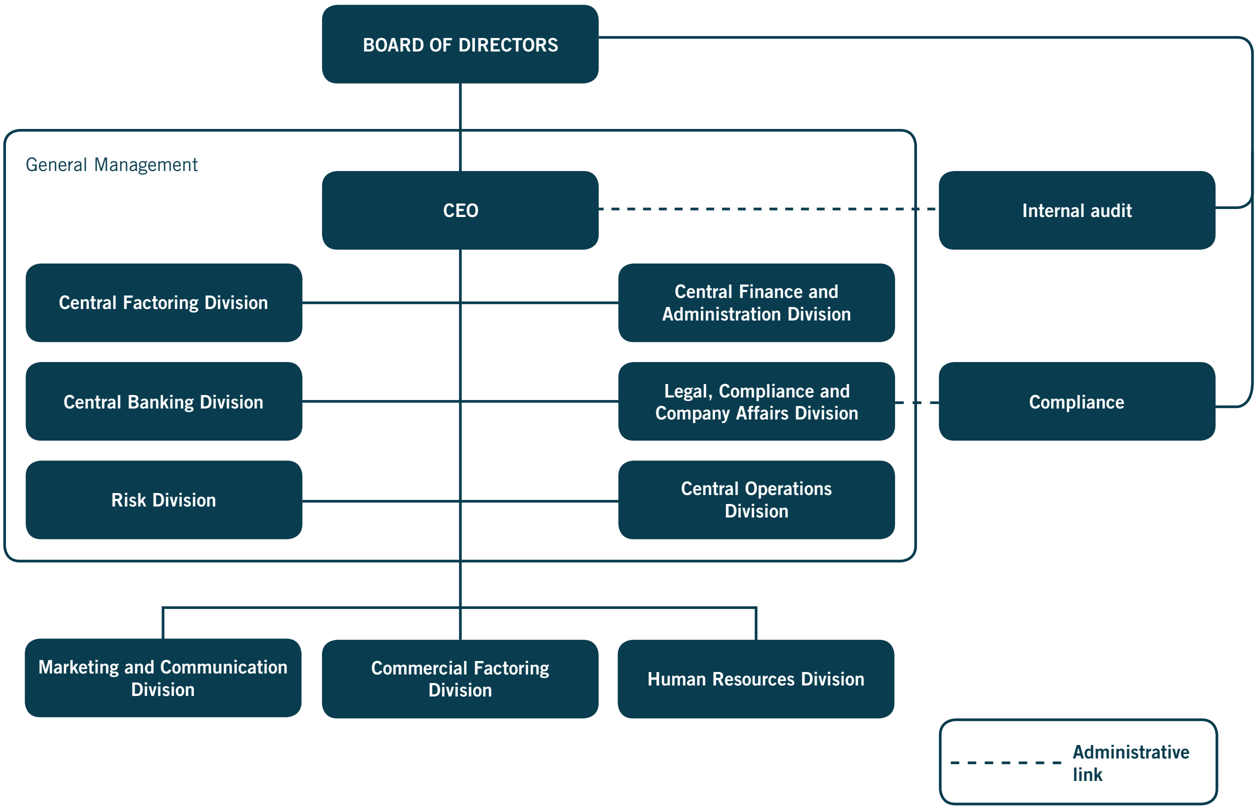
As stated, 26 November 2013 saw the transfer outside the scope of the banking group of the investee company SF Trust Italia ("SFTI") first held by SFT Holding (through the trust company So.ge.fid.), a company 100% owned by Banca Sistema. In addition, during the year, the parent company Banca Sistema incorporated the company Solvi S.r.l.. For accounting purposes, given it relates to a transaction involving the reorganisation of existing companies within the same group, in line with OPI 2 it was excluded from the field of application of IFRS 3. Therefore, the merger accounting entries were drawn up in accordance with the guidelines of IAS 8.101.

In particular, the principle of the continuity of values was applied, for which the entry in the separate financial statements of the merging company of the equity deriving from the merged company did not involve the recording of higher current values that those stated in the consolidated financial statements, nor higher goodwill, with respect to that already identified in the Group's consolidated financial statements.

In conclusion, the merger by incorporation in Solvi reproduced the same effects registered in the consolidated financial statements drafted for statutory purposes.

ORGANISATIONAL STRUCTURE

The organisational chart of the Parent Company Banca Sistema updated on 31 December 2013 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
- Marketing and Communication Manager
- Central Factoring Manager
- Factoring Commercial Manager
- Human Resources Manager

REGISTERED OFFICES OF THE BANCA SISTEMA GROUP

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

COMMITTEES

In order to ensure an efficient system that ensures that the Board of Directors can appropriately 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

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, observance and updating of the Organisation and Management Model set forth by the aforementioned Legislative Decree.
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 has the task of sharing the CEO's decisions with the Bank's 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 it also supervises 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 GROUP

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.

HUMAN RESOURCES

The human resources within the Group are summarised as follows:

	31.12.2013	31.12.2012
Managers	15	13
Executives	17	15
Other staff	64	58
Total	**96**	**86**

This information does not include the 5 personnel on temporary contracts, trainees and seconded staff.

Banca Sistema continued its personnel development plan, in accord with company plans: at the end of 2013, employees increased to 101, compared to 92 at the end of 2012.

This positive trend, determined by the Bank's commercial development, led to the need for strengthening of both the sales and organisational structures; in particular, senior and junior professionals were added to Factoring Division; within the context of the Milan branch (opened in November 2012), and in the various Back Office and Information Technology functions.

The organisational structure saw the addition of the personnel from the company Solvi S.r.l., merged into the Bank in 2013, forming the Group's Servicing Division.
The additions were therefore made in customer relationship roles (Origination, VAT receivables, Relationship Management) and in technical support roles (organisational, Help Desk and planning).

In 2013, the Group hosted several interns and trainees, to allow young new graduates to gain their first experience of the world of work and to allow the Group to evaluate young people to place in permanent roles in the organisation.

Growth in the workforce is also expected in 2014. The reference areas will predominantly remain those of 2013 once more, with a focus on the strengthening of the commercial structures and support functions, including control functions.

In consideration of the significant increase in the workforce in 2012, the main Group training plans were developed during this year, both regarding training initiatives for the insertion of collaborators in the new company setup, and regarding the more strictly technical aspects of Bank activities.

In particular, a "welcome" training module was created which, through classroom-based training, provides all new personnel with the basic information needed to operate within the Group environment.

Subsequently, a "technical training" project was implemented. In fact, the Group includes many areas of specialisation, from traditional banking activities to Factoring and Collection: therefore, it is important that all those working in the Group are aware of the main internal activities and responsibilities that characterise the Group. A committee composed of HR, Compliance, Legal and Organisation developed the project. Ten technical training modules were created (Legal aspects of Factoring, Risk management, Credit management, Origination of Factoring, Collection, General Regulation, MiFID, Anti-money laundering, Privacy, Compliance). The project, launched in 2012, saw more than 40 training sessions held, with 583 participants.

A "workplace safety" training plan was also developed. Sixteen training sessions on the subject were organised in the year, which involve all the Bank's personnel.

In consideration of the growing number of young people hired on a "traineeship" contract, 4 training modules were created linked to this particular contract type (Labour Law, Company Organisation, Communication and Marketing and the use of company electronic tools) which enriched the individual training plans of every single trainee; a total of 16 training plans of this type were managed during the year.

In the specialist training area, some courses were designed and developed at professional level for internal group “specialists”; in particular, courses were created relating to “Decree 231 on offences against the Public Administration”, to “Advanced anti-money laundering”, “Time deposits”, “Taxation and financial instruments”.

Another training project concerned “company procedures”. The Organisation and HR functions organised the relevant training plan for interested persons when each significant internal procedure was issued. Nine training modules were developed in 2013.

The growth in global economic activity and international trade has continued at low rates for several years now. In 2014, according to OECD estimates, global growth will pass from 2.7% in 2013 to 3.6%.

The central banks of the advanced countries continue to adopt accommodating monetary policies targeted at ensuring liquidity to the banking system at rates close to zero and long-term stability expectations.

Also in the Euro area, economic activity started to grow again, albeit in a limited and unequal fashion between the various countries. The ECB does not foresee, at present, new measures to encourage the recovery, notwithstanding the commitment to adopt new initiatives should the economic-financial situation deteriorate.

By contrast, the US FED should gradually reduce its intervention in 2014, despite maintaining monetary base supply above the banking system requirements. This evolution will definitely lead to a rise in medium and long-term interest rates in the United States, with limited repercussions also on other markets that still have extremely low real interest rates and strengthened their financial systems in recent years.

ITALY

In Italy, in the fourth quarter of 2013, GDP bucked the negative trend started two years earlier, growing by a few tenths of a percent. Also industrial production, down from the summer of 2011, rose by around 1% in the same reference period, driven by exports.

By contrast, domestic demand is finding it hard to rally since household consumption is impacted by the negative trends in the employment sector and this subsequently leads to savings being squeezed.

Investments, given the solid performance of orders from abroad in recent months, should start to grow again, remaining, however, at the lowest levels in relation to GDP in the last twenty years.

The mild recovery was differentiated both in terms of the productive sector and geographical area; the most encouraging signs were recorded in particular by the large companies located in the Centre-North, which generate a significant portion of their sales abroad.

On the employment front, the first signs of stabilisation emerged in recent months with an increase in hours worked, but with an unemployment rate already up to 12.6%.

Even more worrying is the figure relating to youth unemployment (between 15 and 24 years old), standing at above 40%.

European regulations make provision, among other restrictions, for the deficit/GDP ratio; the fact it was not overrun allowed our country, together with other factors, to regain credibility on international markets and guarantee the refinancing of debt which, in 2013, including the renewal of securities due to expire, stood at around Euro 400 billion.

The recovery of credibility, obtained thanks to efforts made, is promoting the reduction of the deficit due to lower interest in servicing debt and may make it possible, if the political conditions allow it, to negotiate flexibility margins in order to finance public investments and kick-start growth.

In the banking field, loans to Italian companies have been falling for two years now (down around 9%), following the increase registered in the previous years (14% between 2007 and 2011). In fact, there are significant problems on the supply side, even though bank liquidity conditions have improved. Recourse to the Eurosystem's refinancing decreased with respect to the previous year and a part of the refinancing obtained in the transactions completed between 2011 and 2012 has been repaid.

The supply of credit is shaped heavily by the trend in watchlist and non-performing loans in the sector and by the subsequent worsening in the evaluations of borrowers' creditworthiness.

The ratio between non-performing loans and total loans reached 9.1% last December, almost 7% more compared to the end of 2008. For loans to companies, the ratio rose from 3% to 13%.

Despite this, in the last year, the rate of coverage of impaired loans rose from 38.3% to 39.9% for banking groups as a whole. In relation to risk-weighted assets, better quality equity (core tier 1) increased from 10% to 10.6%.

In order to achieve a stable and sustained return to growth, the objectives of maintaining balance sheet restrictions, kick-starting lending, supporting investments and recovering competitiveness must be pursued. It is hoped that the company will start the much needed season of reforms with the objective of making the national economy more favourable to company activities, by simplifying the regulatory framework, enhancing the quality of public services and continuing to combat unlawful behaviour.

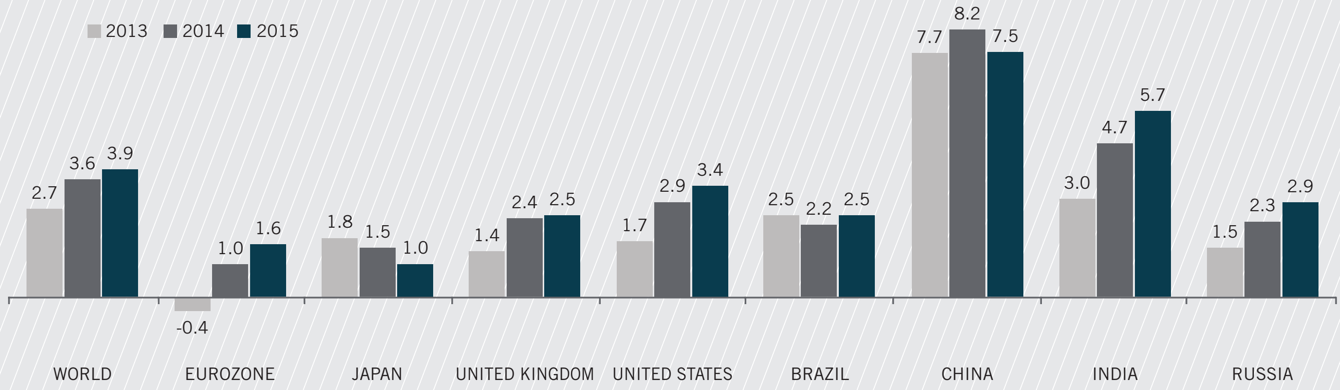
In this context, the plan for the disposal of Public Administration loans, started with the issuing of Decree Law 35/2013, did not contribute major benefits in terms of a rise in gross domestic product, at the same time generating an increase in public debt which did not allow the deficit/GDP ratio to fall under 3%.

The actions to boost growth must be accompanied by a reduction in public spending which may be used to cut the tax wedge and a review of the instruments for supporting income and for the retraining of workers no longer working in the productive processes.

The companies, for their part, must rebalance their financial structure, by reducing the dependence on bank credit and increasing risk capital, so as to obtain additional resources for the investments needed to recover competitiveness.

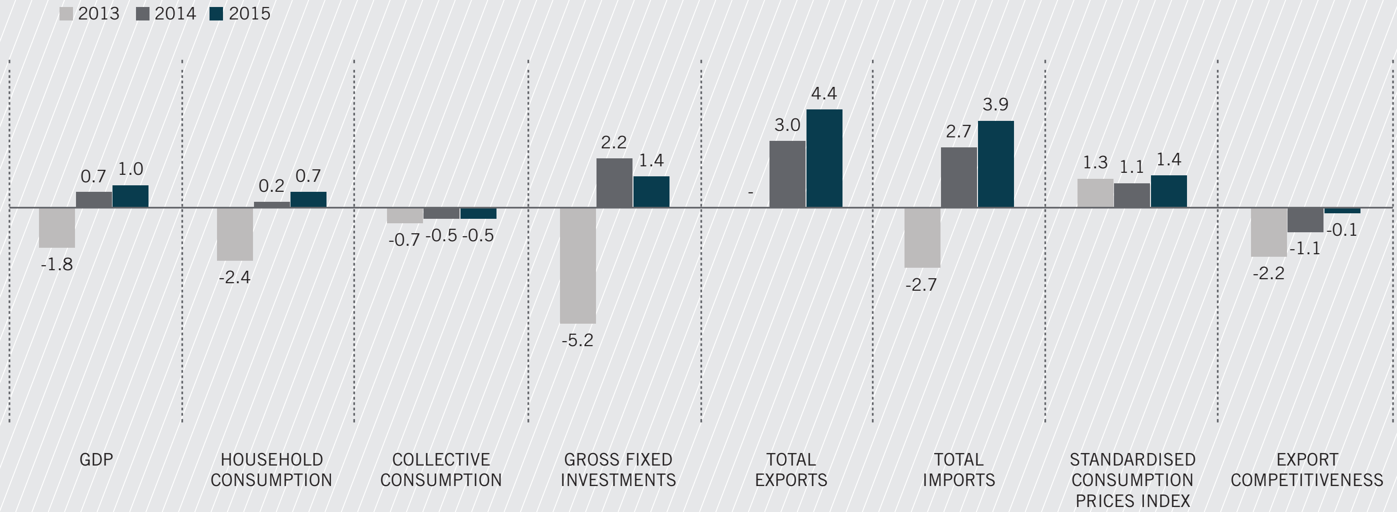
Banks will be responsible, also through the provision of high value-added financial services, for regaining the role of support for the real economy.

Worldwide macroeconomic scenario (GDP % change)



(Source: OECD)

Macroeconomic situation in ITALY (% change)



(Source: Bank of Italy)

Italian Factoring market

The Italian Factoring market is, according to the latest statistics (from Factors Chain International, 2012) the third largest in the world (after the China and France) with a quota of more than 8%.

Despite the negative economic situation, volumes acquired held firm (over Euro 172 billion, equal to 11% of the GDP), a slight decrease of -2.2% compared to the previous year.

Many companies continue to use Factoring to deal with delays in payments from the Public Administration which result in significant costs; this applies in particular to SMEs who are more vulnerable to cash flow variations and depend on a limited number of Customers.

The trade payables of the Public Administration due to companies are equal to 4% of GDP, with estimated costs for companies of more than Euro 2 billion.

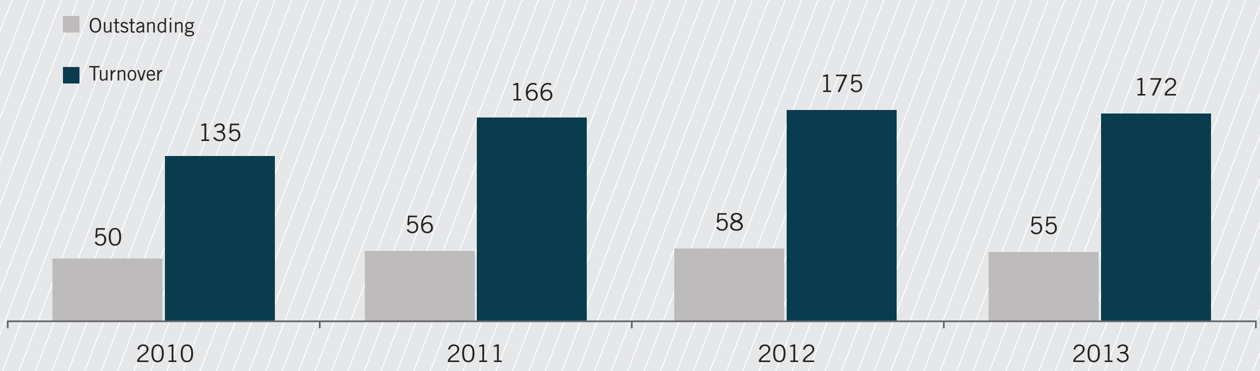
The partial application of the legislative measures implemented in 2013 did not improve the situation as regards the delays in payments from the Public Administration.

With respect to the resources allocated to pay the payables of the government and territorial entities, around 79% was disbursed to companies. A worse situation was recorded as regards the payables accumulated by the National Health Service.

CLASSIFICATION	COUNTRY	PA Dso
1	**Italy**	**170**
2	Greece	159
3	Spain	155
4	Portugal	133
5	Cyprus	85
6	Belgium	69
7	France	60
8	Slovakia	57
9	Hungary	55
10	Bulgaria	52
11	Lithuania	51
12	Slovenia	49
13	Romania	45
14	Czech Republic	45
15	Ireland	45
16	Netherlands	43
17	United Kingdom	41
18	Poland	38
19	Latvia	37
20	Germany	36
21	Denmark	35
22	Sweden	34
23	Estonia	25
24	Finland	24
25	Austria	13
	EU Average	**61**

(Source: Confartigianato)

Factoring in Italy (millions of Euros)



(Source: Assifact)

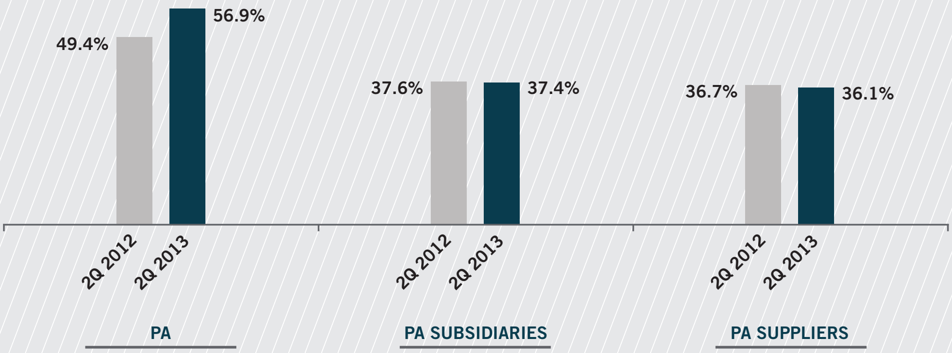
Cerved published a study on the payments of the Public Administrations (based on the data of the first half of 2013), on the basis of which some important observations can be made:

- in the first half of 2013, delays in the payments of Public Administrations worsened by 7% compared to the first half of 2012;
- as at 30 June 2013 57% of past due invoices had still not been paid compared to 49% in 2012;
- the worst figure within the PA domain relates to the Regions, with almost 82% of invoices not paid;
- also the health sector, with 81.7% of past due invoices still not paid, worsened with respect to 2012, (72.5%);
- in the health sector, only 5.3% of debtors settle their invoices on time.

GRAPH 1

MISSED PAYMENTS 2Q 2013 vs. 2Q 2012

(Source: Cerved Group)

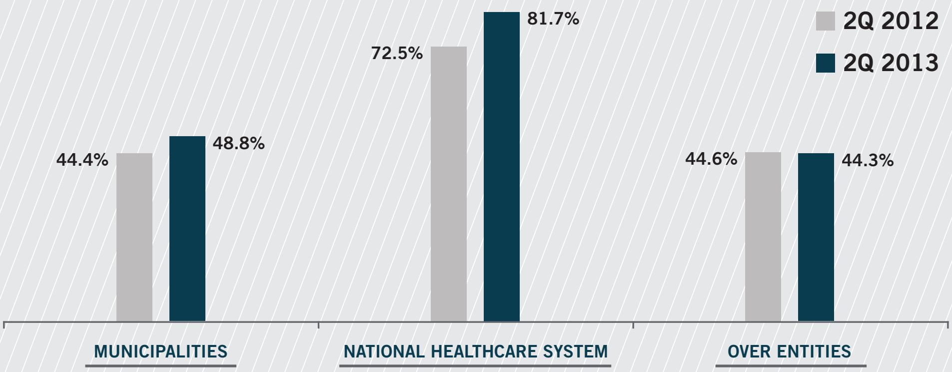


GRAPH 2

MISSED PAYMENTS

Invoices not paid as % of total invoices past due in the quarter

(Source: Cerved Group)

