CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014

BANCA SISTEMA
CONTEMPORARY BANK

Banca Sistema S.p.A.

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Banca Sistema Group

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014

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CONTEMPORARY BANK

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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.	Daniele Pittatore (Independent)
	Ms.	Lindsey McMurray
	Prof.	Giorgio Barba Navaretti
	Mr.	Matthew James Gary Potter
	Mr.	Michele Calzolari (Independent)

CEO

CEO	Mr.	Gianluca Garbi

Board of Statutory Auditors

Chairman	Mr.	Diego De Francesco
Standing Auditors	Mr.	Massimo Conigliaro
	Mr.	Biagio Verde
Substitute Auditors	Mr.	Gaetano Salvioli
	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.	Daniele Pittatore
	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 Barba Navaretti

Supervisory Authorities

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

(*) the Board of Directors and the Board of Statutory Auditors were appointed by decision of the Shareholders' Meeting of 22 April 2014; subsequently, the Board of Directors, on a meeting on the same date, appointed: (i) Mr. Gianluca Garbi, CEO and General Manager; (ii) established the Executive Committee, the Internal Control Committee, the Appointments and Remuneration Committee, the Ethics Committee and the Supervisory Authority.

SUMMARY DATA AS AT 31 DECEMBER 2014

Balance Sheet figures (in thousands of euros)

	2014	2013
Total assets	2,081,253	2,003,350
Securities portfolio	858,007	847,045
Factoring trade receivables	851,856	740,160
Bank funding	821,404	931,580
Term deposit funding	569,410	533,617
Current account funding	311,751	184,580
Securities in issue	20,109	35,216

Economic indicators (in thousands of euros)

	2014	2013
Interest margin	48,337	21,730
Net fee and commissions	11,501	8,935
Operating income	64,550	36,566
Staff costs	(12,107)	(9,648)
Other administrative expenses	(18,384)	(12,690)
Total operating costs	(31,428)	(22,528)

Performance indicators

	2014	2013
Cost/income ratio	49%	62%
Return on equity	62%	37%

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

PROFILE OF THE PARENT COMPANY

Banca Sistema was established in 2011 as a bank specialised in the acquisition of trade receivables owed by the Public Administration, thereby entering a specific segment of the Italian financial world; its aim was guarantee the management and collection of debt and pay suppliers of the Public Administration, mainly by way of factoring services.

The Group has its main branches in Milan, Rome and London, and in recent years has expanded its business and the services offered to both business customers and retail customers.

The Group has experienced rapid growth, and in addition to its factoring and debt management and collection products, now also provides a complete range of banking services, opening new branches in Padua and Pisa, and increasingly tailoring its services to demanding customers, which range from large multinationals to small and medium companies, in addition to professionals and private savers.

The moderate risk posed by the public counterparties and high income levels, supported by the increase in volumes were decisive features of the Group's growth over the past few years, and to a greater extent in 2014; this was partly thanks to the well-diversified retail and wholesale funding, which allowed access to stable cash flows at moderate costs.

The funding through the retail, current account and deposit account sectors also grew thanks to the strategic choice of expanding, always on a prudent basis, the number of branches in the territory, ensuring customers maximum flexibility and the best operating context possible. State-of-the-art branches were established in Pisa and Padua in 2014, also designed by Daniel Libeskind and equipped with Cisco Systems technology like the Milan branch.

One of the main goals of the Group is to both meet the financial requirements of companies, acting as a 'hyphen' between the public and private sectors, and supporting efficiency, in addition to ensuring companies and people access to a high-tech world of banking, which is user-friendly and has an awareness of what the country needs along with the business community as it grows.

Products and services

An independent financial enterprise with a highly diversified business model has ensured that the Parent Company can now offer a wide range of non-recourse and with recourse factoring services, including between private parties, annual and quarterly VAT receivable repayments, current accounts and term deposit accounts, with a duration of up to 10 years, sureties, security deposits, security deposit services, reverse factoring and public administration receivable certification, in addition to salary-backed loans and pension-backed loans to small and medium-sized enterprises.

The Group also deals with the acquisition and management of non-performing financial and commercial loans in addition to the management and recovery of receivables between private parties thanks to the strategic minority investment in the shareholding structure of Candia S.p.A. and St.Ing S.p.A. which was made during 2014.

More specifically, for the business customers, the Banca Sistema Group had already expanded the types of factoring services offered in 2013, developing an on-line instrument for consultation by the customers and export of the main information of their factoring relationships with the Bank, on a fully independent basis. This service was called "On-line Factoring"; it is completely free and also allows new portfolios of receivables to be assigned to be sent, further simplifying the activities necessary for the factoring transactions.

The Group has also made a "Maturity Factoring" service available in order to provide a wide range of services to the factoring customers. Bank customers can avail of this service to use a part of the accounts receivables assigned as collateral, obtaining in exchange the commitment by the Bank to pay suppliers at a pre-established date (maturity crediting date). This type of service helps companies to align their cash in with their cash out from a financial viewpoint, and has been greatly requested by a large proportion of customers.

The Group also initiated the receivable certification service in 2014 for the Public Administration using the Receivable Certification Platform (PCC) of the Ministry of Economy and Finance. The aim of the service is to facilitate payment of receivables due from the Public Administration, reduce payment times, confirm the certainty and liquidity of the receivables and enable them to improve credit policy planning.

Finally, in order to facilitate SMEs and professionals in particular, reverse factoring agreements were confirmed and implemented with many public entities, including Regions, Provinces and Municipalities.

In addition, within the scope of developing its business, the Group approved the acquisition of receivables from salary-backed loans (CQS), working in partnership with parties who are specialised in the distribution of carefully screened "assignment of non-recourse loan" portfolios, using progressive methods.

The main products and banking services for retail customers released in 2014 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 120 months.
- Distribution of the product "SI conto! Deposito" starting from the end of 2014 subject to receiving authorisation from BaFin and the Bank of Italy, to residents in Germany thanks to an exclusive agreement with the main on-line account selling system in the country.
- Review of the Home Banking platform to manage current accounts; new functions were introduced that permit customers to top up their mobile telephone uses through the Home Banking service, or to make additional payments, aligning the on-line activities with those available on the market. In addition, the Bank extended the on-line platform to the "e-billing/CBILL" service to consult and pay bills issued by the Public Administration Offices and the companies who have signed up to the new system on-line.
- a new authentication system was also introduced called "Secure Call" which helped increase the level of security of on-line services, giving customers greater freedom of management.
- Finally, the "SI conto! Junior" was launched, a current account for young people of between 0 and 18 years of age, under the responsibility of parents or legal guardians.

All the initiatives and development activities associated with the products and services that the Group 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.

In addition to the new products and services offered to private Customers and companies, throughout 2014, the Group 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 Group to operate well. The Parent Company's current shareholding structure may be broken down as follows:

SHAREHOLDERS		**% HELD**
Fondazione Sicilia	8.45%	**51.73%**
Fondazione Cassa di Risparmio di Alessandria	8.45%	
Fondazione Pisa	8.45%	
SGBS S.r.l. (Management Company)	26.38%	
SOF Luxco Sarl	46.69%	**46.69%**
Other Shareholders	1.58%	**1.58%**

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

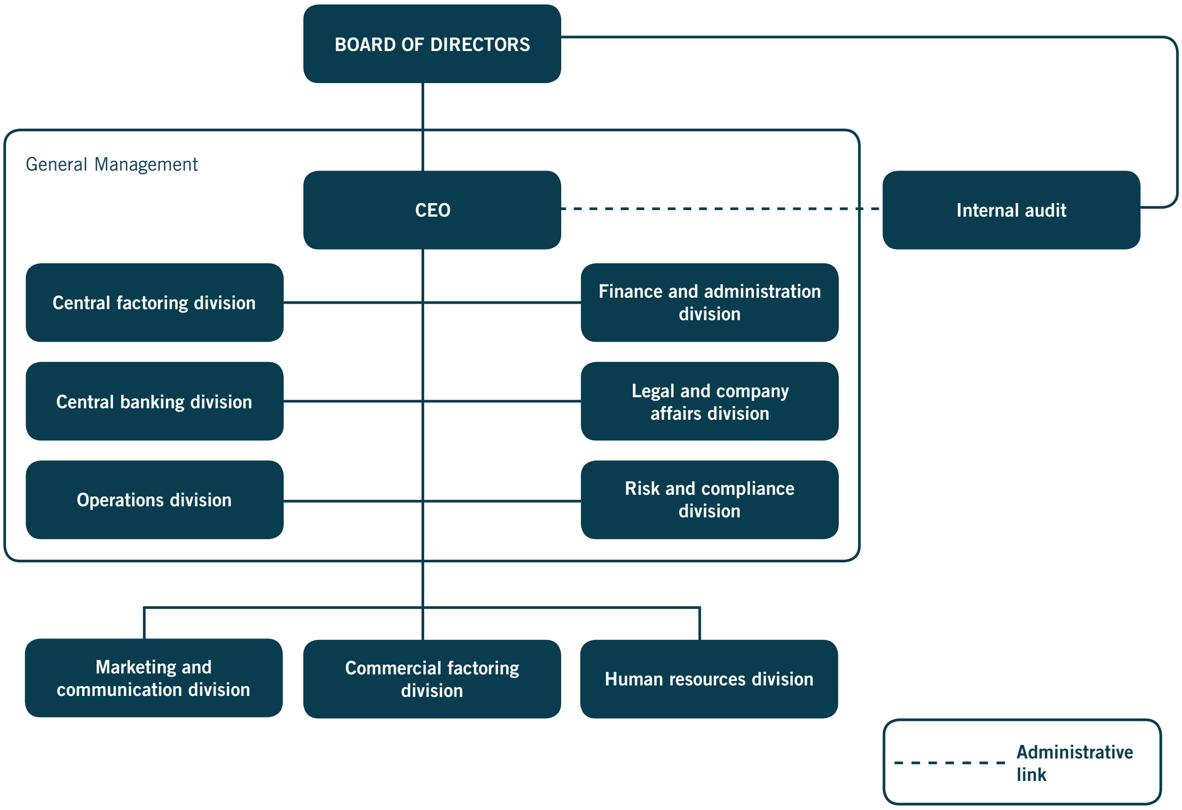
- on 20 June 2011, a Shareholder Agreement was signed (modified in 2011 and 2012) between SGBS S.r.l., Fondazione Sicilia, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria, designed to regulate those aspects associated with the appointment of the Board of Directors by means of "List Voting".
- 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 SOF Luxco, designed to govern relations between the parties with regard to the corporate governance and investment structure aspects.

COMPOSITION AND STRUCTURE OF THE GROUP

On 31 December 2014, the Banca Sistema Group comprised the Parent Company, Banca Sistema S.p.A., and Specialty Finance Trust Holding Limited, a company incorporated under U.K. law and fully controlled by the Bank.

ORGANISATIONAL STRUCTURE

The organisational chart of Banca Sistema updated on 31 December 2014 is shown below:



GENERAL MANAGEMENT

The following report to the CEO:

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

REGISTERED OFFICES OF THE BANCA SISTEMA GROUP

The registered offices and branches of Banca Sistema are:

Registered office and branch

Milan
Corso Monforte, 20
20122 Milan - IT

Administrative office

Rome
Piazzale delle Belle Arti, 8
00196 Rome - IT

Administrative office

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

Administrative office

Pisa
Galleria Chiti, 1
56125 Pisa - IT

Administrative office

Padua
Via N. Tommaseo, 78
35131 Padua - IT

HUMAN RESOURCES

The human resources within the Group are summarised as follows:

	31.12.2014	31.12.2013
Managers	14	15
Executives	27	17
Other staff	72	64
Total	**113**	**96**

In accordance with the 2014-2016 Business Plan, approved by the Board of Directors in February 2014, the Group continued to reinforce its organisational structure through the addition of 26 new employees. 9 employees left the Group.

Special care has been taken to strengthen controls, with the addition of qualified people in the Risk, Compliance and Internal Audit areas.

The average age of Group employees is 37 for the men and 36 for the women, with males accounting for 58% of the total; these figures are similar to the 2013 figures.

Training structures in place for the past few years continued to be provided in 2014, both for new employees and relating to the more technical aspects of the Bank's business. All employees have taken part in technical training modules, including anti-money laundering, privacy and compliance; the training was given both by outside experts and internal staff. 14 training sessions were held altogether, with 215 participations.

We would also add the 'specialist' training actions to the above which involved the computer system relating to factoring and anti-money laundering.

The training plan relating to "work safety" came to a conclusion; all Group staff took part.

There was also a permanent training programme that all management took part in; the aim was to keep them updated in specialist matters, in addition to current economic and non-economic matters and trends, both Italian and international.

EXTRAORDINARY TRANSACTIONS

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

On 5 May 2014 (following agreement of the Framework Agreement on 26 March 2014), the Bank entered into the segment of non-performing loans and debt collection from private parties through acquisition of a minority - but strategic - interest in the companies Candia S.p.A. and St.Ing. S.p.A.: the transaction was finalised through a capital increase agreed by Banca Sistema only, with the concomitant issue of new category B shares by the two companies. More specifically:

- 258 B shares with a value of Euro 516.46 in the share capital of Candia S.p.A., at a price of Euro 366,390.68 (of which Euro 233,144 for the share premium reserve) representing a 9.99% interest in the share capital; and
- 15,429 B shares with a value of Euro 10.00 in the share capital of St.Ing. S.p.A. at a price of Euro 2,011,029 (of which Euro 1,856,739 for the share premium reserve) representing a 30.00% interest in the share capital.

On 7 October 2014, the company SF Trust Servicing Limited in liquidation was definitively removed from the London Business Registry.

SIGNIFICANT EVENTS DURING THE YEAR

The main provisions adopted by the Board of Directors of the Parent Company of Banca Sistema S.p.A. are summarised below.

In January, the Bank of Italy inspectors delivered the document on "Findings and Observations" to the Board of Directors of the Bank, resulting from the inspection in accordance with bank and financial regulations, carried out at Banca Sistema from 19 September to 22 November 2013. The results of the inspection, taking account of the average opinions given to other intermediaries, were positive and no fines were issued.

The disclosure, which outlined the intervention measures, and the associated implementation timescales, that the Bank intends to implement in order to deal with the observations which emerged following the inspection, was discussed and approved by the Board of Directors at the meeting in February, with the favourable opinion of the Board of Statutory Auditors, which reviewed said documents independently. This disclosure was then sent to the Bank of Italy.

At the meeting in February, the Board of Directors approved the 2014-2016 Business Plan (which was subsequently sent to the Bank of Italy) and the Risk Appetite Framework in the terms contained in the New Business Plan. The Board also approved the choice of the ECAI Fitch Ratings for the exposures with respect to the companies, and the "Internal audit activity plan for 2014".

The following were approved in March (i) the "Annual report on the procedures to provide services and investment activities, and accessory services and the distribution of financial products issued by insurance companies and banks"; (ii) the "Annual report of the Internal Control departments on the performance of investment services in accordance with former articles 13, 14 and 16 of CONSOB - Bank of Italy joint regulations of 29.10.2007" and the "Annual complaints report"; (iii) the "2013 Annual Report and 2014 Activity Plan" of the Compliance Department"; (iv) the "2013 Annual Report and 2014 Activity Plan of the Anti-money Laundering Department"; (v) the "Annual Report of the Compliance Department on complaints received by the Bank"; (vi) the "2013 ICAAP (Internal Capital Adequacy Assessment Process) Report"; and (vii) the "Annual report on the activities carried out by the Internal audit Department in the 2013 financial year".

The Banca Sistema S.p.A. Shareholders' meeting approved the "Remuneration policies for the year 2014" in April.

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

In June, after having carried out a gap analysis pursuant to the Circular of the Bank of Italy no. 263 (15th update published on 5 July 2013) containing the "New Provisions of prudential supervision for Banks" the following documents were approved (i) "IT Controllership Project"; (ii) "Externalisation policy of company functions/services"; (iii) "ICT Strategic Policy Document"; (iv) "Organisation of the ICT Department"; (v)"Business Continuity Plan" and relative attachments "Analysis of Impact on the Business-BIA" and "Analysis of the risks-RIA, and appointment of the "professional figures" (i) Contact for the externalised activities, (ii) Head of business continuity, and (iii) Head of computer security.

The decision to open a new branch in Padua was also approved in June; it subsequently opened on 17 November 2014.

Upon completion of the process to adjust to the provisions of the Bank of Italy Circular no. 263, the "Procedure to implement new investments/products/services/markets" was approved in July, along with the "Coordination document of the internal control departments".

The Board of Directors also approved the update of the General Bank Rules.

In September, completion of the Group reorganisation project was approved, authorising the opening of a representative office of the Bank in London and internalisation of the services provided by Specialty Finance Trust Holdings Ltd. The Board also approved the Rules of the Compliance and Anti-money laundering Department.

Following the management buy-out at the Royal Bank of Scotland Asset Management, as manager of the RBS Special Opportunities Fund, the Bank received a communication ("model 287 - investors in the capital of banks or parent companies") in November, relating to conclusion of the purchase, on an indirect basis, of a qualified investment in the share capital of the Bank by parties acting on behalf of SOF Luxco Sarl belonging to the new party Pollen Street Capital.

In its meeting of 4 December 2014, the Board of Directors of Banca Sistema S.p.A. approved the "Activity Plan for 2015" relating to the II level functions, Risk, Compliance and Anti-money laundering and "Internal Auditing Activity Plan for the years 2015-2017".

Monetary policies in the main emerging countries followed different paths due to the different macroeconomic situations.

In 2015, according to OECD estimates, global growth will pass from 3.3% in 2014 to 3.7%.

Economic growth in the euro area will remain low, with different rates of growth in the various countries. Consumer inflation fell to negative values in December, for the first time since October 2009. The ECB governing council aims to review the size, composition and frequency of its transactions, and acquire assets on a large scale if necessary to counter risks related to excessively prolonged periods of low inflation.

Excess liquidity with respect to reserve requirements in the Eurosystem banks increased to 210 billion, helping to keep monetary market rates at very low values.

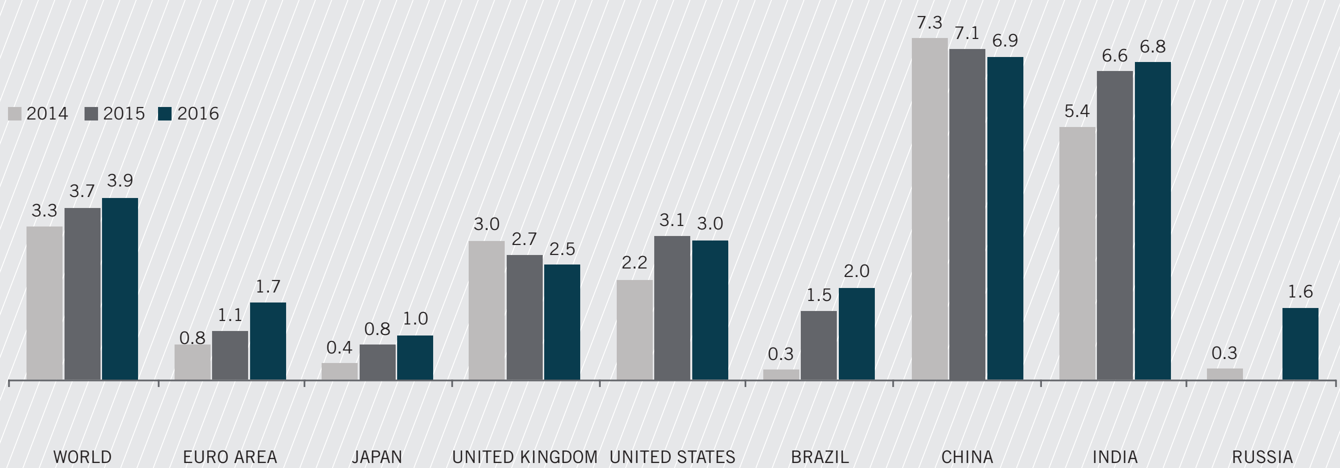
Volatility continued to increase on international financial markets despite the strong reduction in the price of oil, and the declaration of new elections in Greece with respect to the euro area.

Sovereign risk premiums in the euro area have remained practically the same, apart from Greece, where they increased considerably. The nominal value of the euro has depreciated as a whole.

However, the fall in European stock markets was accompanied by substantial stability in the spread of Government securities in the peripheral countries, probably since there were reduced expectations regarding any monetary policy measures by the ECB. As a whole during the period, the 10-year spreads with Germany were substantially unchanged in Italy, Portugal and Spain, while they increased considerably for Greece.

The financial conditions in emerging markets worsened all of a sudden at the end of 2014: volatility began to increase again, even though it stayed below the values of the beginning of the quarter; capital outflows increased in the stock market sector, and to a lesser extent, in the bond sector. Share indices fell, especially in Eastern Europe and South America.

WORLDWIDE macroeconomic scenario (GDP % change)



(Source: OECD)

ITALY

Household consumption began increasing again in Summer 2013. However, investments are still weak in Italy due to the large quantity of unused capacity.

Foreign trade continues to sustain production dynamics despite the fluctuations in global demand.

In the Summer months of 2013, Italian GDP fell 0.1% compared to the previous period; added value fell in industry, especially in construction, while it remained stable in services and agriculture.

Economic activity was held back by the drop in investments (-1.0%) both in construction and capital goods, only partly offset by the increase in household consumption (0.1%). Net foreign demand continued to sustain GDP trends (by 0.1%). On the basis of the indications available to date, GDP dropped marginally in the final quarter of 2014; according to the Bank of Italy, industrial production fell by almost a half a percentage point in economic terms during the same period.

Companies established a relatively unchanged future scenario of the general economic situation in the final months of the year. According to the analysts, almost half of companies will maintain similar investment levels in 2015 as in 2014, in addition, the number of companies that expect to increase investment levels is higher than the number of companies that expect to decrease investment levels.

Household expenditure, which could benefit from an increase in disposable income, may be influenced by a worsening in confidence levels related to the uncertain economic situation.

There was a levelling off of demand in the other euro area countries in the third quarter of the year, leading to a reduction in exports. An analysis of the prospects of sales abroad indicate an expansive framework, albeit uncertain.

With respect to the employment situation, the number of employed people increased slightly in the third quarter of 2014, and after nine months of substantial stagnation, the total number of hours worked began to increase again. However, despite this, unemployment levels did not fall since the number of jobs increased. On the other hand, this further increase in unemployment rates in the two-month October-November period reflected the slight drop in employment levels.

Expectations by companies regarding developments in employment levels are still uncertain for the first few months of 2015.

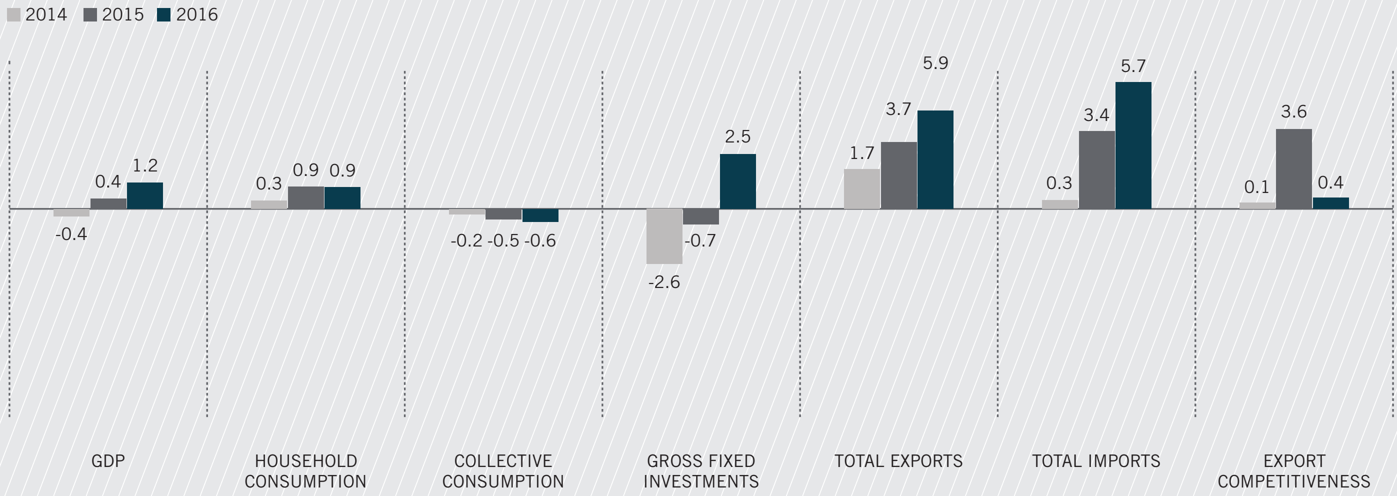
In the banking area, loans to companies continued to fall, to a slightly lower extent than previous months. According to recent surveys of banks and companies, the terms of loans to companies have slightly improved, but smaller companies are still finding it hard. The interest rates on loans to companies and households continue to fall.

Projections for the 2015-2016 two-year period indicate a gradual return to growth in Italy in 2015 and a stronger expansion in 2016. The expansive position of the monetary policies and the measures provided in the stability law favour economic activity; the economy would also benefit from the gradual increase in international trade, the lowering of exchange rates and the drop in oil prices.

However, recovery may be held back by continuing weak investment levels, with elements of fragility related to the fact that growth prospects in the euro area and some emerging economies are still low, with possible turbulence in the financial and currency markets, and continuing uncertainty and low confidence levels.

Aggressive monetary support measures could help fight against low inflation and the weakness of economic activity in the euro area and Italy.

Macroeconomic situation in ITALY (% change)



(Source: Bank of Italy)

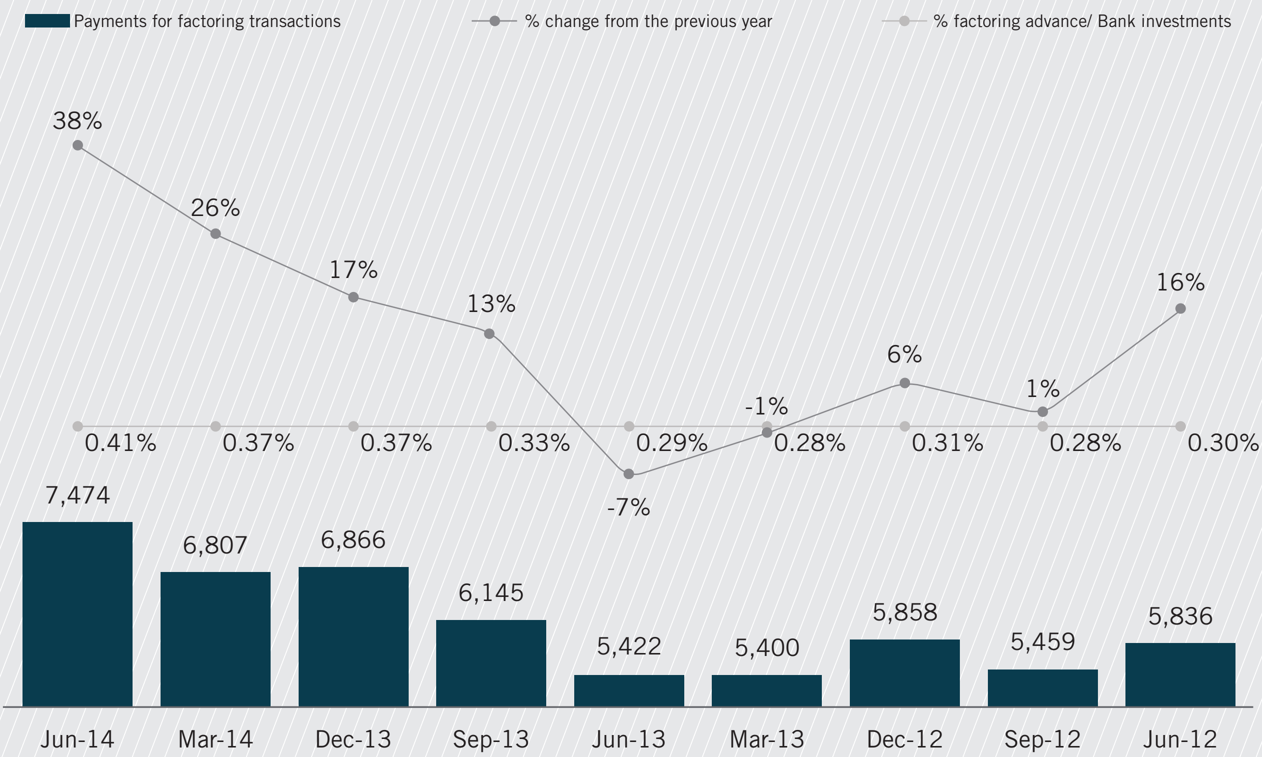
Italian Factoring market

The reduction in Gross Domestic Product that has been recorded in Italy since mid-2011 has begun to ease off slightly.

