

Banca Sistema Group

**THIRD PILLAR
PUBLIC DISCLOSURE**

31 December 2014

BANCA
S I S T E M A
CONTEMPORARY BANK

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INTRODUCTION

This document complies with the provisions of Prudential Supervision which states that the following must be disclosed to the public (known as the Third Pillar):

- capital adequacy;
- exposure to risks;
- and the general characteristics of the systems established to identify, measure and manage these risks.

The information that must be published is quantitative and qualitative and classified in synopses (“tables”), with each referring to a certain disclosure area.

This public disclosure was drawn up taking account of the following Regulations:

- EU Regulation no. 575/2013 of 26 June 2013 (CRR)
- Directive 2013/36/EU (CRD IV);
- “Supervision provisions for banks” - Bank of Italy Circular no. 285 of 17 December 2013;
- “New prudential supervision provisions for banks” - Bank of Italy Circular no. 263 of 27 December 2006 as amended.

Part eight (EU Regulation no. 575/2013 of the European Parliament and Council of 26 June 2013)	Qualitative information	Quantitative information
Section 1 Risk management objectives and policies	X	N/A
Section 2 Scope of application	X	N/A
Section 3 Own funds	X	X
Section 4 Capital requirements	X	X
Section 5 Credit risk adjustments	X	X
Section 6 Use of ECAIs	X	X
Section 7 Use of the IRB Approach to credit risk	N/A	N/A
Section 8 Use of credit risk mitigation techniques	X	X
Section 9 Exposure to counterparty credit risk	X	X
Section 10 Exposure to securitisation positions	N/A	N/A
Section 11 Use of Internal Market Risk Models	N/A	N/A
Section 12 Operational risk	X	N/A
Section 13 Exposures in equities not included in the trading book	X	X
Section 14 Exposure to interest rate risk on positions not included in the trading book	X	X
Section 15 Remuneration policy	X	X
Section 16 Unencumbered assets	X	X
Section 17 Leverage	N/A	N/A
Section 18 Capital buffers	N/A	N/A

In this document, the information requested by the following tables: 7 “Credit risk: disclosure on the portfolios for which the IRB approaches apply”; 10 “Securitisation transactions”; 11 “Market risk: information for banks that use the internal model method for position risk, exchange rate risk and market position risk (IMA)”; 17 “Leverage” and 18 “Capital buffers”, is not provided since it does not relate to the range of operations, the risks taken or the methods used.

The Banca Sistema Group publishes this disclosure for the public and any updates on its internet site bancasistema.it, in the Pillar III section.

SECTION 1 - RISK MANAGEMENT OBJECTIVES AND POLICIES

QUALITATIVE DISCLOSURE

Organisational structure

In order to manage the significant risks to which it is or could be exposed, the Banca Sistema S.p.A. Group (hereinafter the “Bank” or “Banca Sistema”) has set up a risk management system that reflects the characteristics, size and complexity of the operations.

The framework to protect against risks provides for three separate levels of control:

- **first level controls:** the first level (or line) controls comprise a control system put in place by the operational departments that are the source of the risks;
- **second level controls:** the second level controls are the controls carried out by the Risk and Compliance Divisions;
- **third level controls:** the third level controls are the controls carried out by the Internal Auditing Division, and relate to the risk management procedures.

A summary of the main roles and responsibilities of the company bodies/departments involved in the management and control of risks, as defined in the “General Company Rules” approved by the Board of Directors of Banca Sistema S.p.A. in its meeting of 31 July 2014 is provided below.

Body with strategic supervision powers

The **Board of Directors** will do the following in its capacity as the **Body in charge of strategic supervision** in order to ensure an efficient and effective risk management and control system: identify the goals, strategies, profile and risk levels of the Bank, establishing the company policies and those of the risk management system in accordance with the development of the company business activities.

Management body

The **CEO** will oversee implementation of the strategic policies, the Risk Appetite Framework (RAF) and the risk governance policies defined by the body with strategic supervision powers as required by the Bank of Italy (Circular 263/06, Title V, Chapter 7).

In accordance with the supervisory regulations on governance matters, the CEO will also act as the General Manager with the duty to control and coordinate all the Divisions, Departments, units, offices and services of the Bank.

Management body

The **Executive Committee** has three members delegated with specific powers in support of the Board of Directors for the day-to-day management of the Bank, which is always carried out in accordance with the guidelines and principles drawn up by the Board, subject to the Board remaining responsible for the duties reserved to itself.