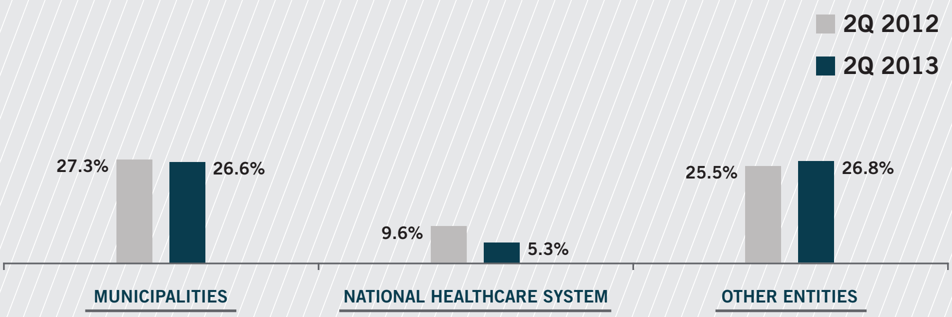


GRAPH 3

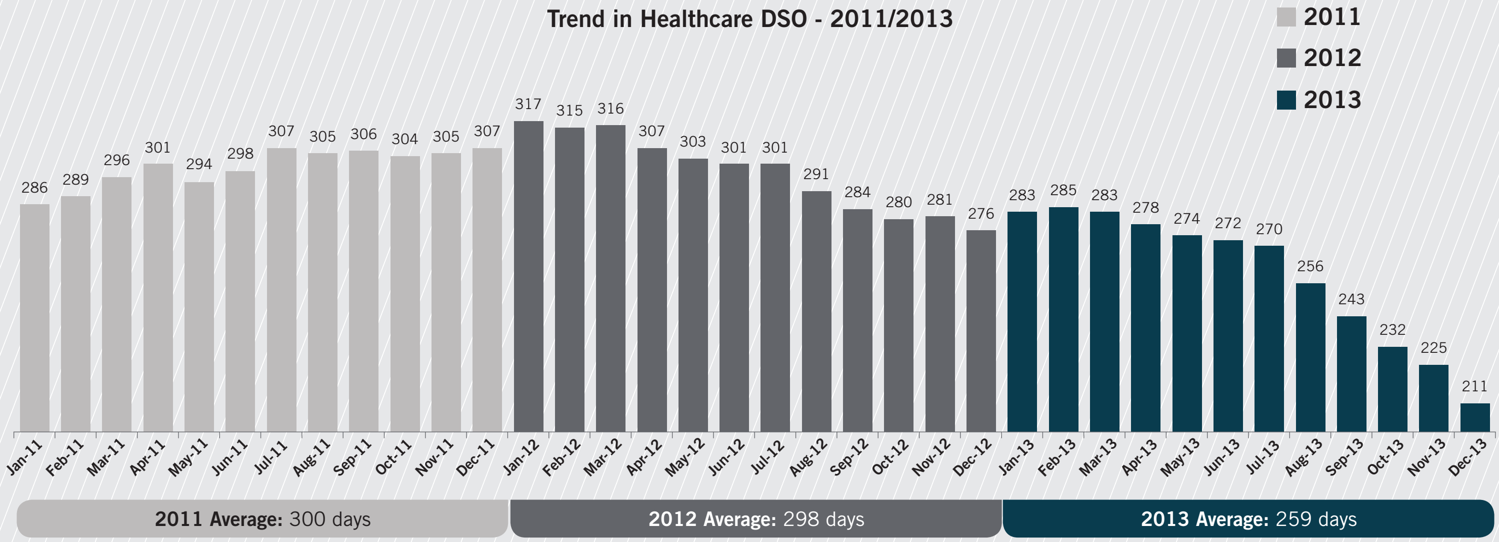
PUNCTUALITY OF PUBLIC ADMINISTRATIONS IN COMMERCIAL TRANSACTIONS

Subjects that, on average, pay invoices within the agreed terms % of total

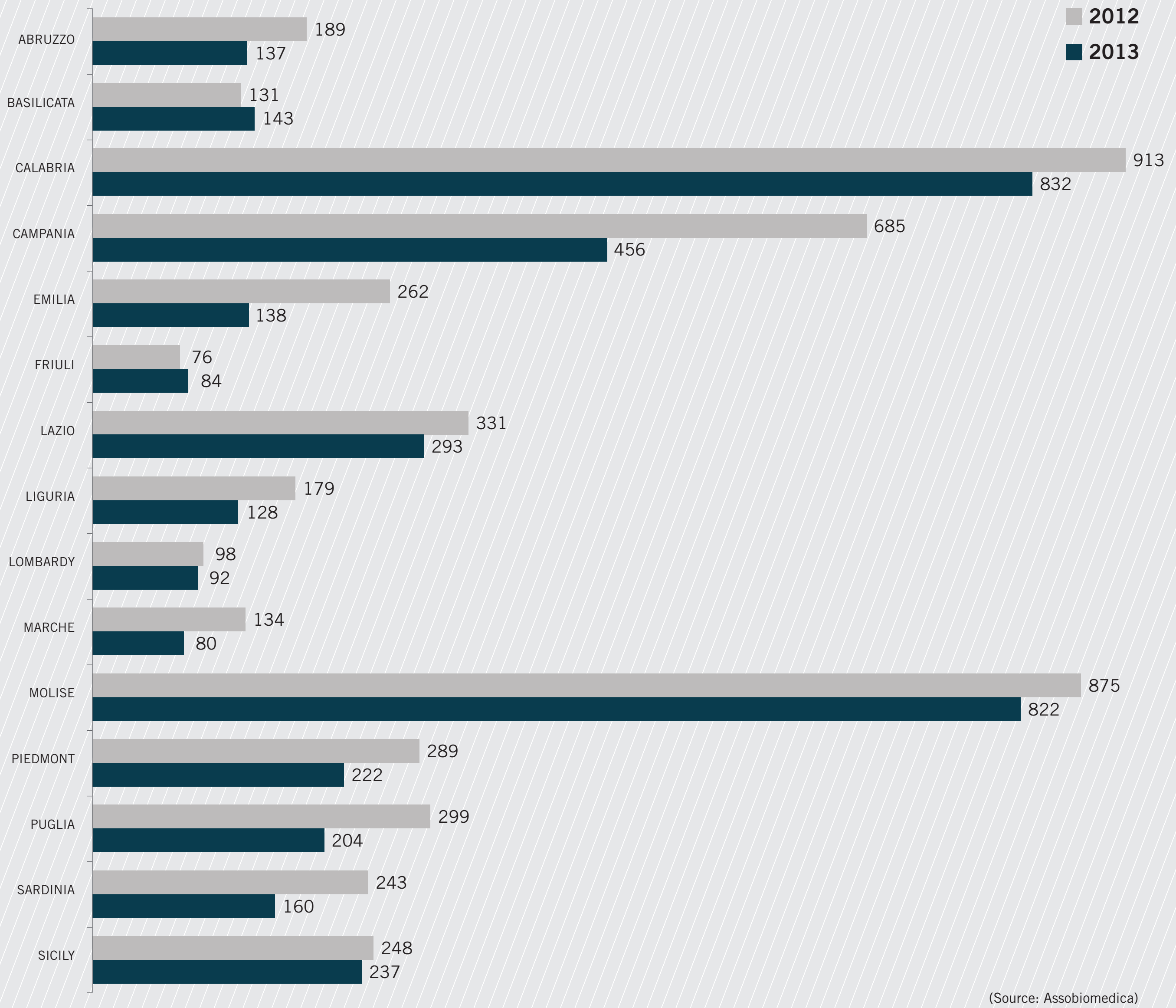
(Source: Cerved Group)



In relation to the average Public Administration payment times in the healthcare sector, some summary data is provided below.

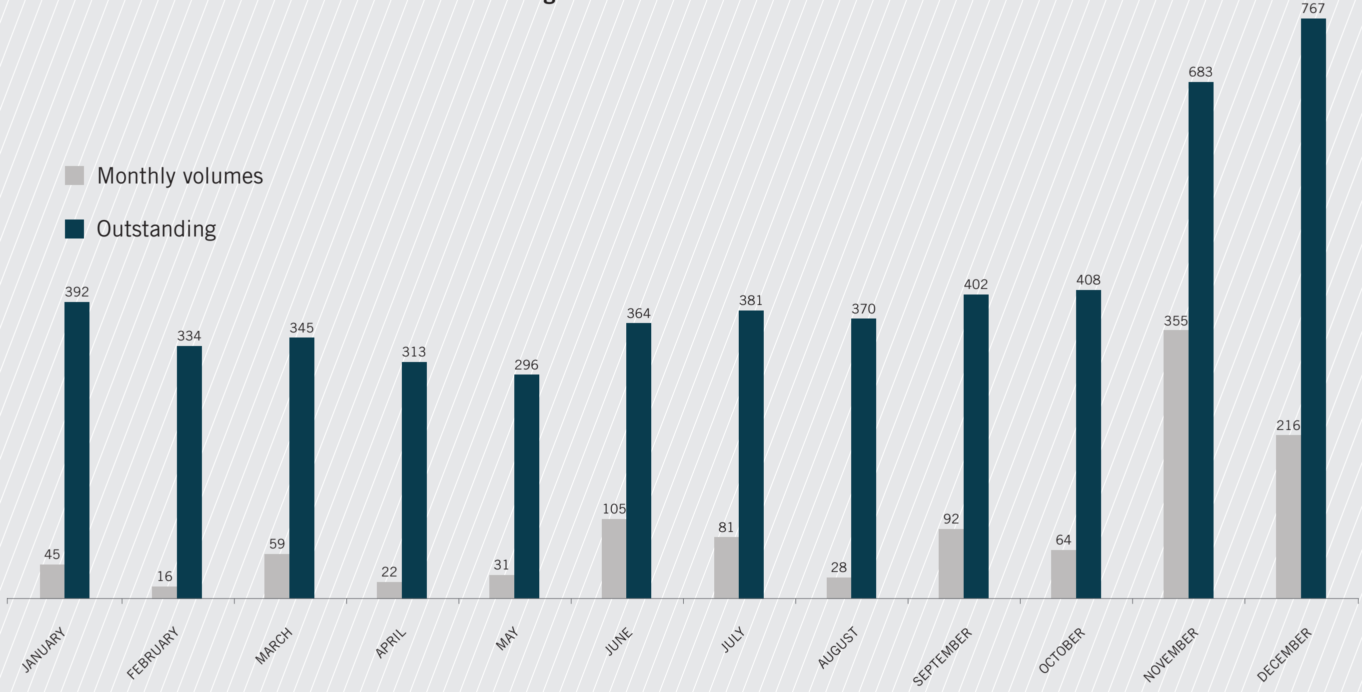


(Source: Assobiomedica)



(Source: Assobiomedica)

Factoring receivables - Banca Sistema



(amounts in millions of Euros)

Impact of legislative amendments

Expectations over the payment times of the Public Administration improved with respect to the past, also due to the implementation of Decree 35/2013 and the injection of liquidity into the banking system. In fact, improvements have already been recorded in the PA's payment schemes in the second half of 2013, albeit below the expectations.

According to the data also disclosed by members of the Government that are not acknowledged in the official documents (Government budget and Bank of Italy), past due payments at the end of 2012 amounted to more than Euro 95 billion and Decree 35's objective was to reduce these arrears by Euro 40 billion in the 2013-2014 two-year period (Euro 20 billion per year). At the end of August, the Government provided another Euro 7.5 billion for 2013 thanks to the IMU/CIG (Unique Municipal Tax/Wages Guarantee Fund) Decree.

Based on the latest information available, Euro 21.6 billion was actually paid, equal to 79% of the allocation forecast for 2013.

The provision was not hugely successful, given that, although on the one hand, it provided Public Administration with additional resources for releasing payments, on the other, it did not simplify the mechanisms for making credit readily collectable, which allows debtors to make payments or at least provide an adequate certification.

Banca Sistema and Factoring activities

The Bank chose to focus its Factoring activities on suppliers of the Public Administration. Public spending in Italy amounted to around 14% of GDP, a share which offers the Bank an extremely appealing area of the market. Public spending (Source: ISTAT) amounted to almost Euro 170 billion, of which more than 50% for healthcare spending and roughly 20% for investment expenditure.

Said Bank of Italy had the opportunity to underline that, despite the spending review, healthcare spending stayed at around 7.5% of the country's gross domestic product.

In 2013, the Bank also started its own activities in relation to the financing of VAT receivables on a non-recourse basis. The amount of VAT receivables in our country is not available from official sources, but the Bank estimates that the amount repaid per annum on average is Euro 10 billion.

Recent research conducted by Assifact shows the results of the activities of the main factoring companies with the Public Administration. A total of 17 companies account for 90.2% of total receivables. With reference to debtors, the portfolio is composed primarily of Local Authorities (75.5%), Central Authorities (15%) and the Public Administrations of other countries (7%). With reference to sub-groups, 45% of total receivables is represented by providers of healthcare services and 10% by other providers of healthcare services; therefore, the healthcare sector, as a whole, accounts for around 55% of total existing receivables.

Based on the data analysed, we can confirm that the amount of receivables in respect of which, each year, Banca Sistema and its competitors can implement actions, is at least Euro 163 billion. As regards VAT receivables, considering that the average collection time is 3 years, unpaid receivables are estimated at close to Euro 30 billion.

Again with reference to Assifact's research, which estimates total receivables due from the Public Administration at around Euro 16.9 billion, annual turnover of roughly Euro 11 billion can reasonably be presumed, considering an average actual turnover of receivables of 547 days. A comparison of the overall data with the turnover of receivables acquired in 2013 from Banca Sistema (equal to Euro 1.1 billion) shows that the Bank acquired a market share of around 10%. Considering the third party receivables managed, total volumes came to Euro 1.5 billion as at 31 December 2013.

The market growth margins are wide, both if we take into consideration the figures from the Economic and Financial Document, and if Assifact's public spending assumptions are considered. In the first case, 7% of the available amount would be transferred and, in the second case, roughly 12%.

In particular, Banca Sistema targets:

- companies that intend to dispose of their loan portfolio through the assignment of credit, predominantly in non-recourse form;
- companies looking for a strategic partner specialising in credit management and receivable collection with regard to the Public Administration;
- companies whose objective is 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.

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.

In 2013, Banca Sistema continued the process of diversifying the type of receivables acquired by assignment. As highlighted in the following graphs, the composition of turnover changed considerably, with a significant shift from healthcare receivables to receivables due from territorial entities and central authorities and tax credits.

Whereas, in the past, assigned debtors were only those related to the public health sector, at the end of 2013, the following became prevalent in terms of debtors: territorial entities (46% of the total), followed by local health authorities (27%) and central government authorities (21%).

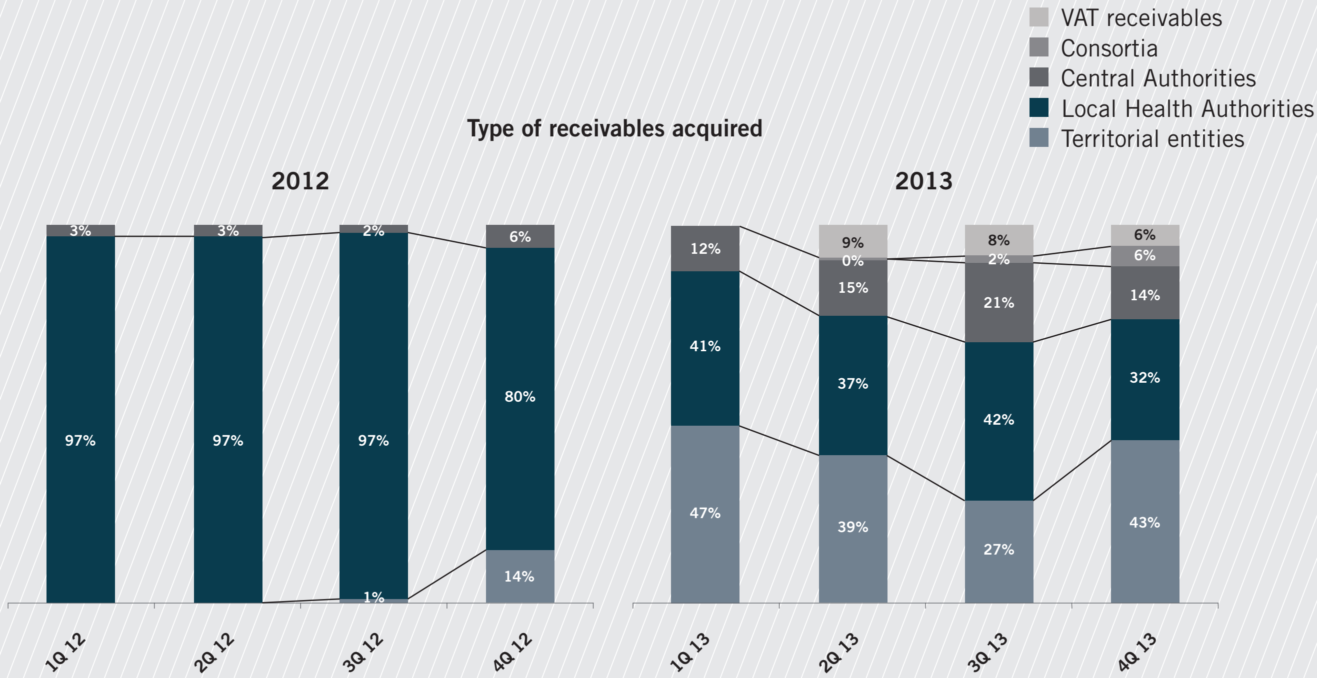
Opening up to debtors who are outside the healthcare world has allowed three significant objectives to be targeted:

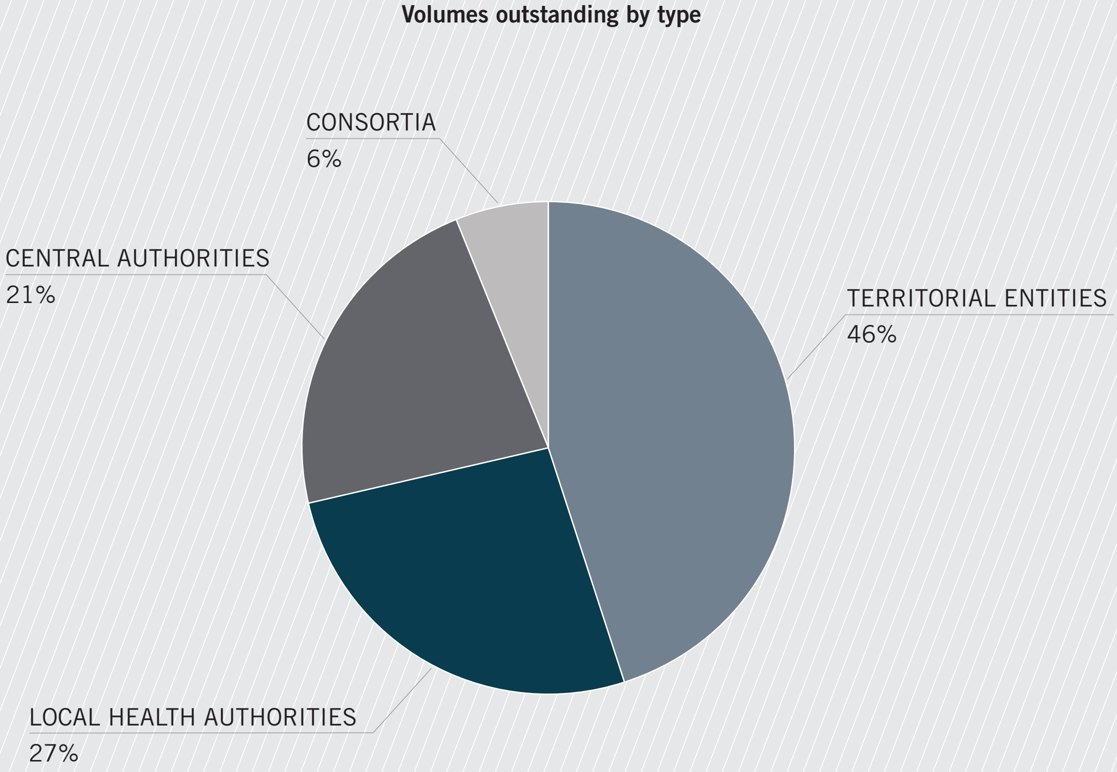
- ensuring greater diversification of the risk;
- approaching new listed supplier companies besides local health authorities and hospitals;
- offsetting the weighting increases for capital absorption purposes.

As mentioned, Banca Sistema launched a new service dedicated to VAT receivables which became operational in February 2013. The credit is also acquired on a non-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.

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 through its Collection division and through external services.





Collection and Management

Total term deposits on 31 December 2013 amounted to Euro 517 million (the figure does not include accruals pertaining to the year).
Funding from deposit accounts was geared towards, in relation to the trend in loans in the year, certain initiatives involving a change in interest rates and cash inflows which fully offset the disinvestments deriving from restrictions due to expire.

Active customers with term deposits numbered 11,231 at 31 December 2013, in line with the previous year. The average deposit per Customer is Euro 46 thousand. The distribution of the term deposits shows a prevalence of 12 and 24 month deposits, which represent 55% of the total.
In 2013, as highlighted by the graph in the following page, Customers, nonetheless, chose longer terms, considerably increasing the duration of deposits, which currently exceeds 12,4 months.

Managed funds totalled Euro 327 million, up sharply compared to the previous year (Euro 104 million). The growth is due to an expansion of the offer of products/services and strengthening of the structure through the hiring of new personnel in the Private Banking area.

New products/services

The Bank outlined the main objectives of the Banking Division as the development of new products and services marketed from 2014, which will enable the bank to diversify the range of existing products and allow it not only to meet the needs of potential new Customers but ensure the consolidation and greater satisfaction of existing customers.

These products include sureties, loans and the “Banconote Sicure” service.

In relation to sureties as a financial system instrument which aims to guarantee contractual obligations, the Bank operates as an intermediary for their placement.

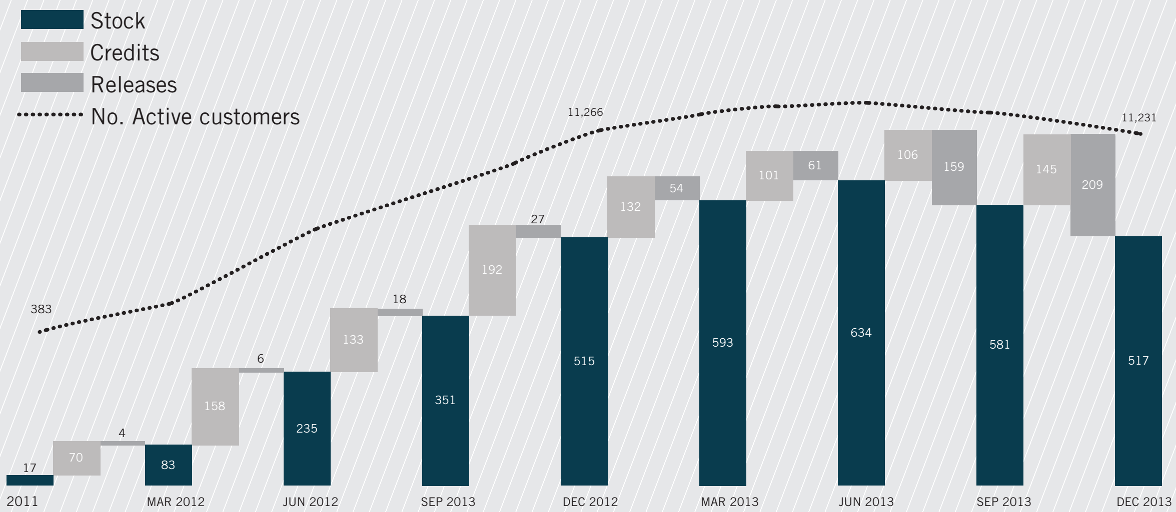
Loans to SMEs, guaranteed by the Guarantee Fund of the Ministry of Economic Development (Law 662/96) are an instrument which allows companies to access secured credit under facilitated terms, and allows the Bank to disburse loans with low risk and equity impact, given the Government guarantee (up to 80%).

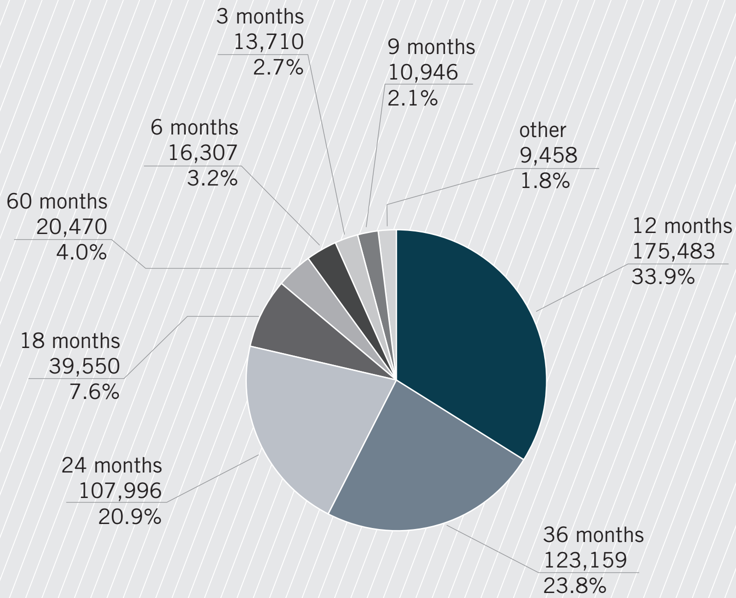
The product already launched in December 2013 includes applications at the disbursement phase for a total value of Euro 24 million.

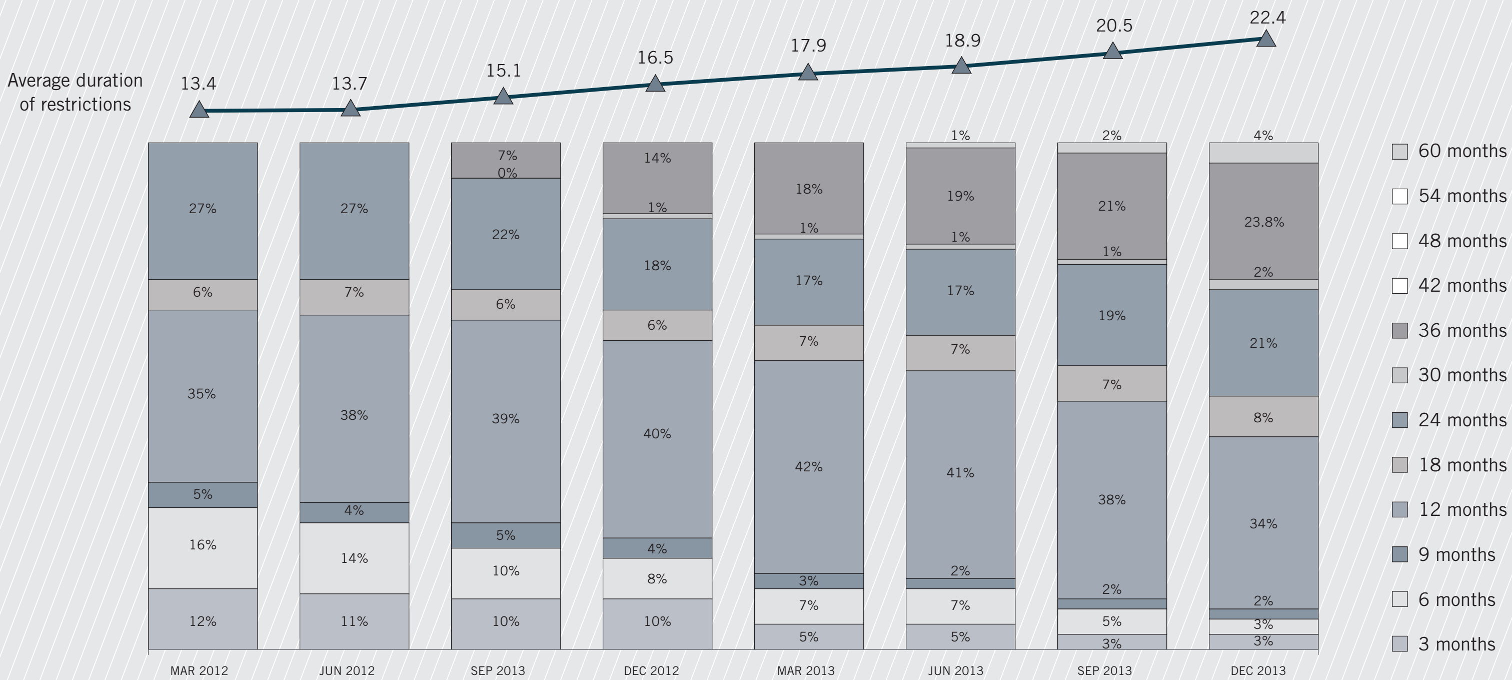
The “Banconote Sicure” service, through a device installed at the sales point:

- guarantees simple and quick cash management, with daily and automatic crediting to the merchant’s Bank current account;
- ensures greater protection of both people and money, with counterfeit recognition and banknote staining systems, which are activated automatically in the event of forcing; as well as insurance to cover any thefts and break-ins;
- prevents the merchant from having to go to the branch since the banknotes inserted in the device and accounted for automatically are withdrawn by the Bank at no additional cost.