The factoring sector increased by 2.63% in 2014 as reported by Assifact. This figure confirms the fundamental part played by the factoring tool in supporting companies in managing working capital. The above is even more important if we consider the ongoing economic crisis, along with the reduction in loans to companies (-3.5% on the basis of the most recent figures from the Bank of Italy).

On the basis of the most recent figures processed by the trade association Assifact, and considering the official results recorded in the first three quarters, factoring activities were positive as at 31 December 2014. Factoring area forecasts for 2015 are positive, and growth of about 4% is estimated, even though the effects of recent legislative changes must be evaluated with respect to the Public Administration area, as a so-called "split payment" method has been introduced, which will affect the amount of receivables to be assigned.

As shown in the graph below, a slight reduction in investments is associated with an increase in payments for factoring transactions and its proportion to the investments in the banking system.



(Source: Bank of Italy, 2014)

Official statistics show a gradual reduction in payables from the Public Administration the previous year, following an allocation of over Euro 40 billion (of which 16 for 2014) for the payment of certified payables.

Unfortunately this liquidity did not have any concrete effect on GDP growth as opposed to what extensive official studies and the Public Authorities had indicated.

The 2014 growth data reported above is extremely positive if we consider that in the previous year turnover by member companies exceeded Euro 170 billion according to Assifact, with a reduction of over 2% compared to 2012 which contrasts with European and global market trends. Non-recourse factoring represents over 65% of the total in this area, compared to almost 35% of with recourse factoring.

In October 2014, Euro 32.5 billion was paid to suppliers of the Public Administration out of a total of about 40 billion made available. We are not aware of any new allocations planned for 2015 and it is therefore very difficult to estimate the Days Sales Outstanding (DSO) levels of Public Administration suppliers for this year.

An increasing portion of public funds that are not recorded on the financial statements are allocated to paying late payment interest, draining the public administration of the cash needed to pay the principal owed on the invoices. This inefficient system led to recording year-long delays on payments in certain areas, with average payment terms in Italy among the worst in Europe. This is in clear contrast to internal regulations, set by the EU, which sets a maximum limit of 60 days on payments. In 2012, following issue of the 2011/7/EU directive (amending directive 2000/35/EC), Legislative Decree 231 of 9.10.2002 was amended, ordering contracts governing commercial transactions between private companies and the public administration to have payable payment terms of no longer than 30 days or otherwise the contracts would be invalid, or in certain cases, such as healthcare bodies, 60 days. Very high late payment interest rates were set (ECB +8%) which accrue automatically without the need to declare default, and any agreements to reduce rates that are seriously unfair on the creditor were declared to be invalid.

Despite the introduction of binding payment terms for trade receivables since 2002, average payment times by public administration offices have improved only slightly, and the main effect of the EU regulations has been to cause a significant increase in financial charges due to the high late payment rate set by law (ECB +8%). Recent press reports estimate that the amount of late payment interest due from the public administration amounts to not less than Euro 20 billion, which debt is certain from a legal standpoint, but which the various Public Administration Offices have not recorded in their financial statements. This has naturally resulted in an exponential increase in the legal actions taken to recover the receivables by the more "speculative" operators with increasing frequency to recover the profitable component of the late payment interest.

This is why certain legislative amendments aimed at reducing requests for late payment interest from the Public Administration Offices for delayed payments could be passed. An amendment to the stability law has already been presented, which was only removed in the end due to the request for a vote of confidence by the government. The surprising thing is that to date it has not been possible to quantify the extent of the debt accumulated by the public administration with any certainty. There is still no certain data on the exact amount of debt and the figures provided by the Ministry for Economy and Finance, the Bank of Italy or trade associations do not match up: up to last year, it was estimated that the amount of debt owned by the Public Administration Offices was between Euro 60 and 90 billion.

There were 20,945 companies registered on the Ministry for Economy and Finance portal as of 29 December 2014 for credit certification purposes.

There were 91,423 invoices for which certification was requested, for a total amount of almost Euro 10 billion. Once they are registered on the platform, creditors of public companies have 30 days to get their receivables certified. We have no information about whether the Ministry provided any figures on the certifications and relative payments to date. We believe that there is still a significant amount that has not yet been certified or claimed.

Impact of legislative amendments

The most recent three governments (Monti, Letta and Renzi) have been using the decree-law instrument to introduce structural regulations aimed at pursuing the general objective of improving payment terms, putting a brake on the unstoppable deterioration of the Public

Administration financial situation, and with a knock-on effect on their suppliers.

The legislature has tried to pursue the following objectives using different instruments:

- Introduction of the right by creditor companies to offset their tax payables with trade receivables due from the Public Administration;
- The obligation for Public Administration Offices to certify their debts upon application by the creditor;
- The obligation by Public Administration Offices to confirm and monitor their past and current debt levels;
- A State guarantee for the certified receivables subject to assignment if they arose before 31 December 2013;
- Simplification of the methods used to pay the certified receivables.

In addition to the regulatory amendments, certain massive injections of money were made and certain exceptions to the restrictions on the internal stability agreement were agreed to permit the Public Administration Offices to make higher payments in order to pay their accumulated debts.

The regulation on the obligation to issue invoices by computer, which came into effect in June 2014 for certain categories of Public Administration Offices, and which will be obligatory for the entire Public Administration starting from 31 March 2015, will certainly help towards achieving those objectives.

With respect to the receivable certification, there now appears to be a distorted or sloppy application of the regulation by many Public Administration Offices, who refuse to issue the certification since they cannot check the amounts owed within the mandatory term of thirty days, providing excuses that are clearly invalid with the sole purpose of avoiding being put under the administration of an external commissioner and receiving fines. It is no coincidence that only 20% of the receivables for which applications have been filed have been certified.

Law decree 66 of 24.4.2014 introduced important regulatory instruments to encourage payment of trade receivables through payment to credit intermediaries: a State guarantee, intervention by the Cassa Depositi e Prestiti as another assignee of assigned certified receivables, and simplification and tax reductions for the assignment of certified receivables in favour of credit intermediaries.

Finally, through the so-called split-payment mechanism introduced with the 2015 stability law, VAT included on the invoices of Public Administration suppliers, and so paid by the Public Administration to the supplier and subsequently paid by the supplier to the tax authorities via its periodic VAT payments, from 1 January 2015 would be paid directly by the public debtor to the tax authorities on behalf of the supplier. This ensured that the tax authorities were paid more quickly and companies did not have to pay the VAT to be then offset with their tax credits, therefore stymying cash flows, since they would have to wait for such long times for reimbursement of their VAT receivables.

The Banca Sistema Group and Factoring Activities

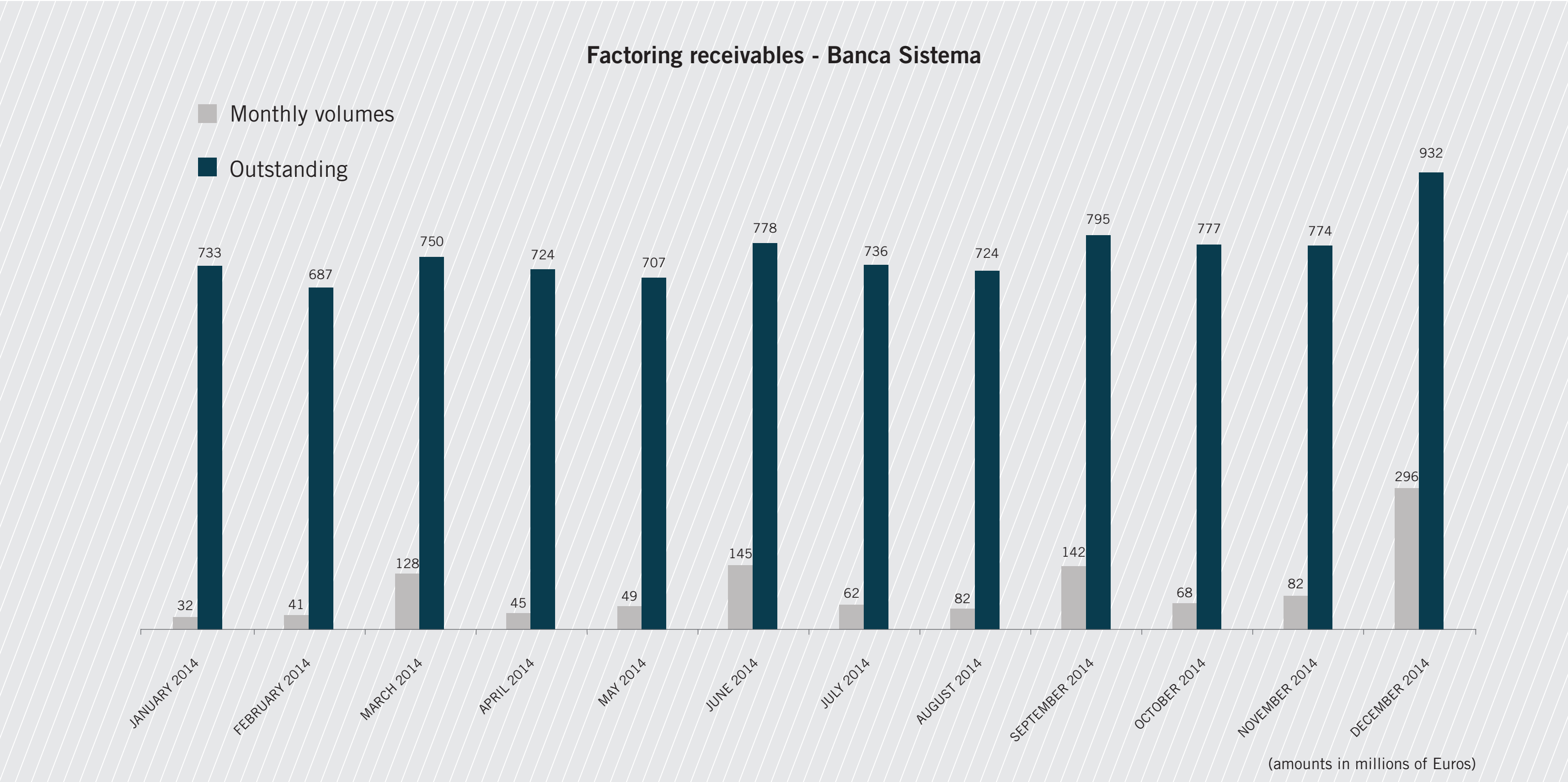
The turnover of receivables acquired in 2014 by Banca Sistema amounted to Euro 1.2 billion (Euro 1.1 billion in 2013). Considering the third party receivables managed, total volumes came to Euro 1.5 billion as at 31 December 2014.

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

Details of the factoring portfolio turnover as at 31 December 2014 are provided below, compared with the previous year.

(Amounts in thousands of Euros)

TYPE OF DEBTOR	31/12/2013	31/12/2014	Delta (Euros)	Delta (%)
Local Health Authorities (Asl) / Public Sector Entities (Esp)	365	563	197	54%
Territorial Entities	467	331	(135)	-29%
Central Administrations	261	218	(42)	-16%
Companies	23	62	38	166 %
Total	**1,116**	**1,174**	**58**	**5%**

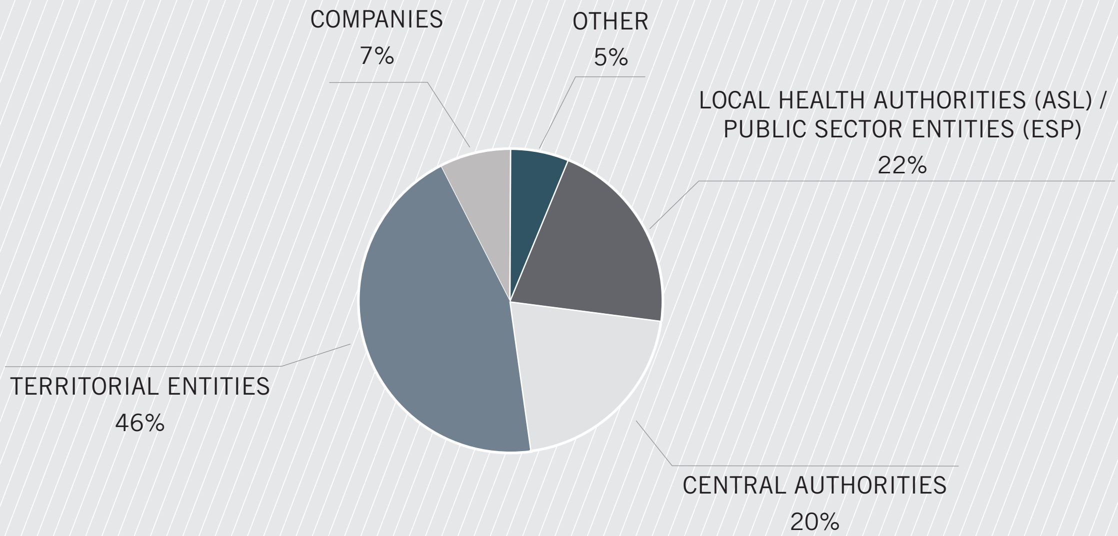


The impact of debtors on the portfolio existing as at 31 December 2014 is shown below; and the turnover by type of product. This shows that the Bank is diversifying its activities in order to access new markets and customers.

(Amounts in thousands of Euros)

TYPE OF PRODUCT	31/12/2013	31/12/2014	Delta (Euros)	Delta (%)
Non-recourse	1,043	1,003	(40)	-4%
Tax receivables	62	53	(9)	-14%
With recourse	11	85	74	660%
Maturity	-	15	15	n.a.
Advance on Invoices	-	19	19	n.a.
Total	**1,116**	**1,174**	**58**	**5%**

Volumes outstanding by type



Factoring with the Public Administration

The Group chose to focus its factoring activities mainly on suppliers of the Public Administration.

Public spending in Italy amounted to around 14% of GDP, a share which offers the Group 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. The 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.

The Group 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.

Tax receivables and Insolvency proceedings

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

The VAT receivable service entered into operation in February 2013 and involves the assignment of the receivable on a non-recourse or with recourse basis, allowing, in the first place, the assigning company to remove the receivable from its balance sheet and transfer the risks relating to the repayment time to the assignee. Turnover in 2014 amounted to 53 million.

The assignments are managed via an online platform which 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 Group also initiated its service to acquire VAT receivables from insolvency proceedings from the end of the year with the assistance of a specialised operator on the market.

Bank collection and recovery activities

The receivable collection process is managed through its Collection division and through engagement of external servicers.

More specifically, the Group:

- assists customers from when the order is accepted;
- identifies invoices that have not been paid for reasons that do not include lack of cash, and optimises management in order to reduce the time it takes to collect the amounts due;
- manages the relationship between public and private structures and departments by using its own network of specialised staff that operates throughout Italy;
- studies and identifies tailored solutions to receive the unpaid receivables as quickly as possible;
- manages the receivable certification service (through the Ministry for Economy and Finance platform) for the Public Administration suppliers.

The Group's strategy is not to systematically take legal action against the debtors but rather reach agreements through the structuring of repayment plans. With respect to the portfolio of receivables still in place as at 31 December 2014, the Group accrued the right to request late payment interest for a total amount of Euro 56 million, an amount not posted under the revenues for the year, while with respect to the portfolio of receivables cashed, the Group accrued the right to request penalty interest for a total amount of Euro 65 million, an amount has also not been recorded in the financial statements. The total late payment interest due, which is not posted under the revenues, amount to 121 million.

The total non-recourse invoices on the Bank's computer system for the year amounted to 346,408 invoices.

The Parent Company Banca Sistema cashed 47,600 bank transfers for an amount of Euro 1,117 billion in 2014. This number compares with 27,300 bank transfers cashed in 2013, therefore with a 74% increase.

The 2014 bank transfers can be broken down as follows: 19,615 (for Euro 612.6 million) from "Healthcare" debtors, and 27,985 (for Euro 504.9 million) from "Non-Healthcare" debtors.

In 2014, Banca Sistema requested receivable certification by the debtor for a total of Euro 342,224,003.12 through the computer platform of the Ministry for Economy and Finance, and received certification for Euro 91,107,319.22.

Factoring for private parties

The Banca Sistema Group also initiated a service for the assignment of receivables for agreements between private parties. Even though this is still a marginal activity for the Group since its core business is the Public Administration segment, it represents a diversification in the services offered by the Bank. Factoring between private parties is done on a traditional basis, i.e. with a private party who assigns a receivable owed from a private debtor, both using the indirect factoring formula between private parties, and using the Maturity Factoring formula.

SERVICING

The Banca Sistema Group provides credit management and debt collection services through one of its departments.

The Group can provide its clients with a constant and gradual reduction in payment periods with regard to both the Public Administration and private parties. Its internal structure has great experience in the analysis, management and monitoring of the debt collection stage, and uses a network of specialists who work all over the country. The network of freelance professionals allows the debt collection services to be carried out with great precision and the contact persons can be changed where necessary if performance is unsatisfactory or more focus is required in specific areas.

The Group also launched a project with two ambitious goals in 2014: improve the collection process and migrate the existing computer systems to a new computer platform. All the credit management processes were reviewed for the first goal, redesigning them on the basis of two main indicators: recovery times and money collected. With respect to computer migration, the Group migrated its portfolios from a number of different computer systems that came from the acquisitions made to a single cutting-edge computer platform, Recuper@, which allows the receivables to be managed, with complete tracing of the actions of the debt collectors and the status of the files, in addition to ensuring the customers complete visibility in real time of the status of their portfolios under management.

The bonus system for the freelance network of debt collectors was reviewed and based on efficiency (management time) and effectiveness (principal collected) targets.

The amount of third-party receivables managed as at 31 December 2014 stood at Euro 300 million.

Funding

The funding policies of the Banking Division is closely related and guided by the commercial investments.

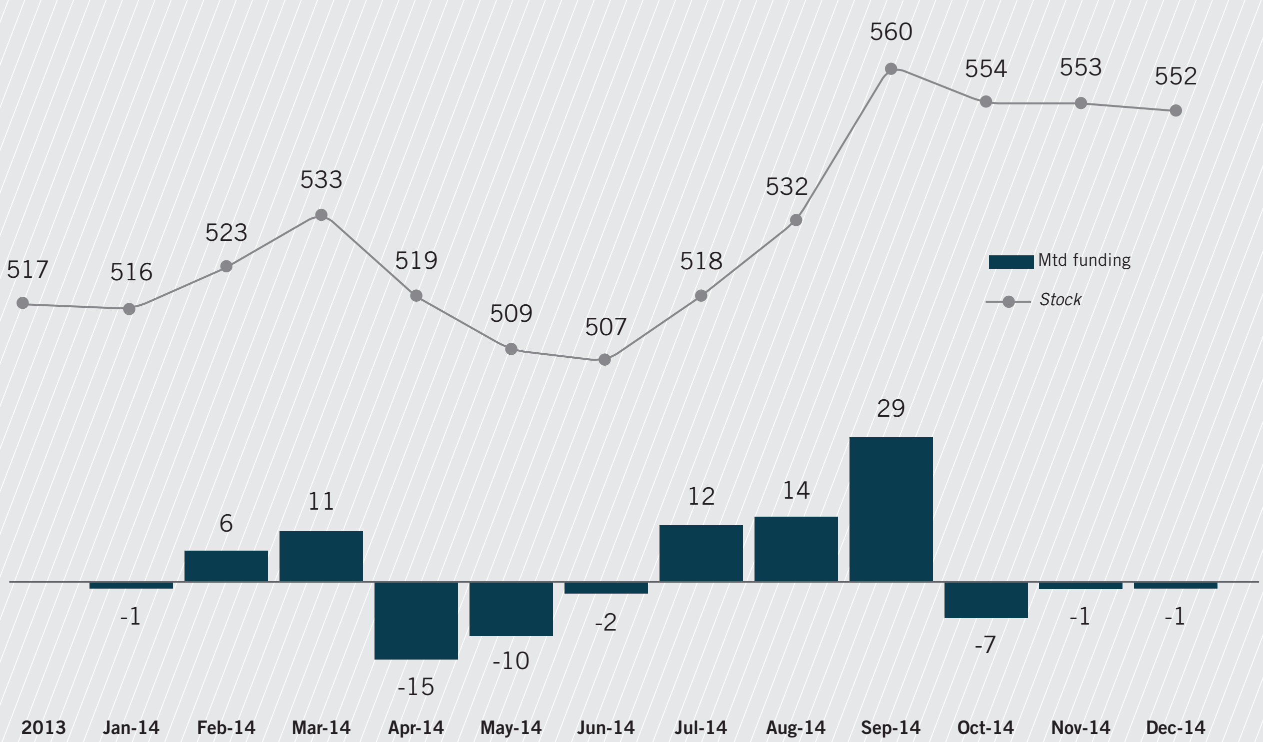
The Group's collection policy was aimed towards favouring funding from current accounts, unlike the past when it focused more on term deposits. The reason behind this choice was based on the need to make the relationship with the customers less volatile, and at the same time, ensure a return in commission terms through offering traditional services. A positive effect on the average cost of funding can be added to the above.

The Group therefore achieved its goals, by setting a ceiling limit to the rates on term deposits, which are always in line with market rates, without being the leader and structuring a current account with easy terms and a good return.

A deposit account was also launched in Germany using a partner platform. The advantage of its presence in Germany is that the rates offered on the market are generally lower than in Italy, therefore the Group is one of the market leaders, even though with rates that are the same as those given in Italy.

Total term deposits on 31 December 2014 amounted to Euro 552 million (the figure does not include accruals pertaining to the year), with a slight change from the previous year.

Term deposits



There were 11,246 individual customers with term deposits as at 31 December 2014, with an average deposit of Euro 49 thousand, up from 31 December 2013.

There were 1,928 new customers in 2014 who opened deposit accounts.

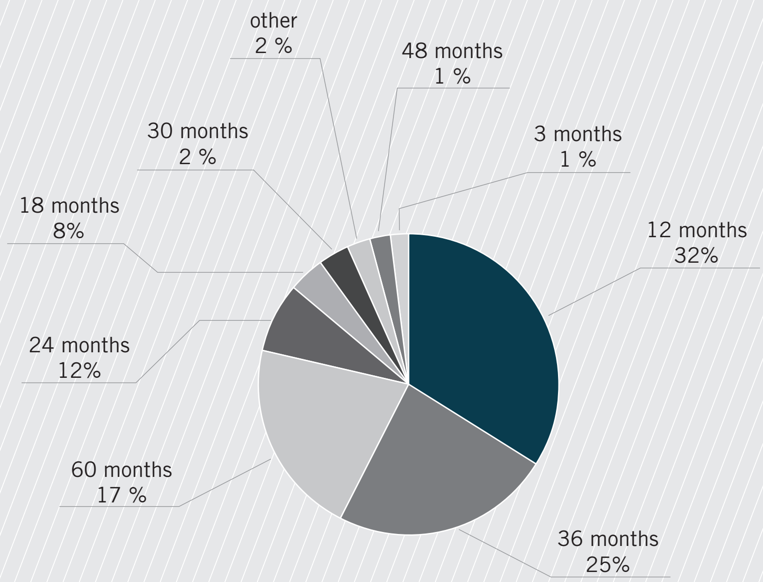
The breakdown of funding by term deposit is shown in the tables and graphs below.

Customers began to abandon the short-term deposits in 2014 in favour of the longer term deposits, thereby considerably increasing the duration of deposits, which currently exceeds 17 months without affecting funding costs, which fell during the year and especially compared to the past.

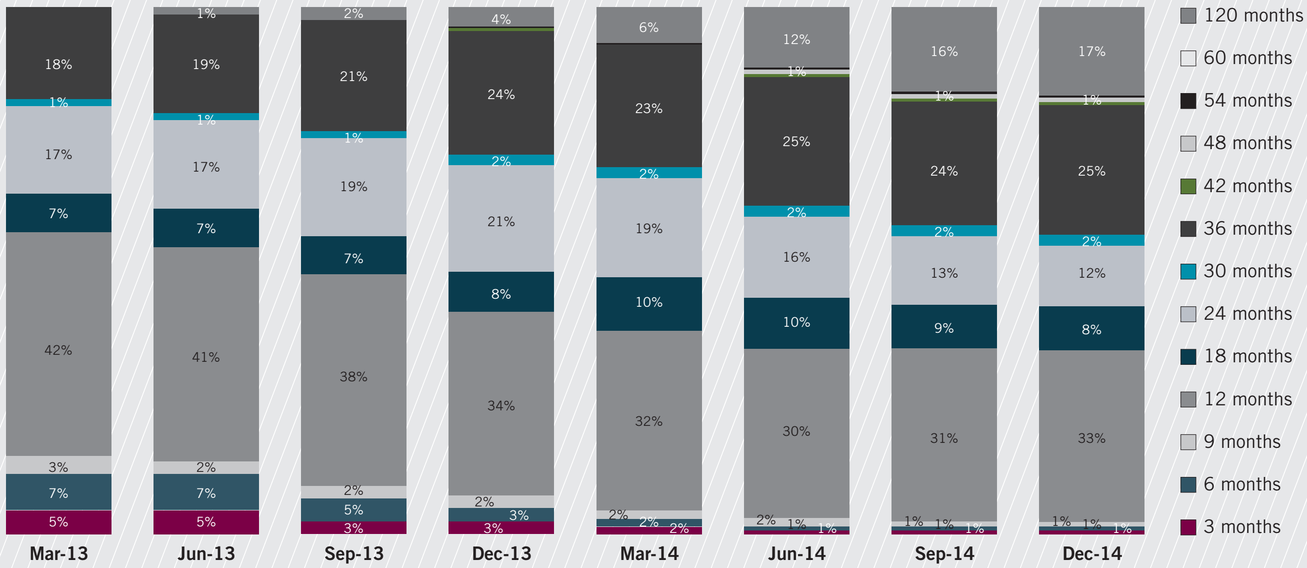
In accordance with the choices made, current account funding increased considerably in 2014, with the total balance amounting to Euro 310 million (not including technical accounts and service accounts). The number of active customers grew in parallel, as shown in the graph on the next page.