The Executive Committee comprises the CEO of the Bank and two members of the Board of Directors. When appointing members of the management body, the Bank will take account of diversity both in terms of gender and of culture. The body comprises two males and one female from a foreign country (United Kingdom).

The experience of the members of the management body is described below:

The CEO was Head of Global Public Sector and Head of Capital Market Italy in Commerzbank. He was CEO of the MTS Group from 1998 to 2007, the pan-European market for the wholesale trading of government bonds. He was appointed as a member of the Council of Economic Experts by the Ministry of Economy and Finance in 1997. He was appointed as a member of the ESME - European Securities Markets Expert Group by the European Commission in 2006. He has a degree in Economics from the Catholic University of the Sacred Heart of Milan. He held two other director positions as at 31/12/2014.

The other two members of the management body are members of the Board of Directors:

Lindsey McMurray is the Managing Partner of Pollen Street Capital, a private equity fund that she founded in 2013 after leading the spin out from RBS. She is chairperson of the Investment Committee and serves on the boards of several portfolio companies (21 director positions) including Freedom Acquisitions Limited and Shawbrook Bank (UK). She has been a private equity investor specialised in financial services for more than 15 years. Before she founded Pollen Street Capital, she led the team managing the RBS Special Opportunities private equity Fund and also spent six years with Cabot Square Capital, focusing on operating investments in real estate and other investments in the financial services sector. She holds a first class honours degree in Accounting and Finance and studied for a master in Finance from Strathclyde University.

Giorgio Barba Navaretti is ordinary Professor of Economics at the University of Milan and scientific manager of the Luca d'Agliano Centre of Studies. He has contributed to the literature on multinational companies and competitiveness of companies in particular. The works of Giorgio Barba Navaretti are published on leading international academic journals. Among other things, he is co-author - with Anthony Venables - of the book *Multinational Firms in the World Economy* published by Princeton University Press. He has coordinated a number of different international research projects financed by the European Commission and other international bodies. He is Academic Advisor of the Research Network on the competitiveness of the European Central Bank, coordinates the UniCredit forum on regulation of multinational banks and is an economics advisor to the Foreign Investor Committee of Confindustria. Giorgio Barba Navaretti is also a member of the Scientific Committee of Confindustria and the International Scientific Committee of the Enel Foundation. In the past, he has been visiting professor to a number of international universities and consultant for leading international bodies such as the World Bank, the OECE and the European Commission. He is a leader writer for the newspaper *Sole 24 Ore*. He has a degree in corporate economics from the Luigi Bocconi University of Milan and obtained a PhD in Economics from the University of Oxford. He held one other director position as at 31/12/2014.

Body with control powers

This body monitors the adequacy of the risk management and control system within the scope of its corporate supervisory duties. The **Board of Statutory Auditors** assesses the operation and adequacy of the risk management system with the support of the internal control departments.

Board and Non-Board management committees

In order to assess the adequacy, efficiency and effectiveness of the system used to manage the risks to which the bank is exposed, the Board of Directors established the **Internal Control Committee** which is a Board committee comprising independent members of the Board of Directors and it meets on a half-yearly basis at least. The Internal Control Committee coordinates the second and third level control functions in order to guarantee integration and interaction between them and promote synergy, reducing any overlapping areas. It defines the guidelines relating to the internal control system and assesses their adequacy, efficiency and effectiveness at least once a year, ensuring that all the risks to which the Bank is exposed are adequately identified, measured, managed and monitored; The Board of Statutory Auditors can take part in the Internal Control Committee meetings if invited.

The **Risk Management Committee** is a Non-Board committee that generally meets once a week and supports the CEO in defining strategies, risk policies and profitability targets, by proposing interventions and adjustment tactics; it monitors capital adequacy with regard to the risk/yield objectives, taking into account the various types of risks and the correlations between them.

It also continuously supervises compliance with the capital limits by type of risk and ensures that the frameworks (roles, methods and instruments) are adequate for identifying, measuring and reporting the various types of risk identified.

Control corporate functions

Risk management department and compliance department

The following are in the **Risk and Compliance Division**: the **Risk Division** which manages the Bank's risk, and the Compliance and anti-money laundering Department which monitors risk and non-compliance, including the risk of money laundering and financing terrorism. The Risk and Compliance Division report to the CEO and are independent from the corporate departments in charge of the operational management of risks.