The advantages for the Bank, in addition to the possibility of expanding its Customer base, consist of the possibility of guaranteeing additional current account deposits and increasing commission revenues. At the end of 2013, an agreement was stipulated for the first machines, which will be installed in 2014.


Stock
Credits
Releases
No. Active customers
383
11,266
11,231
17
70
4
83
158
6
235
133
18
351
192
27
515
132
54
593
101
61
634
106
159
581
145
209
517
2011
MAR 2012
JUN 2012
SEP 2013
DEC 2012
MAR 2013
JUN 2013
SEP 2013
DEC 2013


3 months
13,710
2.7%
9 months
10,946
2.1%
6 months
16,307
3.2%
other
9,458
1.8%
60 months
20,470
4.0%
12 months
175,483
33.9%
18 months
39,550
7.6%
24 months
107,996
20.9%
36 months
123,159
23.8%


Average duration
of restrictions
13.4
13.7
15.1
16.5
17.9
18.9
20.5
22.4
MAR 2012
JUN 2012
SEP 2013
DEC 2012
MAR 2013
JUN 2013
SEP 2013
DEC 2013
60 months
54 months
48 months
42 months
36 months
30 months
24 months
18 months
12 months
9 months
6 months
3 months

Managed funds, up considerably compared to the previous year, have subsequently increased the number and the amount of monetary settlements by the Treasury Area.

The most significant increase occurred in operations in securities and volumes exchanged on the MMF REPO market.

By means of the resolutions adopted at the Board of Directors in 2013, the securities investment threshold was raised to Euro 850 million, with a maximum duration constraint of one year.

The total value of transactions in securities (purchase/ sale) carried out during the year exceeded Euro 8.5 billion.

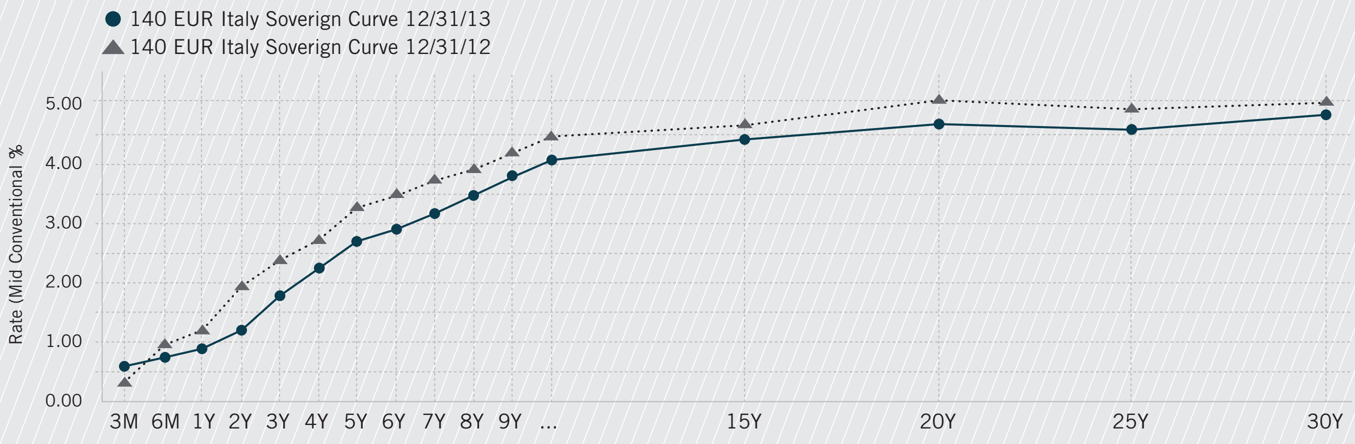
The direct participation in the main electronic markets, MM REPO and E-MID, allowed the development of both spot/forward activities and interbank deposits.

The coverage of the main money markets and the increase in activities developed with the main market counterparties facilitated the granting of the MM lines of credit in favour of Banca Sistema needed for the daily management of liquidity flows.

Short and medium-term operating liquidity has always been maintained well above the levels needed to ensure that items can be converted to cash at any moment.

The performance of investments in securities was in line with the improvement in spreads, i.e. with the improvement in the perception of risk by the markets in respect of peripheral countries in the Eurozone, especially Italy; this was also thanks to the protection mechanisms put in place by the European Central Bank which led to a huge drop in yields, in particular on the short-term portion of expiries.

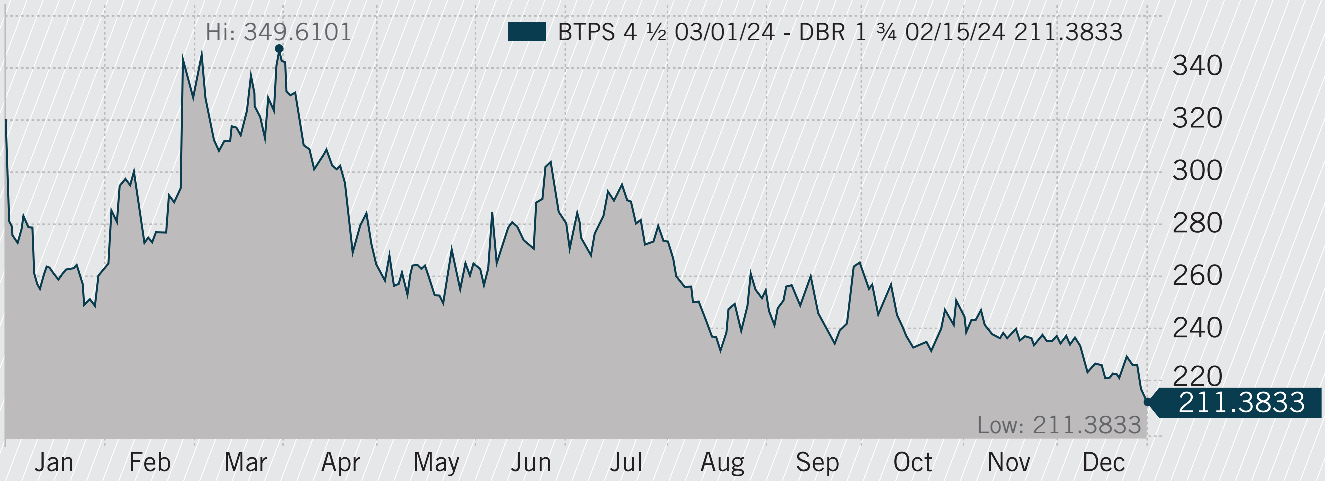
The graph below compares the yields of Italian Government securities from 31/12/2012 to 31/12/2013:



(Source: Bloomberg)

By comparing the two curves, the fall in the yields on Government Securities is clear, especially on the shorter expiries.

The graph below outlines the BTP-BUND spread performance from 31/12/2012 to 31/12/2013:



(Source: Bloomberg)

The yield on the 10Y Italian security against the equivalent German security reached a differential of 211 basis points at the close of the year, well below the 349 basis points reached on 27/03/2013. The graph clearly shows the stabilisation of the spread in the last few months under the average of 260 basis points.

COLLECTION ACTIVITIES

The Banca Sistema Group provides credit management and recovery services through its Collection division, developed as a result of the merger by incorporation of the subsidiary Solvi S.r.l. and operational from 1 August 2013.

Through this Division, the Bank is able to offer its Customers a constant and gradual reduction in collection times on receivables due from the Public Administration; in fact, it manages the relationship between public and private administrative 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.

In 2013, the Bank recorded commission income of Euro 9.8 million.
The amount of third-party receivables managed stood at Euro 369 million.

THE MAIN BALANCE SHEET AGGREGATES

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

(Amounts in thousands of Euros)

ASSETS	31.12.2013	31.12.2012	Delta
Cash and cash equivalents	71	3,697	(3,626)
Held-for-trading financial assets	-	129	(129)
Available-for-sale financial assets	847,045	540,994	306,051
Loans to banks	58,814	14,475	44,339
Loans to customers	1,088,085	484,435	603,650
Property, plant and equipment	715	445	270
Intangible assets	1,828	1,842	(14)
of which: goodwill	*1,786*	*1,786*	-
Tax assets	2,670	4,309	(1,639)
Other assets	4,122	3,736	386
Total assets	**2,003,350**	**1,054,062**	**949,288**

The Group's total assets amounted to more than Euro 2 billion at the end of the year, an increase of Euro 949 million compared to 31 December 2012. A description of the main financial statement items is provided below.

The Bank has Euro 847 million invested in securities, all of which are in the "Other available-for-sale financial assets" category and are Italian Government Securities, with an average duration of less than one year.

(Amounts in thousands of Euros)

SECURITIES PORTFOLIO	31.12.2013	31.12.2012	Delta (Euros)	Delta (%)
Held-for-trading financial assets	-	129	(129)	-100.0%
Available-for-sale financial assets	847,045	540,994	306,051	56.6%
Total	**847,045**	**541,123**	**305,922**	**56.5%**

The valuation reserve on 31 December 2013, before prepaid taxes, amounted to a negative Euro 348 thousand.

(Amounts in thousands of Euros)

LOANS TO CUSTOMERS	31.12.2013	31.12.2012	Delta (Euros)	Delta (%)
Factoring	740,160	376,790	363,370	96.4%
Repurchase agreements	288,048	99,700	188,348	188.9%
Compensation and guarantee fund	28,677	6,867	21,810	317.6%
Current accounts	30,964	1,033	29,931	2897.5%
Other receivables	236	45	191	424.4%
Total	**1,088,085**	**484,435**	**603,650**	**124.6%**

The item "Loans to customers" is mainly made up of current investments in Banca Sistema's factoring receivables portfolio, equal to Euro 740 million.

During 2013, the Group acquired non-recourse receivables of over Euro 1.1 billion. The current amount of impaired loans, which are entirely due to late payments or situations of instability, is Euro 13,698 thousand. In respect of the existing portfolio at 31 December, a collective portfolio adjustment of Euro 450 thousand was allocated, despite no capital losses ever having been verified for the Bank up to the present day.

The item "Loans to customers" also includes financial investments which can be mostly traced back to repurchase transactions for Euro 288 million and the item "Other receivables" includes the cash invested in the Compensation and Guarantee Fund to operate the repurchase transactions with institutional customers.

The item "Current accounts" includes uses of credit facilities granted to customers for Euro 29 million.

The item "Tax assets" includes prepaid taxes of Euro 1.3 million, which recorded a decrease due to utilisation during the year in respect of taxable income and increased owing to the release of goodwill deriving from the merger by incorporation of Solvi S.r.l. for Euro 590 thousand.

The item "Other assets" is made up of items being processed or spanning the year-end period and commercial invoices to be issued, mainly attributable to collection activities. The item has a natural characteristic and is in line with the previous year.

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

(Amounts in thousands of Euros)

LIABILITIES AND SHAREHOLDERS' EQUITY ITEMS	31.12.2013	31.12.2012	Delta
Due to banks	931,580	113,923	817,657
Due to customers	988,052	844,787	143,265
Securities in issue	35,216	55,242	(20,026)
Tax liabilities	2,585	1,627	958
Other liabilities	22,890	21,662	1,228
Post-employment benefits	732	623	109
Provisions for risks and charges	318	5	313
Valuation reserves	(257)	407	(664)
Reserves	6,781	5,835	946
Capital	8,451	7,861	590
Profit for the year	7,002	2,090	4,912
Total liabilities and shareholders' equity	**2,003,350**	**1,054,062**	**949,288**

The trend and the mix of deposits at year-end deriving from the institutional segment were impacted by the market performance; deposits are composed primarily of repurchase agreements, classified under "Due to customers", given traded through the MTS platform and guaranteed by the Compensation and guarantee fund, therefore without a direct balancing entry with banks; of refinancing operations with the ECB (with underlying guarantee mainly in the form of Government Securities and the residual part in trade receivables); and of short-term funding operations with other banks, up compared to the previous year.

Group customer funding, targeted at supporting the Factoring business, is primarily linked to term deposits and to the product "SI conto! DEPOSITO". Funding from current accounts recorded an increase. The Group takes care in researching forms of financing that allow it to reduce the cost of funding, as well as stabilising and retaining Customer funding, increasingly expanding the range of products and services offered as part of a bundle with current accounts.

The Group did not suffer any cash tensions during the year.

"Due to banks" can be broken down as follows:

(Amounts in thousands of Euros)

DUE TO BANKS	31.12.2013	31.12.2012	Delta (Euros)	Delta (%)
Due to central banks	850,097	100,772	749,325	743.6%
Due to banks	81,483	13,151	68,332	519.6%
Current accounts and demand deposits	*81,415*	*12,568*	68,846	547.8%
Other debts	*68*	*583*	(515)	-88.3%
Total	**931,580**	**113,923**	**817,657**	**717.7%**

Bank funding, recorded an increase compared with the previous financial year, linked to higher loans obtained from the ECB, up from Euro 100 million to Euro 850 million; these low duration loans (Euro 600 million with expiry of 3 months and Euro 250 million with 10 day expiry) are guaranteed by Government Securities and, for the remaining part, by trade receivables (around Euro 65 million). This increase is a result of the greater use of funding through the ECB compared to the use of repurchase agreements with the counterparty Compensation and guarantee fund due to tensions on the liquidity market, recorded in the final part of the year, which made the cost of ECB funding more affordable.

Banks' balance also includes around Euro 36 million due to a temporary liquidity imbalance due to an unsettled transaction spanning the year-end period and a time deposit for Euro 30 million. Customer funding, the breakdown of which is reported below, registered an increase of 17% compared to the previous year.

(Amounts in thousands of Euros)

DUE TO CUSTOMERS	31.12.2013	31.12.2012	Delta (Euros)	Delta (%)
Term deposits	533,617	522,720	10,897	2.1%
Funding (repurchase agreements)	240,125	249,012	(8,887)	-3.6%
Current accounts and demand deposits	184,580	12,479	172,101	1379.1%
Second instalments	29,597	16,012	13,585	84.8%
Other debts	133	44,564	(44,431)	-99.7%
Total	**988,052**	**844,787**	**143,265**	**17.0%**

The increase is largely attributable to current account funding from institutional investors. The total for the second instalment debts include Group debts to original assignors for receivables not yet collected. The item "Other amounts due" in the previous year was attributable entirely to the Public Funding vehicle. Securities in issue fell due to the repurchase of the Credit Linked Note ("CLN") for a nominal value of Euro 25 million. The breakdown, which also changed, is shown below:

- CLN equal to Euro 10 million;
- Bond calculable at TIER2 for Euro 12 million;
- Bond calculable at TIER1 for Euro 8 million;
- Bond for Euro 5 million.

The item "Other liabilities" mainly includes 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. The increase in the item "Provisions for risks and charges" is related to the allocation of deferred payments which may be made to company management on the basis of the achievement of pre-established objectives over a period of 3 years.

The reconciliation between the profit/loss and shareholders' equity of the parent company and the figures from the consolidated financial statements is shown below.

(Amounts in thousands of Euros)

	Financial result	Shareholders' equity
Parent company shareholders' equity	8,253	22,769
Assumption of value of investments	-	(777)
Profit (loss)/shareholders' equity - subsidiaries	(254)	(147)
Adjustments to write-downs	387	132
Adjustments to transfers of investments	(1,388)	-
Group shareholders' equity	**7,002**	**21,977**

REGULATORY CAPITAL AND PRUDENTIAL SUPERVISORY REQUIREMENTS

The information below relates to the consolidated regulatory capital and the capital adequacy of the Banca SISTEMA Group.

(Amounts in thousands of Euros)

	31.12.2013
Tier 1 capital	27,705
of which: innovative capital instruments	*8,000*
Regulatory capital	**39,705**
Credit and counterparty risk (standardised method)	19,960
Operating risk (basic method)	3,370
Market risk (standardised method)	105
Reduction in requirements for banks belonging to groups	-
Total capital requirements	**23,435**
Total risk-weighted assets	**292,938**
Surplus capital	**16,270**
Tier 1	**9.5%**
Core Tier 1	*6.7%*
Tier 2 Total capital ratio	**13.6%**

It should be noted that, in 2013, no parent company treasury shares were purchased or sold, directly or through trust companies or third parties.

By simulating the calculation of requirements based on the new prudential regulations (Community Regulation no. 575/2013 of the European Parliament and Council dated 26 June 2013 relating to prudential requirements for banks and investment firms), the Banca Sistema Group reinforces its capital adequacy, reaching a Core tier 1 Ratio of 8.1% and a Total Capital Ratio of 16.9%.

FINANCIAL RESULTS

(Amounts in thousands of Euros)

INCOME STATEMENT	2013	2012	Delta
Interest margin	21,730	12,707	9,023
Net fee and commissions	8,935	1,736	7,199
Net income from trading activities	692	107	585
Profit from disposal or repurchase of financial assets	5,209	8,981	(3,772)
Operating income	**36,566**	**23,531**	**13,035**
Net value adjustments due to loan impairment	(451)	(901)	450
Net profit (loss) from financial management	**36,115**	**22,630**	**13,485**
Administrative expenses	(22,338)	(18,167)	(4,171)
Net value adjustments/write-backs on property, plant and equipment	(137)	(93)	(44)
Net value adjustments/write-backs to intangible assets	(35)	(212)	177
Other operating costs/income	(18)	(126)	108
Operating costs	**(22,528)**	**(18,598)**	**(3,930)**
Profits (losses) from transfer of investments	(1,388)	-	(1,388)
Profit from current operations before taxes	**12,199**	**4,032**	**8,167**
Income taxes for the year	(5,197)	(1,942)	(3,255)
Profit for the year	**7,002**	**2,090**	**4,912**

The result for the year stood at Euro 7 million, up Euro 4.9 million compared to the previous year.

The net profit takes account of the effects of the transfer of the equity investment in SF Trust Italia and, therefore, the deconsolidation of the Public Funding vehicle, which generated a loss of Euro 1.4 million.

The operating income, which is described below in more detail by origin, amounts to Euro 36.6 million, following the positive contribution made by the interest margin of Euro 21.7 million, net fee and commissions for Euro 8.9 million and from profits from the disposal and trading of securities for Euro 5.9 million.

(Amounts in thousands of Euros)

INTEREST MARGIN	2013	2012	Delta (Euros)	Delta (%)
Interest income and similar income				
Factoring portfolio	45,546	22,573	22,973	101.8%
Securities portfolio	5,527	7,460	(1,933)	-25.9%
Other	1,200	128	1,072	837.5%
Total interest income	**52,273**	**30,161**	**22,112**	**73.3%**
Interest expense and similar charges				
Current accounts - banks	(1,139)	(1,182)	43	-3.6%
Current accounts - customers	(801)	(963)	162	-16.8%
Term deposits - customers	(25,841)	(10,886)	(14,955)	137.4%
Repurchase agreements	(308)	(488)	180	-36.9%
Securities in issue	(2,427)	(2,627)	200	-7.6%
Other	(27)	(1,308)	1,281	-97.9%
Total interest expense	**(30,543)**	**(17,454)**	**(13,089)**	**75.0%**
Interest margin	**21,730**	**12,707**	**9,023**	**71.0%**

Interest income derives, for Euro 46 million, from the receivables Factoring portfolio (the latter up by 96% compared to the previous year) and, for Euro 5.5 million, from the securities portfolio. With respect to the previous year, the increase in interest on the factoring portfolio was marked by higher volumes acquired both with reference to tax receivables and trade receivables, whose volumes essentially doubled compared to the previous year, in particular as a result of transactions involving a significant amount carried out in the last quarter of the year. The figure also includes interest on arrears or from payment extensions totalling Euro 1.3 million. With respect to the portfolio of receivables still in place as at 31 December 2013, the Bank accrued the right to request penalty interest for a total amount of Euro 40.4 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 30.6 million, an amount has also not been recorded in the financial statements. Other interest income predominantly includes revenues from investment in hot money transactions and repurchase transactions effected with Institutional customers.

A total of 85% of interest expense is attributable to funding from term deposits (Euro 25.8 million); this figure is not comparable with the previous period due to a considerably lower initial amount.

Interest due to banks is instead attributable to the cost of funding at the ECB.

Interest expense on bonds issued stood at Euro 2.4 million, in line with the previous year.

Other interest relating to the previous year is attributable to Public Funding.

(Amounts in thousands of Euros)

COMMISSION MARGINS	2013	2012	Delta (Euros)	Delta (%)
Commission income				
Collection activities	1,789	1,908	(119)	-6.2%
Factoring activities	7,700	108	7,592	7029.6%
Other	308	334	(26)	-7.8%
Total Commission income	**9,797**	**2,350**	**7,447**	**316.9%**
Commission expense				
Placement	(620)	(455)	(165)	36.3%
Other	(242)	(159)	(83)	52.1%
Total Commission expense	**(862)**	**(614)**	**(248)**	40.4%
Commission margins	**8,935**	**1,736**	**7,199**	**414.7%**

Net fee and commissions totalled Euro 8.9 million, compared to 2012, affected by higher revenues linked to the increase in the factoring portfolio. The significant increase with respect to the previous year is mainly due to the rise in volumes and the purchase of receivables connected with products that involve higher management commissions. Commissions deriving from customers for collection activities fell slightly compared to the previous year.

Commission expenses include the costs of origination of factoring receivables for Euro 384 thousand and returns to third party intermediaries for placement of the "SI conto! DEPOSITO" product for Euro 236 thousand.

Other commissions include commission for banking services and securities brokerage totalling Euro 157 thousand and Euro 85 thousand for the costs of coverage of receivables through a Credit Default Swap, closed in July.

(Amounts in thousands of Euros)

RESULTS OF SECURITIES PORTFOLIO	2013	2012	Delta (Euros)	Delta (%)
Net income from trading activities				
Profits realised on trading portfolio debt securities	700	150	550	366.7%
Net gains/losses on exchange differences	(8)	(43)	35	-81.4%
Total	**692**	**107**	**585**	**546.7%**
Profit from disposal or repurchase				
Profits on AFS portfolio debt securities	5,284	6,765	(1,481)	-21.9%
Profits on HTM portfolio debt securities	-	1,992	(1,992)	-100.0%
Profits on financial liabilities	(75)	224	(299)	-133.5%
Total	**5,209**	**8,981**	**(3,772)**	**-42.0%**
Total profit (loss) from securities portfolio	**5,901**	**9,088**	**(3,187)**	**-35.1%**

The contribution from treasury activities was also positive in 2013, albeit less than the previous year, which benefitted significantly from the high level of volatility that impacted the market value of Italian Government Securities. The increases in profits deriving from the trading portfolio are again linked to trading of Government Securities passed to the Bank's trading portfolio.

(Amounts in thousands of Euros)

	2013	2012	Delta (Euros)	Delta (%)
Personnel costs				
Salaries and wages	(7,337)	(6,386)	(951)	14.9%
Contributions and other expenses	(1,832)	(1,352)	(479)	35.5%
Directors' and statutory auditors' remuneration	(479)	(647)	167	-25.9%
Total	**(9,648)**	**(8,385)**	**(1,263)**	**15.1%**

Personnel costs, amounting to Euro 9.7 million, rose by 15% compared to the previous year, due to the growth in the Bank's workforce.

(Amounts in thousands of Euros)

OTHER ADMINISTRATIVE EXPENSES	2013	2012	Delta (Euros)	Delta (%)
Servicing and collection activities	(4,895)	(2,925)	(1,970)	67.4%
Computer expenses	(1,565)	(1,661)	96	-5.8%
Indirect duties and taxes	(1,273)	(730)	(543)	74.4%
Rent and related fees	(1,107)	(877)	(230)	26.2%
Consultancy	(1,103)	(1,102)	(1)	0.1%
Advertising	(730)	(605)	(125)	20.7%
Car hire and related fees	(411)	(324)	(87)	26.9%
Reimbursement of expenses and entertainment	(308)	(328)	20	-6.1%
Infoprovider expenses	(227)	(176)	(51)	29.0%
Telephone and postage expenses	(165)	(281)	116	-41.3%
Maintenance moveable property and real properties	(136)	(110)	(26)	23.6%
Membership fees	(122)	(86)	(36)	41.9%
Discretionary payments	(60)	(67)	7	-10.4%
Other	(588)	(510)	(78)	15.3%
Total	**(12,690)**	**(9,782)**	**(2,908)**	**29.7%**

"Other administrative expenses", amounting to Euro 12.7 million, rose by Euro 2.9 million.

This increase is attributable mainly to the higher costs incurred in respect of third parties for the collection and servicing of trade receivables, directly correlated to the greater volumes recorded in 2013, and the increase in the funding mix in respect of local entities, whose collection activities are fully assigned to third parties. By contrast, the rise in taxes and duties is attributable to the increase in term deposits and subsequently stamp duties which, as per the contractual provisions, remain payable by the Bank. The other items are in line with the previous year.

The increase in rental costs is a direct result of the new spaces the Bank acquired in 2013.

Consultancy expenses include legal costs and the costs of external consultants, used in relation to new initiatives and restructuring implemented at corporate level by the Group, and auditing costs.

The Group's tax rate stood at 43% and was positively impacted by the release of goodwill deriving from the merger by incorporation of Solvi amounting to Euro 376 thousand. In fact, in respect of the cost of substitute tax at a rate of 12%, an increase in prepaid IRES (corporate income tax) and IRAP (regional business tax) taxes was registered, which could be saved in the future, amounting to Euro 591 thousand.