Customers	Total 2013	Change no. Customers				Total 2014	Change 2014 vs 2013	
		Q 1 2014	Q 2 2014	Q 3 2014	Q 4 2014			
SI conto! CORRENTE	**1,439**	**333**	**351**	**481**	**234**	**2,838**	**1,339**	**97%**
of which: Individuals	1,390	*308*	*323*	*446*	199	2,666	1,276	92%
of which: Companies	49	25	28	35	35	172	123	251%
SI conto! DEPOSITO	**11,231**	**(9)**	**(415)**	**460**	**(21)**	**11,246**	**15**	**0%**
IN customers	*2,733*	*534*	*357*	*732*	*305*	*1,928*	*(805)*	*-29%*
OUT customers	*(2,768)*	*(543)*	*(772)*	*(272)*	*(326)*	*(1,913)*	*855*	*-31%*

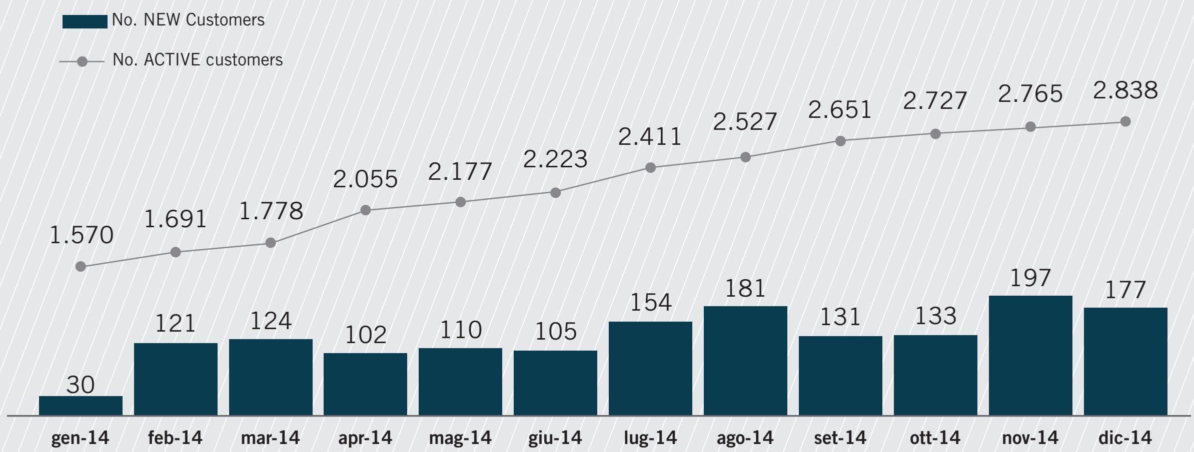
Breakdown of deposit accounts as at 31 December 2014



Breakdown of deposit accounts as at 31 December 2014



Current Accounts - No. Customers



Indirect funding

The indirect funding resulting from the managed funds amounts to Euro 408 million, a steep increase compared to the end of the previous year (Euro 327 million). The growth is due to an expansion of the offer of products/services such as the Lombard and other funds, and strengthening of the structure through the hiring of new personnel in the Private Banking area. In addition, the opening of branches in Pisa and Padua generated a territorial expansion of customers with managed funds in Banca Sistema.

Guaranteed loans to small and medium-sized enterprises

There was a reduction in bank loans given to the Italian SME sector over the past few years. A recent Confcommercio study estimated that the loans to SMEs decreased by about Euro 97 billion between 2011 and 2014, i.e. an 8% reduction. There are just 4.8% of companies which are completely funded. Only 29% of the SMEs were fully approved for loans.

In this context, the Group launched a loan product to SMEs in 2014 which are guaranteed by the SME guarantee fund by the Ministry of Economic Development (law 662/96). This instrument allows companies to access secured credit under easy terms, and allows the Group to disburse low risk loans with a reduced impact on the capital in view of the Government guarantee (up to 80%).

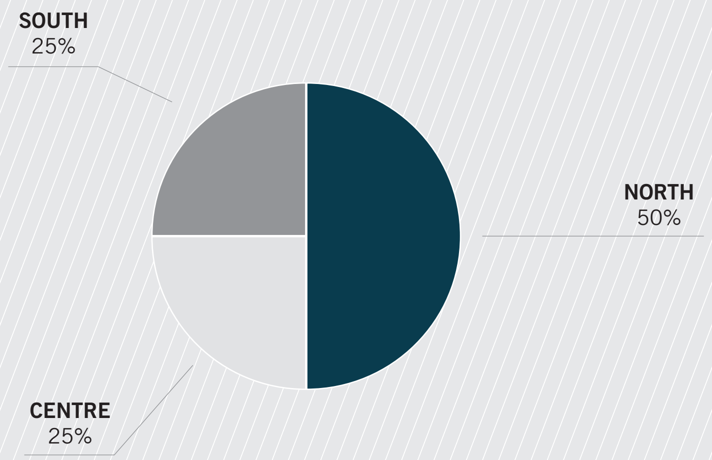
The Group gave Euro 21 million in loans in 2014 to over 50 small and medium sized enterprises. This first year of activity allowed the Group to adjust its procedures, setting the basis for significant growth in 2015.

The loans granted in 2014 amounted to an average of Euro 400,000, with an average weighted duration of 42 months and a gross weighted return of 8.7% for the Group. The average cover of the guarantee for the Group is 79% since certain initial loans had a 70% cover, but all the guarantees have been covered for 80% from the second half of 2014 on.

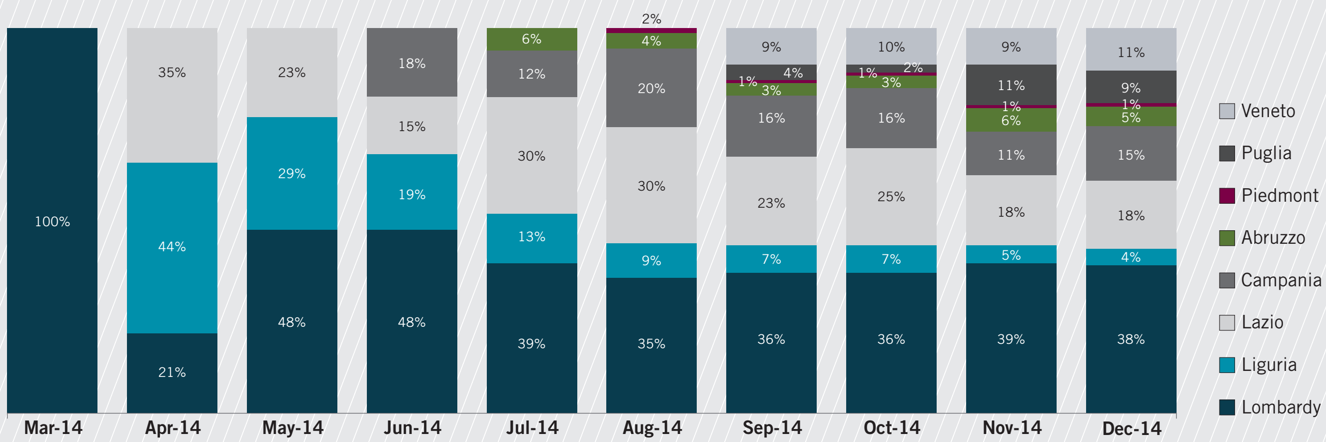
As the graphs on the following page show, the geographic and sectorial distribution is very varied, allowing the Group to diversify its portfolio and more especially confirming its wish to help SMEs in a variety of sectors and geographic locations.

A detailed summary is shown below, with the main indicators for 2014.

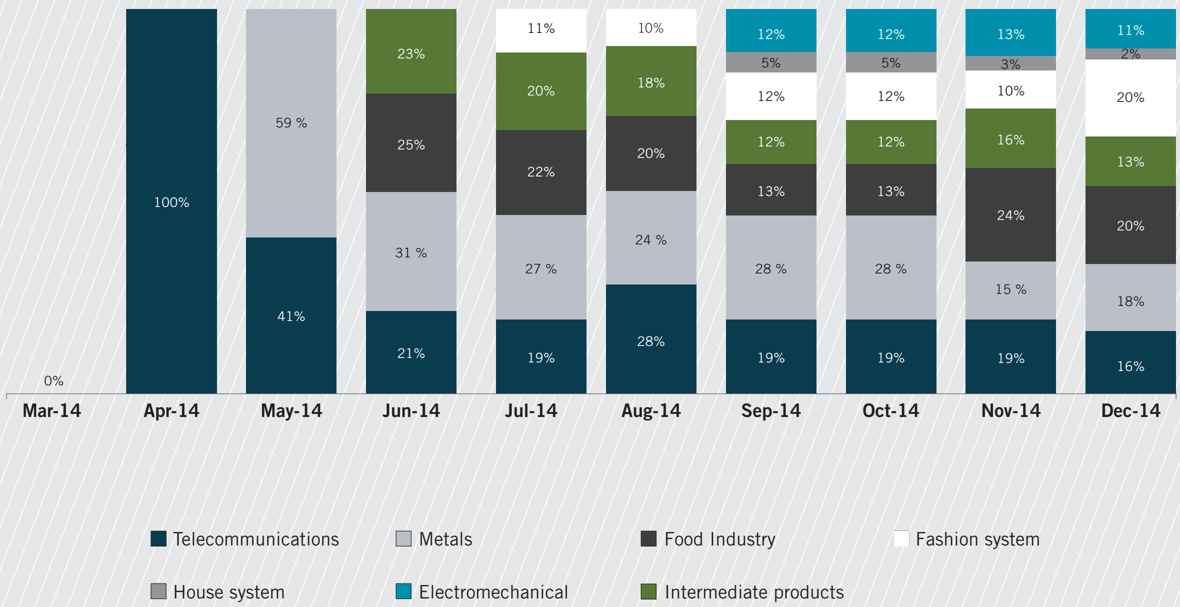
Volumes Granted SME - Geographic area



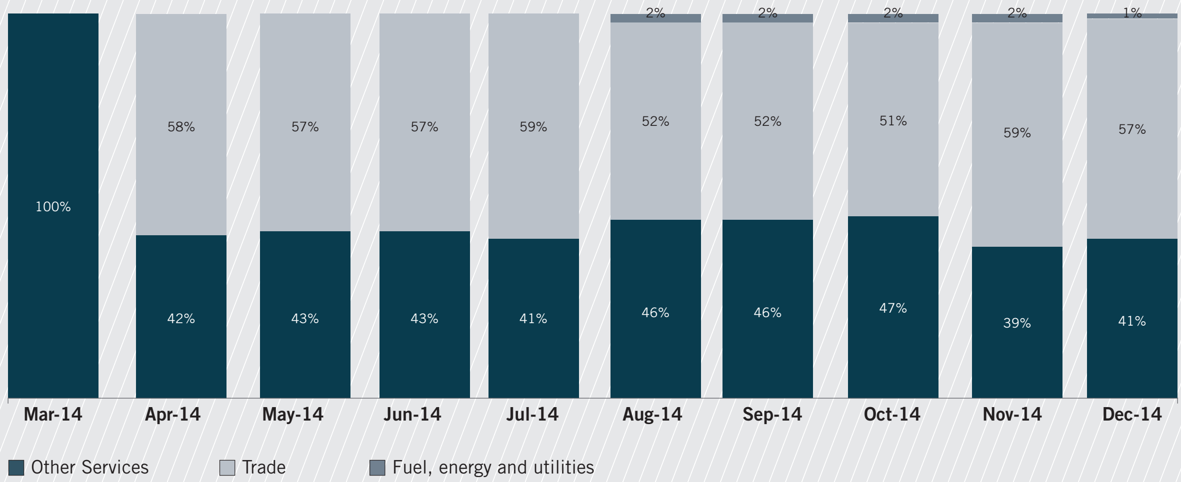
O/S % distribution by geographic area - Regions



O/S % distribution by sector - Industry



O/S % distribution - Services



Salary-backed loans (CQS) and Pension-backed loans (CQP)

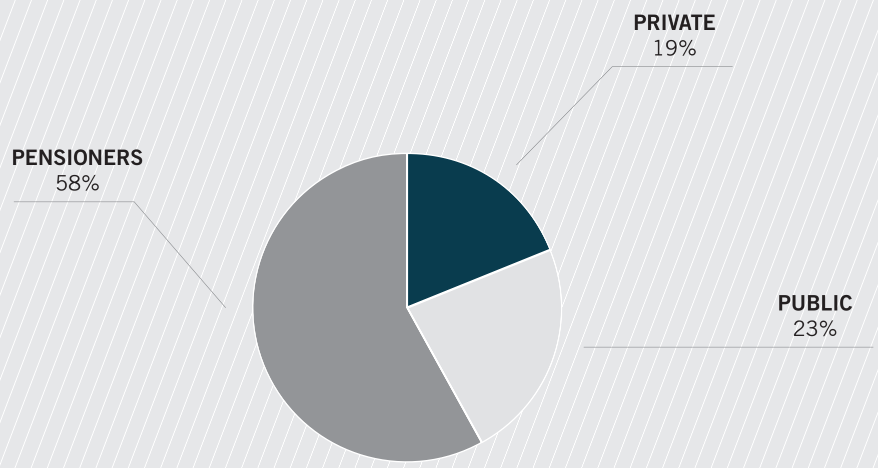
A salary-backed loan is a consumer loan product that allows customers to allocate up to a fifth of their salaries towards paying back the loan instalments.

The consumer loan market has fallen in recent years, but salary backed loans are bucking the trend, and now account for more than 10% of total loans.

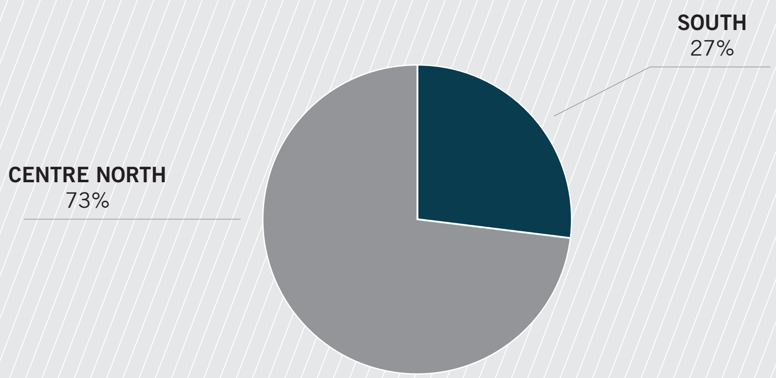
As already decided in 2013, the Group got into the salary-backed loan sector by signing framework agreements with distribution and management finance companies. On the basis of those agreements, the Bank acquires carefully screened portfolios of receivables resulting from recently issued salary-backed loan transactions, on a progressive basis and within certain agreed credit limits.

The volumes acquired in 2014 amounted to about Euro 13 million, broken down between private employees (23%), pensioners (58%) and public employees (19%). Therefore almost 80% of the Group salary-backed loans were in the public/pension sector, in line with the Group's goal to concentrate on the Public Administration.

Volumes of salary-backed loans granted - Segmentation



Volumes of salary-backed loans granted - Geographic area



TREASURY ACTIVITIES

Owned portfolio

The portfolio of owned securities as at 31.12.2014 amounted to Euro 858 million (847 as at 31.12.2013) and only comprises Italian short-term government securities (BOT, CTZ).

During the year the owned portfolio of securities stayed substantially the same with respect to overall value, type of securities in portfolio and residual duration. More specifically, the duration of the portfolio was 8.5 months as at 31 December 2014, while the average for the year amounted to 8.4 months.

The volumes traded increased compared to the previous year, and therefore increased the number and the amount of monetary settlements by the Treasury Area.

The most significant increase was on the securities performance, where the total value of transactions carried out during 2014 exceeded Euro 19 billion.

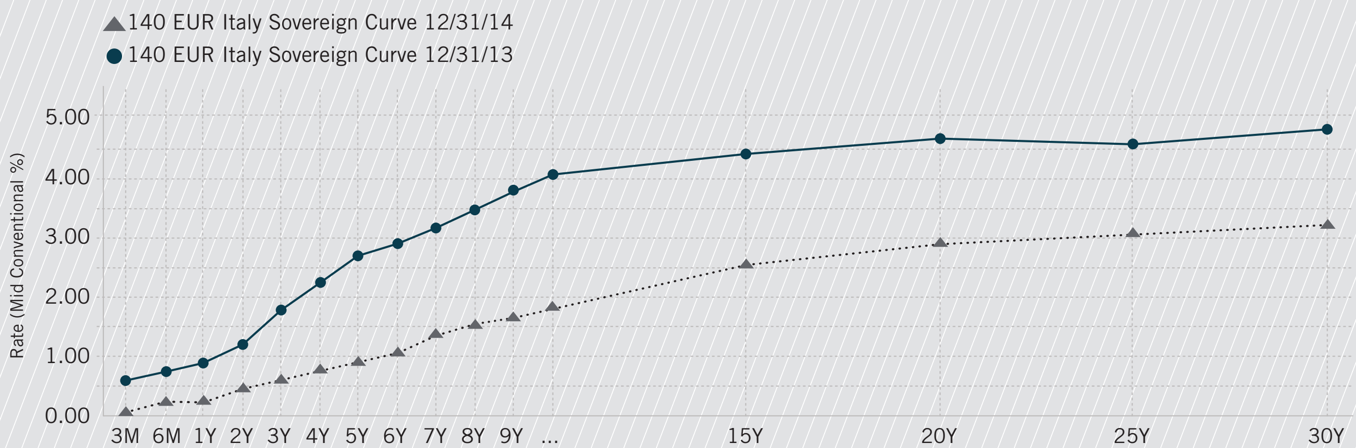
Government securities are mainly traded on the MTS Italy telematic markets (in which it trades as a market dealer), the European Bond Market, through the BondVision deal-to-client platform or on BrokerTec.

With respect to managing cash flows, the Group forms part of the repo trading platform and the repurchase agreement Money Market Facility Repo and the interbank electronic trading market for e-MID deposits.

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 euro area.

The graph below compares the yields of Italian Government securities on 31/12/2013 and 31/12/2014:

A comparison of the two curves clearly shows the resizing of the yields from the Government Securities.



(Source: Bloomberg)

Wholesale Funding

Wholesale Funding represented about 54% of the total as at 31 December 2014 and mainly comprises repurchase agreements traded on the MTS MMF Repo platform and refinancing mechanisms with the ECB.

These transactions were mainly carried out by using owned portfolio Italian Government securities as the underlying asset, and to an increasing extent, eligible trade receivables from factoring activities with the public administration (ABACO) were used towards year end.

The choice of which of the above-mentioned funding sources to use mainly depends on the contingent market performance of short-term liquidity. More specifically, the Main Refinancing Operations proposed by the European Central Bank were favoured at the end of December.

The Group also used the interbank deposit market both through the e-MID market and bilateral agreements with other banks.

The volumes exchanged on the Money Market Facility REPO telematic market during 2014 amounted to about Euro 32.1 billion (TBC), deposits were made on the e-MID for a total of Euro 6.7 billion.

Short and medium-term operating cash flows were always maintained well above the levels needed to ensure that items can be converted to cash at any moment throughout the year.

NON PERFORMING LOANS AND SERVICING

In May 2014, the Group entered the market for acquiring and managing non-performing financial and commercial loans, in addition to the management and recovery of receivables between private parties thanks to the strategic minority investment in the shareholding structure of Candia S.p.A. and St.Ing. S.p.A.

Non-performing loan (NPL) sector

The Italian NPL market is expanding strongly; non-performing bank loans reached 169 billion between the beginning of the financial crisis in 2011 and May 2014 (CAGR 08-13, about 30%).

The quality indicators of the NPLs have also worsened since the recession began, and the level of cover of watchlist loans and non-performing loans is very varied. Bank system figures show how the ratio of non-performing bank loans to loans to customers increased significantly, reaching levels of about 4.4% in May 2014 (delta 08-13, +3.0%). Banks are therefore now having internal difficulties managing both non-performing loans and disposing of the portfolios. This situation led banks to rethink current business models to manage NPLs, giving opportunities for companies working in the area of acquiring and recovering non-performing receivables.

Debt Collection Sector

At the same time, the debt collection market has seen a sustained increase in managed volumes of the assigned amounts.

There has also been an average level increase in revenues from companies operating in the sector, with reduced profits compared to 2010 levels, although they are increasing again. Over the past few years, the debt collection sector has become increasingly strong.

Candia and St.Ing.

Candia acquired portfolios for a nominal value of Euro 213 million in 2014. The purchase price of the NPL portfolios was around 5%. An increase in prices is expected for the upcoming two-year period.

St.Ing. posted revenues of Euro 4.5 million in 2014, and average commissions on third party portfolios were about 10% of the principal recovered in 2014. We expect a slight reduction in these figures in the upcoming two-year period.

The main management indicators of Candia are provided below:

Business Unit	NPL Receivables	
Division	**Number of Files Managed**	**Value of Files Managed (€,000)**
Financial	6,743	60,606
Commercial	2,339	19,953
TOTAL	**9,082**	**80,559**

The main management indicators of St.Ing. are provided below:

Business Unit	Non-judicial Collection of Receivables on behalf of third parties	
Division	**Number of Files Managed**	**Value of Files Managed (€,000)**
Banking	18,485	48,023
Assignments	5,334	55,694
Consumer	83,517	46,059
Commercial	87,060	99,357
Leasing	10,092	26,663
TOTAL	204,488	275,796

On 12 November 2014, the extraordinary shareholders' meetings of Candia S.p.A. and St.Ing. S.p.A. decided to merge St.Ing. S.p.A. with Candia S.p.A., and on 20 January 2015 the Merger Agreement was signed, which set the statutory date of effect of the merger as 1 March 2015, and changed the corporate name to CS Union.

The merger with St.Ing. allowed Candia to industrialise the process, giving it the expertise needed to manage consumer credit, reducing collection times and allowing much bigger portfolios to be managed with the same number of people.

In view of the above, the merger between St.Ing. and Candia to form CS Union is expected to result in the optimisation of the operating processes meaning that volumes managed should increase over the next three years.

THE MAIN BALANCE SHEET AGGREGATES

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

ASSETS (€ ,000)	31.12.2014	31.12.2013	Delta
Cash and cash equivalents	66	71	(5)
Held-for-trading financial assets	63	-	63
Available-for-sale financial assets	858,007	847,045	10,962
Loans to banks	16,682	58,814	(42,132)
Loans to customers	1,193,754	1,088,085	105,669
Equity investments	2,448	-	2,448
Property, plant and equipment	1,201	715	486
Intangible assets	1,904	1,828	76
of which: goodwill	*1,786*	*1,786*	-
Tax assets	2,752	2,670	82
Other assets	4,376	4,122	254
Total assets	**2,081,253**	**2,003,350**	**77,903**

The Group ended 2014 with total assets of about Euro 2.1 billion, 4% up on the results at the end of the previous year.

The security portfolio is entirely composed of Italian Government securities with duration of about 8.5 months as at 31 December 2014 (the average in 2014 was 8.4 months) in line with the Group's investment policies to keep securities with durations of less than 12 months. The valuation reserve on 31 December 2014, before prepaid taxes, amounted to a positive Euro 23 thousand.

As at 31 December, there was only one credit default swap contract in place, with expiry on 28 February 2015; the aim was to hedge credit risk on a credit portfolio for a nominal amount of Euro 5 million, classified under assets held for trading.

LOANS TO CUSTOMERS (€ ,000)	31.12.2014	31.12.2013	€	Delta (%)
Factoring	851,856	740,160	111,696	15.1%
Repurchase agreements	290,316	288,048	2,268	0.8%
SME loans	18,664	-	18,664	n.a.
Salary-backed loans	13,228	-	13,228	n.a.
Current accounts	15,869	30,964	(15,105)	-48.8%
Compensation and Guarantee Fund	3,556	28,677	(25,121)	-87.6%
Other receivables	265	236	29	13.2%
Total	**1,193,754**	**1,088,085**	**105,669**	**9.7%**

The item "Loans to customers" is mainly made up of current investments in Banca Sistema's factoring receivables portfolio, equal to Euro 852 million.

The turnover of trade receivables amounted to 1.1 billion, showing a 6.4% increase compared to 2013, while turnover of tax receivables amounted to Euro 53 million.

The percentage of impaired loans to the total portfolio in place is low, and amounts to 3,5%. The non-performing loans (amounting to Euro 9,2 million) almost all relate to positions with local entities with financial difficulties, a significant portion of which were acquired and priced by taking account of the extent of the difficulties of the debtor which was already known when they were being acquired.

The "Loans to customers" also included investments in repurchase agreements of Euro 290 million at year end (Euro 288 million in 2013). The amounts deposited against the cash being used in the Compensation and Guarantee Fund for finance transactions in repurchase agreements with bank customers decreased in accordance with the duration and category of the underlying securities.

The active current accounts with customers have fallen compared to the previous year, mainly due to the closure of a credit facility with a bank counterparty backed by underlying securities.

"Other receivables" also include the investments from new products/initiatives: note the loans to SMEs guaranteed by the State (amounting to Euro 19 million) and loans through the Salary-backed loans product for Euro 13 million.

"Equity investments" represents the value of the investments in the companies Candia S.p.A. and St.Ing. S.p.A., both involved in the non-performing loans sector and the credit management sector. The entry into the shareholding structure of the two companies is in keeping with the growth strategy of the Group and its business diversification.

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.

LIABILITIES AND SHAREHOLDERS' EQUITY ITEMS (€ ,000)	31.12.2014	31.12.2013	Delta
Due to banks	821,404	931,580	(110,176)
Due to customers	1,153,797	988,052	165,745
Securities in issue	20,109	35,216	(15,107)
Tax liabilities	6,248	2,585	3,663
Other liabilities	36,441	22,890	13,581
Post-employment benefits	1,173	732	441
Provisions for risks and charges	1030	318	682
Valuation reserves	2	(257)	259
Reserves	13,059	6,781	6,278
Capital	8,451	8,451	-
Profit for the year	19,539	7,002	12,537
Total liabilities and shareholders' equity	**2,081,253**	**2,003,350**	**77,903**

Wholesale funding represents about 54% of the total, and mainly comprises repurchase agreements traded through the MTS platform (classified under 'due to customers' since there is no direct balancing entry with banks) and refinancing mechanisms with the ECB (with underlying guarantees mainly in the form of Government

Securities and a residual part in trade receivables); only the residual part involves funding from other banks through the E-Mid market and term deposits.

There is only residual funding from bond loans, amounting to about 2% of the total. However, retail customer deposits have increased over the previous year and represent about 46% of the total; they are mainly linked to the product SI conto! Deposito, which is in line with 2013. On the other hand, funding from current accounts through the product SI conto! Corrente product is much higher than the end of the previous year (+69%).

DUE TO BANKS (€ ,000)	31.12.2014	31.12.2013	€	%
Due to central banks	730,020	850.097	(120.077)	-14.1%
Due to banks	91,384	81.483	9.901	12.2%
Current accounts and demand deposits	*36,384*	81.415	(45.031)	-55.3%
Term deposits	*55,000*	-	55.000	n.a.
Other	-	68	(68)	-100.0%
Total	**821,404**	**931.580**	**(110.176)**	**-11.8%**

"Due to banks" mainly comprises loans obtained from the ECB with a duration of about 3 months, and backed mainly by State securities, with a residual part backed by trade receivables. The value has gone down compared to the previous year due to more funding coming from customer current accounts.

Customer funding, the breakdown of which is reported below, registered an increase of 17% compared to the previous year:

DUE TO CUSTOMERS (€ ,000)	31.12.2014	31.12.2013	€	%
Term deposits	569,410	533,617	35,793	6.7%
Funding (repurchase agreements)	238,807	240,125	(1,318)	-0.5%
Current accounts and demand deposits	311,751	184,580	127,171	68.9%
Other amounts due	33,829	29,730	4,099	13.8%
Total	**1,153,797**	**988,052**	**165,745**	**16.8%**

The increase is due to the funding from current accounts and demand deposits made through the SI conto! CORRENTE, thanks to the new remuneration policies.