The mission of the Risk Division is to identify, manage and monitor all the risks to which the Bank is or could be exposed. The Risk Division must assist in the definition and implementation of the Risk Appetite Framework and the related risk governance policies, establishing an adequate risk management process.

The **Compliance & anti-money laundering Department** (hereinafter also referred to as the "Department") of the Bank is a control department incorporating the anti-money laundering department, and was set up to ensure that the internal procedures and processes established and implemented by the Bank are consistent with the following objectives, using a risk-based approach:

- prevent the breach of external rules (laws and regulations) and internal rules (codes of conduct, codes of ethics) applicable to the Bank in order to avoid legal or administrative sanctions, significant financial loss or harm to reputation;
- prevent and fight against money-laundering or terrorist financing operations in order to reduce the risk of breaching the applicable internal or external rules.

Internal auditing Department

The **Internal Auditing Department** carries out independent auditing (third level control) on the work carried out by the departments involved in risk management, providing assurance on the risk management activities.

Mapping the material risks

On the basis of the analysis carried out, in view of its current and future business dealings, the Bank is exposed to the following risks as at 31 December 2014:

- I. First Pillar Risks
 - credit risk and counterparty credit risk;
 - market risk;
 - operational risk.

- II. Second Pillar Risks
 - concentration risk;
 - liquidity risk;
 - excessive leverage risk;
 - interest rate risk on the banking book;
 - strategic risk;
 - reputation risk;
 - compliance risk.

On the other hand, the Bank is not exposed to residual risks, basic risk, investment risks, country risk, transfer risk or securitisation risks.

In order to calculate the capital requirements for the first and second pillar risks for prudential purposes, it uses the standard methods that will be explained more fully below.

All the analyses carried out by the Risk Division and Compliance Division on the potential areas of risk found and the possible mitigation measures are formulated in the Risk Reporting document or other specific analysis documents submitted to the Risk Management Committee, the Internal Control Committee and the Board of Directors along with the Board of Statutory Auditors.

Risk management and hedging policies

Pillar I

Credit risk is the risk that the counterparty cannot meet its contractual commitments, thereby resulting in unexpected loss for the Group which could put its financial stability at risk in the immediate future.

The operating components of Banca Sistema that mainly give rise to the credit risk are described below:

- a. Factoring activities (with and non recourse);
- b. SME loans;
- c. Salary-backed loans/Pension-backed loans;
- d. Financial instruments held in own accounts;
- e. Exposures to supervised intermediaries.

The Bank uses the standardised method to calculate the internal capital with respect to credit risk¹.

The internal capital with respect to credit risk is therefore equal to the capital requirements defined in accordance with the First Pillar. The capital requirements are calculated on a constant basis and a report is sent to the Bank of Italy every quarter.

In general, analyses and assessments are carried out for all credit risk exposure, aimed at classifying exposures, where considered necessary, among the problematic credit risk categories.

The paragraphs below provide a brief overview on the management and mitigation of credit risk, as specifically implemented with respect to the different types of business dealings.

a. With recourse and non-recourse factoring: Banca Sistema Group policy mainly entails acquiring corporate receivables owed by central authorities, territorial entities and in general by the Public Administration, by non-recourse factoring, directly taking on the credit risk with respect to the end debtor. Credit risk is generated as a direct consequence of the acquisition of credit on a definitive basis from customer companies against the insolvency of the assigned debtor.

Maintenance of effective credit risk management is the strategic objective of Banca Sistema, and is pursued by adopting integrated instruments and processes to ensure correct credit management at all stages (preliminary, granting credit, monitoring and management, interventions on non-performing loans).

The *credit risk management process* involves various central Banca Sistema structures. This organisation of activities allows greater 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.

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

The Underwriting office of Banca Sistema is set up to carry out 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 in question and through external databases in order to assess the reliability of the counterparty and to quantify the proposed lines of credit;

(1) See: ““Supervision provisions for banks” - Bank of Italy Circular no. 285 of 17 December 2013 as amended, Part II, Chapter 3.

- “decision making and formalisation”: once the proposal has been made, the contractual documentation is prepared to be signed by the assigning counterparty;
- “relationship monitoring”: the continuous control of the counterparties, both in relations with the factor and the system, allows any anomalies to be identified leading to timely interventions. With specific reference to the non-performing receivables, there is first a “non-judicial” stage involving personalised reminders and if necessary, a “judicial” type stage, with the assistance of outside lawyers.