The item ‘taxes’ was also affected by the “Stability Law” (no. 147 of 27 December 2013) which introduced the following provisions, applicable to the Group:

- value adjustments and losses on customer loans, assumed net of revaluations, become deductible from IRES on a straight-line basis in the year in which they are accounted for and in the four subsequent years;
- due to the amendments made, adjustments and losses on loans, in addition to recoveries from valuation and collection, contribute to the value of net production on a straight-line basis in the year in which they are accounted for and in the four subsequent years; these items were previously not significant for IRAP purposes;
- solely for the 2013 tax period, banks were required to pay a surcharge on the IRES rate equal to 8.5% applied to taxable income, without taking into account the increase for the non-deductible amount of losses and write-downs of loans, net of revaluations.

RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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

In particular, this system is based on four fundamental principles: appropriate supervision by company bodies and departments; adequate risk management policies and procedures (both in terms of exposure to credit risk and the disbursement of credit); suitable methods and adequate tools for risk identification, monitoring and management and adequate measurement techniques; comprehensive internal controls and independent auditing.

The Group “Risk Management System” is constantly monitored by the Risk Division, keeping capital adequacy and the degree of solvency with respect to its business under constant control.

In order to reinforce its ability to manage company risks, the Group 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 Group operations.

With reference to the new rules on the functioning of the internal controls system, the Group 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 Group 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” 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 group adopts - where possible - the methods provided under Regulatory 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 Group are assessed.

For more information, refer to Part E of the Notes to the financial statements.

RESEARCH AND DEVELOPMENT ACTIVITIES

No research and development activity was carried out in 2013.

SIGNIFICANT EVENTS DURING THE YEAR

The main provisions adopted by the Board of Directors of Banca Sistema S.p.A. are summarised below in chronological order:

27 March 2013

1) "The Annual report on the methods of performance of investment services and activities and accessory services and the distribution of financial products issued by insurance companies and banks".
2) The "Annual report of the Internal Control Departments on the performance of investment services in accordance with articles 13, 14 and 16 of joint CONSOB - Bank of Italy Regulation of 29.10.2007" and the "Annual complaints report".
3) The "Annual 2012 Report and 2013 Activity Plan" of the Compliance Department".
4) The "Annual 2012 Report and 2013 Activity Plan of the Anti-money Laundering Department".
5) The "Annual Report of the Compliance Department on complaints received by the Bank".
6) The "Liquidity Policy and Contingency Funding Plan",
7) The "2012 ICAAP Report".
8) The "Annual report on the activities carried out by the Internal Audit Department in 2012" and the "Internal Audit Activity plan for 2013".

For ECAI purposes, the Bank approved the decision of the rating agency DBRS (Dominion Bond Rating Service Ltd.) on central authorities, central banks, monitored intermediaries, public sector entities and territorial entities, replacing Fitch Ratings and authorised the publication of the "New prudential supervisory provisions, information for the public - Third Pillar", in accordance with instructions provided under the applicable regulations.

The Banca Sistema S.p.A. meeting, held on 24 April 2013, following the proposal by the Board of Directors on 22 April 2013, approved the "Remuneration Policies and Incentive Plan" on behalf of supervisory, management, control and staff bodies of the Banca Sistema Banking Group.

15 May 2013

Approval of the derivate pricing model currently in place (CDS), and approval of the new version of the "Policy Conflicts of Interest - Obligations Art. 136 TUB (Consolidated Law on Banking)", acknowledging the indications relation to the obligations set forth in EMIR Regulation which came into force on 15 March 2013.

31 July 2013

Start of study on the feasibility of the granting of loans in "CQS" form (salary-backed loans), also through the non-recourse purchase of portfolios of loans disbursed by authorised intermediaries, by negotiating and completing, with counterparties of proven experience in the sector, agreements for the purchase and/or management of said type of loans.

The Board of Directors of Banca Sistema S.p.A. also approved (i) a new version of the Code of Ethics and (ii) a new version of the Organisation, Management and Control Model pursuant to Legislative Decree 231/2001.

20 September 2013

The Bank evaluated some acquisitions in the Factoring, credit recovery and NPL (non-performing loans) management sectors. Certain operations are still in progress today; while others have been allocated.

The Board of Directors of Banca Sistema S.p.A. also approved the new version of "Procedure governing transactions with Associated Parties".

14 November 2013

- Approval of the issuing of Tier 1 instruments through the reopening of the previous issue for an additional Euro 5 million, and Tier 2 instruments for a further Euro 3 million.
- Approval of the "Credit Policy" which defines the criteria to be applied during the phase of application for the granting of specific forms of credit, and in the management of Customer relations
- Approval of the "Factoring Pricing Policy", which defines the factors used to calculate the price to be applied to the different assignments of credit in the form of Factoring.

Lastly, as part of the distribution process the Bank intends to pursue in the area, the Board of Directors approved the opening of a new branch at the offices of the Fondazione di Pisa.

12 December 2013

Approval of the document "Alignment with supervisory regulations governing Internal Controls, Information System and Operating Continuity (Bank of Italy Circular no. 263 - 15th update of 2 July 2013) - Self Assessment".

From an operational point of view, in 2013, the "Key For Finance (K4F) system of the company Visiant Arcares (sub-supplier of outsource CSE) entered production, used for back office procedures in the Factoring area. The internal regulations review project also continued, commenced in the second half of 2012, which led to the updating of all existing operating procedures.

The annual study "*The main Italian companies*", among the most important and accredited analysis performed in Italy, handled by the Study Office of Mediobanca and presented to the press on 24 October 2013, ranked Banca Sistema in 2012 at 110th place out of 541 Italian banks, therefore in the top fifth of the list. This study highlighted that Banca Sistema is the only Italian bank, excluding Cooperatives and BCCs, to have achieved an ROE of higher than 10% in 2012 (14.8%, based on calculations and one of its methods of reclassification of the financial statements of said Mediobanca).

SIGNIFICANT EVENTS AFTER YEAR-END

Pursuant to articles 54 and 68 of Legislative Decree no. 385 of 1.9.1993, the Bank of Italy carried out a banking and financial inspection at Banca Sistema from 19 September to 22 November 2013.

On 15 January 2014 a meeting of the Board of Directors was held in which the Bank of Italy inspectors delivered the document containing Remarks and Observations relating to the inspection, which did not highlight any irregularities that needed to be sanctioned.

The disclosure, which outlined the intervention measures, and the associated implementation timescales, that the Bank intends to implement in order to deal with the remarks and observations which emerged following the inspection, was discussed and approved by the Board of Directors at the meeting on 13 February 2014, with the favourable opinion of the Board of Statutory Auditors, which reviewed said documents independently at a meeting on 12 February 2014. This disclosure was sent to the Bank of Italy on 14 February 2014. The primary objective of the measures, which also include activities already planned in advance by the Bank's Management, is the constant strengthening of the control of the organisational structure, also in view of the increase in the volume of operations.

On 30 January 2014, SF Trust Servicing in liquidation made an advance payment on the result of liquidation for Euro 784 thousand. The company is expected to be wound up by the end of the first half of the current year.

On 31 December 2013, an exposure to an assignor emerged, which exceeded the limit of Significant Exposures. The Bank managed to fully return within said limit as at 31 January 2014.

At the meeting on 13 February 2014, the Board of Directors approved the 2014-2016 Business Plan, which was subsequently sent to the Bank of Italy.

On 21 March 2014, the Public Funding securitisation transaction was closed, which saw the subsidiary SF Trust Holding involved as sub-servicer of the vehicle.

OTHER INFORMATION

PRIVACY MEASURES

Confirmation was given that the Programme Security Document would be updated in 2014, although no longer envisaged under the obligatory measures 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 2013 communication campaign was also implemented through the creation of a 30 second long TV ad, fully in 3D, aired on national networks, terrestrial television and satellite.

The television ad was supported by country-wide campaigns via different forms of media: press, radio and web; and were targeted at ensuring increasingly more extensive and transparent knowledge of the Bank and the services offered.

In the first half of the year, external relations were mainly related to consolidating the SI conto! DEPOSITO product and promoting current accounts, and then focused on a broader positioning of the Bank and the business services offered. In this context, SISTEMA NEWS was created, the e-newsletter, available in both Italian and English, whose objective is to promote knowledge of the Bank's products and services, as well as constant updating on the factoring and credit management market.

The website has also played an essential role in promoting the Bank's image, in relation to which areas have been developed dedicated entirely to companies and savers which can be accessed immediately. Facebook and Linkedin pages have been created to provide new channels for updating and dialogue, in an attempt to constantly guarantee a transparent approach with customers, including and, in particular, in terms of Corporate Social Responsibility initiatives in the art and social issues field.

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 issued such as childhood, culture and the environment in 2013, in partnership with other non-government bodies and organisations.

The partnership with Unicef continued throughout 2013 and the collaboration with FAI (Italian Environmental Fund) was confirmed once more), through the institutional membership programme Corporate Golden Donor, aimed at companies that decide to commit themselves to building a better Italy all year round. The latter was also renewed for 2014.

Again as regards Corporate Social Responsibility initiatives, Banca Sistema consolidated its project dedicated to the Arts, enriching its mission of support for the national economy by promoting young Italian talents.

Banca SISTEMA ARTE, an initiative launched to give visibility and promote Italian talent in the Arts, ensured that the Bank was able to exhibit the work of 30 artists at the Bank's branches in Rome and Milan, between 2011 and 2013. Young painters and photographers of between 18 and 35 whose creativity and work was promoted through a new way of supporting their potential for growth.

In particular, in 2013, Banca Sistema chose to support OffBrera, a laboratory created and developed within the Accademia di Belle Arti di Brera (Academy of Fine Arts of Brera) in Milan, to continue to promote and support emerging talents in the arts. The Bank welcomed and promoted OffBrera's young artists, by organising a Collective Exhibition in the spaces at its Rome branch and publishing their catalogue, distributed by the publishing house Àncora, which always focuses on enhancing cultural and human capital. Sixteen artists were selected for the initiative, all belonging to a generational bracket spanning 10 years, who have a distinctive contemporary style and who perform their dynamic laboratory research activity within the Brera Academy.

Also in 2013, Banca Sistema also chose to participate in the Ninth Edition of the "Giornata del Contemporaneo" (Contemporary Day), national event dedicated to contemporary art organised by AMACI, Associazione dei Musei d'Arte Contemporanea Italiani (Association of Italian Museums of Contemporary Art).

Together with a considerable number of other participating entities, on Saturday 5 October 2013, the Bank opened the doors of its branch to the public for the whole day: it was possible to visit the personal exhibition of the painter Sofia Cacciapaglia, an emerging talent in Italian artistic circles, and to take part in conferences and workshops aimed at bringing people closer to the world of contemporary art.

The young artists who exhibited in 2013 include: Nicole Bacchiega, Sofia Cacciapaglia, Linda Carrara, Viola Ceribelli, Mauro de Carli, Irene Dioli, Debora Fella, Ilaria Forlini, Riccardo Garolla, Maddalena Lusso, Ottavio Mangiarini, Isabella Mottini, Stefano Pasini, Chantal Passarella, Melissa Provezza, Carlo Alberto Rastelli, Fabio Roncato, Federico Unia.

SUBSEQUENT EVENTS AND OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The excellent results obtained this year are expected to be consolidated in 2014 with a constant increase in commercial investments, thanks to the acquisition of new Customers and the availability of new factoring products. Net interest income will benefit from the volumes acquired in the last quarter of 2013, the increase in investments and the expected reduction in funding costs.

Consistent with its 2014-2017 Business Plan, the Group has planned to strengthen its core business in 2014, i.e. the purchase of receivables from companies in the Public Administration segment. This will bring the path of growth up to full speed, still not completed through an expansion of the product range and of the current commercial network, the opening of new offices in the less covered areas and development of current branches or those already planned. 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. In particular, the Bank is expected to enter the salary-backed loan market through a partnership with a specialised operator and the development of loans to SMEs guaranteed by the Government.

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 further.

The objective is to broaden the Customer base and exploit opportunities presented by Banca Sistema's excellent strategic position on the Italian market.

Profits should increase further in the next year with respect to the previous year and be in line with the final part of 2013, unless unexpected events occur which could affect the general performance of the Bank.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(Amounts in thousands of Euros)

	Assets	31/12/2013	31/12/2012
10.	Cash and cash equivalents	71	3,697
20.	Held-for-trading financial assets	-	129
40.	Available-for-sale financial assets	847,045	540,994
60.	Loans to banks	58,814	14,475
70.	Loans to customers	1,088,085	484,435
120.	Property, plant and equipment	715	445
130.	Intangible assets	1,828	1,842
	of which: goodwill	1,786	1,786
140.	Tax assets	2,670	4,309
	a) current	1,370	70
	b) prepaid	1,300	4,239
160.	Other assets	4,122	3,736
	Total assets	**2,003,350**	**1,054,062**

(Amounts in thousands of Euros)

	Liabilities and shareholders' equity	31/12/2013	31/12/2012
10.	Due to banks	931,580	113,923
20.	Due to customers	988,052	844,787
30.	Securities in issue	35,216	55,242
80.	Tax liabilities	2,585	1,627
	a) current	2,582	1,470
	b) deferred	3	157
100.	Other liabilities	22,890	21,662
110.	Post-employment benefits	732	623
120.	Provisions for risks and charges	318	5
	b) other provisions	318	5
140.	Valuation reserves	(257)	407
170.	Reserves	2,456	5,835
180.	Share premiums	4,325	-
190.	Capital	8,451	7,861
220.	Profit (loss) for the year (+/-)	7,002	2,090
	Total liabilities and shareholders' equity	**2,003,350**	**1,054,062**

CONSOLIDATED INCOME STATEMENT

(Amounts in thousands of Euros)

	Items	2013	2012
10.	Interest income and similar income	52,273	30,161
20.	Interest expense and similar charges	(30,543)	(17,454)
30.	**Interest margin**	**21,730**	**12,707**
40.	Commission income	9,797	2,350
50.	Commission expense	(862)	(614)
60.	**Net fee and commissions**	**8,935**	**1,736**
80.	Net income from trading activities	692	107
100.	Profits (losses) from disposal or repurchase of:	5,209	8,981
	b) available-for-sale financial assets	5,284	6,765
	c) held-to-maturity financial assets	-	1,992
	d) financial liabilities	(75)	224
120.	**Operating income**	**36,566**	**23,531**
130.	Net value adjustments/write-backs due to impairment of:	(451)	(901)
	a) receivables	(451)	(901)
140.	**Net profit (loss) from financial management**	**36,115**	**22,630**
180.	Administrative expenses:	(22,338)	(18,167)
	a) personnel costs	(9,648)	(8,385)
	b) other administrative expenses	(12,690)	(9,782)
200.	Net value adjustments/write-backs to property, plant and equipment	(137)	(93)
210.	Net value adjustments/write-backs to intangible assets	(35)	(212)
220.	Other operating costs/income	(18)	(126)
230.	**Operating costs**	**(22,528)**	**(18,598)**
270.	Profits (losses) from transfer of investments	(1,388)	-
280.	**Current operating profit (losses) before taxes**	**12,199**	**4,032**
290.	Income taxes for the period for current operations	(5,197)	(1,942)
300.	**Profit from current operations after tax**	**7,002**	**2,090**
320.	Profit for the year	7,002	2,090
340.	**Parent company profit for the period**	**7,002**	**2,090**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euros)

	Items	2013	2012
10.	**Profit (loss) for the year**	7,002	2,090
	Other income items net of taxes without reversal to the income statement		
40.	Defined benefit plans	(24)	-
	Other income items net of taxes with reversal to the income statement		
100.	Available-for-sale financial assets	(640)	197
130.	**Total other income items net of taxes**	(664)	197
140.	**Comprehensive income (Items 10+130)**	**6,338**	**2,287**
150.	**Total consolidated profitability attributable to minority interests**	**-**	**-**
160.	**Total consolidated profitability attributable to the Parent Company**	**6,338**	**2,287**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2013

(Amounts in thousands of Euros)	**Balance at 31.12.2012**	Change in opening balances	Balance at 01.01.2013	Allocation of net result from previous year		Changes during the year									**Group shareholders' equity 31.12.2013**
							Equity transactions								
				Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in capital instruments	Derivatives on treasury shares	Stock Options	Change in equity interests	Comprehensive income for 2013	
Capital															
a) ordinary shares	**7,861**	-	7,861	-	-	590	-	-	-	-	-	-	-	-	**8,451**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premiums	**-**	-	-	-	-	4,325	-	-	-	-	-	-	-	-	**4,325**
Reserves	**5,835**	-	5,835	1,590	-	(4,969)	-	-	-	-	-	-	-	-	**2,456**
a) earnings	**683**	-	683	1,590	-	435	-	-	-	-	-	-	-	-	**2,708**
b) other	**5,152**	-	5,152	-	-	(5,404)	-	-	-	-	-	-	-	-	**(252)**
Valuation reserves	**407**	-	407	-	-	-	-	-	-	-	-	-	-	(664)	**(257)**
Capital instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit (Loss) for the year	**2,090**	-	2,090	**(1,590)**	(500)	-	-	-	-	-	-	-	-	7,002	**7,002**
Shareholders' equity	**16,193**	-	**16,193**	-	**(500)**	**(54)**	-	-	-	-	-	-	-	**6,338**	**21,977**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2012

(Amounts in thousands of Euros)	Balance at 31.12.2011	Change in opening balances	Balance at 01.01.2012	Allocation of net result from previous year		Changes during the year									
							Equity transactions								
				Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in capital instruments	Derivatives on treasury shares	Stock Options	Change in equity interests	Comprehensive income for 2012	**Shareholders' equity at 31.12.2012**
Capital															
a) ordinary shares	**7,861**	-	7,861	-	-	-	-	-	-	-	-	-	-	-	**7,861**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premiums	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reserves	**(123)**	-	(123)	683	-	5,275	-	-	-	-	-	-	-	-	**5,835**
a) earnings	**-**	-	-	683	-		-	-	-	-	-	-	-	-	**683**
b) other	**(123)**	-	(123)	-	-	5,275	-	-	-	-	-	-	-	-	**5,152**
Valuation reserves	**210**	-	210	-	-	-	-	-	-	-	-	-	-	197	**407**
Capital instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit (Loss) for the year	**683**	-	683	(683)	-	-	-	-	-	-	-	-	-	2,090	**2,090**
Shareholders' equity	**8,631**	**-**	**8,631**	**-**	**-**	**5,275**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,287**	**16,193**

CONSOLIDATED CASH FLOW STATEMENT (DIRECT METHOD)

(Amounts in thousands of Euros)

A. OPERATING ACTIVITIES	2013	2012
1. Management	**8,308**	**(3,773)**
▪ interest income collected	52,273	30,161
▪ interest expense paid	(30,543)	(17,455)
▪ dividends and similar income	-	-
▪ net fee and commissions	8,935	1,736
▪ personnel costs	(9,648)	(8,317)
▪ net premiums collected	-	-
▪ other insurance income/expenses	-	-
▪ other costs	(12,709)	(9,898)
▪ other revenues	-	-
▪ taxes and duties	-	-
▪ costs/revenues relating to groups of assets held for disposal, net of taxes	-	-
2. Cash flows generated by/used for financial assets	**(947,817)**	**(726,293)**
▪ held-for-trading financial assets	821	601
▪ financial assets carried at fair value	-	(470,843)
▪ available-for-sale financial assets	(301,430)	
▪ loans to customers	(604,101)	(273,131)
▪ loans to banks: on demand	(44,339)	7,615
▪ loans to banks: other loans	-	-
▪ other assets	1,232	9,465
3. Cash flow generated/absorbed by the financial liabilities	**938,233**	**732,159**
▪ due to banks: on demand	817,674	36,714
▪ due to banks: other payables	-	-
▪ due to customers	143,265	688,269
▪ securities in issue	(75)	224
▪ held-for-trading financial liabilities	(20,026)	1,335
▪ financial liabilities carried at fair value	-	
▪ other liabilities	(2,605)	5,617
Net cash flow generated/used by operations	**(1,276)**	**2,093**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**(1,422)**	**1,992**
▪ sales of equity investments	(1,422)	**-**
▪ dividends collected on equity investments		-
▪ sales/reimbursements of held-to-maturity financial assets	-	1,992
▪ sale of property, plant and equipment	-	-
▪ sale of intangible assets	-	-
▪ purchases of subsidiaries and business branches	-	-
2. Cash flows absorbed by	**(428)**	**(396)**
▪ purchases of equity investments	**-**	**-**
▪ purchases of held-to-maturity financial assets	**-**	**-**
▪ purchases of property, plant and equipment	(407)	(363)
▪ purchases of intangible assets	(21)	(33)
▪ purchases of subsidiaries and business branches	-	-
Net cash flow generated/used by investment activities	**(1,850)**	**(396)**
C. FUNDING ACTIVITIES		
▪ issues/purchases of treasury shares	**-**	**-**
▪ issues/purchases of capital instruments	**-**	**-**
▪ dividend distribution and other purposes	**(500)**	-
Net cash flow generated/used by funding activities		
NET CASH FLOW GENERATED/USED DURING THE YEAR	**(3,626)**	**3,689**

(Amounts in thousands of Euros)

RECONCILIATION	2013	2012
Cash and cash equivalents at the beginning of the year	3,697	8
Total net cash flow generated/used during the year	(3,626)	3,689
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at year-end	71	3,697

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

The consolidated explanatory notes will comprise the following parts:

Part A - Accounting policies

Part B - Information on the consolidated balance sheet

Part C - Information on the consolidated income statement

Part D - Consolidated statement of comprehensive income

Part E - Information on risks and relative hedging policies

Part F - Information on consolidated equity

Part G - Business combinations relating to companies or business branches

Part H - Transactions with related parties

Part I - Payment agreements based on own equity instruments

A.1 - GENERAL PART

SECTION 1 - Statement of compliance with international accounting standards

The consolidated financial statements of the Banca Sistema Group as at 31 December 2013 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 no. 38 of 28 February 2005 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 second update of 21 January 2014.

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 Banca Sistema Group 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 consolidated 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 explanatory notes. The financial statements are accompanied by the Director's Report on the management performance. If the information required by the international accounting standards and provisions contained in Circular no. 262 of 22 December 2005 and/or the subsequent updates issued by the Bank of Italy are not sufficient to give a true and correct representation that is relevant, reliable, comparable and understandable, the explanatory notes 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 explanatory notes, 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, the income statement and the statement of comprehensive income;
- 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 explanatory notes.

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 consolidated financial statements use the Euro as the currency for accounting purposes. Amounts presented in the financial statements are in thousands of Euro.

New international accounting standards (IAS/IFRS) in effect from 2013

As anticipated, certain new accounting regulations will enter (or have already entered) force in 2013, some of which approved by the European Commission in the current year (see the next paragraph).

By means of Regulation no. 475 of 5 June 2012, the European Commission approved certain amendments, prepared by the IASB in June 2011, to the accounting standards IAS 1 - Presentation of the financial statements and IAS 19 - Employee benefits, with mandatory application from 1 January 2013.

The main changes introduced by the new IAS 19 relate to defined benefit plans and can be summarised as follows:

1. elimination of the “corridor method”;
2. immediate recognition of past service cost;
3. disaggregation of the cost of the plan into new components, summarised by:
   a. welfare cost for performance of work (service cost);
   b. net interest on net liabilities (or assets) for defined benefit plans (net interest);
   c. revaluations of net liabilities (or assets) for defined benefit plans (remeasurements);
4. elimination of expected rate of return on plan assets and new criterion for the calculation of finance income. In particular, interest income on plan assets are calculated by using the same discount rate adopted to measure liabilities;
5. obligations of additional disclosure to promote understanding of the characteristics and of the risks of existing obligations deriving from the plan.

The most significant change concerns the elimination of the different accounting methods permissible for the recognition of defined benefit plans and the subsequent introduction of a single method which makes provision for the immediate recognition, in the statement of Other Comprehensive Income (OCI), therefore in shareholders’ equity, of the changes in the value of net liabilities (assets) for defined benefit plans. Therefore, the deferment of the recognition of positive or negative income components is no longer permitted: the result is the immediate recognition of actuarial profits and losses, with increased volatility in OCI.

By contrast, as regards the amendments to IAS 1 - Presentation of the financial statements, the objective is to improve the clarity of information reported in OCI. Therefore, this relates to a change of presentation and not to the content of the statement of OCI. In fact, the amendment does not affect the definition of which items need to be presented in said statement: as regards the latter aspect, with a wider scope, an IASB project is underway to be defined in the future. The main change introduced is the request to group items presented in the OCI into two categories:

a) those that will not be reclassified to the income statement;
b) those that could be reclassified to the income statement, when given conditions are met.

By means of Regulation no. 1255 of 29 December 2012, the European Commission approved IFRS 13: Fair Value Measurement published in May 2011.

The new standard does not extend the field of application of the fair value measurement, but provides indications on how the fair value of financial instruments and non-financial assets and liabilities must be measured when already envisaged or permitted by other accounting standards. This document aimed to “concentrate” the rules for fair value[1] measurement in a single standard, previously present in different standards and, sometimes with provisions that were inconsistent with one another; in addition, disclosure requests were increased (previously incorporated under IFRS 7). The date of application of IFRS 13 is 1 January 2013, with prospective adoption from the start of the year in which it is applied for the first time.

By means of Regulation no. 1256 of 29 December last year, the European Commission approved the amendments to IFRS 7: Financial instruments: Additional disclosures - Offsetting of financial assets and financial liabilities and amendments to IAS 32: Financial instruments: Presentation in the financial statements - Offsetting of financial assets and financial liabilities and the amendments to IFRS 7 are applicable starting from 1 January 2013, while the amendments to IAS 32 will be applicable from 2014.