The stock of term deposits at year end is in line with the previous year; gross funding for the year amounted to Euro 538 million against withdrawals of Euro 358 million, due mainly to the failure to renew them.

Other amounts due includes payables for receivables acquired but not funded and a loan granted by Cassa Depositi e Prestiti.

Securities in issue fell due to the expiry of the Credit Linked Note ("CLN") for a nominal value of Euro 10 million and a bond loan for a nominal value of Euro 5 million. The breakdown as at 31 December is the following:

- Bond loan calculable at Tier 2 for Euro 12 million,
- Bond loan calculable at Tier 1 for Euro 8 million.

The increase in the Provisions for risks and charges results from a specific allocation for the risk of having to compensate for a tax receivable acquired on a non-recourse basis. This item includes the allocation of deferred payments which may be made to the Group management on the basis of the achievement of pre-established targets over a period of 3 years.

"Other liabilities" mainly include payments received spanning year-end by the assigned debtors and which were being assigned at the end of the half-year period, items being processed for the days following year-end and trade payables and tax liabilities.

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

(€ ,000)	FINANCIAL RESULT	SHAREHOLDERS' EQUITY
Parent company shareholders' equity	**19,394**	**41,699**
Assumption of value of investments	-	-
Profit (loss)/shareholders' equity - subsidiaries	298	(648)
Other changes	(135)	-
Adjustments to transfers of investments	-	-
Group shareholders' equity	**19,539**	**41,051**

REGULATORY CAPITAL AND PRUDENTIAL SUPERVISORY REQUIREMENTS

By letter dated 5 May 2014, the Parent Company informed the Bank of Italy that it wished to exercise the right to be exempted from sending consolidated notifications (option provided under paragraph 1.4 of circular 115 "instructions to fill out the supervisory notifications on a consolidated basis").

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	31 DECEMBER 2014
Common Equity Tier 1 (CET1) (2)	**37,849**
TIER 1	8,000
Additional Tier 1 capital (AT1)	**45,849**
TIER 2	12,000
Total Own Funds	**57,849**
Total weighted risk assets	**363,771**
Ratio - CET1	10.4%
Ratio - T1	12.6%
Ratio - TCR	**15.9%**

FINANCIAL RESULTS

INCOME STATEMENT (€ ,000)	2014	2013	Delta
Interest margin	48.337	21.730	26.607
Net fee and commissions	11.501	8.935	2.566
Dividends and similar income	33	-	33
Net income from trading activities	869	692	177
Profit from disposal or repurchase of financial assets	3.810	5.209	(1.399)
Operating income	**64.550**	**36.566**	**27.984**
Net value adjustments due to loan impairment	(3.520)	(451)	(3.069)
Net profit (loss) from financial management	**61.029**	**36.115**	**24.913**
Personnel costs	(12.107)	(9.648)	(2.459)
Other administrative expenses	(18.385)	(12.690)	(4.495)
Net allocations to provisions for risks and charges	(369)	-	(369)
Net value adjustments to property, plant and equipment/intangible assets	(230)	(172)	(58)
Other operating costs/income	(338)	(18)	(320)
Operating costs	**(31.429)**	**(22.528)**	**8.901**
Profits (loss) from equity investments	71	-	71
Profits (losses) from transfer of investments	-	(1.388)	(1.388)
Profit from current operations before taxes	**29.672**	**12.199**	**17.473**
Income taxes for the year	(10.133)	(5.197)	(4.936)
Profit for the year	**19.539**	**7.002**	**12.537**

The net profit for 2014 amounted to Euro 19.5 million, up from the previous year due to an increase in commercial investments beginning at the end of 2013 and continuing throughout 2014.

INTEREST MARGIN (€ ,000)	2014	2013	Delta (Euros)	Delta (%)
Interest income and similar income				
Factoring portfolio	70,316	45.546	24.770	54,4%
Securities portfolio	3,198	5.527	(2.329)	-42,1%
Guaranteed SME loans	529	-	529	n.a.
Salary-backed loans	186	-	186	n.a.
Other	1,565	1.200	365	30,4%
Total interest income	**75,793**	**52,273**	**23,520**	**45.0%**
Interest expense and similar charges				
Current accounts - banks	(1,654)	(1.139)	(515)	45.2%
Current accounts - customers	(4,565)	(801)	(3,764)	469.9%
Term deposits - customers	(19,408)	(25.841)	6,433	-24.9%
Securities in issue	(1,638)	(2.427)	789	-32.5%
Repurchase agreements	(93)	(308)	215	-69.8%
Other	(98)	(27)	71	276.9%
Total interest expense	**(27,456)**	**(30.543)**	**3.087**	**-10.1%**
Interest margin	**48,337**	**21.730**	**26.607**	**122.4%**

Interest income derives, for Euro 70 million, from the factoring portfolio receivables (the latter up by 59% compared to the previous year) and, for Euro 3.2 million, from the securities portfolio, which is down due to the reduction in returns from Government securities during the year. With respect to the previous year, the increase in interest on the factoring portfolio was marked by higher average volumes compared to 2013. More specifically, the volumes of trade receivables was up by Euro 1.1 billion. The figure also includes late payment interest or from payment extensions of Euro 1.4 million (of which Euro 700 thousand from receivables acquired from the Pubblica Funding vehicle for which legal action had already been started when they were acquired); this interest was from agreements and repayment plans with the debtors for Euro 1 million and late payment interest by assignors of Euro 300 thousand.

With respect to the portfolio of receivables still in place as at 31 December 2014, the Group accrued the right to request late payment interest for a total amount of Euro 56 million, an amount not posted under the revenues for the year, while with respect to the portfolio of receivables cashed, the Group accrued the right to request penalty interest for a total amount of Euro 65 million, an amount has also not been recorded in the financial statements.

As noted above, the Group's strategy is not to systematically take legal action against the debtors but rather reach agreements through the structuring of repayment plans. There were injunctions on only 9% of the total portfolio of receivables as at 31 December 2014, while 10% of them are covered by formal repayment plan agreements and regional agreements.

In addition, it is possible that legislative amendments may soon be made which will wipe out the past late payment interest accrued by the Public Administration Offices for delays in payments.

Other interest income includes revenues from investment in hot money transactions and repurchase transactions effected with Institutional customers.

A positive contribution to the interest margins also comes from income from the new SME funding product and the Salary-backed loans.

The cost of funding has fallen compared to the same period of the previous year, generally following lower average funds and especially due to a reduction in the rates.

71% of the interest payable is due to the funding from term deposits (Euro 19 million). Funding costs are down from the previous period due to the rate reduction policies implemented already in the second half of the previous year. Interest due to banks is instead attributable to the cost of funding at the ECB.

The increase in funding costs from customer current accounts is due to the higher average funds in addition to a higher rate provided. Interest payable on bond loans issued benefit from the early buy-backs made in 2013 and the loans which expired during 2014.

COMMISSION MARGINS (€ ,000)	2014	2013	Delta (Euros)	Delta (%)
Commission income				
Collection activities	1,269	1,789	(520)	-29.1%
Factoring activities	10,842	7,700	3,142	40.8%
Other	458	308	150	48.7%
Total Commission income	**12,569**	**9,797**	**2,772**	**28.3%**
Commission expense				
Placement	(735)	(621)	(114)	18.4%
Other	(333)	(241)	(92)	38.2%
Total Commission expense	**(1,068)**	**(862)**	(206)	23.9%
Commission margins	**11,501**	**8,935**	**2,566**	**28.7%**

Net fee and commissions of Euro 11.5 million were influenced 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 from customers for collection activities fell slightly due to the lower number of third party invoices managed.

Commission expenses include the costs of origination of factoring receivables for Euro 575 thousand and the remaining part the returns to third party intermediaries for placement of the "SI conto! DEPOSITO.

The other net fee and commissions include commissions due for interbank collection and payment services. This item included Euro 84 thousand in commissions for a hedging Credit Default Swap premium in 2013. The contribution from treasury activities was also positive in 2014, albeit less than the previous year, which benefitted from the volatility that impacted the market value of Italian Government Securities at the beginning and end of the half-year period. The increase in profits deriving from the trading portfolio are again linked to trading of Government Securities.

RESULTS OF SECURITIES PORTFOLIO (€ ,000)	2014	2013	Delta (Euros)	Delta (%)
Net income from trading activities				
Profits realised on trading portfolio debt securities	869	692	177	25.6%
Total	**869**	**692**	**177**	**25.6%**
Profit from disposal or repurchase				
Profits on AFS portfolio debt securities	3,809	5,285	(1,476)	-27.9%
Profits on financial liabilities	-	(75)	75	-100.0%
Total	**3,809**	**5,210**	(1,401)	-26.9%
Total profit (loss) from securities portfolio	**4,678**	**5,902**	**(1,224)**	**-20.7%**

Personnel costs, amounting to Euro 12.1 million, rose by 25.5% due to the growth in the Bank's workforce which increased from 96 to 113 employees.

Personnel costs include non-recurring costs relating to voluntary redundancy payments of Euro 248 thousand (Euro 138 thousand in 2013).

PERSONNEL COSTS (€ ,000)	2014	2013	Delta (Euros)	Delta (%)
Salaries and wages	(9,272)	(7,337)	(1,935)	26.4%
Contributions and other expenses	(2,291)	(1,832)	(460)	25.1%
Directors' and statutory auditors' remuneration	(544)	(479)	(64)	13.4%
Total	**(12,107)**	**(9,648)**	**(2,459)**	**25.5%**

The "Other administrative expenses" amounting to Euro 18 million increased by Euro 5.8 million (+44%). 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 2014.

There was also a considerable increase in computer expenditure in 2014, related to the increase in services offered by the outsourcer due to the increased operations carried out by the Group and computer developments related to new products.

Consultancy expenses include non-recurring legal and external consultant costs in relation to new initiatives and restructuring implemented at corporate level.

Total non-recurring costs included in the other administrative expenses amounted to Euro 1.5 million.

Other operating costs/income includes the once-off allocation of Euro 284 thousand for a hedging request by the Interbank Fund for the Protection of Deposits due to the insolvency of Banca Tercas.

There were no losses from transfer of investments in 2014, whereas there had been a loss of Euro 1.4 million in the previous year; these losses were related to the transfer of the company SFT Italia and deconsolidation of the Pubblica Funding vehicle.

The profits from equity investments reflect the pro rata net profit of the companies Candia and St.Ing in 2015.

OTHER ADMINISTRATIVE EXPENSES (€ ,000)	2014	2013	Delta (Euros)	Delta (%)
Servicing and collection activities	(7.094)	(4.895)	(2.199)	44,9%
Computer expenses	(2.720)	(1.565)	(1.155)	73,8%
Consultancy	(2.285)	(1.103)	(1.182)	107,2%
Rent and related fees	(1.522)	(1.107)	(415)	37,5%
Indirect duties and taxes	(1.412)	(1.273)	(139)	10,9%
Other	(834)	(588)	(245)	41,7%
Advertising	(783)	(730)	(53)	7,3%
Car hire and related fees	(508)	(411)	(97)	23,6%
Reimbursement of expenses and entertainment	(391)	(308)	(83)	26,9%
Infoprovider expenses	(253)	(227)	(26)	11,5%
Maintenance moveable property and real properties	(212)	(136)	(76)	55,9%
Membership fees	(184)	(122)	(62)	50,8%
Telephone and postage expenses	(161)	(165)	4	-2,4%
Discretionary payments	(26)	(60)	34	-56,7%
Total	**(18.385)**	**(12.690)**	**(5.695)**	**44,9%**

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 “Risk Management System” is monitored by the Risk and Compliance Division, keeping capital adequacy and the degree of solvency with respect to its business under constant control. With respect to monitoring the risk of non-compliance, following the joining of the Compliance and Anti-Money Laundering Department with the Risk Division, new methodological guidelines were established governing the activities of that Department from the second half of 2014; they were based on a risk-based rationale and exploited the synergy with the risk management measures that had already been taken by Management with a centralised compliance model being thereby adopted.

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.

In accordance with Bank of Italy Circular no. 263/06 as amended, the Parent Company, Banca Sistema S.p.A., gave the Internal Control Committee the job of coordinating the second and third level Control Departments; to that end, the Committee allows the integration and interaction between these Departments, encouraging synergy, reducing any overlaps and supervising operations.

The methods used by the Group to measure, assess and aggregate risks are approved by the Board of Directors, upon the proposal of the Risk Department, 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.

The Banca Sistema Group concluded its first assessment of the operating risks during the year by establishing an Operational Risk Framework in which the Risk Division carried out a self-evaluation of the risks, with the assistance of the respective managers. This framework was used to analyse potential operating risks and evaluate the relative controls in terms of design and function.

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 2014.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties and connected parties, including the relative authorisation and disclosure procedures, are governed by the “Procedure governing transactions with associated parties” approved by the Board of Directors and published on the Internet site of the Parent Company, Banca Sistema S.p.A.

Transactions between the Group companies and related parties or connected parties were carried out in the interest of the Company, including within the scope of ordinary operations; these operations were carried out on an arm’s length basis and in any case on the basis of mutual financial advantage and in compliance with all procedures.

With respect to transactions with parties who have functions of administration, management and control in accordance with article 136 of the Consolidated Banking Act, they form part of the Executive Committee decision, specifically authorised by the Board of Directors and with the approval of the Statutory auditors, subject to compliance with the obligations provided under the Civil Code with respect to matters relating to the conflict of interest of directors.

Please refer to part H of the Notes to the financial statements for more details on transactions with related parties.

SIGNIFICANT EVENTS AFTER YEAR-END

There were no significant events after year-end.

PRIVACY MEASURES

The Programme Security Document containing the guidelines on personal data processing safety was kept in 2014 as a useful reference for the policy on this matter, even though no longer obligatory in accordance with article 34, paragraph 1, letter g) of Legislative Decree no. 196 of 30 June 2003 ("Personal data protection code").

COMMUNICATION AND PUBLIC RELATIONS

In accordance with the strategic and value goals of the Group, its communication activities were transparent, continuous and consistent.

Most communication involved the non-profit initiatives that it promoted or was involved in, including the project dedicated to the promotion and support of young artists: "Banca SISTEMA ARTE".

The main project was organised around the staging of periodic exhibitions, each lasting about 3 months, held in the Bank's registered offices, and more specifically in a 140 m^2 space specially set aside for the project at the Milan branch. The works were also displayed in the meeting rooms, corridors and common areas of the other Bank branches and seen by employees, guests and customers: the Bank therefore transformed itself into a type of living "art gallery".

The Bank used this instrument to support and promote emerging talent in the artistic and cultural spheres, giving young Italian artists visibility, in order to support their entry into the art market.

The Bank produces and publishes a bilingual catalogue (Italian-English) for every exhibition, with critiques by leading professionals. The catalogues have been distributed by Vanilla Edizioni since 2013, a publishing house which specialises in emerging young artists.

Since the aim of the project is also to help make the less informed public more aware of contemporary young artists and current trends, the Bank also organised meetings on this subject during the year.

A brief summary of the artists and exhibitions held in 2014 is given below:

- January-March 2014: Alberto Gianfreda, sculptor, "Earthquakes", then followed by the exhibition at the Canova Museum in Possagno (TV) as he won the international 2012 Antonio Canova competition.
- April-July 2014: Thomas Berra, artist, "Casabarata", an art project developed after he came back from living in North Africa.
- September-December 2014: Federico Unia, artist, "Federico Unia. La dilatazione dello sguardo". This was an anthological exhibition, comprising large-scale works that already form part of private collections, alongside a study of the artistic path taken by the artist from 2003 to 2014.

There is a website entirely dedicated to the project (bancasistemarte.it) showing pictures, catalogues, interviews with the artists and other useful information to get to know them better.

In addition to the art and young Italian contemporary art market meetings, other meetings are regularly held for companies that are interested in expanding in the new international scenario. These meetings included two that dealt with opportunities for development in China and Morocco, and provided the attending companies and professionals with a direct overview of the instruments and strategies to employ in the internationalisation process, and presented by experienced observers.

Special attention was also paid to the financial training of families during the year, with training and recreational meetings for parents and children, with the aim of encouraging them to approach the world of economy and finance, in a mindful, entertaining way.

There were a number of different initiatives to this effect during 2014, from the presentation of children's books where they were brought on journeys through the history of the economy, to artistic laboratories related to the idea of saving and using piggy banks.

All the initiatives were free and the aim was to improve communication and interaction between the customers and the bank; they were open to the public at large so that anyone who wished to learn more and discuss these matters was welcome.

Finally, specific attention was also given to young people in correspondence with the launch of "SI conto! Junior", a current account for 0-18 year olds; the Bank decided to award a scholarship to the winner of the first Italian broadcast of Junior MasterChef Italia; the idea was to encourage young people to believe in their dreams and take active steps to pursue them, be they future chefs, artists, or any other representative of the exceptional level of culture and excellence in Italy.

Pa.L.Co. was established

In 2014, Pa.L.Co. was established from the first Public Administration Legal Credit forum in Milan and organised by the Parent Company, an on-line Banca Sistema community aimed at professionals who specialise in receivables and payments from the Public Administration.

This follows on from meetings held and mutual updates between the Group and its customers, partners, law offices, associations and professionals of the Public Administration during the first forum entirely dedicated to the issue of receivables and payments of the Public Administration.

It contributed with its experience and skills throughout the entire year, pending the next forum to be held in 2015, and the subjects may first be shared as part of the on-line discussion group, which can be easily accessed through the Internet site of the Bank; the aim is to make the dialogue between the Bank and its customers increasingly simple and immediate.

ITALIAN RESPONSIBLE PAYMENT CODE

The Banca Sistema Group gave its support to the "Italian Responsible Payment Code" in 2014, the first code in Italy specifically dedicated to the issue of honouring payment terms and promoted by Assolombarda.
The companies who subscribe to the Code undertake to comply with the payment terms agreed with their suppliers and to promote a "culture" of punctual, efficient and transparent payment practices, encouraging the entire chain to adopt the Code.

VALORE D

The Banca Sistema Group subscribed to "Valore D" to promote innovative company organisation that overcomes the implicit prejudice attached to gender and encourages reconciliation. "Valore D" provides women managers with instruments and knowledge to help them on their professional growth paths, and proposes a new cultural model that provides for full participation by women in the economic and social life of the country; it was established in Italy to support female leadership in companies and has over 100 companies associated with the goal of supporting and increasing the representation of female talent in managerial positions, through tangible, concrete actions.

Profits and capital are expected to consolidate and increase further in 2015 thanks to the increase in commercial investments in factoring and the contribution from the diversification of the bank's activities which begun in 2014, from investments from funding small and medium-sized companies and the salary-backed loans.

Net interest income will continue to benefit from the increase in average investments and the expected reduction in funding costs.

In accordance with its 2014-2016 Business Plan, the Group will continue with, and has already concluded, certain strategic initiatives such as strengthening the organisational structure, both from the viewpoint of controls and in terms of the sales structure. Strategic commercial agreements and framework agreements have already been concluded during the year, that allowed it to invest in other companies, allowing the Group to initiate a diversification process on its products offered.

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

The 2014 results exceeded budget forecasts, and therefore forecasts for the next year are confirmed, subject to any unexpected events that could have an effect on the general performance of the Group.

Milan, 20 February 2015

On behalf of the Board of Directors
The Chairman
Prof. Giorgio Basevi

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(Amounts in thousands of Euros)

	ASSETS	31/12/2014	31/12/2013
10.	Cash and cash equivalents	66	71
20.	Held-for-trading financial assets	63	-
40.	Available-for-sale financial assets	858,007	847,045
60.	Loans to banks	16,682	58,814
70.	Loans to customers	1,193,754	1,088,085
100.	Equity investments	2,448	-
120.	Property, plant and equipment	1,201	715
130.	Intangible assets	1,904	1,828
	of which goodwill	*1,786*	*1,786*
140.	Tax assets	2,752	2,670
	a) current	41	1,370
	b) prepaid	2,711	1,300
160.	Other assets	4,376	4,122
	Total assets	**2,081,253**	**2,003,350**

(Amounts in thousands of Euros)

	LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2014	31/12/2013
10.	Due to banks	821,404	931,580
20.	Due to customers	1,153,797	988,052
30.	Securities in issue	20,109	35,216
80.	Tax liabilities	6,248	2,585
	a) current	6,234	2,582
	b) deferred	14	3
100.	Other liabilities	36,441	22,890
110.	Post-employment benefits	1,173	732
120.	Provisions for risks and charges	1,030	318
	b) other provisions	1,030	318
140.	Valuation reserves	2	(257)
170.	Reserves	8,734	2,456
180.	Share premiums	4,325	4,325
190.	Capital	8,451	8,451
220.	Profit (loss) for the year (+/-)	19,539	7,002
	Total liabilities and shareholders' equity	**2,081,253**	**2,003,350**

CONSOLIDATED INCOME STATEMENT

(Amounts in thousands of Euros)

	Items	2014	2013
10.	Interest income and similar income	75,793	52,273
20.	Interest expense and similar charges	(27,456)	(30,543)
30.	**Interest margin**	**48,337**	**21,730**
40.	Commission income	12,569	9,797
50.	Commission expense	(1,068)	(862)
60.	**Net fee and commissions**	**11,501**	**8,935**
70.	Dividends and similar income	33	-
80.	Net income from trading activities	869	692
100.	Profits (losses) from disposal or repurchase of:	3,810	5,209
	b) available-for-sale financial assets	3,810	5,284
	d) financial liabilities	-	(75)
120.	**Operating income**	**64,550**	**36,566**
130.	Net value adjustments/write-backs due to impairment of:	(3,520)	(451)
	a) receivables	(3,520)	(451)
140.	**Net profit (loss) from financial management**	**61,030**	**36,115**
180.	Administrative expenses:	(30,491)	(22,338)
	a) personnel costs	(12,107)	(9,648)
	b) other administrative expenses	(18,385)	(12,690)
190.	Net allocations to provisions for risks and charges	(369)	-
200.	Net value adjustments/write-backs to property, plant and equipment	(190)	(137)
210.	Net value adjustments/write-backs to intangible assets	(40)	(35)
220.	Other operating costs/income	(338)	(18)
230.	**Operating costs**	**(31,429)**	**(22,528)**
240.	Profits (loss) from equity investments	71	-
270.	Profits (losses) from transfer of investments	-	(1,388)
280.	**Profit (loss) from current operations before taxes**	**29,672**	**12,199**
290.	Income taxes for the period for current operations	(10,133)	(5,197)
300.	**Profit from current operations after taxes**	**19,539**	**7,002**
320.	**Profit for the year**	**19,539**	**7,002**
340.	**Parent company profit for the period**	**19,539**	**7,002**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euros)

	Items	31/12/2014	31/12/2013
10.	**Profit (loss) for the year**	**19,539**	**7,002**
	Other income items net of taxes without reversal to the income statement		
40.	Defined benefit plans	4	(25)
	Other income items net of taxes with reversal to the income statement	-	-
100.	Available-for-sale financial assets	255	(640)
130.	**Total other income items net of taxes**	259	(664)
140.	**Comprehensive income (Items 10+130)**	**19,798**	**6,338**
150.	**Total consolidated profitability attributable to minority interests**	**-**	**-**
160.	**Total consolidated profitability attributable to the Parent Company**	**19,798**	**6,338**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2014

(Amounts in Euros)				Allocation of net result from previous year		Changes during the year	Equity transactions								
	Balance at 31.12.2013	Change in opening balances	Balance at 01.01.2014	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 2014	**Group shareholders' equity at 31.12.2014**
Capital															
a) ordinary shares	**8,451**	-	8,451	-	-	-	-	-	-	-	-	-	-	-	**8,451**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premiums	**4,325**	**-**	4,325	-	-	-	-	-	-	-	-	-	-	-	**4,325**
Reserves	**2,456**	-	2,456	6,298	-	(20)	-	-	-	-	-	-	-	-	**8,734**
a) earnings	**2,708**	-	2,708	6,298	-	-	-	-	-	-	-	-	-	-	**9,006**
b) other	**(252)**	-	(252)	-	-	(20)	-	-	-	-	-	-	-	-	**(272)**
Valuation reserves	**(257)**	-	(257)	-	-	-	-	-	-	-	-	-	-	259	**2**
Capital instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit (Loss) for the year	**7,002**	-	7,002	(6,298)	(704)	-	-	-	-	-	-	-	-	19,539	**19,539**
Shareholders' equity	**21,977**	-	**21,977**	-	**(704)**	**(20)**	-	-	-	-	-	-	-	**19,798**	**41,051**

The change in reserves is linked to the allocation of the profit for the year as at 31/12/2013, the payment of Banca Sistema's dividend (amounting to Euro 0.01 per share for a total of Euro 704,210.52)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2013

				Allocation of net result from previous year		Changes during the year									
							Equity transactions								
	Balance at 31.12.2012	Change in opening balances	Balance at 01.01.2013	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	**Group shareholders' equity at 31.12.2013**
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**

The change in Share Capital and share premiums is due to an increase in the share capital of Banca Sistema resolved by the extraordinary shareholders' meeting on 28/11/2012. The new share capital of Banca Sistema amounted to Euro 8,450,526.24 as at 31/12/2013, divided into 70,421,052 shares with a par value of Euro 0.12 each. The change in reserves is linked to the allocation of the profit for the year as at 31/12/2012, the payment of Banca Sistema's dividend (amounting to Euro 0.0071 per share for a total of Euro 499,989.47) and the merger by incorporation of the company Solvi S.r.l on 01/08/2013 which determined the recognition of a merger reserve of Euro 435,278.

CASH FLOW STATEMENT (DIRECT METHOD)

(Amounts in thousands of Euros)

A. OPERATING ACTIVITIES	31/12/2014	31/12/2013
1. Management	**24,970**	**8,308**
interest income collected	75,793	52,273
interest expense paid	(27,456)	(30,543)
dividends and similar income	-	-
net fee and commissions	11,501	8,935
personnel costs	(10,207)	(9,648)
net premiums collected	-	-
other insurance income/expenses	-	-
other costs	(19,091)	(12,709)
other revenues	-	-
taxes and duties	(5,570)	-
costs/revenues relating to groups of assets held for disposal, net of taxes	-	-
2. Cash flows generated by/used for financial assets	**(72,697)**	**(947,817)**
held-for-trading financial assets	806	821
financial assets carried at fair value	-	-
available-for-sale financial assets	(6,893)	(301,430)
loans to customers	(108,424)	(604,101)
loans to banks: on demand	42,132	(44,339)
loans to banks: other loans	-	-
other assets	(317)	1,232
3. Cash flow generated/absorbed by the financial liabilities	**51,601**	**938,233**
due to banks: on demand	(110,176)	817,674
due to banks: other payables	-	-
due to customers	164,982	143,265
securities in issue	(15,107)	(20,101)
held-for-trading financial liabilities	-	-
financial liabilities carried at fair value	-	-
other liabilities	11,902	(2,605)
Net cash flow generated/used by operations	**3,875**	**(1,276)**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**(8)**	**(1,422)**
sales of equity investments	(41)	(1,422)
dividends collected on equity investments	33	
sales/reimbursements of held-to-maturity financial assets	-	-
sale of property, plant and equipment	-	-
sale of intangible assets	-	-
purchases of subsidiaries and business branches	-	-
2. Cash flows absorbed by	**(3,169)**	**(428)**
purchases of equity investments	**(2,377)**	**-**
purchases of held-to-maturity financial assets	**-**	**-**
purchases of property, plant and equipment	(676)	(407)
purchases of intangible assets	(116)	(21)
purchases of subsidiaries and business branches	-	-
Net cash flow generated/used by investment activities	(3,177)	**(1,850)**
C. FUNDING ACTIVITIES		
issues/purchases of treasury shares	**-**	**-**
issues/purchases of capital instruments	**-**	**-**
dividend distribution and other purposes	(704)	(500)
Net cash flow generated/used by funding activities	**(704)**	**(500)**
NET CASH FLOW GENERATED/USED DURING THE YEAR	**(5)**	**(3,626)**

(Amounts in thousands of Euros)

RECONCILIATION	31/12/2014	31/12/2013
Cash and cash equivalents at the beginning of the year	71	3,697
Total net cash flow generated/used during the year	(5)	(3,626)
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at year-end	66	71

NOTES TO THE FINANCIAL STATEMENTS

CONTENT AND FORM OF THE FINANCIAL STATEMENTS

A.1 - GENERAL PART

SECTION 1 - Statement of compliance with international accounting standards

The consolidated financial statements of the Banca Sistema S.p.A. Group as at 31 December 2014 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 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 Financial Statements are drawn up with clarity and are a true and faithful representation of the capital and financial position and the profit and loss for the year, the changes in shareholders' equity and the cash flows and comprise the balance sheet, the income statement, statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements.