The Collection Division constantly monitors the factoring portfolio. This Division carries out checks and assessments on the factoring portfolio based on the guidelines defined in the “Collection policy”. The Credit Manager coordinates the monitoring and any non-judicial collections with the Servicing Division or other external companies that have been engaged.

The Bank carries out second level controls following all phases of the credit process and continuously monitoring the credit risk in order to promptly identify any anomalies and/or discontinuities and ensure that a risk profile in line with the strategic indications provided is maintained.

b. Loans subject to issue of guarantees by the State Guarantee Fund for SMEs: loans granted by Banca Sistema to companies classified as micro, small and medium-sized entities (SMEs). The loan is granted on the back of a guarantee issued by the State Guarantee Fund (Fund) for SMEs (Law no. 662/96 as amended), managed by Mediocredito Centrale S.p.A. (MCC).

The Fund guarantee reduces the Bank’s credit risk to the portion of the loan that is not covered by the guarantee.

c. Salary-backed loans/Pension-backed loans: starting from June 2014, Banca Sistema (known as the “Assignee”) extended its non-recourse acquisition business from financial companies who operate in those sectors (known as the “Assignor”) of receivables from loans against:

- assignment of one fifth of salaries (hereinafter also referred to as Salary-backed loans) of public and private employees;
- assignment of a fifth of pensions (hereinafter also referred to as Pension-backed loans).

d. Financial instruments held in own accounts: this portfolio contains instruments classified as investments in State securities for which the Bank has a limit system that is structured to guarantee the careful and balanced management of the operating independence within the the scope - among other things - of the transactions relating to financial instruments registered on the banking portfolio and held in own accounts.

The operations with Italian government securities means that it has a credit risk towards central authorities.

e. Exposures to supervised intermediaries: any excess liquidity is mainly placed on the interbank market, resulting in exposure to the credit risk of supervised intermediaries.

The so-called “hot money” transactions also generate exposures towards supervised intermediaries, i.e. short-term loans to leading financial institutions.

Counterparty credit risk is the risk that the “counterparty to a transaction regarding certain financial instruments will default before settling the transactions”². This is different from credit risk in view of the type of transactions involved; they are normally related to transactions that generate exposure equal to their positive fair value, have a market value that changes over time in accordance with the underlying variables and that generate an exchange of payments, financial instruments or goods against payment. Counterparty credit risk creates a bilateral type of risk whereby both counterparties are exposed to the risk of incurring unexpected loss

In relation to the Banca Sistema work, the risk is mainly generated by repurchase agreements with the Cassa Compensazione e Garanzia as the counterparty or other institutional counterparties. The line by line method is used to measure counterparty credit risk³.

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.

Market risk: As at 31 December 2014, the Bank did not have significant exposures to this risk.

Market risk involves the risk of loss that a financial intermediary is exposed to due to carrying out trading operations on financial instruments on the markets. More specifically, it involves the risk of recording losses due to unfavourable market trends that cause unexpected or unforeseeable reductions in the value of the instruments held.

These involve risks generated by operations on the markets regarding the financial instruments and currencies and the important components are:

- **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 regulatory capital for banks which - due to the risks positions relating to the trading portfolio for regulatory purposes - exceeds the limit identified by the credit line;
- **exchange rate risk,** which is the risk of suffering loss due to unfavourable changes in the exchange rates in foreign currencies.

The internal capital is calculated in accordance with the standardised method with respect to market risk⁴.

This method calculates the requirement on the basis of the building-block approach, according to which the overall requirement 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 the benefits provided by diversification are ignored by summing the individual requirements on a linear basis, therefore obtaining higher regulatory capital with respect to the risks taken on.

(2) See: ““Supervision provisions for banks” - Bank of Italy Circular no. 285 of 17 December 2013 as amended, Part II, Chapter 7.

(3) See: ““Supervision provisions for banks” - Bank of Italy Circular no. 285 of 17 December 2013 as amended, Part II, Chapter 7.

(4) See “New Prudential Supervision provisions for Banks” - Bank of Italy Circular no. 263 of 27 December 2006 as amended - Title II, Chapter 4, Second Part.

Operational risk and **Information System Risk (ICT)**: 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.