In this regard, it should be pointed out that, as a result of the failure of the plan to issue a standard regulation

(1) In line with IFRS 13.10, in the last quarter of 2012, the IASB published the first of a series of documents “in support” of the standard, but which do not constitute a genuine accounting standard.

between the IASB and the FASB regarding the offsetting of financial assets and financial liabilities, the two Boards maintained their requirements previously in force (without, therefore, achieving convergence between the two different accounting standards), despite supplementing the disclosure requirements in order to allow financial statements drafted according to US standards and those drafted on the basis of IAS/IFRS to be compared.

As regards the amendments to IFRS 7, the quantitative disclosure obligations have been supplemented regarding financial instruments subject to offsetting to allow financial statement users to evaluate the real or potential effects of said arrangements on the financial position. As regards the required information, the "gross" amounts of financial assets and liabilities must be indicated and the amounts subject to offsetting.

By contrast, through the amendments to IAS 32, the IASB aimed to improve the application guide for eliminating inconsistencies in the application of the standard and to better specify the requirements already indicated in IAS 32.42, in order to define when financial assets and liabilities must be offset in the Balance Sheet. Insofar as they do not appear to be substantial changes with respect to the current standard, it needs to be verified that the clarifications provided do not entail the need to introduce amendments with respect to the current presentation to be applied from 2014.

IAS/IFRS standards approved in 2013

In April 2013, Regulation no. 313/2013 was approved regarding some amendments to accounting standards concerning consolidation (IFRS 10, IFRS 11, IFRS 12).

The objective of the amendments illustrated here, according to the indications of the IASB, is to provide some simplifications regarding the provisions supplied by IFRS 10 - Consolidation regarding transition to the new standard.

Through the proposed amendments, it is specified that the date of first application is that of the start of the reporting period in which IFRS 10 is applied for the first time. Therefore, it is clarified that retrospective application of IFRS 10 is no longer necessary in cases where, on the date of first application the conclusions on the presence (or absence) of control are identical to those reached where the previously in force IAS 27/SIC 12 had been applied. Subsequently, the exemption from the obligation of retrospective application of IFRS 10 is also applicable to those disposals of equity investments which took place in the period of comparison, making the requirements for consolidation of said investment unverified, regardless of the application of IAS 27/SIC 12 or IFRS 10.

If, by contrast, the conclusions relating to consolidation differ by applying IFRS 10 with respect to the standards previously in force, the need to provide comparative information is limited solely to the period prior to the first adoption. Similarly, IFRS 11 - Joint arrangements and IFRS 12 - Disclosures of interests in other entities were also amended, limiting the need to provide comparative information solely to the financial statement period immediately prior to the first adoption. In addition, IFRS 12 was further amended, eliminating the need to present comparative information for the disclosures required for unconsolidated structured entities.

As with the standards on consolidation, the amendments approved by Regulation 313/2013 will also be applied from 1 January 2014.

SECTION 3 - Area and methods of consolidation

The consolidated financial statements include the equity and financial results of the parent company, Banca Sistema, and those of the companies that it directly or indirectly controls and that are consolidated in accordance with the line-by-line method:

1. Equity investments in wholly-owned subsidiaries and jointly controlled subsidiaries (consolidated proportionally)

Company Names	Head Office	Kind of relationship (1)	Quota held		% voting rights held (2)
			Investee company	% held	
A. Companies					
A 1. Fully consolidated					
1 S.F. Trust Holdings Ltd	**London**	**1**	**Banca Sistema**	**100%**	**100%**
2 S.F. Trust Servicing Ltd in liquidation	**London**	**1**	**S.F. Trust Holding**	**100%**	**100%**

Key:

(1) Type of relationship.
1. = majority voting rights at the ordinary shareholders' meetings
2. = dominant influence
3. = agreements with other shareholders
4. = other forms of control
5. = unified management pursuant to art. 26, paragraph 1 of "Legislative Decree 87/92"
6. = unified management pursuant to art. 26, paragraph 2 of "Legislative Decree 87/92"
7. = joint control

(2) Availability of votes in ordinary shareholders' meeting, distinguishing between effective and potential

Changes in the scope of consolidation

The Group's scope of consolidation changed following the transfer of the company SF Trust Italia S.r.l.; no changes to consolidation methods were recorded.

Line-by-line method

The companies over which the parent company has control are consolidated in accordance with the line-by-line consolidation method. The concept of control goes beyond that of a majority holding in the share capital of the subsidiary and is defined as the power to determine the management and financial policies of the subsidiary in order to obtain the benefits of its business.

The line-by-line consolidation aggregates the balance sheet and the income statement accounting totals of the subsidiaries on a "line by line" basis. The following adjustments were made for that purpose:

(a) the book value of the investments held by the Parent Company and the corresponding portion of the shareholders' equity have been eliminated;

(b) the portion of shareholders' equity and profits or losses for the year is recognised as a separate item.

If the results of the afore-mentioned adjustments are positive, they are recognised - after any charging to the assets or liabilities of the subsidiary - as goodwill under item "130 Intangible Assets" at the date of the initial consolidation. If the differences are negative they are charged to the income statement. The balances and intra-group transactions, including revenues, costs and dividends, are fully eliminated. The financial results of a subsidiary purchased in the period are included in the consolidated financial statements from the date of purchase. Similarly, the financial results of a subsidiary sold during the period are included in the consolidated financial statements up to the date it is sold. The accounting situations used in preparing the consolidated financial statements are drawn up for the same date. The consolidated financial statements are drawn up using the standard accounting standards for similar transactions and actions. If a subsidiary uses accounting standards that are different from those adopted by the consolidated financial statements for similar operations and actions, adjustments were made to the accounting position for the purposes of consolidation.

SECTION 4 - Subsequent events

With regard to IAS 10, after 31 December 2013, the reference date of the consolidated financial statements, and up to 25 March 2014, the date that the draft financial statements were presented to the Board of Directors, no events occurred that would require any adjustments to the figures in the financial statements.

SECTION 5 - Other aspects

The financial statements were impacted, with reference to the calculation of taxes, by Stability Law no. 147 of 27 December 2013. More specifically:

- value adjustments and losses on customer loans, net of revaluations, become deductible from IRES on a straight-line basis in the year in which they are accounted for and in the four subsequent years;
- due to the amendments made, adjustments and losses on loans, in addition to recoveries from valuation and collection, contribute to the value of net production on a straight-line basis in the year in which they are accounted for and in the four subsequent years; these items were previously not significant for IRAP purposes;
- solely for the 2013 tax period, banks were required to pay a surcharge on the IRES rate equal to 8.5%.

There are no other significant aspects to note.

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[2]. 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 ore 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

(2) The positions held for trading purposes are those that are meant to be subsequently transferred in the short term and/or held in order to provide short-term benefits in the difference between the purchase and the sales price or other price changes or interest rate changes. The positions are intended to mean own positions or positions resulting from Customer services or trading support (market making).

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 measured 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).

Testing is performed at every year-end for any objective evidence of impairment, in accordance with paragraphs 58 et seq. of IAS 39. 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:

(a) those held for trading and those designated at fair value upon initial recognition recognised in the income statement (see previous paragraph);

(b) those designated as available for sale (see previous paragraph);

(c) 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).

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:

a) the financial asset is transferred and, with this, essentially all of the risks and contractual rights to the cash flows deriving from the asset mature;

b) 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:

a) the company has transferred the rights to receive cash flows from the financial asset;

b) 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:

a) 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;

b) 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;

c) 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 Group only acquires non-recourse receivables due from the Public Administration and, starting from June 2013, also recourse receivables.

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. In view of the above, this collective write-down of receivables was effected even though there were no specific, analytical risks that could be classified as non-performing loans, watchlist loans, restructured 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 or 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 Group did not hold any “Financial assets measured at fair value”.

6. Hedging transactions

At the date of the financial statements, the Group 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 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 Group'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 client 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 measured at fair value", etc.).

All the financial instruments issued by the Parent Company 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-places 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 Group did not have any "Held-for-trading financial liabilities".

15. Financial liabilities carried at fair value

At the date of the financial statements, the Group did not have 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 measured 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. Insurance assets and liabilities

The Group owns no such assets or liabilities.

18. Other information

18.1. 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 directly in the statement of comprehensive income, therefore in shareholders' equity.

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

18.2. 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.

18.3. Criteria for determination of fair value of financial instruments

Fair value is defined 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 Group 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** - the valuation is not based on prices of the same financial instrument subject to valuation, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model).
  The use of this approach translates to the search for transactions present on active markets, relating

to instruments that, in terms of risk factors, are comparable with the instrument subject to valuation. The calculation methods (pricing models) used in the comparable approach make it possible to reproduce the prices of financial instruments quoted on active markets (model calibration) without including discretional parameters - i.e. parameters whose value cannot be obtained from the prices of financial instruments present on active markets or cannot be fixed at levels as such to replicate prices present on active markets - which may influence the final valuation price in a decisive manner.

- **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.

18.4 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.

18.5 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 Group 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 Group 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 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.

18.6 Introduction of the "bilateral CVA" to the valuation of derivatives

IFRS 13 - applicable from 1 January 2013 - establishes the need to consider, in the fair value of derivative contracts, the risk of non- performance (risk of one of the two parties in the contract not fulfilling their obligations) both at the time of initial recognition and in subsequent valuations. This risk includes:

- changes in the entity's creditworthiness, for which, in determining the fair value of derivatives, the risk of non-fulfilment of obligations must also be considered;
- changes in the counterparty's creditworthiness.

The fair value of a derivative instrument can be broken down into different components that include the effect of the different underlying risk factors:

1. The collateralised component of the fair value is calculated as if the contract was subject to a perfect collateral agreement, as such to reduce the counterparty's risk to a negligible level. In practice, said situation can be brought closer with the CSA (Credit Support Annex) which makes provision for daily margining, zero threshold and minimum transfer amount and overnight flat rate. This component of fair value includes the market risk (e.g. with respect to underlying assets, volatility, etc.) and the risk of financing implicit in the CSA (overnight rate loan, OIS discounting method).
2. The Funding Value Adjustment (FVA) component considers, for transactions not subject to CSA, the additional loan costs/benefits with respect to those already included in the collateralised component. It is determined by considering a discount curve based on the Libor/Euribor rates in place of that based on OIS rates used for collateralised derivatives.
3. The component, known as the Bilateral Credit Value Adjustment (bCVA), takes into consideration the possibility of bankruptcy of the counterparties (Counterparty and Investor) and is, in turn, given by the two addends, said Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA), which represent the following scenarios:
   - the CVA (negative) takes into consideration the scenarios in which the Counterparty (Customer) goes bankrupt before the Investor (Bank), and the latter presents a positive exposure to the Counterparty. In these scenarios, the Investor suffers a loss equal to the cost of replacement of said derivative;
   - the DVA (positive) takes into consideration the scenarios in which the Investor goes bankrupt before the Counterparty, and the former presents a negative exposure to the Counterparty. In these scenarios, the Investor benefits from a profit equal to the cost of replacement of said derivative.

The calculation of the latter component of fair value is performed by taking into consideration the presence of netting arrangements and collateral agreements which allow the counterparty's risk to be mitigated. In the first case, the presence of the netting arrangement determines the performance of the calculation of the bilateral CVA on a portfolio including all transactions subject to netting in place with that same Counterparty. Consequently, in the presence of netting arrangements, both the CVA component and the DVA component fall in absolute terms, in order to mitigate the counterparty risk they cause.

In the case of CSA contracts (collateral) with daily margining, reduced thresholds and Minimum Transfer Amounts, counterparty risk can be considered negligible. Therefore, the calculation of the bCVA only considers the transactions not covered by CSA. By contrast, in the case of a CSA with thresholds and Minimum Transfer Amounts that are not negligible, the bCVA is calculated on the basis of the materiality approach.

The calculation of the bCVA depends on the creditworthiness of the Investor and of the Counterparty, which can be obtained from various sources. The Risk Management Division, in collaboration with the Administration and Tax Division, defined a rule which makes it possible to select the creditworthiness data based on their availability. The rule makes provision for the following:

- in the case of counterparties with a CDS spread quoted on the market, the bCVA is calculated by considering the risk-neutral probability of default (i.e. estimated on the basis of the prices of bonds and not on the basis of historical data) quoted on the market and relating to both the Counterparty and the Investor, measured on the basis of the quoted CDS spread credit curve;
- in the case of Large Corporate counterparties without a CDS quoted on the market with turnover greater than the critical threshold, the bCVA is calculated by considering the risk-neutral probability of default of a counterparty that is associated to the contract counterparty (comparable approach). Creditworthiness is measured:
  - for Project Finance counterparties using the CDS spread credit curve (Industrial comparable);
  - for other counterparties using the CDS spread credit curve (comparable for the counterparty);
  - in the case of illiquid counterparties not included in the previous categories, the bCVA is calculated by considering the probability of default of the counterparty and of the Group, determined using the credit curve obtained from the probability of default matrixes.

The introduction of the new standard did not have any significant effects on the Group.

A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

No financial instruments were transferred between portfolios.

A.3.2 Reclassified financial assets: effects on comprehensive income before the transfer

No financial assets were reclassified.

A.3.3 Transfer of held-for-trading financial assets

No held-for-trading financial assets were transferred.

A.3.4 Effective interest rate and expected cash flows from reclassified assets

There are no expected cash flows from reclassified assets.

A.4 - INFORMATION ON FAIR VALUE

Qualitative information

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of valuations

The book value was assumed as a reasonable approximation of the fair value.

A.4.3 Fair value hierarchy

For the purposes of preparation of the financial statements as at 31 December 2013, the fair value hierarchy used is the following:

Level 1- Effective market quotes

The valuation is the market price of said financial instrument subject to valuation, obtained on the basis of prices present in an active market.

Level 2 - Comparable approach

Level 3 - Mark-to-Model Approach

A.4.4 Other information

The item is not applicable for the Group.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level.

Financial assets/liabilities carried at fair value	31/12/2013			31/12/2012		
	L1	L2	L3	L1	L2	L3
1. Held-for-trading financial assets	-	-	-	129	-	-
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	847,045	-	-	540,994		-
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
TOTAL	**847,045**	**-**	**-**	**541,123**	**-**	**-**
1. Held-for-trading financial liabilities	-	-	-	-	-	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value or valued at fair value on a non-recurring basis: breakdown by fair value level.

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2013				31/12/2012			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity financial assets	-	-	-	-		-	-	-
2. Loans to banks	58,814	-	-	58,814	14,475	-	-	14,475
3. Loans to customers	1,088,085	-	-	1,088,085	484,435	-	-	484,435
4. Property, plant and equipment held for investment	-	-	-	-		-	-	-
5. Non-current assets and groups of assets held for disposal	-	-	-	-		-	-	-
Total	**1,146,899**	**-**	**-**	**1,146,899**	**498,910**	**-**	**-**	**498,910**
1. Due to banks	931,580	-	-	931,580	113,923	-	-	113,923
2. Due to customers	988,052	-	-	988,052	844,787	-	-	844,787
3. Securities in issue	35,216	-	35,216	-	55,242	-	55,242	-
4. Liabilities associated with assets held for disposal	-	-	-	-	-	-	-	-
Total	**1,954,848**	**-**	**35,216**	**1,919,632**	**1,013,952**	**-**	**55,242**	**958,710**

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

A.5 - DISCLOSURE ON THE “DAY ONE PROFIT/LOSS”

Nothing to note.

PART B - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

SECTION 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

Items / Values	31.12.2013	31.12.2012
a. Cash	71	46
b. Demand deposits at Central Banks	-	3,651
TOTAL	**71**	**3,697**

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

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

Items / Values	31.12.2013			31.12.2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	-	-	-	129	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	129	-	-
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
TOTAL A	-	-	-	**129**	-	-
B. Derivative instruments	-					
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	-	-	-	-	-	-
TOTAL B	-	-	-	-	-	-
TOTAL (A+B)		-	-	**129**	-	-

As at 31/12/2013, the Group did not own any held-for-trading financial assets.

2.2 Held-for-trading financial assets: breakdown by debtor / issuer

Items / Values	31.12.2013	31.12.2012
A. CASH ASSETS		
1. Debt securities	-	**129**
a. Governments and Central Banks	-	-
b. Other public entities	-	-
c. Banks	-	129
d. Other issuers	-	-
2. Equity securities	-	-
a. Banks	-	-
b. Other issuers	-	-
▪ insurance companies	-	-
▪ financial companies	-	-
▪ non-financial companies	-	-
▪ other	-	-
3. UCITS units	-	-
4. Loans	-	-
a. Governments and Central Banks	-	-
b. Other public entities	-	-
c. Banks	-	-
d. Other entities	-	-
TOTAL A	-	**129**
B. DERIVATIVE INSTRUMENTS	-	-
a. Banks		
▪ fair value	-	-
b. Customers		
▪ fair value	-	-
TOTAL B	-	-
TOTAL (A+B)	-	**129**

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

	Debt securities	Equity securities	UCITS units	Loans	**Total**
A. Opening balance	**129**	**-**	**-**	**-**	**129**
B. Increases	**455,688**	**-**	**-**	**-**	**455,688**
B1. Purchases	454,988	-	-	-	454,988
B2. Increases in fair value	-	-	-	-	-
B3. Other changes	700	-	-	-	700
C. Decreases	**455,817**	**-**	**-**	**-**	**455,817**
C1. Sales	455,792	-	-	-	455,792
C2. Reimbursements	-	-	-	-	-
C3. Decreases in fair value	-	-	-	-	-
C4. Transfers to other portfolios	-	-	-	-	-
C5. Other changes	25	-	-	-	25
D. Closing balance	**-**	**-**	**-**	**-**	**-**

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

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

	31.12.2013			31.12.2012		
Items / Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	847,045	-	-	540,994	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	847,045	-	-	540,994	-	-
2. Equity securities	-	-	-	-	-	-
2.1 Carried at fair value	-	-	-	-	-	-
2.2 Valued at cost	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
TOTAL	**847,045**	**-**	**-**	**540,994**	**-**	**-**

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

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

Items/Values	31/12/2013	31/12/2012
1. Debt securities	**847,045**	**540,994**
a) Governments and Central Banks	847,045	540,994
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other issuers	-	-
▪ insurance companies	-	-
▪ financial companies	-	-
▪ non-financial companies	-	-
▪ other	-	-
3. UCITS units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
TOTAL	**847,045**	**540,994**

4.4 Available-for-sale financial assets: annual changes

	Debt securities	Equity securities	UCITS units	Loans	**Total**
A. Opening balance	**540,994**	**-**	**-**	**-**	**540,994**
B. Increases	**4,370,515**	**-**	**-**	**-**	**4,370,515**
B1. Purchases	4,359,084	-	-	-	**4,359,084**
B2. Increases in fair value	17	-	-	-	**17**
B3. Write-backs	-	-	-	-	**-**
▪ Charged to the income statement	-		-	-	**-**
▪ Charged to the shareholders' equity	-	-	-	-	**-**
B4. Transfers from other portfolios	-	-	-	-	**-**
B5. Other changes	11,414	-	-	-	**11,414**
C. Decreases	**4,064,464**	**-**	**-**	**-**	**4,064,464**
C1. Sales	4,059,835	-	-	-	**4,059,835**
C2. Reimbursements	-	-	-	-	**-**
C3. Decreases in fair value	365	-	-	-	**365**
C4. Write-downs for impairment	-	-	-	-	**-**
▪ Charged to the income statement	-	-	-	-	**-**
▪ Charged to the shareholders' equity	-	-	-	-	**-**
C5. Transfers to other portfolios	-	-	-	-	**-**
C6. Other changes	4,264	-	-	-	**4,264**
D. Closing balance	**847,045**	**-**	**-**	**-**	**847,045**

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

The portfolio was not utilised during the year.

Considering the anticipated disposal in 2012 and the tainting rule provided by IAS 39, the portfolio may be re-used from 2015.

SECTION 6 - LOANS TO BANKS - ITEM 60

6.1 Loans to banks: breakdown by type

Type of Transaction / Values	31/12/2013				31/12/2012			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to Central Banks	48,468				4,183			
1. Term deposits	-	X	X	X	-	X	X	X
2. Compulsory reserves	48,468	X	X	X	4,183	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Loans to banks	10,346				10,292			
1. Loans	10,346				10,292			
1.1 Current accounts and demand deposits	346	X	X	X	10,292	X	X	X
1.2. Term deposits	10,000	X	X	X	-	X	X	X
1.3. Other loans:	-				-			
▪ Repurchase agreements	-	X	X	X	-	X	X	X
▪ Financial leasing	-	X	X	X	-	X	X	X
▪ Other	-	X	X	X	-	X	X	X
2. Debt securities	-				-			
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	-	X	X	X	-	X	X	X
TOTAL	**58,814**	**-**	**-**	**58,814**	**14,475**	**-**	**-**	**14,475**

Key:
BV = Book value
FV = Fair value

This item mainly includes the Group cash deposited with other banks in online current accounts and the compulsory reserve with the Bank of Italy. The Parent Company is a direct member of the gross settlement system Target II. The increase in the Compulsory Reserve is due to the increase in average volumes relating to term deposits.

SECTION 7 - LOANS TO CUSTOMERS - ITEM 70

7.1 Loans to customers: breakdown by type

Transaction type/Values	31/12/2013						31/12/2012					
	Book Value			Fair Value			Book Value			Fair Value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	1,074,387	4,100	9,598				483,895		540			
1. Current accounts	30,964	-		X	X	X	1,033	-	-	X	X	X
2. Repurchase agreements	288,048	-	-	X	X	X	99,700	-	-	X	X	X
3. Mortgages	-	-	-	X	X	X	-	-	-	X	X	X
4. Credit cards, personal loans, and salary-backed loans	236	-	-	X	X	X	-	-	-	X	X	X
5. Financial leasing		-	-	X	X	X	-	-	-	X	X	X
6. Factoring	726,462	4,100	9,598	X	X	X	376,250	-	540	X	X	X
7. Other loans	28,677	-	-	X	X	X	6,912	-	-	X	X	X
Debt securities												
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	-	-	-	X	X	X	-	-	-	X	X	X
TOTAL	**1,074,387**	**4,100**	**9,598**	**-**	**-**	**1,088,085**	**483,895**	**-**	**540**	**-**	**-**	**484,435**

The item mainly includes the amount of receivables acquired by the Bank as part of its Factoring business. The debt exposure of factoring activities is predominantly to the Public Administration, and more specifically to local entities and the local health authorities. The increase in factoring receivables is due to significant transactions which took place at the end of the year.

The total item also includes repurchase agreements amounting to Euro 132 million signed by Institutional customers.

The item “other loans” refers to variation margins at the Compensation and Guarantee Fund.

7.2 Loans to customers: breakdown by debtors/issuers

Transaction type/Values	31/12/2013			31/12/2012		
	Performing	Impaired		Performing	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
▪ non-financial companies	-	-	-	-	-	-
▪ financial companies	-	-	-	-	-	-
▪ insurance	-	-	-	-	-	-
▪ other	-	-	-	-	-	-
2. Loans to:	**1,074,387**	**4,100**	**9,598**	**483,895**	**-**	**540**
a) Governments	153,585	-	304	23,932	-	-
b) Other public entities	485,960	4,100	3,024	352,319	-	540
c) Other entities	434,842	-	6,270	107,644	-	-
▪ non-financial companies	88,736	-	4,506		-	-
▪ financial companies	344,525	-		106,566	-	-
▪ insurance	-	-	-	-	-	-
▪ other	1,581	-	1,764	1,078	-	-
TOTAL	**1,074,387**	**4,100**	**9,598**	**483,895**	**-**	**540**

SECTION 12 - PROPERTY, PLANT AND EQUIPMENT- ITEM 120

12.1 Property, plant and equipment for business use: breakdown of assets carried at cost

Assets/Values	31/12/2013	31/12/2012
1. Assets owned	**715**	**445**
a) land	-	-
b) buildings	-	-
c) furniture	200	183
d) electronic systems	455	262
e) other	60	-
2. Assets acquired under financial lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
TOTAL	**715**	**445**

12.5 Property, plant and equipment for business use: annual changes

	Land	Buildings	Moveable assets	Electronic systems	Other	Total
A. Gross opening balance	-	-	**708**	**541**	**227**	**1,476**
A.1 Net total impairment	-	-	552	352	127	**1,031**
A.2 Net opening balance	-	-	**156**	**189**	**100**	**445**
B. Increases	-	-	**85**	**347**	**15**	**447**
B.1 Purchases	-	-	54	337	15	**406**
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	-	-	31	10	**-**	**41**
C. Decreases	-	-	**41**	**80**	**56**	**177**
C.1 Sales	-	-	-	-	-	**-**
C.2 Depreciation and amortisation	-	-	41	80	16	**137**
C.3 Value adjustments 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	-	-	-	-	40	**40**
D. Net closing balance	-	-	**200**	**456**	**59**	**715**
D.1 Net total impairment	-	-	593	432	183	**1,208**
D.2 Gross closing balance	-	-	**793**	**888**	**242**	**1,923**
E. Valuation at cost	-	-	**200**	**456**	**59**	**715**

SECTION 13 - INTANGIBLE ASSETS - ITEM 130

13.1 Intangible assets: breakdown by type of asset

Assets / Values	31.12.2013		31.12.2012	
	Fixed term	Non-fixed term	Fixed term	Non-fixed term
A.1 Goodwill	-	1,786	-	1,786
A.1.1 Attributable to the Group	-	1,786	-	1,786
A.1.2 Attributable to minority interests	-	-	-	-
A.2 Other intangible assets	42	-	56	-
A.2.1 Assets valued at cost:	42	-	56	-
a. Internally generated intangible assets	-	-	-	-
b. Other assets	42	-	56	-
A.2.2 Assets valued at fair value:	-	-	-	-
a. Internally generated intangible assets	-	-	-	-
b. Other assets	-	-	-	-
TOTAL	**42**	**1,786**	**56**	**1,786**

Intangible assets are recognised at purchase cost, including accessory costs, and are amortised on a straight-line basis over a 5-year period. This item mainly comprises software.