The Financial Statements are accompanied by the Director's Report on Management Performance.

If the information required by the international accounting 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 notes to the financial statements provide the additional information required.

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

- the measurements were made considering that the company will continue as an ongoing business guaranteed by the financial support of the Shareholders;
- costs and revenue are accounted for on an accrual basis;
- in order to ensure the comparability of the data and information in the financial statements and the notes to the financial statements, the methods of representation and classification are kept constant over time unless they are changed to present the data more appropriately;
- each significant class of similar items is separately indicated in the balance sheets and income statements; items with dissimilar natures or uses are presented separately unless they are considered to be irrelevant;
- accounts that have no associated sums for the financial year or for the previous financial year are not indicated in the balance sheet or the income statement;
- if an element of the assets or liabilities comes under several items in the equity statement, the notes to the financial statements make reference to the other items under which it is recorded if it is necessary for a better understanding of the financial statements.
- the items are not offset against one another unless it is expressly requested or allowed by an international accounting standard or an interpretation or the provisions of the aforementioned Circular no. 262 of 22 December 2005 as amended by the Bank of Italy;
- the financial statements are drafted by favouring substance over form and in accordance with the principle of relevance and significance of the information;
- comparative data for the previous financial year are presented for each account of the balance sheet and income statement; if the accounts are not comparable to those of the previous year, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the financial statements; they were not presented if they were not applicable to the Bank's business.

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

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

Any changes resulting from the revision of the accounting estimates are reported in the period in which the revision is made if it relates only to that period. If the revision relates to either current or future periods, the change is reported in the period in which the revision is made and in the relevant future periods.

Pursuant to the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements use the Euro as the currency for accounting purposes. In particular, the financial statements are drafted in Euros, with the exception of the notes to the financial statements which are drafted in thousands of Euro.

Note the following in reference to regulatory developments in the IAS/IFRS international accounting standards.

Main international accounting standards in effect from 2014

The main accounting standards adopted for the preparation of the financial statements, with reference to classification, recognition, measurement and derecognition of the several asset and liability items, as well as the methods for recording revenue and costs, remained unchanged with respect to the Bank's 2013 financial statements, except for the effects deriving from the application - mandatory since 1 January 2014 - of the accounting standards regarding consolidation (IFRS 10, IFRS 11 and IFRS 12, in addition to the subsequent amendments to IAS 27 and IAS 28), and also, the amendments to IAS 32, regarding the offsetting of financial assets and liabilities, and the amendments to IAS 39 regarding hedging.

More specifically, the objective of IFRS 10 is to provide a single model for the consolidated financial statements, a model that provides for the inclusion of "control" or "control de facto" as a basis for the consolidation of all possible types of entities. The principle defines exactly the nature of the control held by an investor in an entity. IFRS 10 establishes that, in order to acquire control over an entity, the investor must have the capacity, arising from an established legal right or a factual situation, to significantly impact the type of operational choices to be made as regards the relevant activities of the entity, and to be exposed to the variability of its results.

Within the context of accounting standards concerning consolidation, IFRS 11 establishes the accounting reporting principles for entities, which are part of the agreements that provide for a "joint control". Finally, IFRS 12 combines, strengthens and replaces the reporting obligations set for the subsidiaries, the agreements about a joint control, the associated companies, and the non-consolidated structured entities.

The regulatory changes concerning consolidation were introduced by Regulation 1254/2012, subsequently supplemented by other Regulations (n. 313 and n. 1174 in 2013), also in effect since 1 January 2014.

The impact of Regulation 1254/2012 and - more specifically - of the application of IFRS 10 to the consolidation perimeter of the Banca Sistema Group was not significant.

With the changes to IAS 32, introduced through Regulation n. 1256/2012, IASB intended, instead, to improve the application guidelines in order to eliminate discrepancies in the adoption of the standard and to better specify the requirements, already stated in paragraph 42 of IAS 32, for defining when financial assets and liabilities must be subject to offsetting in the Balance Sheet. Based on operations that are currently being carried out on financial instruments and the related contractual agreements, in these Financial Statements there is no impact on the equity balance figures.

Finally, worthy of mention is Regulation n. 1375/2013, also applicable starting from 1 January 2014, which modifies IAS 39 as regards hedging. More specifically, the change entails that the novation of a derivative designated as a hedging instrument, by an existing counterparty toward a central counterparty, does not involve the termination of the hedging relationship, provided that the contractual changes of the derivative are limited to those necessary in order to carry out the substitution of the counterparty. Also in this case, there is no impact on the equity balance.

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	Type of relationship (1)	Quota held		% voting rights held (2)
			Investee company	% held	
Companies					
Fully consolidated					
1 S.F. Trust Holdings Ltd	**London**	**1**	**Banca Sistema**	**100%**	**100%**
Consolidated at shareholders' equity					
2 Candia S.p.A.	**Italy**	**4**	**Other private shareholders**	**9.99%**	**9.99%**
3 St.Ing. S.p.A.	**Italy**	**4**	**Other private shareholders**	**30%**	**30%**

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 scope of consolidation of the Group changed compared to the end of the previous year following acquisition of minority shareholdings in the companies Candia and St.Ing.

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. Detailed information with reference to Art. 89 Directive 2013/36 / EU of the European Parliament and of the Council (CRD IV), are published at the link www.bancasistema.it/pillar3.

Consolidation with the net equity method

The shareholders' equity of the associated companies was consolidated with the abbreviated net equity method.

The net equity method provides for initial recognition of the equity holding at cost, and its subsequent value adjustment on the basis of the share of the investee company's net equity.

The differences between the value of the investment and the investee company's net equity are included in the book value of the investee company.

No potential voting rights are considered when measuring the share.

The investee company's share of profits for the year is recognised under a specific item in the consolidated income statement.

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. If the recoverable amount is less than the book value, the relative difference is recognised in the income statement.

SECTION 4 - Subsequent events

With regard to IAS 10, after 31 December 2014, the reference date of the consolidated financial statements, and up to 20 February 2015, 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

There are no 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[1]. A financial asset or liability is classified as held-for-trading (so-called Fair Value Through Profit or Loss - FVPL), and recorded under 20 "Held-for-trading financial assets" or 40 "Held-for-trading financial liabilities", if it is:

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

Recognition criteria

Initial recognition of the held-for-trading financial assets occurs: i) at the settlement date for debt securities, capital and shares in UCITS; ii) at the subscription date for derivative contracts.

The initial recognition of held-for-trading financial assets is at fair value, not including any transaction costs or income that are directly recognised on the income statement even though directly attributable to the instrument.

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

Measurement and recognition criteria for income components

Following initial recognition, held-for-trading financial assets are measured at fair value, and any changes are recorded in the income statement.

For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for calculating the fair value of financial instruments".

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

(1) 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).

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 Parent Company availed of that option starting from calculation of the regulatory capital.

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

If the fair value is reduced in cost by more than 50% or in duration by more than 18 months, the impairment is considered to be permanent. If, however, the decrease in the *fair value* of the cost of the instrument is lower than or equal to 50% but above 20%, or in duration by not more than 18 months but not less than 9, the Group 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 carried at fair value upon initial recognition recognised in the income statement (see paragraph 1: held-for-trading financial assets);

(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 Group 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 expired, 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 expire;

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, namely:

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.

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. The methods used to calculate the analytical and generic write-downs applied to the credit portfolio are described below. Exposures classified as impaired loans are analysed in order to quantify the potential impairment of the individual loan. With reference to the non-performing loans from the factoring portfolio with the Public Administration, the Bank makes an analytical write-down for the Municipalities who are registered as having "financial difficulty" status in accordance with legislative decree 267/00.

If appropriate write-downs were not made at the pricing stage, the Bank makes an analytical write-down on the outstanding value of the loan net of the rediscount which has not yet fallen due. The percentage write-down, without the Bank loss figures, was defined in accordance with the market benchmark.

On the other hand, with respect to the credit positions from the factoring portfolio where the debtor counterparty is a private company, the Bank does not record non-performing positions and therefore only applies a collective write-down to those positions.

For all the factoring portfolio credit positions that are classified as performing and past due (Public Administration and private), the Bank makes a prudential write-down, defining a segment of the portfolio through specific clusters defined when acquiring the portfolios and for which it makes in-depth assessments at the pricing stage, and therefore on those types of receivables and also exposures with Central Administration offices (for example Ministries).

On the other hand, with respect to the exposures related to ordinary factoring receivables, a generic write-down was applied by applying a fixed percentage to the factoring portfolio.

With reference to the impaired loans forming part of the SME portfolio, the Group writes-down the entire portion of the loan that is not backed by the Guarantee Fund issued by Mediocredito Centrale.

With respect to performing SME loans, the Group defined a generic write-down in accordance with the percentage of impaired income observed on its portfolio.

With respect to the pension and salary-backed loans, since no non-performing positions have been recorded, the Group wrote-down the receivables on the basis of market benchmarks.

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 company did not hold any "Financial assets measured at fair value".

Classification criteria

The IAS/IFRS accounting standards, approved by the European Commission, allow for the classification, under the category of financial instruments carried at fair value, with balancing-entry in the income statement, of any financial asset being defined as such at the time of acquisition, in compliance with the cases set forth in the regulations of reference. No reclassifications are admitted under other categories of financial assets.

Recognition criteria

At the initial recognition, financial assets are carried at fair value without taking into consideration transaction costs or revenues directly attributable to the instrument itself.

Measurement criteria

Following the initial recognition, the financial instruments in question are carried at fair value. The effects of the application of this measurement criteria are recognised in the income statement.

Derecognition criteria

Financial assets are derecognised in the financial statements only if the transaction has involved a substantial transfer of all the risk and benefits related to the assets. Conversely, if a relevant portion of the risks and benefits related to the transferred financial asset has been retained, these will continue to be recorded in the financial statements, even if legally, the ownership of the assets was actually transferred.

If the substantial transfer of risk and benefits cannot be verified, the financial assets are derecognised in the financial statements if they are no longer subject to control. Conversely, the retention, even if only in part, of this control, involves the continued recognition in the financial statements of the assets in an amount equal to the residual part, measured according to the changes in value of the transferred assets and the changes in the related financial flows.

Finally, the transferred financial assets are derecognised in the financial statements if the contractual rights to receive the related cash flows are retained under the concurrent assumption of the obligation to pay these flows, and only these, to other third parties.

6. Hedging transactions

At the date of the financial statements, the Company had not made any "Hedging transactions".

The risk hedging transactions aim at neutralising potential losses, attributable to certain risks, and recognisable under a certain item or group of items, should that particular risk manifest itself.

Only the instruments that involve a party external to the Group may be designated as hedging instruments.

Recognition criteria

The hedging derivative instruments, as for all derivatives, are initially recognised and subsequently carried at fair value.

Measurement criteria

The hedging derivatives are measured at fair value. More specifically:

in the case of a hedging measured at fair value, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. This offset is recognised by recording in the income statement the changes in value, referring both to the hedged item (as regards the changes produced by the underlying risk factor), and to the hedging instrument. The difference, which represents the partial non-effectiveness of the hedging, represents consequently the net economic effect;

in the case of financial flow hedging, the changes in the derivative's fair value are recognised under shareholders' equity, for the effective portion of the hedge, and in the income statement only when, in reference with the hedged item, the change in the cash flows to be offset manifests itself or if the hedging is ineffective;

the recognition of the hedging of an investment in foreign currency is the same as the recognition of a financial flow hedging.

The derivative instrument is designated as a hedging instrument if a formal documentation exists about the relationship between the hedged instrument and the hedging instrument, and if it is effective at the start of the hedging and, prospectively, during the entire hedging life.

The effectiveness of the hedging depends on the extent to which the changes in fair value of the hedged instrument or of the related expected financial flows are offset by the changes in the hedging instrument. Therefore, this effectiveness is measured by comparing these changes, keeping into account the intent pursued by the Company at the time of the execution of the hedging.

Effectiveness is recognised when the changes in fair value (or cash flows) of the hedging financial instrument neutralise almost entirely, i.e. within the limits of an 80-125% range, the changes in the hedged instruments as regards the risk item subject to the hedging.

The measurement of effectiveness must be carried out at the closing of each fiscal year or half-year using:

prospective testing which justifies the application of hedging accounting, since it demonstrates the expected effectiveness;

retrospective testing which shows the level of hedging effectiveness achieved in the period of reference. In other words, they measure how the actual results have deviated from a perfect hedging.

If the assessments do not confirm the effectiveness of the hedging, from that moment on the accounting of the hedging operation, according to the above, is suspended, the derivative hedging agreement is reclassified under trading instruments and the measurement criteria, corresponding to the classification of the hedged financial instrument in the financial statement, are applied again.

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.

Measurement criteria

The value of the intangible assets is systematically amortised from the time of their input into the production process.
With reference to the goodwill, on an annual basis (or at the time of an impairment loss), an assessment test is carried out on the adequacy of its book value. For this purpose the Unit generating the financial flows to which the goodwill is attributed, is identified. The amount of any impairment is determined by the difference between the goodwill book value and its recovery value, if lower. This recovery value is equal to the higher amount between the fair value of the Unit that generates the financial flows, net of any sale cost, and its value in use. As stated above, any consequent value adjustments are recognised in the income statement.

Derecognition criteria

An intangible asset is derecognised from the balance sheet at the time of its disposal and if there are no expected future economic benefits

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 being disposed of, 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 Company'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 the reference date of the annual financial statements and the interim financial statements 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 allocations 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 Bank are expressed in the financial statements net of any amounts repurchased and include those that have matured as at the reference date but have not yet been reimbursed.

Recognition criteria

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

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

The initial fair value of a financial liability is usually equivalent to the amount cashed.

Any derivative contracts included in said financial liabilities, which are subject to the assumptions of IAS 32 and 39, are broken down and measured separately.

Measurement criteria

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

Derecognition criteria

The above financial liabilities are derecognised from the balance sheet at maturity or when they are extinguished. They are derecognised also in the event of repurchase, even temporary, of the previously-issued securities. Any difference between the book value of the extinguished liability and the amount paid is recorded in the income statement, under "profit (loss) from disposal or repurchase of: financial liabilities". If the Group, 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 Company did not have any "Held-for-trading financial liabilities".

Financial instruments are recognised at the date of their subscription or issuance at a value equal to their corresponding cost, carried at fair value, without including any transaction costs or revenue directly attributable to the instruments themselves.

Also included under this liability category is the negative value of derivative trading agreements as well as the negative value of the implicit derivatives present in complex agreements but not strictly related thereto. In addition, liabilities that originate from technical exposures deriving from security trading activities are also included.

Measurement criteria

All trading liabilities are carried at fair value with recognition of the measurement results in the income statement.

Derecognition criteria

Held-for-trading financial liabilities are derecognised in the financial statements when the contractual rights on the related financial cash flows expire or when the financial liability is sold with a substantial transfer of all risks and benefits deriving from their ownership.

15. Financial liabilities carried at fair value

At the date of the financial statements, the Company did not have any "Financial liabilities carried at fair value".

Recognised under this item are the financial liabilities designated at fair value with balancing-entry to the income statement, based on the right held by the companies (so-called "fair value option"), as per IAS 39, pursuant to the existing legislation.

Investments related to this form of collection are also carried at fair value, thus eliminating or reducing significantly possible "accounting asymmetries" which otherwise would result from the recognition of these assets and related liabilities based on different accounting criteria.

In addition, also the bond issuance of subsidiaries, the performance of which is related to the performance of baskets of investment fund units recognised under assets in the balance sheet, are carried at fair value. The adoption of the fair value option for this category of structured financial instruments, allows for recognition in the financial statements in line with the methods applied to the natural hedging of risk, as defined in the issuance structuring.

Recognition criteria

The recognition of these liabilities occurs at the issuance date, in an amount equal to their fair value including the value of the embedded derivative, net of the paid placement commission.

Measurement criteria

These liabilities are carried at fair value with recognition of the measurement results in the income statement.

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 reference date of the annual financial statements or the interim financial statements:

- 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. Other information

17.1. Post-employment benefits

According to the IFRIC, post-employment benefits can be likened to a "benefit following the employment relationship" of the "Defined-benefit plan" type for which its value is determined using actuarial type methods in accordance with IAS 19. Consequently, at year end, they are measured on the basis of the accrued benefits method using the Projected Unit Credit Method.

This method entails forecasting future payments on the basis of historic, statistical and probabilistic analyses and the adoption of appropriate demographic data.

This allows the matured 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 under shareholders' equity.

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

17.2. Repurchase agreement transactions

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

17.3. Criteria for determination of fair value of financial instruments

Fair value is defined 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 Group 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.

17.4 Business combinations

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

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

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

The acquisition date is the date on which control of the acquired company is actually made. If the acquisition is completed through a single transfer, the date of the transfer will be the acquisition date.

If the business combination is carried out through several transfers:

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

The cost of a business combination is assigned by recording the assets, liabilities and potential liabilities that are identifiable in the acquired company, at the relevant fair values at the date of acquisition.

The assets, liabilities and potential liabilities that can be identified in the acquired company are recorded separately on the acquisition date only if, on this date, they meet the following criteria:

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

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

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

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

17.5 Derecognition

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

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

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

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

The conditions for the complete cancellation of a financial asset are the extinction of the contractual rights, such as their natural maturity, or the transfer to another counterparty of cash flows deriving from this asset.

Payment rights are considered to be transferred if contractual rights are held to receive the financial flows from the asset, but an obligation is assumed to pay these flows to one or more entities and all three of the following conditions are satisfied (pass-through agreement):

- the 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 substantially all the risks and benefits, the transferred asset (or group of assets) will be cancelled and the rights and obligations relating to the transfer will be recorded as assets or liabilities.

On the other hand, if the risks and benefits are maintained, the transferred asset (or group of activities) must continue to be recognised. In this case, a liability also needs to be recorded that corresponds to the amount received as a payment for the transfer and, subsequently, all revenue matured from the asset and any charges incurred on the liability must be recognised.

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

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

17.6 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 Division, in collaboration with the Administration and Tax Division, defined a rule which makes it possible to select the creditworthiness data based on its availability. The rule provides as follows:

- 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

In order to prepare the abridged half-year financial statements as at 30 June 2014, the fair value hierarchy used was 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.

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	31/12/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Held-for-trading financial assets	-	-	63	-	-	-
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	858,007	-	-	847,045	-	-
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
TOTAL	**858,007**	-	**63**	**847,045**	-	-
1. Held-for-trading financial liabilities	-	-	-	-	-	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
TOTAL	-		-	-		

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Held for trading financial assets	*Financial assets at fair value through P&L*	Available for sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balances	**-**	**-**	**-**	**-**	**-**	**-**
2. Increases	**63**	**-**	**-**	**-**	**-**	**-**
2.1 Purchases	63	-	-	-	-	-
2.2 Profits recognized	-	-	-	-	-	-
2.2.1 Income Statement	-	-	-	-	-	-
- *of which Unrealized gains*	-	-	-	-	-	-
2.2.2 Equity	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-
3. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Sales	-	-	-	-	-	-
3.2 Redemptions	-	-	-	-	-	-
3.3 Losses recognized	-	-	-	-	-	-
3.3.1 Income Statement	-	-	-	-	-	-
- *of which Unrealized losses*	-	-	-	-	-	-
3.3.2 Equity	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Altre variazioni in diminuzione	-	-	-	-	-	-
4. Closing balances	**63**	**-**	**-**	**-**	**-**	**-**

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	31/12/2014				31/12/2013			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity financial assets	-	-	-	-	-	-	-	-
2. Loans to banks	16,682	-	-	16,591	58,814	-	-	58,814
3. Loans to customers	1,193,754	-	-	1,194,759	1,088,085	-	-	1,088,085
4. Property, plant and equipment held for investment	-	-	-	-	-	-	-	-
5. Non-current assets and groups of assets held for disposal	-	-	-	-	-	-	-	-
Total	**1,210,436**	**-**	**-**	**1,211,350**	**1,146,899**	**-**	**-**	**1,146,899**
1. Due to banks	821,404	-	-	821,404	931,580	-	-	931,580
2. Due to customers	1,153,797	-	-	1,153,797	988,052	-	-	988,052
3. Securities in issue	20,109	-	-	20,109	35,216	-	-	35,216
4. Liabilities associated with assets held for disposal	-	-	-	-	-	-	-	-
Total	**1,995,310**	**-**	**-**	**1,995,310**	**1,954,848**	**-**	**-**	**1,954,848**

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	31/12/2014	31/12/2013
a. Cash	66	71
b. Demand deposits at Central Banks	-	-
TOTAL	**66**	**71**

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

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

Items / Values	31/12/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
TOTAL A	-	-	-	-	-	-
B. Derivative instruments	-			-		
1. Financial derivatives	-	-	-	-	-	-
1.1 trading	-	-	-	-	-	-
1.2 related to fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives	-	-	63	-	-	-
2.1 trading	-	-	63	-	-	-
2.2 related to fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
TOTAL B	-	-	**63**	-	-	-
TOTAL (A+B)		-	**63**		-	-

There closing balance only has one Credit Default Swap contract, with expiry on 28 February 2015 to hedge credit risk on a credit portfolio for a nominal amount of Euro 5 million.

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

Items / Values	31/12/2014	31/12/2013
A. CASH ASSETS		
1. Debt securities	-	-
a. Governments and Central Banks	-	-
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 A	-	-
B. DERIVATIVE INSTRUMENTS	-	-
a. Banks		
▪ fair value	63	-
b. Customers		
▪ fair value	-	-
TOTAL B	**63**	-
TOTAL (A+B)	**63**	-

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

	Debt securities	Equity securities	UCITS units	Loans	**Total**
A. Opening balance	-	-	-	-	-
B. Increases	**1.234.624**	-	-	-	**1.234.624**
B1. Purchases	1.233.738	-	-	-	1.233.738
B2. Increases in fair value	-	-	-	-	-
B3. Other changes	886	-	-	-	886
C. Decreases	**1.234.624**	-	-	-	**1.234.624**
C1. Sales	1.234.624	-	-	-	1.234.624
C2. Reimbursements	-	-	-	-	-
C3. Decreases in fair value	-	-	-	-	-
C4. Transfers to other portfolios	-	-	-	-	-
C5. Other changes	-	-	-	-	-
D. Closing balance	-	-	-	-	-

Purchases and sales movements refer to bonds purchased as part of the trading on own account service carried out on behalf of Institutional Customers of the Bank.

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

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

Items / Values	31/12/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	858,007	-	-	847,045	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	858,007	-	-	847,045	-	-
2. Equity securities	-	-	-	-	-	-
2.1 Carried at fair value	-	-	-	-	-	-
2.2 Valued at cost	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
TOTAL	**858,007**	**-**	**-**	**847,045**	**-**	**-**

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

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

Items/Values	31/12/2014	31/12/2013
1. Debt securities	**858,007**	**847,045**
a) Governments and Central Banks	858,007	847,045
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	**858,007**	**847,045**

4.4 Available-for-sale financial assets: annual changes

	Debt securities	Equity securities	UCITS units	Loans	**Total**
A. Opening balance	**847,045**	**-**	**-**	**-**	**847,045**
B. Increases	**9,618,027**	**-**	**-**	**-**	**9,618,027**
B1. Purchases	9,609,800	-	-	-	9,609,800
B2. Increases in fair value	169	-	-	-	169
B3. Write-backs	-	-	-	-	-
Charged to the income statement	-	-	-	-	-
Charged to the shareholders' equity	-	-	-	-	-
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other changes	8,058	-	-	-	8,058
C. Decreases	**9,607,065**	**-**	**-**	**-**	**9,607,065**
C1. Sales	9,597,359	-	-	-	9,597,359
C2. Reimbursements	-	-	-	-	-
C3. Decreases in fair value	135	-	-	-	135
C4. Write-downs for impairment	-	-	-	-	-
Charged to the income statement	-	-	-	-	-
Charged to the shareholders' equity	-	-	-	-	-
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other changes	9,571	-	-	-	9,571
D. Closing balance	**858,007**	**-**	**-**	**-**	**858,007**

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	31/12/2014				31/12/2013			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to Central Banks	**16,114**				48,468			
1. Term deposits	-	X	X	X	-	X	X	X
2. Compulsory reserves	16,114	X	X	X	48,468	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Loans to banks	**568**				10,346			
1. Loans	**568**				10,346			
1.1 Current accounts and demand deposits	568	X	X	X	346	X	X	X
1.2. Term deposits	-	X	X	X	10,000	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	**16,682**	**-**	**-**	**16,681**	**58,814**	**-**	**-**	**58,814**

Key:
BV = Book value
FV = Fair value

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

SECTION 7 - LOANS TO CUSTOMERS - ITEM 70

7.1 Loans to customers: breakdown by type

Transaction type/Values	31/12/2014						31/12/2013					
	Book value			*Fair Value*			Book value			*Fair Value*		
	Performing	Impaired		L1	L2	L3	*Performing*	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**1,154,030**	**6,117**	**33,607**			**1,193,754**	1,074,387	4,100	9,598			1,088,085
1. Current accounts	15,818	-	58	X	X	X	30,964	-		X	X	X
2. Repurchase agreements	290,316	-	-	X	X	X	288,048	-	-	X	X	X
3. Mortgages	18,357	-	307	X	X	X	-	-	-	X	X	X
4. Credit cards, personal loans, and salary-backed loans	13,485	-	-	X	X	X	236	-	-	X	X	X
5. Financial leasing	-	-	-	X	X	X		-	-	X	X	X
6. Factoring	812,498	6,117	33,242	X	X	X	726,462	4,100	9,598	X	X	X
7. Other loans	3,556	-	-	X	X	X	28,677	-	-	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	**1,154,030**	**6,117**	**33,607**	**-**	**-**	**1,193,754**	**1,074,387**	**4,100**	**9,598**	**-**	**-**	**1,088,085**

The item mainly includes the amount of receivables acquired by the Group as part of its Factoring business. The debt exposure of factoring activities is predominantly to the Public Administration, and more specifically to the local health authorities and Territorial Entities.

The percentage of impaired loans to the total portfolio in place is low, and amounts to 3.5%. The non-performing loans relating to the factoring portfolio (amounting to Euro 9,2 million) all relate to positions with local entities with financial difficulties, a significant portion of which were acquired and priced by taking account of the extent of the difficulties of the debtor which was already known when they were being acquired.

The value adjustments made to the receivables amounted to Euro 3,645 thousand; there was an increase in the analytical write-downs compared to the previous year due to the addition of 18 new non-performing positions (16 Municipalities in financial difficulties and 2 mortgage loans).

The analytical write-downs on the factoring portfolio amounted to Euro 2.7 million and on the SME loan portfolio amounted to Euro 183 thousand.

7.2 Loans to customers: breakdown by debtors/issuers

Transaction type/Values	31/12/2014			31/12/2013		
	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:	**1,154,030**	**6,117**	**33,607**	**1,074,387**	**4,100**	**9,598**
a) Governments	179,182	-	-	153,585	-	304
b) Other public entities	557,789	6,117	3,667	485,960	4,100	3,024
c) Other entities	417,059	-	29,940	434,842	-	6,270
non-financial companies	96,470	-	27,223	88,736	-	4,506
financial companies	303,352	-	-	344,525	-	
insurance	-	-	-	-	-	-
other	17,237	-	2,717	1,581	-	1,764
TOTAL	**1,154,030**	**6,117**	**33,607**	**1,074,387**	**4,100**	**9,598**

SECTION 10 - EQUITY INVESTMENTS - ITEM 100

10.1 Equity investments: information on equity relations

Company Name	Head Office	% share held	Voting rights held %
A. Wholly-owned subsidiaries			
1. S.F. Trust Holdings Ltd.	**London**	**100%**	**100%**
C. Companies subject to considerable influence			
1. St. Ing S.p.A.	**Cuneo**	**30.00%**	**30.00%**
2. Candia S.p.A.	**Cuneo**	**9.99%**	**9.99%**

Key:

1. Type of relationship.
- a) = majority voting rights at the ordinary shareholders' meetings
- b) = dominant influence
- c) = agreements with other shareholders
- d) = other forms of control
- e) = unified management pursuant to art. 26, paragraph 1 of "Legislative Decree 87/92"
- f) = unified management pursuant to art. 26, paragraph 2 of "Legislative Decree 87/92"
- g) = joint control

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

10.2 Significant equity investments: book value, fair value and dividends received

10.3 Significant equity investments: accounting information

	Cash and Cash Equivalent	Financial Assets	Non Financial Assets	Financial Liabilities	Non Financial Liabilities	Total Revenues	Operating Income	Net value adjustments/write-backs to p roperty, plan and equipment and to intangible assets	Profit (loss) from current opera-tions before taxes	Profit from current operations after taxes	Income (Loss) after tax from discontinued operations	Profit for the year	Other comprehensive income (net of tax)	Comprehensive Income
A. Consolidated companies														
1. S.F. Trust Holdings Ltd	-	90	437	1.005	242	330	(51)	(8)	227	227	-	227	-	227

10.4 Insignificant equity investments: accounting information

	Book value of equity investments	Total Assets	Total Liabilities	Total Revenues	Profit (loss) from current opera-tions before taxes	Income (loss) before tax from discontinued operations	Profit from current operations after taxes	Other comprehensive income (net of tax)	Comprehensive Income
C. Companies subject to significant influence									
1. ST.Ing SpA	2.058	3.623	1.665	4.869	155	-	155	-	155
2. Candia SpA	391	11.309	9.453	1.873	244	-	244	-	244

10.5 Equity investments: annual changes

Items/Values	31/12/2014	31/12/2013
A. Opening balance	**0**	**3,042**
B. Increases	**2,448**	**-**
B.1 Purchases	2,377	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	71	-
C. Decreases	**0**	**3,042**
C.1 Sales	-	-
C.2 Value adjustments	-	-
C.3 Other changes	0	3,042
D. Closing balance	**2,448**	-
E. Total revaluations	-	-
F. Total adjustments	-	-

The increases refer to the purchase of two equity investments on 05/05/2014 in the companies Candia S.p.A and St.Ing. S.p.A.

The transaction was finalised through a capital increase agreed by Parent Company Banca Sistema only, with the concomitant issue of new category B shares by the two companies, more specifically:

- 258 B shares with a value of Euro 516.46 in the share capital of Candia S.p.A., at a price of Euro 366,390.68 (of which Euro 233,144 for the share premium reserve) representing a 9.99% interest in the share capital;
- 15,429 B shares with a value of Euro 10.00 in the share capital of St.Ing. S.p.A. at a price of Euro 2,011,029 (of which Euro 1,856,739 for the share premium reserve) representing a 30.00% interest in the share capital.

The equity investment in the company SFT Holding amounts to zero. In November 2013, there was a sale of the equity investment in SF Trust Italia, 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 a variable component, 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 recognised in SFT Holding in relation to the variable part of the price, given that there are no elements to consider them virtually certain. There was a provisional profit of Euro 600 thousand as at 31 December 2014 and the company had not yet completed its winding up.

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	31/12/2014	31/12/2013
1. Assets owned	**1,201**	**715**
a) land	-	-
b) buildings	-	-
c) furniture	309	200
d) electronic systems	873	455
e) other	19	60
2. Assets acquired under financial lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
TOTAL	**1,201**	**715**

Property, plant and equipment are recorded in the financial statements according to the general acquisition cost criterion, including accessory expenses and any other costs incurred to put the assets in a condition to be used by the company, as well as indirect costs for the portion reasonably attributable to the asset and refer to the costs incurred at the close of 2013.

Depreciation percentages:

- office furniture: 12%
- furnishings: 15%
- electronic machines and various equipment: 20%
- assets of lower than Euro 516: 100%

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

	Land	Buildings	Moveable assets	Electronic systems	Other	Total
A. Gross opening balance	**-**	**-**	**793**	**888**	**242**	**1,923**
A.1 Net total impairment	-	-	593	432	183	1,208
A.2 Net opening balance	**-**	**-**	**200**	**456**	**59**	**715**
B. Increases	**-**	**-**	**150**	**566**	**-**	**716**
B.1 Purchases	-	-	150	566	-	**716**
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	-	-	-	-	-	**-**
C. Decreases	**-**	**-**	**41**	**149**	**40**	**230**
C.1 Sales	-	-	-	-	-	**-**
C.2 Depreciation and amortisation	-	-	41	149	-	**190**
C.3 Value adjustments from impairment charged to:	**-**	**-**	**-**	**-**	**-**	**-**
a. shareholders' equity	-	-	-	-	-	**-**
b. income statement	-	-	-	-	-	**-**
C.4 Decreases in fair value charged to:	**-**	**-**	**-**	**-**	**-**	**-**
a. shareholders' equity	-	-	-	-	-	**-**
b. income statement	-	-	-	-	-	**-**
C.5 Negative currency differences	-	-	-	-	-	**-**
C.6 Transfers to:	**-**	**-**	**-**	**-**	**-**	**-**
a. property, plant and equipment held for investment	-	-	-	-	-	**-**
b. assets held for disposal	-	-	-	-	-	**-**
C.7 Other changes	-	-			40	**40**
D. Net closing balance	**-**	**-**	**309**	**873**	**19**	**1,201**
D.1 Net total impairment	-	-	634	580	183	1,397
D.2 Gross closing balance	**-**	**-**	**943**	**1,453**	**202**	**2,598**
E. Valuation at cost	-	-	309	873	19	**1,201**

SECTION 13 - INTANGIBLE ASSETS - ITEM 130

13.1 Intangible assets: breakdown by type of asset

Assets / Values	31/12/2014		31/12/2013	
	Fixed term	Non-fixed term	Fixed term	Non-fixed term
A.1 Goodwill	-	**1,786**	-	**1,786**
B.2 Other intangible assets	**118**	-	**42**	-
A.2.1 Assets valued at cost:	118	-	42	-
a. Internally generated intangible assets	-	-	-	-
b. Other assets	118	-	42	-
A.2.2 Assets valued at fair value:	-	-	-	-
a. Internally generated intangible assets	-	-	-	-
b. Other assets	-	-	-	-
TOTAL	**118**	**1,786**	**42**	**1,786**

Other 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.

The goodwill comes from consolidation of the former SF Trust Group company Solvi Srl, then merged into the Parent Company.

After the merger, the former Solvi activities were completely integrated with the Bank's activities in order to increase efficiency both in terms of the expected synergy with other businesses, and in terms of overall operating costs. Since the activities formerly carried out by Solvi S.r.l. are now completely integrated with the rest of the Banca Sistema operations and cannot be separated, the Bank cannot distinguish between the expected cash flows of the merged entity and those of the Bank itself.

Therefore, in this case, the goodwill recorded on the financial statements of Euro 1.8 million, is not something that can be separated from the rest of the Bank.

In view of the above, the impairment test is governed by accounting standard IAS 36 which provides for ensuring that the recoverable value of the goodwill is higher than the value it is carried at on the financial statements; more specifically, as provided by paragraph 18 of IAS 36, the recoverable value was defined as "the higher between the fair value of an asset or a cash-generating unit less the selling costs and its value in use".

In this specific case, the impairment test was carried out with reference to the "Value in use" based on the cash flows indicated in the business plan of the Bank for the period 2014-2016 and a forecast of the expected cash flows for the period 2017-2019, prudentially assuming estimated growth of 2% year on year.

The main parameters used to make the estimate were the following:

Risk Free Rate + country risk premium	1.98%
Equity Risk Premium	6.00%
Beta	1.5
Cost of equity	9.70%
Growth rate "g"	*2.00%*

The estimated value in use obtained on the basis of the parameters used and the estimated growth were notably higher than the shareholders' equity as at 31/12/2014. In addition, considering that the estimation of the value in use was calculated through the use of estimates and assumptions that could contain elements of uncertainty, sensitivity analyses were carried out - as required by the applicable accounting standards - aimed at checking the changes in the results previously obtained in accordance with changes in the basic parameters and hypotheses.

More specifically, the quantitative exercise was carried out using a stress test on the parameters relating to the Bank's growth rate and the expected cash flow discount rate (quantified as an isolated or concomitant movement of 50bps), which confirmed the absence of impairment indications, confirming a value in use which was still significantly higher than the book value of goodwill on the financial statements.

In view of the above, since no qualitative trigger events were identified that would make an impairment requirement necessary, Management decided not to write-down the book value of the goodwill recorded on the financial statements as at 31 December 2014.

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**	-	-	**3,497**	-	**5,283**
A.1 Net total impairment	-	-	-	3,455	-	3,455
A.2 Net opening balance	**1,786**	-	-	**42**	-	**1,828**
B. Increases	-	-	-	**116**	-	**116**
B.1 Purchases	-	-	-	116	-	**116**
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	-	-	-	-	-	-
C. Decreases	-	-	-	**40**	-	**40**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	40	-	**40**
-Depreciation and amortisation	-	-	-	40	-	**40**
-Write-downs:	-	-	-	-	-	-
+ to shareholders' equity	-	-	-	-	-	-
+ to income statement	-	-	-	-	-	-
C.3 Decreases in fair value	-	-	-	-	-	-
- to shareholders' equity	-	-	-	-	-	-
- to income statement	-	-	-	-	-	
C.4 Transfers to non-current assets held for						-
disposal	-	-	-	-	-	-
C.5 Negative currency differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**1,786**	-	-	**118**	-	**1,904**
D.1 Total net value adjustments	-	-	-	3,495	-	3,495
E. Gross closing balance	**1,786**	-	-	**3,613**	-	**5,399**
F. Valuation at cost	**1,786**	-	-	**118**	-	**1,904**

Key: Fixed: fixed term | Non-fixed: non-fixed term

"Goodwill" refers to the merger of the subsidiary Solvi S.r.l. on 01/08/2013.

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 relating to value adjustments to loans for Euro 1,397 thousand;

Prepaid taxes relating to extraordinary transactions for Euro 836 thousand;

Other prepaid taxes for Euro 451 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)

	31/12/2014	31/12/2013
1. Opening balance	**888**	**3,922**
2. Increases	**1,655**	**925**
2.1 Prepaid taxes recorded during the year	1,655	864
a) relating to previous years	*397*	-
b) due to change in accounting standards		-
c) write-backs		-
d) other	*1,258*	864
2.2 New taxes or increases in tax rates		-
2.3 Other increases		61
3. Decreases	**109**	**3,959**
3.1 Prepaid taxes cancelled during the year	109	3,291
a) reversals	*109*	3,291
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	-	-
4. Final amount	**2,434**	**888**

14.3.1 Changes in prepaid taxes pursuant to Law 214/2011

	31/12/2014	31/12/2013
1. Opening balance	**1,002**	**1,013**
2. Increases	**1,361**	**677**
3. Decreases	**103**	**688**
3.1. Reversals	83	-
3.2 Transformation to tax credits	-	-
a) from losses for the year	-	-
a) from tax losses	-	-
3.3 Other decreases	20	688
4. Final amount	**2,260**	**1,002**

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

	31/12/2014	31/12/2013
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)

	31/12/2014	31/12/2013
1. Opening balance	**412**	**317**
2. Increases	**-**	**115**
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
3. Decreases	**135**	**20**
3.1 Prepaid taxes cancelled during the year	20	-
a. reversals	*20*	-
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	115	20
4. Final amount	**277**	**412**

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

	31/12/2014	31/12/2013
1. Opening balance	**-**	**154**
2. Increases	**11**	**-**
2.1 Deferred taxes recorded during the year	11	-
a. relating to previous years	-	-
b. due to change in accounting standards	-	-
c. other	*11*	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**154**
3.1 Deferred taxes cancelled during the year	-	154
a. reversals	-	154
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	**11**	**-**

SECTION 16 - OTHER ASSETS - ITEM 160

16.1 Other assets: breakdown

		31/12/2014	31/12/2013
Tax advances		2,484	1,951
Leasehold improvements		825	739
Other		561	615
Accrued income not related to the item		21	403
Work in progress		253	232
Prepaid expenses not related to the item		166	124
Guarantee deposits		66	58
	TOTAL	**4,376**	**4,122**

The item is mainly composed of tax advances relating to virtual stamp duty and withholding tax on interest expense. “Work in progress” mainly relates to transfers attributable to the item and fully set to zero in January 2015.

The leasehold improvements mainly relate to the capitalised costs linked to opening the branches in Milan, Pisa and Padua.

LIABILITIES

SECTION 1 - DUE TO BANKS - ITEM 10

1.1 Due to banks: breakdown by type

Type of Transaction / Values	31/12/2014	31/12/2013
1. Due to central banks	**730,020**	**850,097**
2. Due to banks	**91,384**	**81,484**
2.1 Current accounts and demand deposits	36,366	76,415
2.2 Term deposits	55,018	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	-	-
Total	**821,404**	**931,580**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**821,404**	**931,580**
Fair value	**821,404**	**931,580**

The item ‘Due to central banks’ relates to refinancing operations with the ECB as counterparty, with underlying guarantee in the form of Government Securities and trade receivables for the residual portion.

SECTION 2 - DUE TO CUSTOMERS - ITEM 20

2.1 Due to customers: breakdown by type

Type of Transaction / Values	31/12/2014	31/12/2013
1. Current accounts and demand deposits	311,751	184,580
2. Term deposits	569,410	533,617
3. Loans	238,807	240,125
3.1 Repurchase agreement	238,807	240,125
3.2 Other		-
4. Liabilities for commitments to repurchase own equity investments	-	-
5. Other amounts due	33,829	29,730
Total	**1,153,797**	**988,052**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	**1,153,797**	**988,052**
Total Fair value	**1,153,797**	**988,052**

The item 'other amounts due' refers principally to payables to be recognised to assignors as part of Factoring transactions.

SECTION 3 - SECURITIES IN ISSUE - ITEM 30

3.1 Securities in issue: breakdown by type

Type of security / Values	Total 2014				Total 2013			
		Fair Value				Fair Value		
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
A. Securities								
1. bonds	20,109	-	-	20,109	35,216	-	-	35,216
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	20,109	-	-	20,109	35,216	-	-	35,216
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**20,109**	-	-	**20,109**	**35,216**	-	-	**35,216**

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 June 2023 flat rate of 7% From June 2023 Euribor variable rate 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	12,093
TOTAL					**20,000**	**20,110**

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

	31/12/2014	31/12/2013
Work in progress	14,741	8,607
Taxes payable to the tax authorities and other entities	11,524	8,681
Accrued expenses	3,448	2,307
Payments received during the reconciliation	2,198	335
Trade payables	2,068	1,367
Payables to emplyees	2,004	1,091
Pansion payments	437	347
Other	20	155
	36,441	**22,890**

SECTION 11 - POST-EMPLOYMENT BENEFITS - ITEM 110

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

11.1 Post-employment benefits: annual changes

	Total 2014	Total 2013
A. Opening balance	**732**	**623**
B. Increases	**569**	**411**
B.1 Provisions for the year	379	299
B.2 Other changes	190	112
C. Decreases	**128**	**302**
C.1 Amounts paid out	21	131
C.2 Other changes	107	171
D. Closing balance	**1,173**	**732**
TOTAL	**1,173**	**732**

The other increases refer to the actuarial revaluation amount accounted for in 2014. The other decreases refer to amounts of the post-employment benefit provision accrued in 2014 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 estimated 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 re-proportioning 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%
Annual real pay increase rate	1.00%
Annual post-employment benefit increase rate	3.00%

The discount rate used to calculate the present value of the obligation was obtained, consistent with paragraph 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	31/12/2014	31/12/2013
1. Company pension funds	-	-
2. Other provisions for risks and charges	1,030	318
2.1 Legal disputes	-	-
2.2 Personnel charges	661	313
2.3 Other	370	5
TOTAL	**1,030**	**318**

"Other provisions" comprise the funds created for VAT receivables (Euro 300 thousand) and an allocation of Euro 625 thousand for deferred management staff bonuses.

12.2 Provisions for risks and charges: annual changes

	Pension funds	Other provisions	**Total**
A. Opening balance	**-**	**291**	**291**
B. Increases	**-**	**834**	**834**
B.1 Provisions for the year	-	834	**834**
B.2 Changes due to the passage of time	-	-	**-**
B.3 Changes due to discount rate adjustments	-	-	**-**
B.4 Other changes	-	-	**-**
C. Decreases	**-**	**95**	**-**
C.1 Use during the year	-	95	**-**
C.2 Changes due to discount rate adjustments	-	-	**-**
C.3 Other changes	-	-	**-**
D. Closing balance	**-**	**1,030**	**1,030**

12.4 Provisions for risks and charges - other provisions

"Other provisions" comprise the contributions already decided by the Interbank Fund for the Protection of Deposits relating to the Banca Tercas S.p.A. matter (Euro 70 thousand), and Euro 300 thousand for funds created for VAT receivables.

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.	32,876,525	46.69%
SGBS S.r.l. (Management Company)	18,578,900	26.38%
Fondazione CR Alessandria	5,950,104	8.45%
Fondazione Pisa	5,950,104	8.45%
Fondazione Sicilia	5,950,104	8.45%
Other private shareholders	1,115,315	1.58%

The breakdown of the shareholders' equity of the Group is reported below:

	Amount 2014	Amount 2013
1. Capital	8,451	8,451
2. Share premiums	4,325	4,325
3. Reserves	8,734	2,456
4. (Treasury shares)	-	-
5. Valuation reserves	2	(257)
6. Capital instruments	-	-
7. Profit for the year	19,539	7,002
TOTAL	**41,051**	**21,977**

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	**70,421,052**	**-**
fully paid-up	70,421,052	-
not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares in issue: opening balance	**70,421,052**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
against payment:		
- business combinations	-	-
- bond conversions	-	-
- warrant exercises	-	-
- other	-	-
free of charge		
- in favour of employees	-	-
- in favour of directors	-	-
- other		-
B.2 Disposal of treasury shares	-	-
B.3 Other changes	-	-
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

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

Nature	Value at 31/12/2014	Possibility of use	Available share
A.Capital	8,451	-	-
B. Capital reserves:			
Share premiums reserves	4,325	A,B,C	-
Reserve for loss accruing		-	-
C. Profit reserves:			
Legal reserve	553	B	-
Valuation reserve	2	-	-
Extraordinary reserve	13	A,B,C	-
Profit from previous year	7,002	A,B,C	-
Payment to future share capital increase account	-	-	-
D. Other reserves	(333)	-	-
TOTAL	**20,013**		-

Key:
A: for share capital increase
B: to cover losses
C: for distribution to shareholders

OTHER INFORMATION

1. Guarantees issued and commitments

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

Transactions	31/12/2014	31/12/2013
1. Financial guarantees issued	1,921	2,179
a) Banks	1,921	2,179
b) Customers	-	-
2.Commercial guarantees issued	67	67
a) Banks	45	45
b) Customers	22	22
3. Irrevocable commitments to grant finance	-	-
a) Banks	-	-
for certain use	-	-
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	**1,988**	**2,246**

2. Assets pledged to guarantee own liabilities and commitments

Portfolios	31/12/2014	31/12/2013
1. Held-for-trading financial assets	-	-
2. Financial assets carried at fair value	-	-
3. Available-for-sale financial assets	713,699	807,230
4. Held-to-maturity financial assets	-	-
5. Loans to banks	-	-
6. Loans to customers	144,723	-
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	**1,139,144**
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	278,481
1. securities issued by companies included in the scope of consolidation	28,444
2. other securities	250,037
c) third-party securities deposited with third parties	278,481
d) owned securities deposited with third parties	860,663
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	2014	2013
1. Held-for-trading financial assets	-	-	-	-	3
2. Available-for-sale financial assets	3,198	-	-	3,198	5,527
3. Held-to-maturity financial assets	-	-	-	-	-
4. Loans to banks	-	50	-	50	39
5. Loans to customers	-	72,544	-	72,544	46,704
6. Financial assets carried at fair value	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	1	1	-
TOTAL	**3,198**	**72,594**	**1**	**75,793**	**52,273**

1.4 Interest expense and similar charges: breakdown

Items/Types	Payables	Securities	Other transactions	2014	2013
1. Due to central banks	893	-	-	**893**	**813**
2. Due to banks	761	-	-	**761**	**325**
3. Due to customers	24,164	-	-	**24,164**	**26,978**
4. Securities in issue	-	1,638	-	**1,638**	**2,427**
5. Held-for-trading financial liabilities	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
TOTAL	**25,818**	**1,638**	**-**	**27,456**	**30,543**

SECTION 2 - COMMISSIONS - ITEMS 40 AND 50

2.1 Commission income: breakdown

Type of services/Values	2014	2013
a. guarantees issued	1	1
b. credit derivatives	-	-
c. management, brokerage and consulting services	302	40
1. financial instrument trading	3	2
2. currency trading	-	-
3. portfolio management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	1	3
5. Depositary bank	-	-
6. placement of securities	14	4
7. order receipt and transmission work	47	16
8. consultancy services	-	-
8.1. on investments	-	-
8.2. on financial structures	-	-
9. distribution of third-party services	237	15
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	237	15
9.3. other products	-	-
d. collection and payment services	18	*3*
e. servicing for securitisation transactions	-	185
f. services for factoring transactions	10,898	7,762
g. tax collection services	-	-
h. managing multilateral trading systems	-	-
i. maintaining and managing current accounts	65	17
j. other services	1,285	1,789
TOTAL	**12,569**	**9,797**

2.2 Commission expense: breakdown

Services/Values	2014	2013
a. guarantees received	86	-
b. credit derivatives	**-**	**83**
c. management and brokerage services:	**226**	**250**
1. financial instrument trading	66	14
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	-	-
6. off-site sale of financial instruments, products and services	160	236
d. collection and payment services	**160**	**86**
e. other services	**596**	**443**
TOTAL	**1,068**	**862**

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income	2014		2013	
	dividends	income from UCITS units	dividends	income from UCITS units
D. Equity investments	33		-	
Total	**33**	**-**	**-**	**-**

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	**-**	**886**	**-**	**-**	**886**
1.1 Debt securities	-	886	-	-	886
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	**-**	**-**	**-**	**(17)**	**(17)**
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	**-**	**886**	**-**	**(17)**	**869**

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

6.1 Profits (Losses) from disposal/repurchase: breakdown

Items/Income components	2014			2013		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Loans to banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Available-for-sale financial assets	4,192	(382)	3,810	5,413	(129)	(5,284)
3.1 Debt securities	4,192	(382)	3,810	5,413	(129)	(5,284)
3.2 Equity securities	-	-	-	-	-	-
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity financial assets	-	-	-	-	-	-
TOTAL ASSETS	**4,192**	**(382)**	**3,810**	**5,413**	**(129)**	**5,284**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	-	-	-	-	(75)	(75)
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**(75)**	**(75)**

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)				2014	2013
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		A	B	A	B		
A.Loans to banks:	-	-	-	-	-	-	-	-	-
▪ loans	-	-	-	-	-	-	-	-	-
▪ debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers:	-	(2,855)	(790)	125	-	-	-	(3,520)	(451)
Impaired loans acquired	-	-	-	-	-	-	-	-	-
▪ loans	-	-	-	-	-	-	-	-	-
▪ debt securities	-	-	-	-	-	-	-	-	-
Other receivables	-	(2,855)	(790)	125	-	-	-	(3,520)	(451)
▪ loans	-	(2,855)	(790)	125	-	-	-	(3,520)	(451)
▪ debt securities	-	-	-	-	-	-	-	-	-
C. Total	**-**	**(2,855)**	**(790)**	**125**	**-**	**-**	**-**	**(3,520)**	**(451)**

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

SECTION 11 - ADMINISTRATIVE EXPENSES - ITEM 180

11.1 Personnel costs: breakdown

Type of expenditure/Sectors	2014	2013
1) Employees	10,497	8,971
a) wages and salaries	6,267	6,792
b) social security charges	1,499	1,316
c) post-employment benefits	-	-
d) social security costs	-	-
e) provisions to post-employment benefits	573	307
f) provisions for pension fund and similar commitments:	-	-
▪ defined contribution plans	-	-
▪ defined benefit plans	-	-
g) amounts paid to external complementary social security funds:	219	208
- defined contribution	219	208
- defined benefit	-	-
h) costs arising on payment agreements based on own equity instruments	-	-
i) other benefits in favour of employees	2,526	348
2) Other working staff	127	157
3) Directors and Statutory Auditors	544	479
4) Laid-off personnel	-	-
5) Cost recovery for employees seconded to other companies	-	-
6) Cost reimbursement for third party staff seconded to the company	352	41
TOTAL	**12,107**	**9,648**

11.2 Average number of employees by category

Employees

a) Managers:	14
b) Line managers:	24
c) Remaining employees:	73

11.5 Other administrative expenses: breakdown

	2014	2013
Consultancy	8.147	5.371
Computer expenses	2.167	1.021
Rent and related fees	1.300	913
indirect duties and taxes	1.230	1.087
Service costs	194	194
Other	874	392
Advertising	783	730
Legal expenses	721	437
Car hire and related fees	508	411
Other computer expenses	377	390
Auditing Fees	293	189
Infoprovider expenses	253	227
Reimbursement of employee expenses	233	247
Maintenance moveable property and real properties	213	136
Membership fees	184	122
Water, lighting, gas and cleaning utility expenses	178	148
Data transmission lines	113	133
Printed materials and stationery	104	67
Telephone	100	109
Insurance	70	71
Other professional services	62	66
Postage	62	56
Entertainment expenses	41	41
Newspapers/books	31	33
Discretionary payments	26	60
Administrative expense reimbursements	117	19
ATM/cashpoint cards	6	20
TOTAL	**18.385**	**12,690**

SECTION 12 - NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 190

12.1 Net allocations to provisions for risks and charges: breakdown

Component	2014	2013
Allocations to the provisions for risks and charges - other risks and charges	369	-
TOTAL	**369**	**-**

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	190	-	-	190
▪ for functional use	190	-	-	190
▪ for investment	-	-	-	-
A.2 Acquired under financial lease	-	-	-	-
▪ for functional use	-	-	-	-
▪ for investment	-	-	-	-
TOTAL	**190**	-	-	**190**

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	40	-	-	40
▪ internally generated by the company	-	-	-	-
▪ other	40	-	-	40
A.2 Acquired under financial lease	-	-	-	-
TOTAL	**40**	-	-	**40**

SECTION 15 - OTHER OPERATING INCOME/COSTS - ITEM 220

15.1 Other operating costs: breakdown

	Total 2014	Total 2013
Financial charges: on collection and payment transactions	-	1
Amortisation/depreciation relating to leasehold improvements	223	188
Other costs	328	56
TOTAL	**551**	**245**

15.2 Other operating income: breakdown

	Total 2014	Total 2013
Reimbursement of expenses on current accounts and deposits for taxes and other	169	57
Recovery of sundry expenses	26	27
Other income	18	143
TOTAL	**213**	**227**

SECTION 16 - PROFITS (LOSS) FROM EQUITY INVESTMENTS - ITEM 240

16.1 Profits (loss) from equity investments: breakdown

	Income components/Sectors	2014	2013
1) Joint ventures			
A.	Income	-	-
	1. Revaluations	-	-
	2. Profit from disposal	-	-
	3. Write-backs	-	-
	4. Other income	-	-
B.	Expenses		
	1. Write-downs	-	-
	2. Value adjustments from impairment	-	-
	3. Losses from disposal	-	-
	4. Other costs	-	-
	Net result		-
2) Companies subject to considerable influence			
A.	Income	-	-
	1. Revaluations	-	-
	2. Profit from disposal	-	-
	3. Write-backs	-	-
	4. Other income	71	-
B.	Expenses	-	-
	1. Write-downs	-	-
	2. Value adjustments from impairment	-	-
	3. Losses from disposal	-	-
	4. Other costs	-	-
	Net result	**71**	**-**
	TOTAL	**71**	**-**

SECTION 19 - PROFITS (LOSSES) FROM TRANSFER OF INVESTMENTS - ITEM 270

19.1 Profits (losses) from transfer of investments: breakdown

	Income components/Sectors	2014	2013
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)**

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

20.1 Income taxes for the year for current operations: breakdown

	Component/Amounts	2014	2013
1	Current taxes (-)	(11,758)	(2,770)
2	Changes in current taxes from previous years (+/-)	79	-
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 (+/-)	1,547	(2,427)
5	Changes in deferred tax liabilities (+/-)	-	-
6	Taxes for the period (-) (-1+/-2+3+/-4+/-5)	(10,133)	(5,197)

20.2 Reconciliation between theoretical tax charge and actual tax charge in financial statements

IRES (Corporate Income Tax)	Taxable	IRES (Corporate Income Tax)	%
Theoretical IRES tax charge	**29,528**	**(8,120)**	**27.50%**
Permanent increases	1,484	(408)	1.38%
Temporary increases	3,984	(1,096)	3.71%
Permanent decreases	(1,434)	394	-1.34%
Actual IRES tax charge	**33,561**	**(9,229)**	**31.26%**
IRAP (Regional Business Tax)	Taxable	IRAP (Regional Business Tax)	%
Theoretical IRAP tax charge	**29,528**	**(1,645)**	**5.57%**
Permanent increases	36,706	(2,044)	6.92%
Permanent decreases	(21,675)	1,207	-4.09%
Actual IRAP tax charge	**44,558**	**(2,482)**	**8.41%**
▪ Other tax costs			
Total actual IRES and IRAP tax charge	**78,119**	**(11,711)**	**39.66%**

SECTION 23 - OTHER INFORMATION

Nothing to note.