Goodwill, previously recorded in the separate financial statements of Solvi S.r.l., as a result of the merger by incorporation of said entity in the Bank, which took effect for financial statement purposes from 1 January 2013, was recorded directly in the Bank's separate financial statements.

The impairment test for goodwill in accordance with IAS 36 requires testing that the recoverable value of the goodwill is higher than its book value in the financial statements.

Given that in the specific case, goodwill does not constitute an asset that can be separated from the rest of the company, the impairment test consists of verifying that the value of the entire company is higher than the total book value, which for banks, is similar to checking that the estimated equity value (excluding equity investments) is higher than shareholders' equity.

The impairment test is governed by accounting standard IAS 36 which provides for two different recoverable value configurations: § 18 defines "Recoverable Value" as "the higher between the fair value of an asset or a cash-generating unit minus the selling costs and its value in use". § 19 also specifies that "It is not always necessary to calculate both the fair value minus the selling costs and its value in use. If one of the two amounts is higher than the book value, the asset has not suffered impairment and it is not necessary to calculate the other amount".

As of today, given the absence of trigger events, the limited value of goodwill with respect to the liquidity expressed by the Bank and the profits forecast in the 2014-2016 Business Plan, there was no need to effect any reduction in value.

13.2 Intangible assets: annual changes

		Other intangible assets: generated internally		Other intangible assets: other		
	Goodwill	Fixed	Non-fixed	Fixed	Non-fixed	**Total**
A. Opening balance	**1,786**	-	-	**3,476**	-	**5,262**
A.1 Net total impairment	-	-	-	3,420	-	**3,420**
A.2 Net opening balance	**1,786**	-	-	**56**	-	**1,842**
B. Increases	-	-	-	**21**	-	**21**
B.1 Purchases	-	-	-	21	-	**21**
B.2 Increases in internal intangible assets	-	-	-	-	- -	**-**
B.3 Write-backs	-	-	-	-	-	**-**
B.4 Increases in fair value	-	-	-	-	-	**-**
- to shareholders' equity	-	-	-	-	-	**-**
- to income statement	-	-	-	-	-	**-**
B.5 Positive exchange differences	-	-	-	-	-	**-**
B.6 Other changes - Business combination transactions	-	-	-	-	- -	**-**
C. Decreases	-	-	-	**35**	-	**35**
C.1 Sales	-	-	-	-	-	**-**
C.2 Value adjustments	-	-	-	35	-	**35**
- Depreciation and amortisation	-	-	-	35	-	**35**
- Write-downs	-	-	-	-	-	**-**
+ shareholders' equity	-	-	-	-	-	**-**
+ income statement	-	-	-	-	-	**-**
C.3 Decreases in fair value	-	-	-	-	-	**-**
- to shareholders' equity	-	-	-	-	-	**-**
- to income statement	-	-	-	-	-	**-**
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	**-**
C.5 Negative currency differences	-	-	-	-	-	**-**
C.6 Other changes	-	-	-	-	-	**-**
D. Net closing balance	**1,786**	-	-	**42**	-	**1,828**
D.1 Total net value adjustments	-	-	-	3,455	-	**3,455**
E. Gross closing balance	**1,786**	-	-	**3,497**	-	**5,283**
F. Valuation at cost	**1,786**	-	-	**42**	-	**1,828**

Key:

FIXED: fixed term
NON-FIXED: non-fixed term

SECTION 14 - TAX ASSETS AND LIABILITIES - ITEM 140 UNDER ASSETS AND ITEM 80 UNDER LIABILITIES

14.1 Deferred tax assets: breakdown

The balance is broken down as follows:

- Prepaid taxes on AFS reserve for Euro 115 thousand;
- Prepaid taxes relating to value adjustments to loans for Euro 86 thousand;
- Prepaid taxes relating to extraordinary transactions for Euro 836 thousand;
- Other prepaid taxes for Euro 263 thousand.

14.2 Deferred tax liabilities: breakdown

The amounts take account of deferred taxes emerging from adjustments made necessary at the time of first-time adoption (Euro 3 thousand).

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

	31/12/2013	31/12/2012
1. Opening balance	**3,922**	**4,850**
2. Increases	**925**	**688**
2.1 Prepaid taxes recorded during the year	864	688
a) relating to previous years	-	-
b) due to change in accounting standards	-	-
c) write-backs	-	-
d) other	864	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	61	-
3. Decreases	**3,959**	**1,616**
3.1 Prepaid taxes cancelled during the year	3,291	1,616
a) reversals	3,291	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	668	-
a) transformation to tax credits pursuant to Law 214/2011	-	-
b) other	668	-
4. Final amount	**888**	**3,922**

The other decreases refer to the prepaid taxes of SF Trust Italia which is longer part of the scope of consolidation.

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

	31.12.2013	31.12.2012
1. Opening balance	3	3
2. Increases	-	-
2.1 Deferred 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	-	-
3. Decreases	-	-
3.1 Deferred taxes cancelled during the year	-	-
a. reversals	-	-
b. change of accounting standards	-	-
c. other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Final amount	**3**	**3**

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

	31.12.2013	31.12.2012
1. Opening balance	**317**	-
2. Increases	**115**	**355**
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	115	355
3. Decreases	**20**	**38**
3.1 Prepaid taxes cancelled during the year	-	-
a. reversals	-	-
b. write-downs for uncollectible amounts	-	-
c. due to change in accounting standards	-	-
d. other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	20	38
4. Final amount	**412**	**317**

The increases refer to the prepaid taxes recorded in respect of the AFS valuation reserve at year-end. The decreases refer to the release of the share equal to 1/18 deriving from the acquisition of a business branch from SFT Italia in 2012. 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".

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

	31.12.2013	31.12.2012
1. Opening balance	**154**	**80**
2. Increases	**-**	**154**
2.1 Deferred taxes recorded during the year	-	154
a. relating to previous years	-	-
b. due to change in accounting standards	-	-
c. other	-	154
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**154**	**80**
3.1 Deferred taxes cancelled during the year	154	80
a. reversals	154	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	-	-
4. Final amount	**-**	**154**

SECTION 16 - OTHER ASSETS - ITEM 160

16.1 Other assets: breakdown

	31.12.2013	31.12.2012
Tax advances	1,951	648
Leasehold improvements	739	774
Other	615	558
Accrued income not related to the item	403	58
Work in progress	232	826
Prepaid expenses not related to the item	124	125
Guarantee deposits	58	747
TOTAL	**4,122**	**3,736**

The item is mainly composed of tax advances on tax withholdings on interest expense, on virtual stamp duty and single account substitute tax.

The "work in progress items" relate to transfers which have not yet been allocated and set to zero in January 2014.

The leasehold improvements mainly relate to the capitalised costs linked to opening the branch in Milan.

LIABILITIES

SECTION 1 - DUE TO BANKS - ITEM 10

1.1 Due to banks: breakdown by type

Type of Transaction / Values	31/12/2013	31/12/2012
1. Due to central banks	**850,097**	**100,772**
2. Due to banks	**81,483**	**13,151**
2.1 Current accounts and demand deposits	76,414	12,568
2.2 Term deposits	5,001	-
2.3 Loans	68	-
2.3.1 Reverse repurchase agreements	-	-
2.3.2 Other	68	-
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other amounts due	-	583
Total	**931,580**	**113,923**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**931,580**	**113,923**
Fair value	**931,580**	**113,923**

The item 'Due to central banks' relates to refinancing operations with counterparty the ECB, with underlying guarantee mainly in the form of Government Securities.

SECTION 2 - DUE TO CUSTOMERS - ITEM 20

2.1 Due to customers: breakdown by type

Type of Transaction / Values	31/12/2013	31/12/2012
1. Current accounts and demand deposits	184,580	12,479
2. Term deposits	533,617	522,720
3. Loans	240,125	249,012
3.1 Repurchase agreement	240,125	249,012
3.2 Other	-	-
4. Liabilities for commitments to repurchase own equity investments	-	-
5. Other debts	29,730	60,576
Total	**988,052**	**844,787**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	**988,052**	**844,787**
Total Fair value	**988,052**	**844,787**

“Other amounts due” include payables to assignors related to factoring transfers. In the previous year, the item included liabilities for assets assigned and not cancelled resulting from the recognition of the securitised receivables.

SECTION 3 - SECURITIES IN ISSUE - ITEM 30

3.1 Securities in issue: breakdown by type

Type of security / Values	Total 2013				Total 2012			
		Fair Value				Fair Value		
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
A. Securities								
1. bonds	35,216	-	35,216	-	55,242	-	55,242	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	35,216	-	35,216	-	55,242	-	55,242	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**35,216**	-	**35,216**	-	**55,242**	-	**55,242**	-

This item includes the issue of a CLN security of Euro 10 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

	Issuer	Type of issue	Coupon	Maturity date	Nominal value	IAS Value
Tier 1 capital	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 6 months + 5.5%	Perpetual	8,000	8,017
Tier 2 capital	Banca Sistema S.p.A.	Ordinary subordinated loans (Lower Tier 2): ISIN IT0004869712	Euribor 6m + 5.5%	15/11/2022	12,000	12,087
TOTAL					**20,000**	**20,104**

SECTION 8 - TAX LIABILITIES - ITEM 80

The breakdown and changes in the deferred tax liabilities were illustrated in part B Section 14 of the assets in these notes to the financial statements.

SECTION 10 - OTHER LIABILITIES - ITEM 100

10.1 Other liabilities: breakdown

	31.12.2013	31.12.2012
Taxes payable to the tax authorities and other entities	8,681	2,935
Work in progress	8,607	4,979
Accrued expenses	2,307	856
Trade payables	1,367	1,739
Payables to employees	1,091	1,425
Pension payments	347	256
Payments received during the reconciliation	335	4,606
Other	155	4,866
	22,890	**21,662**

The item "Payments received during reconciliation" mainly refers to the amounts from debtors used to close the Bank's credit positions which were then redirected to close the associated credit 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 2014.

The decrease 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.

The increase in tax payables is connected with the accrual of withholding tax on deposits.

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

	31/12/2013	31/12/2012
A. Opening balance	**623**	**470**
B. Increases	**411**	**331**
B.1 Provisions for the year	299	208
B.2 Other changes	112	123
C. Decreases	**302**	**178**
C.1 Amounts paid out	131	41
C.2 Other changes	171	137
D. Closing balance	**732**	**623**
TOTAL	**732**	**623**

The other increases contain the post-employment benefit relating to the subsidiary Solvi S.r.l., incorporated in Banca Sistema on 01/08/2014. The other decreases refer to amounts of the post-employment benefit provision accrued in 2013 and paid to other supplementary pension funds.

The actuarial evaluation of the post-employment benefit was carried out on the basis of a closed group, based on the "benefits accrued" method through the "Projected Unit Credit" (PUC) criterion, as set out in paragraphs 64-66 of IAS 19.

As envisaged in the recent relevant provisions introduced by the Ordine Nazionale degli Attuari (National Association of Actuaries) jointly with other the competent bodies OIC (Italian Accounting Standards Setter), Assirevi and ABI (Italian Banking Association) for companies with at least 50 employees as at 31 December 2006, a different calculation method was outlined which can be summarised into the following phases:

- projection up to the time of payment of the post-employment benefit for each employee, already allocated as at 31.12.2006 and revalued at the valuation date;
- determination, for each employee, of the likely payments of post-employment benefits referred to above, which must be made by the Company in the event of the employee's exit due to dismissal, resignation, disability, death and retirement as well as in respect of the request for advances;
- discounting, at the valuation date, of each likely payment.

Given that future amounts of post-employment benefit that will be accrued until the time of payment are no longer calculated, there is no longer the need for reproportioning pursuant to the last point of method A.

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

Annual discount rate	3.17%
Annual inflation rate	2.00%
Total annual pay increase rate	3.00%
Annual post-employment benefit increase rate	3.00%

As regards the discount rate used to calculate the present value of the obligation, this was obtained, consistent with parag. 78 of IAS 19, from the Iboxx Corporate AA index with duration 10+ recorded in the month of measurement. To this end, the yield with a duration comparable to the duration of the group of workers subject to measurement was chosen.

SECTION 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provisions for risks and charges: breakdown

Items/Values	31/12/2013	31/12/2012
1. Company pension funds	-	-
2. Other provisions for risks and charges	318	5
2.1 Legal disputes	-	-
2.2 Personnel charges	313	-
2.3 Other	5	5
TOTAL	**318**	**5**

"Other provisions" comprised the remaining funds left over from previous years for legal disputes (Euro 5 thousand) and an allocation of Euro 313 thousand relating to deferred personnel bonuses.

12.2 Provisions for risks and charges: annual changes

Items/Components	TOTAL	
	Pension funds	Other provisions
A. Opening balance	**-**	**5**
B. Increases	**-**	**313**
B.1 Provisions for the year	-	313
B.2 Changes due to the passage of time	-	-
B.3 Changes due to discount rate adjustments	-	-
B.4 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Use during the year	-	-
C.2 Changes due to discount rate adjustments	-	-
C.3 Other changes	-	-
D. Closing balance	**-**	**318**

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 and calculated on the basis of the estimated charges from civil positions.

SECTION 15 - GROUP SHAREHOLDERS' EQUITY - ITEMS 140, 160, 170, 180, 190, 200 and 220

15.1 "Capital" and "Treasury shares": breakdown

Share capital is composed entirely of 70,421,052 ordinary shares with a par value of Euro 0.12 each, divided as follows:

SOF LUXCO S.a.r.l.	32,879,589	46.69%
SGBS S.r.l. (Management Company)	18,577,074	26.38%
Fondazione Alessandria	5,950,579	8.45%
Fondazione Pisa	5,950,579	8.45%
Fondazione Sicilia	5,950,579	8.45%
Other private shareholders	1,112,653	1.58%

The Group does not own any Parent company or subsidiary treasury shares.

The Group shareholders' equity is outlined below:

	Amount 2013	Amount 2012
1. Capital	8,451	7,861
2. Share premiums	4,325	-
3. Reserves	2,456	5,835
4. (Treasury shares)	-	-
5. Valuation reserves	(257)	407
6. Capital instruments	-	-
7. Profit for the year	7,002	2,090
TOTAL	**21,977**	**16,193**

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

15.2 Capital - Number of parent company shares: annual changes

Items/Types	Ordinary	Other
A. Shares existing at the beginning of the period	**65,506,183**	**-**
▪ fully paid-up	65,506,183	-
▪ not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares in issue: opening balance	**65,506,183**	**-**
B. Increases	**4,914,869**	**-**
B.1 New issues	4,914,869	-
▪ against payment:		
- business combinations	-	-
- bond conversions	-	-
- warrant exercises	-	-
- other	4,914,869	-
▪ free of charge		
- in favour of employees	-	-
- in favour of directors	-	-
- other		-
B.2 Disposal of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Sale of businesses	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**70,421,052**	**-**
D.1 Treasury shares (+)	-	-
D.2 Shares existing at the end of the period	70,421,052	-
▪ fully paid-up	70,421,052	-
▪ not fully paid-up	-	-

15.4 Profit reserves: other information

The details of shareholders' equity reserves are shown below:

Nature	31/12/2013
A. Capital	**8,451**
B. Capital reserves:	
Share premiums reserves	4,325
C. Profit reserves:	
Legal reserve	140
Valuation reserve	(257)
Extraordinary reserve	13
Profit from previous year	2,090
D. Other reserves	**(313)**
TOTAL	**14,974**

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	31/12/2013	31/12/2012
1. Financial guarantees issued	2,179	1,295
a) Banks	2,179	1,295
b) Customers	-	-
2. Commercial guarantees issued	67	67
a) Banks	45	45
b) Customers	22	22
3. Irrevocable commitments to grant finance	-	4,977
a) Banks	-	4,977
▪ for certain use	-	4,977
▪ for uncertain use	-	-
b) Customers	-	-
▪ for certain use	-	-
▪ for uncertain use	-	-
4. Commitments underlying credit derivatives: protection sales	-	-
5. Assets pledged as security for minority obligations	-	-
6. Other commitments	-	-
TOTAL	**2,246**	**6,339**

2. Assets pledged to guarantee own liabilities and commitments

Portfolios	31/12/2013	31/12/2012
1. Held-for-trading financial assets	-	-
2. Financial assets carried at fair value	-	-
3. Available-for-sale financial assets	807,230	327,120
4. Held-to-maturity financial assets	-	-
5. Loans to banks	-	-
6. Loans to customers	-	-
7. Property, plant and equipment	-	-

5. Management and brokerage on behalf of third parties

Type of services	Amount
1. Orders on behalf of customers	**-**
a) Purchases	-
1. settled	-
2. not settled	-
b) Sales	-
1. settled	-
2. not settled	-
2.Portfolio management	**-**
a) individual	-
b) collective	-
3. Custody and administration of securities	**1,308,200**
a. third party securities held on deposit: related to	-
depositary Bank (excluding portfolio management)	-
1. securities issued by companies included in the scope of consolidation	-
2. Other securities	**-**
b) third party securities held on deposit (excluding assets under management): other	457,595
1. securities issued by companies included in the scope of consolidation	38,395
2. other securities	419,200
c) third-party securities deposited with third parties	457,595
d) owned securities deposited with third parties	850,605
4. Other transactions	**-**

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 Interest income and similar income: breakdown

Items/Types	Debt securities	Loans	Other transactions	2013	2012
1. Held-for-trading financial assets	3	-	-	3	18
2. Financial assets carried at fair value	-	-	-	-	-
3. Available-for-sale financial assets	5,527	-	-	5,527	5,360
4. Held-to-maturity financial assets	-	-	-	-	2,100
5. Loans to banks	-	39	-	39	46
6. Loans to customers	-	46,704	-	46,704	22,637
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	-
TOTAL	**5,530**	**46,743**	**-**	**52,273**	**30,161**

Interest income derives, for Euro 46 million, from the receivables Factoring portfolio (the latter up by 96% compared to the previous year) and, for Euro 5.5 million, from the securities portfolio. With respect to the previous year, the increase in interest on the Factoring portfolio was marked by higher volumes acquired both with reference to tax receivables and in particular trade receivables, whose volumes essentially doubled compared to the previous year. The figure also includes interest on arrears or from payment extensions totalling Euro 1.3 million. With respect to the portfolio of receivables still in place as at 31 December 2013, the Bank accrued the right to request penalty interest for a total amount of Euro 40.4 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 30.6 million, an amount has also not been recorded in the financial statements. Other interest income predominantly includes revenues from investment in hot money transactions and repurchase transactions effected with Institutional customers.

1.4 Interest expense and similar charges: breakdown

Items/Types	Payables	Securities	Other transactions	2013	2012
1. Due to central banks	813	-	-	813	792
2. Due to banks	325	-	-	325	390
3. Due to customers	26,978	-	-	26,978	13,645
4. Securities in issue	-	2,427	-	2,427	2,627
5. Held-for-trading financial liabilities	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
TOTAL	**28,116**	**2,427**	**-**	**30,543**	**17,454**

A total of 85% of interest expense is attributable to funding from term deposits (Euro 25.8 million); this figure is not comparable with the previous period due to a considerably lower initial amount.

Interest due to banks is instead attributable to the cost of funding at the ECB.

Interest expense on bonds issued stood at Euro 2.4 million, in line with the previous year.

Other interest relating to the previous year is attributable to Public Funding.

SECTION 2 - COMMISSIONS - ITEMS 40 AND 50

2.1 Commission income: breakdown

Type of services/Values	2013	2012
a. guarantees issued	1	1
b. credit derivatives	-	-
c. management, brokerage and consulting services:	40	21
1. financial instrument trading	2	-
2. currency trading	-	-
3. portfolio management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	3	1
5. depositary bank	-	-
6. placement of securities	4	9
7. order receipt and transmission work	16	11
8. consultancy services	-	-
8.1. on investments	-	-
8.2. on financial structures	-	-
9. distribution of third-party services	15	-
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	15	-
9.3. other products	-	-
d. collection and payment services	3	-
e. servicing for securitisation transactions	185	-
f. services for factoring transactions	7,762	411
g. tax collection services	-	-
h. managing multilateral trading systems	-	-
i. maintaining and managing current accounts	17	9
j. other services	1,789	1,908
TOTAL	**9,797**	**2,350**

The item is composed primarily of commissions from factoring (company's core business). The other services refer to commission income on collection activities carried out by the new "Servicing Division", created following the incorporation of Solvi S.r.l..

The significant increase in the item "services for factoring transactions" is mainly due to the rise in volumes and the purchase of receivables connected with products that involve higher management commissions with respect to the previous year.

2.2 Commission expense: breakdown

Services/Values	2013	2012
a. guarantees received	-	-
b. credit derivatives	83	-
c. management and brokerage services:	250	162
1. financial instrument trading	14	7
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
6. off-site sale of financial instruments, products and services	236	-
d. collection and payment services	86	41
e. other services	443	411
TOTAL	**862**	**614**

The item “other services” includes an amount of Euro 385 thousand relating to origination commissions for factoring receivables.

SECTION 4 - NET INCOME FROM TRADING ACTIVITIES - ITEM 80

4.1 Net income from trading activities: breakdown

Transactions / Income components	Capital Gains (A)	Profits from trading (B)	Capital Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Held-for-trading financial assets	**-**	**700**	**-**	**-**	**700**
1.1 Debt securities	-	700	-	-	700
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Held-for-trading financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**(8)**	**(8)**
4. Derivative instruments	**-**	**-**	**-**	**-**	**-**
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	-	-	-	-	-
TOTAL	**-**	**700**	**-**	**(8)**	**692**

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

6.1 Profit (Loss) from disposal/repurchase: breakdown

Items/Income components	2013			2012		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Loans to banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Available-for-sale financial assets	5,413	(129)	5,284	6,899	(134)	6,765
3.1 Debt securities	5,413	(129)	5,284	6,899	(134)	6,765
3.2 Equity securities	-	-	-	-	-	-
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity financial assets	-	-	-	1,992	-	1,992
TOTAL ASSETS	**5,413**	**(129)**	**5,284**	**8,891**	**(134)**	**8,757**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	-	(75)	(75)	224	-	224
TOTAL LIABILITIES	**-**	**(75)**	**(75)**	**224**	**-**	**224**

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)				31/12/2013	31/12/2012
	Specific		Portfolio	Specific		Portfolio			
	Derecogni-tions	Other		A	B	A	B		
A. Loans to banks:	-	-	-	-	-	-	-	-	-
▪ loans	-	-	-	-	-	-	-	-	-
▪ debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers:	-	(144)	(307)	-	-	-	-	(451)	(901)
Impaired loans acquired	-	-	-	-	-	-	-	-	-
▪ loans	-	-	-	-	-	-	-	-	
▪ debt securities	-	-	-	-	-	-	-	-	-
Other receivables	-	(144)	(307)	-	-	-	-	(451)	(901)
▪ loans	-	(144)	(307)	-	-	-	-	(451)	(901)
▪ debt securities	-	-	-	-	-	-	-	-	-
C. Total	**-**	**(144)**	**(307)**	**-**	**-**	**-**	**-**	**(451)**	**(901)**

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 factoring, considering the quality of the receivable and the debtor counterparties, despite the conditions not being met for effecting value adjustments, the associated provision was supplemented with new allocations.

SECTION 11 - ADMINISTRATIVE EXPENSES - ITEM 180

11.1 Personnel costs: breakdown

Type of expenditure/Sectors	2013	2012
1) Employees	8,971	7,113
a) wages and salaries	6,792	5,549
b) social security charges	1,316	1,001
c) post-employment benefits	-	-
d) social security costs	-	-
e) provisions to post-employment benefits	307	206
f) provisions for pension fund and similar commitments:	-	-
▪ defined contribution plans	-	-
▪ defined benefit plans	-	-
g) amounts paid to external complementary social security funds:	208	146
- defined contribution	208	146
- defined benefit	-	-
h) costs arising on payment agreements based on own equity instruments	-	-
i) other benefits in favour of employees	348	211
2) Other working staff	157	188
3) Directors and Statutory Auditors	479	647
4) Laid-off personnel	-	-
5) Cost recovery for employees seconded to other companies	-	-
6) Cost reimbursement for third party staff seconded to the company	41	437
TOTAL	**9,648**	**8,385**

11.2 Average number of employees by category

Employees

a) Managers: 14

b) Line managers: 16

c) Remaining employees: 59

Other staff

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

11.5 Other administrative expenses: breakdown

	2013	2012
Consultancy	5,371	2,666
Computer expenses	1,021	1,202
Service costs	194	261
Legal expenses	437	813
Rent and related fees	913	697
Advertising	730	605
Auditing fees	189	547
Indirect duties and taxes	1,087	585
Car hire and related fees	411	324
Infoprovider expenses	227	176
Other professional services	66	148
Reimbursement of employee expenses	247	262
Postage	56	117
Printed materials and stationery	67	129
Maintenance moveable property and real properties	136	110
Telephone	109	164
Insurance	71	104
Water, lighting, gas and cleaning utility expenses	148	114
Membership fees	122	85
Discretionary payments	60	67
Data transmission lines	133	66
ATM/cashpoint cards	19	40
Other computer expenses	390	310
Entertainment expenses	41	43
Administrative expense reimbursements	20	24
Newspapers/books	33	23
Other	392	100
TOTAL	**12,690**	**9,782**

"Other administrative expenses", amounting to Euro 12.7 million, rose by Euro 2.9 million.

This increase is attributable mainly to the higher costs incurred in respect of third parties for the collection and servicing of trade receivables, directly correlated to the greater volumes recorded in 2013, and the increase in the funding mix in respect of local entities, whose collection activities are fully assigned to third parties.