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**			**19,539**
	Other income items without reversal to the income statement	-		
20.	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	-	-	4
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:**	**381**	**126**	**255**
	a) changes in fair value	34	11	23
	b) reversal to income statement	347	115	232
	- impairment adjustments	-	-	-
	- profits/losses on disposal			
	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**	**381**	**126**	**259**
140.	**Comprehensive income (Items 10+130)**	**381**	**126**	**19,797**

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

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

More specifically, this system revolves around four basic principles:

- appropriate monitoring by the company bodies and departments;
- adequate risk management policies and procedures;
- suitable methods and adequate tools for risk identification, monitoring and management and adequate measurement techniques; comprehensive internal controls and independent auditing.

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

With reference to the new rules on the functioning of the internal controls system, in accordance with the principle of collaboration between the control departments, the Internal Control Committee (internal council committee) was given the role of coordinating all the control departments.

The methods used 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 (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 Committee. During drafting of the 2014-2016 three-year business plan, the Group combined the strategic objectives with the first release of the 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 Group.

In addition, following the forecast growth for 2015 in the new business lines (i.e. Factoring for private parties, non-recourse acquisition of receivables related to pension and salary-backed loans and loans to Small and Medium-sized Enterprises backed by guarantees from the MedioCredito Centrale Fund (hereinafter “SME loans”), and the possibility of evaluating operational risks, the new KRIs were added to the RAF to monitor these businesses and risks and to update the target and threshold levels in accordance with the 2015 budget, in December 2014.

Starting on 1 January 2014, the Group has used 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 Group 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 website; the information will be published at least once a year within the timeframes provided for publishing financial statements.

1. General aspects

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

As at 31 December 2014, the Banca Sistema Group availed 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 clients, but rather provide an additional contribution to the definition of the information framework on the client’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 Group, along with information from the Bank of Italy Central Credit Bureau and other infoproviders 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 Group 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 Group 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 give rise to the credit risk are:

- Factoring activities (with and non recourse);
- SME loans (backed by the National Guarantee Fund - FNG);
- Non-recourse acquisition of salary-backed loan/ pension-backed loan portfolios;
- Financial instruments held in own accounts;
- Supervised intermediaries.

2. Credit risk management policies

2.1 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 its credit portfolio high, the Banca Sistema Group, as Parent Company, considered it wise to concentrate all the phases related to the assumption and control of risk within the 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 the Group. 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 generally generated as a direct consequence of the acquisition of credit on a definitive basis from customer companies against the insolvency of the assigned debtor. More specifically credit risk generated by the factoring portfolio mainly involves Public Administration Entities.

In relation to each receivable acquired, Banca Sistema uses its credit management structure to undertake the activities described below in order to check the status of the credit and whether there are any reasons that would prevent the underlying invoices from being paid, along with the expected date of payment.

More specifically, the structure does the following:

- check that each credit is certain, liquid and collectible, or that there are no disputes or claims, and that there are no further requests for clarification or information in relation to the receivable and if there are, that said requests are promptly met;
- check that the debtor has received and registered the assignment on its system, or that it is aware that the credit has been assigned to Banca Sistema;
- check that the debtor, where so provided under the contract of assignment or the acquisition proposal, has formalised the agreement to the assignment of the credit or has not refused in accordance with the terms of the law;
- check that the debtor has received all the documentation requested in order to make payment (copy of the invoice, orders, delivery notes, transport documents, etc.) and that it has registered its debt on its system (existence of the credit);
- check the existence of specific allocations, cash availability with local and/or regional Entities;
- check the payment status of the credits by meetings with the Public Administration and/or debtor companies, telephone contacts, e-mail etc. in order to facilitate confirmation and the removal of any obstacles that could delay and/or prevent payment.

With reference to the new businesses: with respect to the SME Loan product, credit risk is related to the incapacity of the two counterparties involved in the loan to honour the financial commitments, i.e.:

- the debtor (SME);
- the Guarantee Fund (Italian State).

This type of loan follows the standard operational process with respect to the following phases: preliminary investigation, grant and monitoring of the loan.

More specifically, two separate due diligence assessments are carried out on these types of loans (one by the Bank and the other by MCC) on the borrower.

The risk of insolvency of the debtor is lessened by the direct guarantee (i.e. referring to a single exposure) which is explicit, with no conditions attached, and irrevocable, by the Guarantee Fund, where the sole Manager is MedioCredito Centrale (known as “MCC”).

With reference to the acquisition of pension and salary-backed loans, the credit risk is related to the incapacity of the three counterparties involved in the loan to honour the financial commitments, i.e.:

- the Third Party Assignee Company;
- the assigning loan company;
- the insurance company.

The risk of non-payment by the Third Party Assignor Company/debtor is generated in the following cases:

- default of the Third Party Assignee Company (e.g.: insolvency);
- loss of the debtor’s job (for example if the debtor resigns or is dismissed) or a reduction in the debtor’s salary (for example the debtor is temporarily laid off/ on short-time);
- death of the debtor.

The above-mentioned risk cases are reduced by the obligatory agreement to a life and employment risk insurance policy. More specifically:

- the employment risk insurance policy would fully cover any non-payment resulting from the reduction in the debtor’s salary while, in the case of default by the Third Party Assignee Company or loss of employment by the debtor, the cover is limited to the residual portion of the debt exceeding the post-employment benefits accrued;
- the life insurance policy provides that the insurance will cover the remaining portion of the debt falling

due following death; however, any previously unpaid instalments will be borne by the heirs.

The Bank is subject to the risk of non-payment by the Insurance if a claim is made against a case. In order to reduce said risk, the Bank requires the outstanding credit portfolio to be insured by a number of different insurance companies in accordance with the following conditions:

- one single company without a rating or with a rating lower than Investment Grade can insure a maximum of 30% of the cases;
- one single company with an Investment Grade rating can insure a maximum of 40% of the cases.

The risk of non-payment by the Assignor Company is generated when a case is returned to the assigning party who must therefore repay the amount to the Bank. The Framework Agreement signed with the assigning party provides for the possibility of returning the credit in the event of fraud by the Third Party Assignee Company / debtor or in any case in the event of failure by the assigning party to comply with the criteria provided for under the framework agreement.

The Bank acquired receivables only from a qualified market operator as at 31/12/2014. With a view towards lowering this risk, the Bank is extending its operations and acquiring receivables from other specialised finance companies.

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.

With reference to the aforesaid operation, the Bank identified and selected a specific computer application to manage and monitor the treasury limits on the security portfolio and for the formulation of second level controls. 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.

2.2 *Management, measurement and control systems*

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

A number of 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 Bank 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 2014, classified as available-for-sale financial assets. These financial assets fall within the “banking book” definition due to their classification, even though they fall outside the traditional investment activity of the Bank, and are sources of credit risk. This risk lies in the inability of the issuer to repay all or part of the bonds underwritten at maturity.

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

In addition, the establishment of an asset portfolio that can be easily liquidated also meets the requirement to stay ahead of prudential regulatory requirements in relation to the governance and management of liquidity risk management (Basel 3).

With reference to counterparty risk, Banca Sistema 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.

2.3 Credit Risk Mitigation Techniques

In order to reduce exposure of the factoring portfolio, and more specifically its exposure with regard to the Public Entities and local health authorities (ASL), the Bank has drawn up a specific standard hedging credit default swap (CDS) contract and credit linked notes (CLN) *compliant* with international regulations in terms of ISDA (*International Swaps and Derivatives Association*) and European Market Infrastructure Regulation (EMIR) derivatives.

The issuing of this type of instrument allows the Bank to reduce exposures to Risk Concentration Limit levels.

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

2.4. Impaired financial assets

With reference to factoring, customer relations are constantly monitored by the competent Management offices.

Banca Sistema established its credit quality policy in accordance with the provisions of Circular 272 of the Bank of Italy with the main definitions set out below.

In accordance with the definitions of the aforementioned Circular, the Bank defines a financial asset as “impaired” when it falls under one of the following categories: non-performing, watchlist, restructured or past due and/or impaired exposures.

More specifically, the following definitions apply:

Non-performing:
cash and off-balance sheet exposures (loans, securities, derivatives, etc.) with a party who is insolvent (even if not yet legally ascertained) or in a substantially equivalent situation, regardless of any loss forecasts made by the Group (see article 5 of the bankruptcy law). This does not therefore take account of the presence of any guarantees (secured or unsecured) to protect the exposures.

The following are included in this category:

a) exposures with local entities (municipalities and provinces) who are undergoing financial difficulties for the portion of the amount subject to applicable payment procedure;

b) receivables acquired from third parties whose main debtors are non-performing parties regardless of the accounts allocation portfolio.

Watchlist:
cash and off-balance sheet exposures (loans, securities, derivatives, etc.) with respect to parties who are undergoing temporary situations of objective difficulty, but where said difficulty is expected to be resolved in a reasonable length of time. This does not take account of the presence of any guarantees (secured or unsecured) to protect the exposures.

Exposures to issuers who have not duly honoured their payment obligations (either the principal or the interest) relating to listed debt securities are included under watchlist items, unless the conditions are met to classify them as non-performing exposures. To that end a "grace period" is recognised as provided for in the contract or if it is not, recognised by the market on which the security is listed.

In any case, the watchlist items (so-called "objective watchlist") include exposures at book value that are different from those a) classified as non-performing; b) fall under the "Central authorities and central banks" "Territorial Entities" or "Public Sector Entities" portfolios in order to calculate the capital requirements for the credit risk and the counterparty risk that the exposures form part of, and for which both following conditions are fulfilled:

1. they are past due and / or impaired on a continuous basis:

- for over 150 days in the case of loans related to the consumer loan activity with an original duration of less than 36 months;
- for over 180 days in the case of loans related to the consumer loan activity with an original duration equal to or more than 36 months;
- for over 270 days for the loans not included in those described under paragraphs 1) and 2) above.

2. the total amount of the past due/impaired amounts described in paragraph 1) above and the other past due / impaired amounts of less than 150, 180 or 270 days (not including any late payment interest requested from the customer), in accordance with the type of exposure that is past due and relates to the same debtor, equals at least 10% of the entire exposure towards the debtor (not including any late payment interest). Please refer to the provisions for "Past due and/or impaired exposures" for more information on the continuous nature of the past due and/or impairment, apart from the fact that offsetting is not permitted between past due positions and default positions existing on certain lines of credit, with the available margins existing on other lines of credit granted to the same debtor. In addition, this offsetting is not permitted for the purpose of calculating the past due and/or impaired exposure amount.

Restructured exposures:
cash exposures and "off balance sheet" exposures (loans, securities, derivatives, etc.) for which the Group (including for transactions in pools with other banks) agrees to changes to the original contractual terms due to a deterioration in the economic-financial conditions of the debtor (for example rescheduling the conditions, reduction of the debt and/or the interest) that gives rise to a loss.

Exposures to companies where the activity is planned to be terminated are not included (for example cases of voluntary liquidation or similar situations). The requirements relating to "deterioration of the economic-financial conditions of the debtor" and the presence of a "loss" are assumed to be met when the restructuring regards exposures already classified under the watch-list or past due /impaired or default categories.

Past due and/or impaired exposures:
relate to cash exposures at book value on the financial statements and "off-balance sheet" (loans, securities, derivatives, etc.) that are not those classified as non-performing, watchlist or as restructured exposures, which, as at the date of reference of the notification, are past due or impaired for longer than 90 days.

With respect to checking the continuous nature of the past due exposures within the scope of the factoring operations:

- in the case of with recourse transactions, the past due exposure, unlike that related to the assignment of future credits, will become past due only upon the occurrence of both of the following conditions:
    - the advance is for an amount equal to or higher than the total receivables due for payment;
    - there is at least one invoice that has not been paid (expired) for more than 90 days and all the expired invoices (including those expired for less than 90 days) exceed 5% of the total receivables.

- in the case of non recourse transactions, for each debtor, reference must be made to the individual invoice that has the greatest delay.

Banca Sistema uses standard methods to calculate the capital requirements for credit risk and counterparty risk. This provides that exposures that fall under the portfolios relating to “Central authorities and central banks”, “Territorial Entities” or “Public Sector Entities” or “Companies”, must apply the notion of past due and/or impaired exposure at the level of the debtor.

Regulations also require the overall exposure to a debtor to be recognised as past due and/or impaired if the relevant threshold of 5% has been exceeded at the reference date of the notification.

In order to calculate the relevant threshold:

a) subject to the past due and/or impaired positions meeting the 90-day requirement, any past due portions of less than 90 days on other exposures will also be considered in the numerator;

b) any late payment interest requested from the customer will not be considered in the numerator;

c) the denominator is calculated by considering the book value for the securities and the cash exposure for the other credit positions.

With reference to the loans relating to all the Public Administration Entities, in order to determine the past due amounts, and in line with best market practices, Banca Sistema tests its past due portfolio starting from the date of acquiring the receivable or from the expected collection date (so-called final payment date) and if present, from the novated payment date.

More specifically, the category “past due impaired exposures” include the exposures for which Banca Sistema has not received direct payment or is not able to check, through the Credit Management department, whether the Public Administration Authorities have made the payment within the last 90 days from the reference date.

To that end the Credit Management department will use proof of payment from:

- Central government, with exclusive reference to exposures with the Central Administrations;
- the various Banca Sistema Servicers and from the Assignors,
- public information on payments made by the Territorial Entities (especially the Municipalities) gathered by the Bank of Italy, residing on the SIOPE platform - Computer System on transactions with public entities.

Finally, if verification of the proof of payment yields a negative result, Banca Sistema will check whether more than 90 days have passed from the date of acquisition of the invoice from the recognition date or whether the credit has gone beyond the final payment date (or from the novated payment date).

The above-mentioned rules apply to public debtors regardless of the factoring product used. Proof of non-direct payment is not applied to the company segment unless it is traceable to the Public Administration. The ninety-day check starts from the date of extension granted to the debtor in the maturity factoring transactions.

The “non-impaired past due loans” include the loans that have gone beyond the final payment date in accordance with what is shown in the liquidity risk and with the book value at the amortised cost of the receivables recognised on the financial statements.

The application of the definite rules in the collection policy provides that if there are any anomalies discovered and/or prejudicial elements regarding the counterparties, the relationship will be kept under observation and the Collection Manager will directly supervise until the problematic issues have been resolved.

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

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

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

The Bank has not recorded financial losses on its entire credit portfolio since it was established.

The methods used to calculate the analytical and generic write-downs applied to the credit portfolio are described below. Loans classified as impaired loans are analysed in order to quantify the potential impairment of the individual loan. With reference to the non-performing loans from the factoring portfolio with the Public Administration, the Bank makes an analytical write-down for the Municipalities who are registered as having “financial difficulty” status in accordance with legislative decree 267/00.

If appropriate write-downs were not made at the pricing stage, the Bank makes an analytical write-down on the outstanding value of the loan net of the rediscount which has not yet fallen due. The percentage write-down, without the Bank loss figures, was defined in accordance with the market benchmark.

On the other hand, with respect to the credit positions from the factoring portfolio where the debtor counterparty is a private company, the Bank does not record non-performing positions and therefore only applies a collective write-down to those positions.

For all the factoring portfolio credit positions that are classified as performing and past due (Public Administration and private), the Bank makes a prudential write-down, defining a segment of the portfolio through specific clusters defined when acquiring the portfolios and for which it makes in-depth assessments at the pricing stage, and therefore on those types of receivables and also exposures with Central Administration offices (for example Ministries).

On the other hand, with respect to the exposures related to ordinary factoring receivables, a generic write-down was applied by applying a fixed percentage to the factoring portfolio.

With reference to the impaired loans forming part of the SME portfolio, the Bank writes-down the entire portion of the loan that is not backed by the Guarantee Fund issued by Mediocredito Centrale.

With respect to performing SME loans, the Bank defined a generic write-down in accordance with the percentage of impaired income observed on its portfolio.

With respect to the pension and salary-backed loans, since no non-performing positions have been recorded, the Bank wrote-down the receivables on the basis of market benchmarks.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

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

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

Portfolios/quality	Non-performing loans	Watchlist loans	Restructured exposures	Impaired past due exposures	Non-impaired past due exposures	Other assets	**Total**
1. Held-for-trading financial assets	-	-	-	-	-	63	**63**
2. Available-for-sale financial assets	-	-	-	-	-	858,007	**858,007**
3. Held-to-maturity financial assets	-	-	-	-	-	-	**-**
4. Loans to banks	-	-	-	-	-	16,682	**16,682**
5. Loans to customers	9,158	9,955	-	20,610	63,330	1,090,701	**1,193,754**
6. Financial assets carried at fair value	-	-	-	-	-	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	-	**-**
8. Hedging derivatives	-	-	-	-	-	-	**-**
Total 2014	**9,158**	**9,955**	**-**	**20,610**	**63,330**	**1,965,453**	**2,068,506**
Total 2013	**4,504**	**-**	**-**	**9,194**	**33,575**	**1,946,671**	**1,993,944**

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

Portfolios/quality	Impaired assets			Performing			
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	Total (net exposure)
1. Held-for-trading financial assets	-	-	-	63	-	63	63
2. Available-for-sale financial assets	-	-	-	858,007	-	858,007	858,007
3. Held-to-maturity financial assets	-	-	-	-	-	-	-
4. Loans to banks	-	-	-	16,682	-	16,682	16,682
5. Loans to customers	42,197	2,473	39,724	1,156,487	2,457	1,154,030	1,193,754
6. Financial assets carried at fair value	-	-	-		-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 2014	**42,197**	**2,473**	**39,724**	**2,031,239**	**2,457**	**2,028,782**	**2,068,506**
Total 2013	**13,716**	**18**	**13,698**	**1,981,545**	**1,300**	**1,980,246**	**1,995,944**

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

Portfolios/seniority expired	OTHER EXPOSURES					
	Past due 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	-	-	-	-	63	**63**
2. Available-for-sale financial assets	-	-	-	-	858,007	**858,007**
3. Held-to-maturity financial assets	-	-	-	-	-	**-**
4. Loans to banks	-	-	-	-	16,682	**16,682**
5. Loans to customers	35,188	8,270	9,630	10,242	1,090,700	**1,154,030**
6. Financial assets carried at fair value	-	-	-	-	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	**-**
8. Hedging derivatives	-	-	-	-	-	**-**
Total 2014	**35,188**	**8,270**	**9,630**	**10,242**	**1,965,452**	**2,028,782**
Total 2013	**21,145**	**5,388**	**4,641**	**2,401**	**1,099,626**	**1,133,201**

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	16,682	-	-	16,682
TOTAL A	**16,682**	-	-	**16,682**
B. OFF-BALANCE SHEET EXPOSURES				
a. Impaired	-	-	-	-
b. Other	2,029	-	-	2,029
TOTAL B	**2,029**	-	-	**2,029**
TOTAL A+B	**18,711**	-	-	**18,711**

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

No impaired exposures to banks were registered.

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	11,439	2,281	-	9,158
b. Watchlist loans	10,078	122	-	9,956
c. Restructured loans	-	-	-	-
d. Impaired past due exposures	20,680	70	-	20,610
e. Other assets	2,014,495	-	2,457	2,012,038
TOTAL A	**2,056,692**	**2,473**	**2,457**	**2,051,762**
B. OFF-BALANCE SHEET EXPOSURES				
a. Impaired	-	-	-	-
b. Other	22	-	-	22
TOTAL B	**22**	-	-	**22**
TOTAL A+B	**2,056,714**	**2,473**	**2,457**	**2,051,784**

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

Reasons/Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. Gross opening exposure	**4,504**	**-**	**-**	**9,280**
of which: exposures disposed of and not derecognised	-	-	-	-
B. Increases	**9,002**	**11,000**	**-**	**21,326**
B.1 income from performing loans	7,954	7,126	-	20,927
B.2 transfers from other categories of impaired exposures	-	3,874	-	-
B.3 other increases	1,048	-	-	399
C. Decreases	**2,068**	**922**	**-**	**9,857**
C.1 expenses due to performing loans	212	-	-	3,774
C.2 write-offs	-	-	-	-
C.3 collections	1,856	922	-	2,209
C.4 gains on disposals	-	-	-	-
C.4 *bis* losses from disposal	-	-	-	-
C.5 transfers to other categories of impaired exposures	-	-	-	3,874
C.6 other decreases	-	-	-	-
D. Gross closing exposure	**11,438**	**10,078**	**-**	**20,749**

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

Reasons/Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. Opening total adjustments	**1**	**-**	**-**	**17**
▪ of which: exposures disposed of and not derecognised	-	-	-	-
B. Increases	**2,281**	**122**	**-**	**80**
B.1 value adjustments	2,273	118	-	58
B.1 *bis* losses from disposal	-	-	-	-
B.2 transfers from other categories of impaired exposures	-	3	-	-
B.3 other increases	8	1	-	22
C. Decreases	**1**	**-**	**-**	**27**
C.1 value write-backs from revaluation	-	-	-	2
C.2 value write-backs from collections	-	-	-	2
C.2 bis profit from disposal	-	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other categories of impaired exposures	-	-	-	3
C.5 other decreases	1	-	-	20
D. Closing total adjustments	**2,281**	**122**	**-**	**70**
▪ 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).

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.

Exposures	External rating classes							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No rating	**Total**
A. Cash exposures	**-**	**1,621,453**	**-**	**-**	**-**	**-**	**446,990**	**2,068,443**
B. Derivatives	-	-	-	-	-	-	**63**	**63**
B.1 Financial derivatives	-	-	-	-	-	-	-	-
B.2 Credit derivatives	-	-	-	-	-	-	63	63
C. Guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**1,988**	**1,988**
D. Commitments to grant finance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**1,621,453**	**-**	**-**	**-**	**-**	**449,041**	**2,070,494**

Long-term rating

Risk weighting ratios					ECAI
Creditworthiness 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)

Creditworthiness classes	Risk weighting ratios	ECAI DBRS Ratings Limited
1	20%	R-1 (high), R-1 (middle), R-1 (low)
2	50%	R-2 (high), R-2 (middle), R-2 (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
Creditworthiness 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
Creditworthiness 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:	*324,279*	-	-	*291,093*	*13,918*	-	-	-	-	-	*15,102*	-	-	*1,558*	***321,671***
2.1 fully guaranteed	312,512	-	-	291,093	13,918	-	-	-	-	-	5,499	-	-	1,558	**312,068**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 part guaranteed	11,767	-	-	-	-	-	-	-	-	-	9,603	-	-	-	**9,603**
- of which impaired	*217*	-	-	-	-	-	-	-	-	-	*205*	-	-	-	***205***
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	-	-	-	8,942	2,197	-	-	-	-	-	-	-	217	84	-	-	-	-
A2. Watchlist loans	-	-	-	-	-	-	-	-	-	-	-	-	7,359	117	-	2,596	6	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	-	-	-	842	2	-	-	-	-	-	-	-	19,646	67	-	121	-	-
A5. Other exposures	1,037,198	-	70	542,134	-	1,885	303,352	-	-	-	-	-	112,124	-	439	17,229	-	58
TOTAL A	**1,037,198**	**-**	**70**	**551,918**	**2,199**	**1,885**	**303,352**	**-**	**-**	**-**	**-**	**-**	**139,346**	**268**	**439**	**19,946**	**6**	**58**
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) 2014	**1,037,198**	**-**	**70**	**551,918**	**2,199**	**1,885**	**303,352**	**-**	**-**	**-**	**-**	**-**	**139,346**	**268**	**439**	**19,968**	**6**	**58**
TOTAL (A+B) 2013	**1,000,934**	**-**	**62**	**493,084**	**9**	**1,172**	**344,525**	**-**	**-**	**-**	**-**	**-**	**93,242**	**6**	**66**	**3,367**	**3**	**-**

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	9.158	2.281	-	-	-	-	-	-	-	-
A2. Watchlist loans	9.955	122	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	20.610	70	-	-	-	-	-	-	-	-
A5. Other exposures	2.011.778	2.457	260	-	-	-	-	-	-	-
TOTAL A	**2.051.501**	**4.930**	**260**	-	-	-	-	-	-	-
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) 2014	**2.051.523**	**4.930**	**260**	-	-	-	-	-	-	-
TOTAL (A+B) 2013	**1.934.904**	**1.318**	**248**	-	-	-	-	-	-	-

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	1,092	88	-	-	675	-	7,392	2,193
A2. Watchlist loans	366	1	4,032	12	1,655	5	3,902	105
A3. Restructured loans	-	-	-	-	-	-	-	-
A4. Past due loans	2,752	8	497	-	5,262	16	12,099	46
A5. Other exposures	69,453	189	35,699	73	1,375,864	1,077	530,760	1,725
TOTAL A	**73,663**	**286**	**40,228**	**85**	**1,383,456**	**1,098**	**554,153**	**4,069**
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) 2014	**73,685**	**286**	**40,228**	**85**	**1,383,456**	**1,098**	**554,153**	**4,069**
TOTAL (A+B) 2013	**29,297**	**75**	**25,788**	**59**	**1,454,907**	**349**	**424,912**	**835**

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

Exposures / Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
A2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	-	-	-	-	-	-	-	-	-	-
A5. Other exposures	16,591	-	90	-	-	-	-	-	-	-
TOTAL A	**16,591**	-	**90**	-	-	-	-	-	-	-
B. "Off-balance sheet" exposures										
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	1,966	-	63	-	-	-	-	-	-	-
TOTAL B	**1,966**	-	**63**	-	-	-	-	-	-	-
TOTAL (A+B) 2014	**18,557**	-	**153**	-	-	-	-	-	-	-
TOTAL (A+B) 2013	**60,964**	-	**74**							

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	475	-	1	-	16,115	-	-	-
TOTAL A	**475**	**-**	**1**	**-**	**16,115**	**-**	**-**	**-**
B. "Off-balance sheet" exposures								
B1. Non-performing loans	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-
B4. Other exposures	-	-	-	-	1,966	-	-	-
TOTAL B	**-**	-	-	-	**1,966**	-	-	-
TOTAL (A+B) 2014	**475**	**-**	**1**	**-**	**18,081**	**-**	**-**	**-**
TOTAL (A+B) 2013	**10,244**	**-**	**28**	**-**	**50,692**	**-**	**-**	**-**

B.4 Significant exposures

As at 31 December 2014 the significant exposures of the Parent Company comprise the following:

a) Book value: Euro 1,926,093 (in thousands);

b) Weighted value Euro 126,014 (in thousands);

c) 34 positions.