SECTION 13 - NET VALUE ADJUSTMENTS/WRITE-BACKS TO PROPERTY, PLANT AND EQUIPMENT - ITEM 200

13.1 Net value adjustments to property, plant and equipment: breakdown

Assets / Income components	Depreciation (a)	Value adjustments for impairment (b)	Write-backs (c)	**Net result (a+b-c)**
A. Property, plant and equipment				
A.1 Owned	137	-	-	137
▪ for functional use	137	-	-	137
▪ for investment	-	-	-	-
A.2 Acquired under financial lease	-	-	-	-
▪ for functional use	-	-	-	-
▪ for investment	-	-	-	-
TOTAL	**137**	-	-	**137**

SECTION 14 - NET VALUE ADJUSTMENTS/WRITE-BACKS TO INTANGIBLE ASSETS - ITEM 210

14.1 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)**
A. Intangible assets				
A.1 Owned	35	-	-	35
▪ internally generated by the company	-	-	-	-
▪ other	35	-	-	35
A.2 Acquired under financial lease	-	-	-	-
TOTAL	**35**	-	-	**35**

SECTION 15 - OTHER OPERATING INCOME/COSTS - ITEM 220

15.1 Other operating costs: breakdown

	2013	2012
Financial charges: on collection and payment transactions	1	3
Amortisation/depreciation relating to leasehold improvements	188	47
Other costs	56	253
TOTAL	**245**	**303**

15.2 Other operating income: breakdown

	2013	2012
Reimbursement of expenses on current accounts and deposits for taxes and other	57	58
Recovery of sundry expenses	27	71
Other income	143	48
TOTAL	**227**	**177**

SECTION 19 - PROFITS (LOSS) FROM EQUITY INVESTMENTS - ITEM 270

19.1 Profits (losses) from transfer of investments: breakdown

Income components/Sectors	2013	2012
A. Property	-	-
- Profit from disposal	-	-
- Losses from disposal	-	-
B. Other assets	(1,388)	-
- Profit from disposal	-	-
- Losses from disposal	(1,388)	-
Net result	**(1,388)**	**-**

This item is due entirely to the sale of the company SF Trust Italia S.r.l. at the end of November.

SECTION 20 - INCOME TAXES FOR THE YEAR FOR CURRENT OPERATIONS - ITEM 290

20.1 Income tax for the year for current operations: breakdown

	Income components/Sectors	2013	2012
1	Current taxes (-)	(2,770)	(1,014)
2	Changes in current taxes from previous years (+/-)	-	-
3	Reduction in current taxes for the period (+)	-	-
3.bis	Reduction in current taxes for the year for tax credits pursuant to Law 214/2011 (+)	-	-
4	Changes in prepaid taxes (+/-)	(2,427)	(928)
5	Changes in deferred tax liabilities (+/-)	-	-
6	Taxes for the period (-) (-1+/-2+3+/-4+/-5)	(5,197)	(1,942)

SECTION 23 - OTHER INFORMATION

It should be noted that the sale of the equity investment in SF Trust Italia was carried out against the payment, by new purchasers, to the seller SF Trust Holding, of a consideration of Euro 20 thousand, paid at the time of the transfer and of variable components (earn-out), only payable on the basis of the existence of available funds at the time of distribution to shareholders of the income recorded in the closing liquidation financial statements of SF Trust Italia. At the date of preparation of these financial statements, no revenues were charged in relation to the variable part of the price, given that there are no elements to consider them virtually certain.

PART D - CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Analytical prospectus of the consolidated comprehensive income

	Items	Gross amount	Income tax	Net amount
10.	**Profit (loss) for the year**	X	X	7,002
	Other income items without reversal to the income statement	-	-	-
20.	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	-	-	(25)
50.	Non-current assets held for disposal	-	-	-
60.	Share of the valuation reserves of equity investments designated at equity	-	-	-
	Other income items with reversal to the income statement	-	-	-
70.	**Foreign investment hedges:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
80.	**Exchange differences:**	-	-	-
	a) changes in value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
90.	**Cash flow hedges:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
100.	**Available-for-sale financial assets:**	**(909)**	**270**	**(639)**
	a) changes in fair value	(348)	115	(233)
	b) reversal to income statement	(561)	155	(406)
	- impairment adjustments	-	-	-
	- profits/losses on disposal	(561)	155	(406)
	c) other changes	-	-	-
110.	**Non-current assets held for disposal:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
120.	**Share of the valuation reserves of equity investments designated at equity:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	- impairment adjustments	-	-	-
	- profits/losses on disposal	-	-	-
	c) other changes	-	-	-
130.	**Total other income items**	**(909)**	**270**	**(664)**
140.	**Comprehensive income (Items 10+130)**	**(909)**	**270**	**6,338**
150.	Consolidated comprehensive income attributable to minority interests	**-**	**-**	**-**
160.	**Total consolidated profitability attributable to the parent company**	**(909)**	**270**	**6,338**

SECTION 1 - BANKING GROUP RISKS

In order to achieve greater management efficiency, improve risk management and reduce costs, the Banca Sistema Group launched a process of internal reorganisation targeted at simplifying the Group's structure.

SF Trust Italia S.r.l. was recently fully transferred to third parties and, subsequently, the company is no longer a subsidiary of the Banca Sistema Group.

In July 2013, the subsidiary SF Trust Servicing Ltd. was placed into liquidation, having transferred its company to Specialty Finance Trust Holdings Ltd. in 2012. SF Trust Servicing Ltd. is expected to be wound up in the next few months.In fact, on 30 January 2014, SF Trust Servicing in liquidation made an advance payment to SF Trust Holding Ltd. on the result of liquidation for Euro 784 thousand.

The Bank also merged the subsidiary Solvi S.r.l. by incorporation, effective from 1 August 2013, in order to directly carry out collection activities relating to its own portfolio and third-party portfolios.

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

In particular, this system is based on four fundamental principles: appropriate supervision by company bodies and departments; adequate risk management policies and procedures (both in terms of exposure to credit risk and the disbursement of credit); suitable methods and adequate tools for risk identification, monitoring and management and adequate measurement techniques; comprehensive internal controls and independent auditing.

The Group "Risk Management System" is constantly monitored by the Risk Division, keeping capital adequacy and the degree of solvency with respect to its business under constant control.

In order to reinforce its ability to manage company risks, the Group 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 Group operations.

With reference to the new rules on the functioning of the internal controls system, the Group 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 Group 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 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 Group adopts - where possible - the methods provided under regulatory 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 Group are assessed.

With reference to the new regulatory supervision provisions, in particular, the 15th update of Circular 263 - New Provisions of Prudential Supervision for Banks, a series of obligations were introduced regarding risk management and control, including the Risk Appetite Framework (RAF) and the regulatory instructions defined by the Basel III Committee. During drafting of its 2014-2016 three-year business plan, the Bank actually combined the strategic objectives with the first release of the Risk Appetite Framework (RAF).

The RAF was designed with the key objectives of verifying, over time, that the growth and development of the Plan occur in observance of equity and liquidity strength, by implementing monitoring and alert mechanisms and the associated action processes which make it possible to intervene promptly in the event of any significant misalignment.

In particular, the RAF structure is based on two different levels:

- primary indicators, which verify the strength of the Bank's equity and in terms of funding/liquidity;
- secondary indicators, which verify the gradual alignment to Basel 3 regulatory targets.

Target levels are associated with the different indicators, consistent with the values defined in the plan, level I thresholds, defined "attention", which spark debate at Risk Management Committee level and subsequent communication to the Board of Directors and level II thresholds, which involve discussion at the Board of Directors to determine the actions to undertake.

The level I and II thresholds are defined on the basis of potential stress scenarios with respect to the plan objectives and on dimensions with a clear impact for the Bank.

Therefore, starting on 1 January 2014, the Bank will use an integrated reference framework both to identify its risk propensity and for the Internal Capital Adequacy Assessment Process - ICAAP).

The Individual Capital Adequacy Assessment Process report will also allow the Bank 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 Group complies with the public disclosure requirements pursuant to the third pillar of circular 263/2006 publishing the aforesaid information on its Internet site. The information will be published at least once a year within the terms provided for publishing financial statements.

Again with reference to the 15th update of Circular 263, Banca Sistema sent, before 31 January 2014, the self-assessment report targeted at both outlining its company situation with respect to the provisions of the new regulations (gap analysis) and the necessary measures and the associated timeframes for ensuring compliance with the provisions in accordance with the terms envisaged.

The process of self-assessment and its outcomes, presented in advance for the attention of the Internal Control Committee and the Board of Statutory Auditors, were submitted to the Board of Directors for approval.

The analysis of the company situation with respect to the new provisions (gap analysis) was carried out for each of the three themes governed by the regulations (internal controls, information system, business continuity), by breaking down each macro-regulation into homogeneous areas of intervention in terms of their strategic, organisational or technological impact, in turn comprised of several regulatory requirements and the subsequent identification of any deviations between each requirement identified and its effective status.

The measures identified to ensure compliance with the new provisions, and the timescale for their implementation (road map) were defined by considering both an examination of the terms provided for adjustment into line with the different legislative domains, and size, operations and reference market of the Bank, also based on the principle of proportionality which is the guiding force of the entire prudential legislation.

Self-assessment activity was performed in the second half of 2013 as part of the internal project which saw contributions from the Top Management Bodies, second and third level Control Functions, and the other Bank

Divisions involved in the process of alignment with the new regulations, each one for aspects within their competence. For an in-depth examination of some specific areas (Information System and Business Continuity), the Bank also availed itself of the consultancy offered by its IT outsourcer (Consorzio Servizi Bancari Soc. Cons. s.r.l., "CSE") which, with the help of a leading consulting firm, prepared the gap analysis for the aspects of activities managed on behalf of the Bank, incorporating the legislative requirements in a questionnaire/matrix.

The outsourcer also provided the results of a gap analysis performed independently (based on the approach of a supplier of ICT services to third party banks), and a master plan containing detailed measures that said entity intends to implement it bring its systems into line with the legislative principles.

Based on the legislative innovations introduced in new Circular no. 263, the internal policies and regulations of the Bank will be appropriately updated by referring to the new provisions.

SECTION 1.1 - CREDIT RISK

QUALITATIVE INFORMATION

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.

As at 31 December 2013, the Group availed itself of the judgments issued by ECAI "DBRS", for exposures to the Central Authorities, Banks and Public Sector Bodies, while as regards judgments relating to the company regulatory segment, it uses the agency "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 ECAIs or support for the methods used, for which the external creditworthiness ratings agencies are the only ones in charge.

The assessments issued by the rating agencies are not enough to complete the creditworthiness assessment process that the Group 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 the Banca Sistema Group, is one of the main components of the overall Group 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 change introduced at legislative framework level assumed special significance, regarding the weighting factor applied to Public Sector Entities. The new provisions envisage the return of weighting in terms of Risk-Weighted Assets of ASL (Local Health Authorities) at 20% fixed (with respect to the previous rate of 50%), despite remaining in the regulatory sector of Public Sector Entities. The exception that defines a preferential weighting factor is applicable in the event in which the receivables have an original duration of less than three months. Said weighting factor allows the Bank to record a lower requirement also at concentration risk level under Pillar II.

This indication, applicable from 1 January 2014, with the entry into force of the Supervisory Provisions (Circular 285 - Bank of Italy), emerged in the Official Journal (176 of 27 June 2013) of the European Union which follows up Community Regulation no. 575/2013 of the European Parliament and Council of 26 June 2013 relating to prudential requirements for banks and investment companies and which modifies regulation (EU) no. 648/2012 (see article 116).

By contrast, no provision is made for the inclusion of ASL (Local Health Authorities) in the regulatory segmentation of Territorial Entities, a move the Bank believes is more relevant and which would therefore be more consistent at Significant Exposures level too.

The operating components of the Banca Sistema Group that originate the credit risk are:

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

Credit risk management policies

Organisational aspects

The organisational model of the Banca Sistema Group 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 the credit portfolio high, the Banca Sistema Group considered it wise to concentrate all the phases related to the assumption and control of risk with the Banca Sistema Parent Company, thereby obtaining - through the specialisation of resources and the 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 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.

As regards the financial instruments held in own accounts, the Bank purchases securities related to the Italian public debt which are allocated in the banking portfolio for prudential regulatory purposes.

These operations are carried out by the Treasury Division which operates within the scope of the limits established by the Board of Directors.

In addition, with reference to the new regulatory framework, specifically Circular no. 285 and the associated Supervisory Bulletin no. 12, December 2013, point II.6, regarding own funds, the Bank subscribed to the extension of the prudential treatment of unrealised profits and losses, relating to the exposure to central authorities classified in the category "available-for-sale financial assets" for the entire period set out in art. 467, sub-section. 2, last chapter of CCR.

Management, measurement and control systems

With special reference to the factoring activities, the Group 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 Central 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.

With specific reference to monitoring of the factoring activity, through the "Collection Working Group", the Group carries out checks and assessments on the factoring portfolio based on the guidelines defined in the "Collection policy". 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 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 2013, 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 the Banca Sistema Group 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 Group has set up extremely prudent repurchase agreements and reverse repurchase agreements since the underlying assets are mainly Italian Government Securities and the Compensation and Guarantee Fund is the counterparty.

Credit Risk Mitigation Techniques

In order to reduce exposure of the factoring portfolio, and more specifically its exposure with regard to the Local Health Authorities (ASL), the Group 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 issuing of this type of instrument, 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.

Impaired financial assets

With reference to factoring, customer relations are constantly monitored by 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 Division 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 watchlist 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	Banking group						Other companies		Total
	Non-performing loans	Watchlist loans	Restructured exposures	Impaired past due exposures	Non-impaired past due exposures	Other assets	Impaired	Other	
1. Held-for-trading financial assets	-	-	-	-	-	-	-	-	-
2. Available-for-sale financial assets	-	-	-	-	-	847,045	-	-	847,045
3. Held-to-maturity financial assets	-	-	-	-	-	-	-	-	-
4. Loans to banks	-	-	-	-	-	58,814	-	-	58,814
5. Loans to customers	4,504			9,194	33,575	1,040,812			1,088,085
6. Financial assets carried at fair value	-	-	-	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-	-
Total 2013	**4,504**	**-**	**-**	**9,194**	**33,575**	**1,946,671**	**-**	**-**	**1,993,944**
Total 2012	**-**	**-**	**-**	**540**	**-**	**1,038,008**	**-**	**1,485**	**1,040,033**

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	
A. Banking group	-	-	-	-	-	-	-
1. Held-for-trading financial assets	-	-	-	-	-	-	-
2. Available-for-sale financial assets	-	-	-	847,045	-	847,045	847,045
3. Held-to-maturity financial assets	-	-	-	-	-	-	-
4. Loans to banks	-	-	-	58,814	-	58,814	58,814
5. Loans to customers	13,716	18	13,698	1,075,686	1,300	1,074,387	1,088,085
6. Financial assets carried at fair value	-	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total A	**13,716**	**18**	**13,698**	**1,981,545**	**1,300**	**1,980,246**	**1,993,944**
B. Other companies included in scope of consolidation	-	-	-	-	-	-	-
1. Held-for-trading financial assets	-	-	-	-	-	-	-
2. Available-for-sale financial assets	-	-	-	-	-	-	-
3. Held-to-maturity financial assets	-	-	-	-	-	-	-
4. Loans to banks	-	-	-	-	-	-	-
5. Loans to customers	-	-	-	-	-	-	-
6. Financial assets carried at fair value	-	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total B	-	-	-	-	-	-	-
Total 2013	**13,716**	**18**	**13,698**	**1,981,545**	**1,300**	**1,980,246**	**1,993,944**
Total 2012	**542**	**2**	**540**	**1,040,557**	**1,193**	**1,039,493**	**1,040,033**

A.1.2.1 Distribution of the performing credit exposures for owned portfolios

Portfolios/seniority expired	OTHER EXPOSURES					
	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	**Total (net exposure)**
1. Held-for-trading financial assets	-	-	-	-	-	**-**
2. Available-for-sale financial assets	-	-	-	-	-	**-**
3. Held-to-maturity financial assets	-	-	-	-	-	**-**
4. Loans to banks	-	-	-	-	58,814	**58,814**
5. Loans to customers	21,145	5,388	4,641	2,401	1,040,812	**1,074,387**
6. Financial assets carried at fair value	-	-	-	-	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	**-**
8. Hedging derivatives	-	-	-	-	-	**-**
Total 2013	**21,145**	**5,388**	**4,641**	**2,401**	**1,099,626**	**1,133,201**
Total 2012	**9,856**	**5,802**	**11,092**	**10,015**	**1,002,728**	**1,039,493**

A.1.3 Banking Group - 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
A. CASH EXPOSURE				
a. Non-performing loans	-	-	-	-
b. Watchlist loans	-	-	-	-
c. Restructured exposures	-	-	-	-
d. Impaired past due exposures	-	-	-	-
e. Other assets	58,814	-	-	58,814
TOTAL A	**58,814**	-	-	**58,814**
B. OFF-BALANCE SHEET EXPOSURES				
a. Impaired	-	-	-	-
b. Other	2,224	-	-	2,224
TOTAL B	**2,224**	-	-	**2,224**
TOTAL A+B	**61,038**	-	-	**61,038**

A.1.4 Banking Group - Cash credit exposures to banks: movements of gross impaired exposures

The cash exposures to Banks are all performing.

A.1.5 Banking Group - Cash credit exposures to banks: movements of total value adjustments

The cash exposures to Banks are all performing.

A.1.6 Banking Group - 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	Net exposure
A. CASH EXPOSURE				
a. Non-performing loans	4,505	1	-	4,504
b. Watchlist loans	-	-	-	-
c. Restructured loans	-	-	-	-
d. Impaired past due exposures	9,211	17	-	9,194
e. Other assets	1,922,733	-	1,300	1,921,433
TOTAL A	**1,936,448**	**18**	**1,300**	**1,935,130**
B. OFF-BALANCE SHEET EXPOSURES				
a. Impaired	-	-	-	-
b. Other	22	-	-	22
TOTAL B	**22**	-	-	**22**

Non-performing loans concern loans to local authorities acquired already in financial difficulties. These loans were booked at their fair value, taking into account expected future cash flows. The book value was Euro 32.7 million lower than their nominal value.

A.1.7 Banking Group - Cash credit exposures to Customers: movements in gross impaired exposures

Reasons/Categories	Non-performing loans	Watch-list loans	Restructured exposures	Past due exposures
A. Gross opening exposure	-	-	-	**542**
▪ of which: exposures disposed of and not derecognised	-	-	-	-
B. Increases	**4,504**	-	-	**13,156**
B.1 income from performing loans	4,504	-	-	13,156
B.2 transfers from other categories of impaired exposures	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	-	-	-	**4,418**
C.1 expenses due to performing loans	-	-	-	219
C.2 write-offs	-	-	-	-
C.3 collections	-	-	-	4,199
C.4 gains on disposals	-	-	-	-
C.4 *bis* losses from disposal	-	-	-	-
C.5 transfers to other categories of impaired exposures	-	-	-	-
C.6 other decreases	-	-	-	-
D. Gross closing exposure	**4,504**	-	-	**9,280**
▪ of which: exposures disposed of and not derecognised	-	-	-	-

The other increases relating to the non-performing category refer to loans with the impaired status already at the purchase phase. In fact, they relate to local authorities already in financial difficulties.

A.1.8 Banking Group - Cash credit exposures to Customers: movements of total value adjustments

Reasons/Categories	Non-performing loans	Watch-list loans	Restructured exposures	Past due exposures
A. Opening total adjustments		**-**	**-**	**2**
▪ of which: exposures disposed of and not derecognised	-	-	-	
B. Increases	**1**	**-**	**-**	**17**
B.1 value adjustments	1	-	-	10
B.1 *bis* losses from disposal	-	-	-	-
B.2 transfers from other categories of impaired exposures	-	-	-	
B.3 other increases	-	-	-	7
C. Decreases	**-**	**-**	**-**	**2**
C.1 value write-backs from revaluation	-	-	-	-
C.2 value write-backs from collections	-	-	-	-
C.2 *bis* profit from disposal	-	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other categories of impaired exposures	-	-	-	
C.5 other decreases	-	-	-	2
D. Closing total adjustments	**1**	**-**	**-**	**17**
▪ of which: exposures disposed of and not derecognised	-	-	-	-

A.2 CLASSIFICATION OF EXPOSURES ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

A.2.1 Banking Group - Distribution of cash and "off-balance sheet" loans 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 exposures	**-**	**1,944,027**	**-**	**-**	**-**	**-**	**49,917**	**1,993,944**
B. Derivatives	-	-	-	-	-	-	**-**	**-**
B.1 Financial derivatives	-	-	-	-	-	-	-	-
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**2,246**	**2,246**
D. Commitments to grant finance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**1,944,027**	**-**	**-**	**-**	**-**	**52,163**	**1,996,190**

The Bank uses the standardised risk mapping method of the ratings agencies:

- "DBRS Ratings Limited", for exposures to: central authorities and central banks; supervised intermediaries; public sector entities; territorial entities.

Long-term rating

Risk weighting ratios					ECAI
Credit worthiness classes	Central authorities and central banks	Supervised intermediaries, public sector entities, territorial entities	Multilateral development banks	Companies and other entities	DBRS Ratings Limited
1	0%	20%	20%	20%	from AAA to AAL
2	20%	50%	50%	50%	from AH to AL
3	50%	100%	50%	100%	from BBBH to BBBL
4	100%	100%	100%	100%	from BBH to BBL
5	100%	100%	100%	150%	from BH to BL
6	150%	150%	150%	150%	CCC

Short-term rating (for exposures to supervised intermediaries)

		ECAI
Credit worthiness classes	Risk weighting ratios	DBRS Ratings Limited
1	20%	R-1 (high), R-1 (middle), R-1 (low)
2	50%	R-1 (high), R-1 (middle), R-1 (low)
3	100%	R-3
4	150%	R-4, R-5
5	150%	
6	150%	

- "Fitch Ratings", for exposures to companies and other entities.

Long-term rating

Risk weighting ratios					ECAI
Credit worthiness classes	Central authorities 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%	50%	100%	from BBB+ to BBB-
4	100%	100%	100%	100%	from BB+ to BB-
5	100%	100%	100%	150%	from B+ to B-
6	150%	150%	150%	150%	CCC+ and lower

Short-term rating

		ECAI
Credit worthiness classes	Risk weighting ratios	Fitch Ratings
1	20%	F1+F2
2	50%	F2
3	100%	F3
from 4 to 6	150%	lower than F3

A.3 Distribution of guaranteed credit exposures by guarantee type

A.3.2 Banking group - Credit exposures to guaranteed customers

	Net exposure value	Collateral securities (1)				CLN	Personal guarantees (2)								Total (1)+(2)
							Credit derivatives				Credit commitments				
							Other derivatives								
		Property - mortgages	Property - financial leasing	Securities	Other collateral securities		Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	
2. Guaranteed cash credit exposures:	327,932	-	-	358,960	479	10,000	-	-	-	-	-	-	-	-	**369,439**
2.1 fully guaranteed	323,810	-	-	358,960	479	7,648	-	-	-	-	-	-	-	-	**367,087**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 part guaranteed	4,121	-	-	-	-	2,352	-	-	-	-	-	-	-	-	**2,352**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
3. "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 Banking group - 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 adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures																		
A1. Non-performing loans	-	-	X	4,504	1	X	-	-	X	-	-	X	-	-	X	-	-	X
A2. Watchlist loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A3. Restructured loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A4. Past due loans	304	-	X	2,620	8	X	-	-	X	-	-	X	4,506	6	X	1,764	3	X
A5. Other exposures	1,000,630	X	62	485,960	X	1,172	344,525	X	-	-	X	-	88,736	X	66	1,581	X	
TOTAL A	**1,000,934**	-	**62**	**493,084**	**9**	**1,172**	**344,525**	**-**	**-**	**-**	**-**	**-**	**93,242**	**6**	**66**	**3,345**	**3**	**-**
B. "Off-balance sheet" exposures																		
B1. Non-performing loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B2. Watchlist loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B3. Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B4. Other exposures	-	X	-	-	X	-	-	X	-	-	X	-	-	X		22	X	-
TOTAL B	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**22**	-	-
TOTAL (A+B) 2013	**1,000,934**	-	**62**	**493,084**	**9**	**1,172**	**344,525**	**-**	**-**	**-**	**-**	**-**	**93,242**	**6**	**66**	**3,367**	**3**	**-**
TOTAL (A+B) 2012	**569,903**	-	**72**	**352,859**	2	**1,121**	**106,566**	**-**	**-**	**-**	**-**	-	**-**	**-**	**-**	**1,100**	**-**	**-**

B.2 Banking group - 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
A. Cash exposures										
A1. Non-performing loans	4,504	1	-	-	-	-	-	-	-	-
A2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	9,194	17	-	-	-	-	-	-	-	-
A5. Other exposures	1,921,184	1,300	248	-	-	-	-	-	-	-
TOTAL A	**1,934,882**	**1,318**	**248**	-	-	-	-	-	-	-
B. "Off-balance sheet" exposures										
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	22	-	-	-	-	-	-	-	-	-
TOTAL B	**22**	-	-	-	-	-	-	-	-	-
TOTAL (A+B) 2013	**1,934,904**	**1,318**	**248**	-	-	-	-	-	-	-
TOTAL (A+B) 2012	**1,030,428**	**1,195**	**-**	-	-	-	-	-	-	-

Exposures / Geographic areas	Italy NORTH-WEST		Italy NORTH-EAST		Italy CENTER		Italy SOUTH and ISLANDS	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures								
A1. Non-performing loans	-	-	-	-	536	-	3,968	1
A2. Watchlist loans	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-
A4. Past due loans	594	1	604	2	634	1	7,362	13
A5. Other exposures	28,681	74	25,184	57	1,453,737	348	413,582	821
TOTAL A	**29,275**	**75**	**25,788**	**59**	**1,454,907**	**349**	**424,912**	**835**
B. "Off-balance sheet" exposures								
B1. Non-performing loans	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-
B4. Other exposures	22	-	-	-	-	-	-	-
TOTAL B	**22**	-	-	-	**-**	-	-	-
TOTAL (A+B) 2013	**29,297**	**75**	**25,788**	**59**	**1,454,907**	**349**	**424,912**	**835**
TOTAL (A+B) 2012	**35,458**	**308**	**39,986**	**120**	**801,879**	**307**	**153,105**	**460**

B.3 Banking Group - 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
A. Cash exposures										
A1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
A2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	-	-	-	-	-	-	-	-	-	-
A5. Other exposures	58,740	-	74	-	-	-	-	-	-	-
TOTAL A	**58,740**	-	**74**	-	-	-	-	-	-	-
B. "Off-balance sheet" exposures										
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	2,224	-	-	-	-	-	-	-	-	-
TOTAL B	**2,224**	-	-	-	-	-	-	-	-	-
TOTAL (A+B) 2013	**60,964**	-	**74**	-	-	-	-	-	-	-
TOTAL (A+B) 2012	**15,833**	-	**111**							

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
A. Cash exposures								
A1. Non-performing loans	-	-	-	-	-	-	-	-
A2. Watchlist loans	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-
A4. Past due loans	-	-	-	-	-	-	-	-
A5. Other exposures	10,244	-	28	-	48,468	-	-	-
TOTAL A	**10,244**	**-**	**28**	**-**	**48,468**	**-**	**-**	**-**
B. "Off-balance sheet" exposures								
B1. Non-performing loans	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-
B4. Other exposures	-	-	-	-	2,224	-	-	-
TOTAL B	**-**	-	-	-	**2,224**	-	-	-
TOTAL (A+B) 2013	**10,244**	**-**	**28**	**-**	**50,692**	**-**	**-**	**-**
TOTAL (A+B) 2012	**9,309**	**-**	**749**	**-**	**5,775**	**-**	**-**	**-**

B.4 Significant exposures

Al 31 December 2013 the significant exposures of the Banca Sistema Group comprise the following:

a) Book value Euro 160,936 (in thousands);

b) Weighted value Euro 134,822 (in thousands);

c) 17 positions.

C. SECURITISATION AND ASSET DISPOSAL TRANSACTIONS

C.2 Sale transactions

C.2.1 Banking group - Financial assets disposed and not derecognised: book value and full value

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	31/12/2013	31/12/2012
A. Cash assets	-	-	-	-	-	-	**59,905**	-	-	-	-	-	-	-	-	-	-	-	**59,905**	**149,312**
1. Debt securities	-	-	-	-	-	-	59,905	-	-	-	-	-	-	-	-	-	-	-	59,905	149,312
2. Equity securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 2013	-	-	-	-	-	-	**59,905**	-	-	-	-	-	-	-	-	-	-	-	**59,905**	**-**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 2012	-	-	-	-	-	-	**149,312**	-	-	-	-	-	-	-	-	-	-	-	**-**	**149,312**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 Banking Group - Financial liabilities from financial assets disposed but not derecognised: book value

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**
1. Due to customers	**-**	**-**	**59,690**	**-**	**-**	**-**	**59,690**
a) corresponding to assets disclosed in full	-	-	59,690	-	-	-	59,690
b) corresponding to assets part-disclosed	-	-	-	-	-	-	-
2. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) corresponding to assets disclosed in full	-	-	-	-	-	-	-
b) corresponding to assets part-disclosed	-	-	-	-	-	-	-
3. Securities in issue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) corresponding to assets disclosed in full	-	-	-	-	-	-	-
b) corresponding to assets part-disclosed	-	-	-	-	-	-	-
Total 2013	**-**	**-**	**59,690**	**-**	**-**	**-**	**59,690**
Total 2012	**-**	**-**	**249,012**	**-**	**-**	**-**	**249,012**

D. BANKING GROUP - CREDIT RISK MEASUREMENT MODELS

1.2 Banking group - Market risks

The Banca Sistema Group does not trade its financial instruments. At 31 December 2013, there were no active positions in the trading portfolio for regulatory purposes that could generate market risks.

The limitation system in place sets out a system for the careful, balanced management of operating independence, establishing limits in terms of the size and composition of the portfolio in accordance with the type of securities.

1.2.1 - 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. The important components are:

- position risk, separated into: generic 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 Group 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 risk 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.

1.2.2 Interest rate and pricing risk - Banking Portfolio

QUALITATIVE INFORMATION

A. General considerations, interest rate risk and pricing risk management procedures and measurement methods

The Banca Sistema Group 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 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 Group's compliance with the provision of the Bank of Italy, 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 Group.

The assumption of interest rate risk related to the funding activities of the Treasury Division of the Parent Company 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 Group 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 Division 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 Group was 1.2% as at 31 December 2013.

The Group does not use interest rate hedging instruments due to the extent of the risk.

B. Fair value hedging

The Group did not carry any such transactions in 2013.

C. Cash flow hedging

The Group did not carry any such transactions in 2013.

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
1. Cash assets	**105,154**	**536,165**	**532,622**	**387,280**	**424,215**	**8,508**	**-**	**-**
1.1 Debt securities	-	129,812	493,703	223,530	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	129,812	493,703	223,530	-	-	-	-
1.2 Loans to banks	346	58,468	-	-	-	-	-	-
1.3 Loans to customers	104,808	347,885	38,919	163,750	424,215	8,508	-	-
- current accounts	30,964	-	-	-	-	-	-	-
- other loans	73,844	347,885	38,919	163,750	424,215	8,508	-	-
- with early redemption option	1,582	1,354	106	7,237	43,512	-	-	-
- other	72,262	346,531	38,813	156,513	380,703	8,508	-	-
2. Cash liabilities	**307,548**	**1,204,456**	**140,404**	**109,633**	**184,511**	**279**	**8,017**	**-**
2.1 Due to customers	230,968	349,456	128,317	94,521	184,511	279	-	-
- current accounts	201,172	109,397	128,317	94,521	184,511	279	-	-
- other amounts due	29,796	240,059	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	29,796	240,059	-	-	-	-	-	-
2.2 Due to banks	76,580	855,000	-	-	-	-	-	-
- current accounts	36,702	-	-	-	-	-	-	-
- other amounts due	39,878	855,000	-	-	-	-	-	-
2.3 Debt securities	-	-	12,087	15,112	-	-	8,017	-
- with early redemption option	-	-	12,087	-	-	-	-	-
- other	-	-	-	15,112	-	-	8,017	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 No underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management processes and methods of measuring exchange risk

All items are in Euro, therefore the Group is not subject to exchange rate risk.

1.2.4 Derivative instruments

A. Financial derivatives

The Bank does not operate with derivative instruments on its own accounts.

B. Credit derivatives

As at 31 December 2013 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 10 million.

During the year, based on greater diversification of the factoring portfolio, both in terms of the number of debtors and as regards more openness towards Public Administration authorities, on 22 July 2013, Euro 25 million was repurchased, therefore reducing the level of coverage to Euro 10 million.

B.1 Credit derivatives: notional year-end and average values

Transaction category	Regulatory trading portfolio		Banking portfolio	
	Individual	Basket	Individual	Basket
1. Protection bought	-	-	-	-
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Other	-	-	-	10,000
Total 2013	**-**	**-**	**-**	**10,000**
Average values	**-**	**-**	**-**	**-**
Total 2012	**-**	**-**	**-**	**35,000**
2. Protection sold	-	-	-	-
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Other	-	-	-	-
Total 2013	**-**	**-**	**-**	**-**
Average values	**-**	**-**	**-**	**-**
Total 2012	**-**	**-**	**-**	**-**

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
Regulatory trading	-	-	-	-	-	-	-
1) Protection bought	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Protection sold	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
Bank portfolios	-	-	-	-	-	-	-
1) Protection bought	-	-	**10,000**	-	-	-	-
- notional value	-	-	10,000	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Protection sold	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

B.6 Residual maturity of the credit derivatives: notional values

Underlying / Residual life	Up to 1 months	From 1 year to 5 years	Over 5 years	**Total**
A. Regulatory trading portfolio	-	-	-	-
A.1 Credit derivatives with “qualified reference obligation”	-	-	-	-
A.2 Credit derivatives with “unqualified reference obligation”	-	-	-	-
B. Banking portfolio	**10,000**	**-**	-	**10,000**
B.1 Credit derivatives with “qualified reference obligation”	-	-	-	-
B.2 Credit derivatives with “unqualified reference obligation”	10,000	-	-	10,000
Total 2013	**10,000**	**-**	-	**10,000**
Total 2012	-	**35,000**	-	**35,000**

1.3 Banking Group - Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management processes and methods of measuring liquidity risk

The liquidity risk is represented by the possibility that the Group cannot keep its commitments to pay due to its inability to obtain funds or its inability to sell assets on the market 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 Group 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, the Banca Sistema Group - 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 2013, the Group 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 Group'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.

"Si conto!" has, over time, been accompanied by the use of Abaco: it is a funding instrument designed to manage a pool of loans and securities transferred as guarantee to the Bank of Italy, through which the Bank obtains funds to carry out infra-day loan transactions, open market and margin refinancing transactions. It allows banks to refinance at the European Central Bank, thus increasing their liquidity.

Furthermore, in order to achieve greater resource stability, Banca Sistema intends to develop a more diversified funding strategy with the objective of stabilising funding, although keeping it flexible, by reducing its costs, with the intention of having a mix of financial instruments which is as closely in line with the loans portfolio as possible, in terms of expiry.

As regards the options for diversifying sources of funding, in addition to "Si conto!" and the gradual growth of Abaco, alternative financing will be sourced in order to permit greater stability and optimised rates.

The Parent Company 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 Group 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 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
Cash assets	**106,752**	**236,043**	**706**	**47,121**	**202,571**	**532,010**	**384,807**	**421,330**	**8,745**	**48,468**
A.1 Government securities	-	-	-	-	129,897	494,266	223,816	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	16	-	230	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	106,752	236,043	706	47,121	72,674	37,744	160,975	421,330	8,515	48,468
▪ Banks	*199*	-	-	-	*10,000*	-	-	-	-	*48,468*
▪ Customers	*106,553*	*236,043*	*706*	*47,121*	*62,674*	*37,744*	*160,975*	*421,330*	*8,515*	-
Cash liabilities	**298,189**	**198,904**	**263,838**	**67,677**	**715,247**	**130,205**	**111,973**	**184,511**	**20,279**	**-**
B.1 Deposits and current accounts	268,229	8,549	13,838	17,677	74,812	130,205	96,973	184,511	279	-
▪ Banks	*76,416*	-	*5,000*	-	-	-	-	-	-	-
▪ Customers	*191,813*	*8,549*	*8,838*	*17,677*	*74,812*	*130,205*	*96,973*	*184,511*	*279*	-
B.2 Debt securities	-	-	-	-	-	-	15,000	-	20,000	-
B.3 Other liabilities	29,960	190,355	250,000	50,000	640,435	-	-	-	-	-
"Off-balance sheet" transactions	**-**	**-**	**-**	**-**	**-**	**-**	**10,000**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	10,000	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	*10,000*	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-

2. Information on the committed assets recorded in the financial statements

Types	Committed		Not Committed		Total 2013	Total 2012
	BV	FV	BV	FV		
1. Cash and cash equivalents	-	X	71	X	71	3,697
2. Debt securities	807,230	807,230	39,815	39,832	847,045	541,123
3. Equity securities	-	-	-	-	-	-
4. Loans	28,677	X	1,118,222	X	1,146,899	498,910
5. Other financial assets	-	X	-	X	-	-
6. Non-financial assets	-	X	9,335	X	9,335	10,332
Total 2013	**835,907**	**807,230**	**1,167,443**	**39,832**	**2,003,350**	**1,054,062**
Total 2012	**547,990**		**506,072**		X	**1,054,062**

Key:

BV = Book value
FV = Fair value

3. Information on owned committed assets not recorded in the financial statements

Types	Committed	Not Committed	Total 2013	Total 2012
1. Financial assets	308,263	-	308,263	-
▪ Securities	*308,263*	-	308,263	-
▪ Other	-	-	-	-
2. Non-financial assets	**-**	**-**	-	**-**
Total 2013	**308,263**	**-**	**308,263**	X
Total 2012	**-**	**-**	**X**	

1.3 Banking group - 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, the Banca Sistema Group 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 Group - 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 Group 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 2013, the Control Departments' Working Group set up an operational risk evaluation 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 general operational risk management and control process is structured into five macro activities which make provision for: the definition of reference methods and models relating to risk and control processes; the identification of functional parameters and approaches for the measurement of operational risks; data collection and associated comparison with the operational losses recorded; evaluation of the results and subsequent monitoring of criticalities.

The objective of the Operational Risk Management Department is to provide management with an instrument to manage operational risk, i.e. the possibility of evaluating the existing control system in the Group in terms of ability to efficiently deal with the risks and reduce the risks identified to an "acceptable" level.

SECTION 1 - CONSOLIDATED 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 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 of the parent company concentrates most attention on the own capital of the bank and the subsidiaries, aware of both the function in protecting the trust of external financers, since it can be used to absorb any losses, and its importance for management purposes for operational reasons and to develop the company.

The group 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 group level, the ratio between the capital and the weighted risk assets must be equal to at least 8%.

The level of risk propensity of the Group is closely connected to its capital base and the riskiness inherent in its assets; in that context definition of the Group's risk strategy is the first process in a broader framework of determining the capital adequacy, where the final aim is to allow the Supervisory Authorities to formulate a judgement on the capital adequacy of the bank and its compliance with both minimum capital base requirements and internal company objectives in terms of risk coverage indices. Definition of the risk strategy is therefore also the main input in setting out a proper capital allocation process over the various assets that generate riskiness.

The capital adequacy level of the Group 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.

In addition, the Group carries out operational planning on an annual basis that constitutes the logical follow-on of the strategic planning and is aimed at quantifying the main capital, volumes and profitability objectives of the Group over the space of 12 months.

Basel 3 came into force on 1 January 2014, which makes provision for the obligation of additional capital buffers with respect to the minimum regulatory requirements, with the objective of providing banks with high quality capital resources to be used during times of market tension.

Each reserve fulfils a specific function: (i) the capital conservation buffer is targeted at preserving the minimum level of regulatory capital during unfavourable market periods through the allocation of high quality capital resources in periods not characterised by market tensions. It is obligatory and set at 2.5%; (in force from 1 January 2014); (ii) the countercyclical capital buffer aims to protect the banking sector during phases of excessive credit growth (from 0% to 2.5%). The countercyclical capital buffer is only imposed during periods of credit growth (in force from 1 January 2016); (iii) capital buffers for entities of global systemic relevance (G-SII *buffer*) and for other entities of systemic relevance (O-SII *buffer*) are aimed at setting higher capital requirements for those subjects owing to their systemic relevance (in force from 1 January 2016, not applicable to Banca Sistema).

B. QUANTITATIVE INFORMATION

Please refer to the information provided in Part B of these Notes to the Financial Statements, Liabilities, Section 15 - Group Equity.

B.1 Consolidated Equity: breakdown by type of company

Shareholders' equity item	**Banking group**	**Insurance companies**	**Other companies**	**Netting and adjustments due to consolidation**	**Total**
Share capital	8,451	-	-	-	8,451
Share premiums	4,325	-	-	-	4,325
Reserves	2,456	-	-	-	2,456
Capital instruments	-	-	-	-	-
(Treasury shares)	-	-	-	-	-
Valuation reserves	**(257)**	-	-	-	**(257)**
▪ Available-for-sale financial assets	(257)	-	-	-	(257)
▪ Property, plant and equipment	-	-	-	-	-
▪ Intangible assets	-	-	-	-	-
▪ Foreign investment hedges	-	-	-	-	-
▪ Cash flow hedges	-	-	-	-	-
▪ Exchange differences	-	-	-	-	-
▪ Non-current assets held for disposal	-	-	-	-	-
▪ Actuarial profits (losses) on defined benefit pension plans	-	-	-	-	-
▪ Share of the valuation reserves of equity investments designated at equity	-	-	-	-	-
▪ Special revaluation laws	-	-	-	-	-
Profit (loss) for the year for the Group and minorities	7,002	-	-	-	7,002
TOTAL	**21,977**	**-**	**-**	**-**	**21,977**

B.2 Valuation reserves of available-for-sale financial assets: breakdown

Assets/Values	Banking group		Insurance companies		Other companies		Netting and adjustments due to consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	17	250	-	-	-	-	-	-	17	250
2. Equity securities	-	-	-	-	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 2013	**17**	**250**	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**250**
Total 2012	**486**	**79**	**-**	**-**	**-**	**-**	**-**	**-**	**486**	**79**

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

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	**407**	-	-	-
2. Increases	**269**	-	-	-
2.1 Increases in fair value	-	-	-	-
2.2 Reversal of negative reserves to income statement	-	-	-	-
▪ From impairment	-	-	-	-
▪ From disposals	-	-	-	-
2.3 Other changes	269	-	-	-
3. Decreases	**909**	-	-	-
3.1 Decrease in fair value	348	-	-	-
3.2 Impairment adjustments	-	-	-	-
3.3 Reversal of positive reserves to income		-	-	-
statement: from disposals	561	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	**(233)**	-	-	-

2.2 Regulatory bank capital

A. QUALITATIVE INFORMATION

The regulatory capital was calculated in accordance with the Bank of Italy instructions in circular no. 155 of 18 December 1991, circular no. 263 of 27 December 2006 and all subsequent amendments and additions.

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 18/12/2013, the subordinated bond IT0004881444 called "Banca Sistema S.p.A." was reopened for an amount of Euro 3,000,000. 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 2 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, calculable for a total amount of 50% of the Tier 1 capital.

On 18/12/2013, the above bond was reopened for an amount of Euro 2,000,000, bringing the total value of the subordinated loan from € 10,000,000 to € 12,000,000.

3. Tier 3 capital

The Bank did not record any Tier 3 capital calculable in Regulatory Capital.

B. QUANTITATIVE INFORMATION

	Items / Values	31/12/2013	31/12/2012
A.	**Tier 1 capital before application of prudential filters**	**27,705**	**18,960**
B.	**Tier 1 capital prudential filters:**	-	-
	B1 - positive LAS/LFRS prudential filters (+)	-	-
	B2 - negative LAS/LFRS prudential filters (-)	-	-
C.	**Tier 1 capital gross of deductible elements (A+B)**	27,705	18,960
D.	**Elements deductible from Tier 1 capital**	-	-
E.	**Total TIER 1 (C-D)**	**27,705**	**18,960**
F.	**Tier 2 capital before application of prudential filters**	**12,000**	**9,480**
G.	**Tier 2 capital prudential filters:**	-	-
	G1 - positive LAS/LFRS prudential filters (+)	-	-
	G2 - negative LAS/LFRS prudential filters (-)	-	-
H.	**Tier 2 capital gross of deductible elements (F+G)**	**12,000**	**9,480**
I.	**Elements deductible from Tier 2 capital**	-	-
L.	**Total Tier 2 (H-I)**	**12,000**	**9,480**
M.	**Elements deductible from total Tier 1 and Tier 2 capital**	-	-
N.	**Regulatory Capital (E+L-M)**	**39,705**	**28,440**
O.	**Tier 3 capital**	-	16
P.	**Regulatory capital including Tier 3 (N+O)**	**39,705**	**28,456**

2.3 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 2013 the Group had a ratio between Tier 1 capital and risk-weighted assets of 9.5% and a ratio between regulatory capital and risk-weighted assets equal to 13.6%.

B. QUANTITATIVE INFORMATION

Categories / Values	Unweighted amounts		Weighted amounts / requirements	
	31/12/2013	**31/12/2012**	**31/12/2013**	**31/12/2012**
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	**1,781,153**	**912,012**	**249,500**	**146,197**
1. Standard method	1,781,153	912,012	249,500	146,197
2. Method based on internal ratings	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS			**19,960**	**11,696**
B.1 Credit risk and counterparty risk	-	-	**105**	**23**
B.2 Market risk	-	-	105	23
1. Standard method	-	-	-	-
2. Internal models	-	-	-	-
3. Concentration Risk	-	-	**3,370**	**1,413**
B.3 Operational risk	-	-	3,370	1,413
1. Basic method	-	-	-	-
2. Standard method	-	-	-	-
3. Advanced method	-	-	-	-
B.4 Other prudential requirements	-	-	-	-
B.5 Other calculation elements	-	-	-	-
B.6 Total prudential requirements	-	-	**23,435**	**13,132**
C. RISK ASSETS AND REGULATORY RATIOS			**292,938**	**164,147**
C.1 Risk-weighted assets	-	-	292,938	164,147
C.2 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	-	-	9.5%	11.6%
C.3 Regulatory capital including Tier 3 / Risk-weighted assets (Total capital ratio)	-	-	13.6%	17.3%

Section 1 - Transactions performed during the year

1.1 Business combinations

The Banca Sistema Group did not carry out any business combinations that would fall under the range of application of IFRS 3 during the year.

Section 2 - Transactions performed after financial year closure

The Banca Sistema Group did not carry out any business combinations after year-end.

Section 3 - Retrospective adjustments

The Banca Sistema Group did not carry out any business combinations that would fall under the range of application of IFRS 3 during the year.

1. Information on remuneration of key management personnel

With respect to payments made in 2013 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):

a. Short-term benefits

Short-term benefits include salaries, social security charges, remuneration for former holidays not taken, sick leave, paid holidays, and benefits such as medical assistance;

b. Post-retirement benefits

The post-retirement benefits include social security plans, pension plans and post-employment benefits.

Payments made in 2013 amounted to Euro 832 thousand.

2. Disclosure on transactions with related parties

a. Directors

Payments made to the Board of directors in 2013 amounted to Euro 373 thousand. These payments do not include charges for social security contributions and VAT.

No guarantees were issued in 2013 to directors.

b. Statutory auditors

Payments made to the Board of Statutory Auditors in 2013 amounted to Euro 84 thousand. These payments do not include charges for social security contributions and VAT.

No credit or guarantees were issued in 2013 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.	1,644	349	902	148
6	SF Trust Servicing Ltd.	-	-	3	-
4	Corporate officers	92	827	4	1
1	Shareholders - SGBS	-	4	-	-
1	Shareholders - Sof Luxco	-	625	7	-
1	Shareholders - Fondazione Pisa	159,797	106,234	1,458	547
1	Shareholders - Fondazione CR Alessandria	-	501	-	-
1	Shareholders - Fondazione Sicilia	-	51	-	-
	Total	**161,533**	**108,591**	**2,374**	**696**

*The existing amounts refer to subjects with a considerable influence and are stated in thousands of Euros.

PART I - PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

The bank did not carry out any of these transactions during 2013.

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 2013 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	Remunera-tion
Independent Audit	KPMG S.p.A.	Banca Sistema S.p.A.	91
Limited half-yearly audit	KPMG S.p.A.	Banca Sistema S.p.A.	14
Independent Audit	KPMG S.p.A.	SFT Holding	25
Other services	KPMG S.p.A.	Banca Sistema S.p.A.	40
Other services	KStudio Associato	Banca Sistema S.p.A.	40
Other services (annual auditing of ICAAP Report)	KPMG Advisory S.p.A.	Banca Sistema S.p.A.	40
Total			**250**

KPMG

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Certified e-mail address kpmgspa@pec.kpmg.it

Independent auditors' report pursuant to articles 14 and 16 of Italian Legislative Decree no. 39 of 27 January 2010

To the Shareholders of
Banca Sistema S.p.A.

1 We have conducted the audit of the consolidated financial statements of the Banca Sistema Group for the year ended as at 31 December 2013, comprised of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the associated notes to the financial statements. The Directors of Banca Sistema S.p.A. are responsible for preparing the financial statements in compliance with the International Financial Reporting Standards adopted by the European Union and with the provisions issued in implementation of art. 9 of Italian Legislative Decree no. 38/05. Our responsibility is to express a professional opinion on the financial statements, based on the audit.

2 Our audit was performed in accordance with the auditing principles and criteria recommended by CONSOB. In compliance with such principles and criteria, the audit was scheduled and performed so as to obtain all elements necessary to confirm whether the consolidated financial statements are free of material misstatements and whether, on the whole, they can be considered reliable. The audit procedure involves a sampling-based examination of elements in support of the balances and information contained in the financial statements, an assessment of the adequacy and accuracy of the accounting policies used and the fairness of estimates calculated by the Directors. We believe that the tasks completed form a reasonable basis on which to express our professional opinion.

With regard to the opinion on the previous year's financial statements, whose data are provided for comparative purposes, reference should be made to the report we issued on 9 April 2013.

3 In our opinion, the consolidated financial statements of the Banca Sistema Group as at 31 December 2013 comply with the International Financial Reporting Standards adopted by the European Union and with the provisions issued in implementation of art. 9 of Italian Legislative Decree no. 38/05. They are therefore drafted with clarity and provide a true and fair view of the financial position, economic result and the cash flows of the Banca Sistema Group for the year ended as at said date.

4 The Directors of Banca Sistema S.p.A. are responsible for drafting the report on operations in compliance with legal provisions and the regulations. It is our job to express an opinion on the consistency of the report on operations with the financial statements, as required by law. To this end, we have carried out the procedures indicated in auditing principle 001 issued by Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Institute of Chartered Accountants) and recommended by CONSOB. In our opinion, the report on operations is consistent with the consolidated financial statements of the Banca Sistema Group as at 31 December 2013.

Milan, 4 April 2014

KPMG S.p.A.

Bruno Verona
Shareholder

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NTS AS AT
31 DECEM
BER 2013