C. SECURITISATIONS

D. INFORMATION ON STRUCTURED ENTITIES (OTHER THAN SECURITISATION VEHICLES)

E. SECURITISATION AND ASSET DISPOSAL TRANSACTIONS

In March, following the acquisition of receivables from the securitisation vehicle Pubblica Funding, the Bank recorded Euro 23.9 million in trade receivables on the financial statements; following collections made from the date of acquisition up to 31/12/2014, the residual value amounted to Euro 9.9 million at year end. 92% of the residual receivables were subject to injunctions which had already been initiated before their acquisition by the Bank; no capital losses are expected, while the collection of late payment interest which has not been recorded on the income statement is expected with respect to them.

E.2 Sale transactions

E.2.1 Banking group - Financial assets disposed and not derecognised

Types / Portfolio	Held-for-trading financial assets			Financial assets carried at fair value			Available-for-sale financial assets			Held-to-maturity financial assets			Loans to banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/2014	31/12/2013
A. Cash assets	-	-	-	-	-	-	**24,973**	-	-	-	-	-	-	-	-	-	-	-	**24,973**	**59,905**
1. Debt securities	-	-	-	-	-	-	24,973	-	-	-	-	-	-	-	-	-	-	-	24,973	59,905
2. Equity securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 2014	-	-	-	-	-	-	**24,973**	-	-	-	-	-	-	-	-	-	-	-	**24,973**	**-**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 2013	-	-	-	-	-	-	**59,905**	-	-	-	-	-	-	-	-	-	-	-	**-**	**59,905**
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)

E.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	**-**	**-**	**24,969**	**-**	**-**	**-**	**24,969**
a) corresponding to assets disclosed in full	-	-	24,969	-	-	-	24,969
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 2014	**-**	**-**	**24,969**	**-**	**-**	**-**	**24,969**
Total 2013	**-**	**-**	**59,690**	**-**	**-**	**-**	**59,690**

F. CREDIT RISK MEASUREMENT MODELS

1.2 market risks

Banca Sistema does not trade its financial instruments. As at 31 December 2014, 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 Bank to the risk of loss due to the failure to settle the transaction;
- concentration risk: which provides for specific internal capital for banks which - due to the 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

Banca Sistema is not especially exposed to interest rate risk since its sources are mainly from retail customers through the deposit accounts and from interbank deposits collateralised at very short-term fixed rates.

Customer deposits with deposit 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.

In addition, with specific reference to the product "SI conto" DEPOSITO", the Bank set new parameters to calculate the capital requirements to deal with this risk, duly evaluating the implicit redemption option. The historic percentage recorded of early redemptions is calculated for this item. This value is applied to all the deposits from this product and the portion is entered into the 1-day bucket and the remaining amounts are "bucketed" in accordance with the contractual expiry chosen by the customer.

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.

At the reference date, the technical forms of the new business products offered (SME loans and pension and salary-backed loans) had no specific effect on the interest rate risk.

The securities held are classified under the Available-for-sale portfolio, and in accordance with the Bank's compliance with the order of the Bank of Italy, provides that the change in fair value - in any case modest given the high credit standing and short average financial term - is represented in the capital reserves of the Bank.

The assumption of interest rate risk related to the funding activities of the Treasury Division of the Bank 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 Department - which is involved in the direct management of funding - and the Risk Management department - which is in charge of identifying the most suitable risk indicators and monitoring the performance of funding assets and liabilities in relation to the pre-established limits.

This management assesses and monitors the main assets and liabilities subject to interest rate risk through the ALM measuring report.

The results of these analyses are submitted to the Risk Management Committee who evaluates the exposure of the Bank to interest rate risk and proposes investment/funding policies and interest rate risk management policies, and during the year suggests any interventions that should be taken to ensure that it is managed in accordance with the risk policies approved by the Bank.

The interest rate risk position is also subject to periodic reporting to the Board of Directors of the Bank within the scope of the Risk Reporting prepared by the Risk Management Department.

The Interest Rate Risk is considered to be a Pillar II risk, and is kept under continuous assessment by the Treasury 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 Bank was 3.0% as at 31 December 2014.

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

B. Fair value hedging

The Bank did not carry any such transactions in 2014.

C. Cash flow hedging

The Bank did not carry any such transactions in 2014.

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	**102.085**	**424.843**	**448.909**	**651.466**	**404.908**	**33.181**	**4.057**	**-**
1.1 Debt securities	-	-	302.713	438.154	117.140	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	302.713	438.154	117.140	-	-	-
1.2 Loans to banks	566	16.115	-	-	-	-	-	-
1.3 Loans to customers	101.519	408.728	146.196	213.312	287.768	33.181	4.057	-
- current accounts	16.971	-	-	-	-	-	-	-
- other loans	84.548	408.728	146.196	213.312	287.768	33.181	4.057	-
- with early redemption option	5.451	22.145	3.369	1.861	33.686	6.965	11	-
- other	79.097	386.583	142.827	211.451	254.082	26.216	4.046	-
2. Cash liabilities	**951.396**	**1.023.805**	**12.093**				**8.017**	**-**
2.1 Due to customers	914.992	238.805	-	-	-	-	-	-
- current accounts	881.145	-	-	-	-	-	-	-
- other amounts due	33.846	238.805	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	33.846	238.805	-	-	-	-	-	-
2.2 Due to banks	36.404	785.000	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other amounts due	36.404	785.000	-	-	-	-	-	-
2.3 Debt securities	-	-	12.093	-	-	-	8.017	-
- with early redemption option	-	-	12.093	-	-	-	-	-
- other	-	-	-	-	-	-	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	-	-	-	-	-	-	-	-

2.3 Exchange risk

QUALITATIVE INFORMATION

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

All items are in currency, therefore the Bank is not subject to exchange rate risk.

2.4 Derivative instruments

A. Financial derivatives

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

B. Credit derivatives

As at 31 December 2014 the bank posted the Credit Default Swap (CDS) value as protection buyer on the Calabria Region Public Administration.

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	-	-	5,035	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Other	-	-	-	-
Total 2014	**-**	**-**	**5,035**	**-**
Average values	**-**	**-**	**-**	**-**
Total 2013	**-**	**-**	**-**	**10,000**
2. Protection sold	-	-	-	-
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Other	-	-	-	-
Total 2014	**-**	**-**	**-**	**-**
Average values	**-**	**-**	**-**	**-**
Total 2013	**-**	**-**	**-**	**-**

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	-	-	5,035	-	-	-	-
- positive fair value	-	-	63	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Protection sold	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
Bank portfolios	-	-	-	-	-	-	-
1) Protection bought	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- 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	**5,035**	**-**	-	**5,035**
B.1 Credit derivatives with "qualified reference obligation"	5,035	-	-	**5,035**
B.2 Credit derivatives with "unqualified reference obligation"	-	-	-	**-**
Total 2014	**5,035**	**-**	-	**5,035**
Total 2013	**10,000**	**-**	-	**10,000**

C. FINANCIAL AND CREDIT DERIVATIVES

As at 31 December 2014, the item had no amount.

1.3 Liquidity risks

QUALITATIVE INFORMATION

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

The liquidity risk is represented by the possibility that the Bank cannot keep its commitments to pay due to its inability to obtain funds or its inability to sell assets on the market in order to deal with any financial imbalances. The inability to obtain new adequate financial resources also represents a liquidity risk, in terms of amount and cost, with respect to the operating requirements/ opportunities, forcing the Bank to slow down or stop development of its business, or incurring excessive funding costs to meet its commitments, with significant negative impacts on the profitability of its business.

Funding sources are represented by the capital, customer funding, funding from the Italian and international interbank market and the Eurosystem.

In order to promptly discover and deal with any difficulties in obtaining the funds needed for running its business, Banca Sistema - in accordance with the provisions of the Prudential Regulatory provisions - established its own Contingency Funding Plan, i.e. a set of specific strategies to adopt in the event of liquidity issues, setting out the procedures to obtain funding sources in the event of an emergency.

These strategies represent a basic feature in the reduction of liquidity risk.

This policy defines - in terms of liquidity risk - the objectives, processes and strategies to implement in the event of liquidity problems, the organisational structures set up to deal with these strategies, the risk indicators, the calculation methods and warning thresholds and the procedures to adopt to obtain funding sources that can be used in the case of an emergency.

In 2014, the Bank had a particularly prudent funding policy aimed at favouring the stability of the funding, on some occasions obtaining higher funding sources than strictly required for the immediate operating requirements, acting as a stable provider on the interbank markets, even with extremely short expiry periods. This policy, which sacrificed economic efficiency of treasury management in favour of certainty and stability in terms of liquidity in relation to the rate differential between interbank funding and investments, was proven successful as can be seen by the Bank's profitability levels.

More specifically, at a prudential level, Banca Sistema kept the quality of its securities high and its assets liquid to cover all the funding from the "SI conto!" deposit product.

The Bank departments in charge of ensuring the correct application of the liquidity policies include the Treasury Division - which is involved in the direct management of liquidity - and the Risk and Compliance Division - which is in charge of identifying the most suitable risk indicators and monitoring their performance in relation to the pre-established limits.

Just as with the interest rate risk, this management assesses and monitors the main assets and liabilities subject to interest rate risk through the ALM (Asset Liability Management) measuring report for the liquidity risk.

The results of these analyses are submitted to the Risk Management Committee which evaluates the exposure of the Bank to liquidity risk and proposes investment/ funding policies.

The liquidity risk position is also subject to periodic reporting to the Board of Directors of the Bank within the scope of the Risk Reporting prepared by the Risk Management Department.

In order to discover and deal with any difficulties in obtaining the funds needed for running its business, Banca Sistema - in accordance with the provisions of the Prudential Regulatory provisions and its strategic targets established in the Business Plan - established the guidelines to manage cash flows, 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.

The Bank identified a specific section in charge of monitoring liquidity risk in the Risk Appetite Framework (RAF) in order to monitor the effects of the intervention strategies and reduce liquidity risk.

The liquidity management policy is organised into the following basic parts:

- identification of the duties and responsibilities to assign to the company departments involved in the liquidity management process;
- definition of the operating processes related to execution of the activities;
- calculation of the measurement instruments;
- definition of the operating limits, warning indicators and tolerance thresholds.

The Liquidity and Contingency Funding Plan Policy was approved by the Board of Directors and is subject to review on at least an annual basis by the Risk Division with the assistance of the Treasury Division and the Financial Division.

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	**96,864**	**280,762**	**1,638**	**28,083**	**78,426**	**449,785**	**651,202**	**410,938**	**36,366**	**16,115**
A.1 Government securities	-	-	-	-	-	303,752	438,212	117,181	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	96,864	280,762	1,638	28,083	78,426	146,033	212,990	293,757	36,366	16,115
▪ Banks	567	-	-	-	-	-	-	-	-	***16,115***
▪ Customers	96,297	280,762	1,638	28,083	78,426	146,033	212,990	293,757	36,366	-
Cash liabilities	**951,395**	**518,805**	**-**	**150,000**	**355,000**	**-**	**-**	**-**	**20,000**	**-**
B.1 Deposits and current accounts	917,529	-	-	50,000	5,000	-	-	-	-	-
▪ Banks	36,384	-	-	50,000	5,000	-	-	-	-	-
▪ Customers	881,145	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	20,000	-
B.3 Other liabilities	33,866	518,805	-	100,000	350,000	-	-	-	-	-
"Off-balance sheet" transactions	**63**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	63	-	-	-	-	-	-	-	-	-
▪ Long positions	63	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-

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

Types	Committed		Not Committed		Total 2014	Total 2013
	BV	FV	BV	FV		
1. Cash and cash equivalents	-	X	66	X	**66**	71
2. Debt securities	713,698	713,667	144,309	144,298	**858,007**	847,045
3. Equity securities	-	-	-	-	**-**	-
4. Loans	94,966	X	1,115,470	X	**1,210,436**	1,146,899
5. Other financial assets	-	X	2,511	X	**2,511**	-
6. Non-financial assets	-	X	10,233	X	**10,233**	9,335
Total 2014	**808,664**	**713,667**	**1,272,589**	**144,298**	**2,081,253**	**X**
Total 2013	**835,907**	**807,230**	**1,167,443**	**39,832**	**X**	**2,003,350**

Key:

BV = Book value
FV = Fair value

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

Types	Committed	Not Committed	Total 2014	Total 2013
1. Financial assets	126,964	176,751	**303,715**	**308,263**
▪ Securities	*126,964*	*176,751*	**303,715**	**308,263**
▪ Other	-	-	**-**	**-**
2. Non-financial assets	**-**	**-**	**-**	**-**
Total 2014	**126,964**	**176,751**	**303,715**	**X**
Total 2013	**308,263**		**X**	**308,263**

1.4 Operational risks

QUALITATIVE INFORMATION

Operational risk is the risk of suffering losses due to the inadequacy or inefficiency of procedures, human resources or internal systems, or by external events. Operational risks include - among other things - losses ensuing from fraud, human error, interruptions of operations, the unavailability of systems, breaches of contract, or natural catastrophes. Operational risk includes legal risk, while strategic risk or reputational risk are not included. Therefore operational risk refers to the various types of events that are not individually significant alone, but only if analysed together and quantified by the entire risk category.

In order to calculate the capital requirements to cover the operational risk, the Bank adopted the Basic method (Basic Indicator Approach - BIA), which provides that the capital requirements are calculated by applying a regulatory coefficient equal to 15% of the three-year average of the applicable indicator established by article 316 of EU Regulation 575/2013 of 26 June 2013.

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, the Bank implemented an operational risk management process (Operational Risk Framework) in order to identify, measure and monitor the operational risk. More specifically, the Risk Division helps the persons in charge of the operational risk self-assessment process and measures the degree of those risks net of the controls and mitigation measures in place. This method implies an initial evaluation of the possible related risks in terms of probability and impact (known as "Gross risk") and a subsequent analysis of the controls in place (qualitative assessment of the efficiency and effectiveness of the controls) that could reduce the gross risk emerged and a consequential evaluation of the levels of risk (so-called "Residual risk"). The Risk Division measures the operational risk using a calculation method that generates a score with values from 1 to 5 (where 1 indicates a low level of risk and 5 indicates a high level of risk).

The objective of the Operational Risk Framework is to provide management with an instrument to manage operational risk, i.e. the possibility of evaluating the existing control system in the Bank in terms of ability to efficiently deal with the risks and reduce the relevant risks identified to an "acceptable" level (risks with a scoring of more than 3.5)

The Risk Division produces and sends the Risk Management Committee, the Internal Control Committee and the Board of Directors a report every quarter which shows - among other things - the concise indicator of the degree of operational risk relating to company operations (IROR), the capital requirements generated by the operational risk and their development compared to the previous report.

Following conclusion of the assessment of the Bank's operational risks, the Risk Division identified the risks for which corrective action would be necessary. The mitigation measures were defined with the Heads of Management and the Risk Division monitors compliance with the expiries of these actions.

The Bank also evaluates the operational risks related to the introduction of new products, activities, processes and systems and reduces the operational risk through the preliminary analysis by the Risk Division which provides an opinion on the Bank.

The Risk Division helps monitor the IT risks on the basis of information data flows received from the IT manager on the evaluation of the computer risk. On these results, the Risk Division checks compliance with what emerged in the assessment of operational risks.

In addition, in order to make the analyses consistent and complete, the results of operational risks and the checks carried out by the Compliance and Anti-money laundering Division are shared within the Risk and Compliance Division and when coordinating the risk control functions.

The Internal audit division monitors the valid performance of the Bank’s operations and processes, and evaluates the efficiency and effectiveness of the entire internal control system established to monitor the activities that are exposed to risk.

As further protection against operational risks, the Bank took out insurance cover (where the Head of the Risk Division is the owner of the operational risks resulting from third party actions or which occur to third parties, along with suitable contractual clauses covering damages caused by infrastructure and service suppliers, however it approved a Business Continuity Plan.

PART F - INFORMATION ON CONSOLIDATED EQUITY

SECTION 1 - CONSOLIDATED EQUITY

A. QUALITATIVE INFORMATION

The Bank manages its equity in accordance with the principles of prudential vigilance and aims to maintain adequate levels of capitalisation when it takes on the risks that are typical of debt positions.

The policy for allocating the profits for the year is to strengthen the Bank capital situation, with specific emphasis on the primary quality capital, the prudent distribution of the financial results and to guarantee the right balance of the financial position.

B. QUANTITATIVE INFORMATION

B.1 Consolidated Equity: breakdown

As at 31 December 2014, the company's equity was composed as follows:

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	8.734	-	-	-	8.734
Capital instruments	-	-	-	-	-
(Treasury shares)	-	-	-	-	-
Valuation reserves	2	-	-	-	2
Available-for-sale financial assets	23	-	-	-	23
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	(21)	-	-	-	(21)
Share of the valuation reserves of equity investments designated at equity	-	-	-	-	-
designated at equity	-	-	-	-	-
Special revaluation laws	-	-	-	-	-
Profit (loss) for the year for the Group and minorities	19.539	-	-	-	19.539
TOTAL	**41.051**	**-**	**-**	**-**	**41.051**

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	113	90	-	-	-	-	-	-	113	90
2. Equity securities	-	-	-	-	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 2014	**113**	**90**	**-**	**-**	**-**	**-**	**-**	**-**	**113**	**90**
Total 2013	**17**	**250**	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**250**

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

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	**(233)**	-	-	-
2. Increases	**368**	-	-	-
2.1 Increases in fair value	113	-	-	-
2.2 Reversal of negative reserves to income statement	244	-	-	-
▪ From impairment	-	-	-	-
▪ From disposals	244	-	-	-
2.3 Other changes	11	-	-	-
3. Decreases	**112**	-	-	-
3.1 Decrease in fair value	90	-	-	-
3.2 Impairment adjustments	-	-	-	-
3.3 Reversal of positive reserves to income		-	-	-
statement: from disposals	22	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	**23**	-	-	-

2.1 Ambito di applicazione della normativa

By letter dated 5 May 2014, the Parent Company informed the Bank of Italy that it wished to exercise the right to be exempted from sending consolidated notifications (option provided under paragraph 1.4 of circular 115 “Instructions to fill out the supervisory notifications on a consolidated basis”).

A record of the own funds and regulatory ratios of the Parent Company will be provided below.

2.2 Own funds

A. QUALITATIVE INFORMATION

Own funds, the weighted risk assets and solvency ratios as at 31 December 2014 were calculated on the basis of the new harmonised regulations for banks contained in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the standards defined by the Basel Committee on banking supervision into the European Union (so-called Basel 3 framework) and on the basis of the Bank of Italy Circulars nos. 285 and 286 (issued in 2013) and update of Circular no. 154.

Own funds are set out in a 3-level structure:

- Common Equity Tier 1 (CET1)
- Additional Tier 1, AT1 which also forms part of the Tier 1 Capital (Tier 1, T1); these are added to
- Tier 2 capital (T2).

The regulatory provisions relating to own funds provide for the introduction of the new regulatory framework on a gradual basis, through a transitional period, in general up to 2017, during which certain elements which will be fully calculated or inferred in the Common Equity when fully operational, will only impact the Common Equity Tier 1 for a certain percentage.

Generally the residual percentage with respect to the applicable percentage is calculated/inferred from the Additional tier 1 capital (AT1) and the Tier 2 capital (T2) or considered in the weighted risk assets. If the AT1 and T2 aggregates are negative, this will also be used to calculate the CET1.

Since the conditions set out under article 26, paragraph 2 of EU Regulation no. 575 of 26 June 2013 (CRR) for the calculation were met, the common equity tier 1 took account of the profit for the year net of the portion set aside for dividends as per board decision.

B. QUANTITATIVE INFORMATION

	31/12/2014
A. Common Equity Tier 1 (CET1) Before application of the prudential filters	39,759
of which CET1 instruments subject to transitional provisions	- 6
B. Prudential CET1 filters (+/-)	-
C. CET1 gross of deductible elements and the effects of the transitional regime (A+/-B)	39,759
D. Elements deductible from CET1	- 1,904
E. Transitional regime - Impact on CET (+/-)	- 6
F. Total Common Equity Tier 1 - CET1 (C-D+/-E)	37,849
G. Additional Tier 1 capital - AT1, gross of deductible elements and the effects of the transitional regime	8,000
of which AT1 instruments subject to transitional provisions	-
H. Elements deductible from AT1	-
I. Transitional regime - impact on AT1 (+/-)	-
L. Total Additional tier 1 - AT1 (G-H+/-I)	8,000
M. Tier 2 capital - T2, gross of deductible elements and the effects of the transitional regime	12,000
of which T2 instruments subject to transitional provisions	-
N. Elements deductible from T2	-
O. Transitional regime - impact on T2 (+/-)	-
P. Total Tier 2 - T2 (M-N+/-O)	12,000
Q. Total Own Funds (F+L+P)	57,849

2.3 Capital adequacy

QUALITATIVE INFORMATION

The Shareholders' Equity of the parent company amounted to €57.9 million, compared to a weighted assets of 351 million, deriving almost exclusively from credit risk.

Based on Article 467, paragraph 2 of the RRC, implemented by the Bank of Italy in Circular 285, the Bank has adopted the option to exclude from capital, gains or losses not related to exposures to the central administrations classified as Financial Assets Available For Sale (AFS).

The effects of this exclusion on capital ratios are marginal.

B. QUANTITATIVE INFORMATION

Categories / Values	Unweighted amounts	Weighted amounts / requirements
	31/12/2014	31/12/2014
A. RISK ASSETS		
A.1 Credit risk and counterparty risk	**1.799.310**	**298.803**
1. Standard method	1.799.310	298.803
2. Method based on internal ratings	-	-
2.1 Base	-	-
2.2 Advanced	-	-
3. Securitisations	-	-
B. REGULATORY CAPITAL REQUIREMENTS		
B.1 Credit risk and counterparty risk	-	**23.904**
B.2 Risk of adjusting the value of the receivable	-	**1**
B.3 Settlement risk	-	**-**
B.2 Market risk	-	**-**
1. Standard method	-	-
2. Internal models	-	-
3. Concentration Risk	-	-
B.5 Operational risk	-	**5.196**
1. Basic method	-	5.196
2. Standard method	-	-
3. Advanced method	-	-
B.6 Other calculation elements	-	**-**
B.7 Total prudential requirements		**29.102**
C. RISK ASSETS AND REGULATORY RATIOS	-	**363.771**
C.1 Risk-weighted assets		363.771
C.2 Common Equity Tier 1 (CET1) / Weighted Risk Assets (CET1 capital ratio)	-	10,40%
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	-	12,60%
C.4 Total Own Funds / Risk-weighted assets (Total capital ratio)	-	15,90%

With respect to payments made in 2014 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.

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.

1. Information on remuneration of key management personnel

Key management personnel: payments amounted to Euro 506 thousand in 2014.

2. Disclosure on transactions with related parties

a. Directors

Payments made to the Board of directors in 2014 amounted to Euro 363 thousand.

These payments do not include charges for social security contributions and VAT.

No guarantees were issued in 2014 to directors.

b. Statutory auditors

Payments made to the Board of Statutory Auditors in 2014 amounted to Euro 84 thousand.

These payments do not include charges for social security contributions and VAT.

No credit or guarantees were issued in 2014 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
SF Trust Holding Ltd.	1,005	361	884	77
Candia S.P.A.	8,709	8	-	82
St.Ing. S.P.A.	-	14	2	-
Corporate officers	1,384	1,141	6	9
Shareholders - SGBS	-	19	1	-
Shareholders - Sof Luxco	-	890	15	-
Shareholders - Fondazione Pisa	-	25,682	1,697	224
Shareholders - Fondazione CR Alessandria	-	480	-	-
Shareholders - Fondazione Sicilia	-	111	1	-
Total	**11,099**	**28,705**	**2,606**	**392**

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 2014.

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:

1. Auditing services including the following:
2. Checking the annual accounts in order to make a professional judgement.
3. Checking the interim accounts.
4. 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.
5. Tax consulting services.
6. Other services.

The payments shown in the table for 2014 are those which contractually include any indexing (but not also out-of-pocket expenses, any regulatory contributions or VAT).

The payments made to any secondary auditors or parties belonging to the respective networks are not included as per the cited provision.

Type of service	Entity providing the service	Recipient	Remuneration
Independent Audit	KPMG S.p.A.	Banca Sistema S.p.A.	114
Limited half-yearly audit	KPMG S.p.A.	Banca Sistema S.p.A.	25
Total			**139**

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

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

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

1 We have audited the consolidated financial statements of the Banca Sistema Group as at and for the year ended 31 December 2014, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 4 April 2014 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of the Banca Sistema Group as at and for the year ended 31 December 2014 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Banca Sistema Group as at 31 December 2014, the results of its operations and its cash flows for the year then ended.

4 The directors of Banca Sistema Group are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report with the financial statements to which it refers, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report is consistent with the consolidated financial statements of the Banca Sistema Group as at and for the year ended 31 December 2014.

Milan, 20 February 2015

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014

BANCA SISTEMA
CONTEMPORARY BANK