In this context, the Bank implemented an operational risk management process (Operational Risk Framework) in order to identify, measure and monitor the operational risk (See Section 12 - Operational risk).

Information System Risk (ICT) is the risk of incurring financial loss, loss of reputation or market share in relation to the use of information and communication technology (ICT). This type of risk is considered to be an operational, reputation and strategic risk in the total representation of company risks.

The Bank monitors the ICT risks on the basis of continuous information flows between the departments involved. The Bank ensures consistency between the findings from the ICT risk assessment and the assessment of the operational risks.

As further protection against operational risks, the Bank took out insurance cover on 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, and it also approved a Business Continuity Plan.

Pillar II

The Bank is exposed to the following second pillar risks.

Concentration Risk: the applicable regulations regarding prudential supervision (circular 285/13 as amended) define it as risk resulting from exposure to counterparties, groups of related counterparties and counterparties in the same economic sector or who perform the same activity or belong to the same geographical area.

The Bank decided to measure the geo-sectorial concentration risk in accordance with the ABI method proposal. The ABI method allows the effects on internal capital to be assessed, caused by changes in the business sector concentration. These effects are calculated with reference to a benchmark, with respect to which any internal capital adjustment (add-on) is quantified by applying a reloading coefficient.

Interest rate risk is the current or prospective risk of a reduction in the value of the asset or a reduction in the interest margin from the impact of adverse changes to interest rates.

The exposure to interest rate risk on the banking book is calculated in accordance with the provisions of prevailing law using the simplified Supervision approach (See Circular 285/2013, Part I, Title III, Chapter 1, Attachment C). This is how the Bank can monitor the impact of unexpected changes in market conditions on the value of the shareholders' equity, thereby identifying the mitigation measures to adopt.

The company departments in charge of ensuring the correct management of interest rate risk include the Treasury Department, which is involved in identifying the most suitable risk indicators and monitoring the performance of funding assets and liabilities in relation to the pre-established limits, and top management, which is involved in making annual proposals to the Board of Directors regarding the loan and funding policies and management of

interest rate risk, and suggesting, during the year, any necessary measures that should be taken to ensure that the work is carried out in accordance with the approved risk policies.

Hedging instruments were not being used as at 31 December 2014 since the risk was not significant.

Liquidity risk is defined as a risk of default on payment commitments, and may be caused by:

- Funding Liquidity Risk: inability to obtain funds or to meet payment commitments at market cost or incurring high funding costs.
- Market liquidity risk: when there are limits to the sale of assets or capital losses upon sale.

Liquidity risk in the sense of difficulties in obtaining funds to meet payment commitments, can be broken down as follows:

- Mismatch Liquidity Risk: the risk resulting from a mismatch between the amounts and/or the payment dates of the incoming and outgoing cash-flows relating to Bank operations, with reference both to contractual and behavioural expiry dates:
- Contingency Liquidity Risk: the risk resulting from unexpected future events that may require an unexpected amount of cash that is higher than the amount currently considered necessary; it is the risk of not being able to make unexpected and sudden short-term payments.

The methodological approach used to measure the Bank Liquidity risk follows the liquidity gap approach set out in the Bank of Italy guidelines.

The instructions issued by the Basel Committee to ensure adequate monitoring of liquidity risk, entailing the following are also followed:

- formalisation of liquidity risk governance policies in line with operational characteristics and extent;
- assessment of the net financial position;
- periodic stress tests (class 3 sensitivity analyses for Banks) to evaluate the impact of negative events on the exposure to risk and the adequacy of the liquidity reserves;
- constant availability of adequate liquidity reserves;
- definition of the operating limits;
- definition of suitable liquidity risk mitigation instruments, firstly by drafting an adequate Contingency Funding Plan, which guarantees protection of the assets in liquidity drainage situations, through preparation of crisis management strategies and procedures to obtain funding sources in the case of emergencies.

The roles and responsibilities required to adequately monitor Liquidity risk have been identified, and more specifically:

- Treasury Division (first level monitoring) represents the first level of liquidity risk management. It carries out daily monitoring and calculation of risk indicators;
- Risk Division (second level monitoring), carries out second level checks of liquidity risk on a monthly basis, and continuously assesses the adequacy and correct implementation of the liquidity policy and the Contingency Funding Plan.

The liquidity situation is subject to careful and continuous monitoring by the Treasury Division and the Risk Division, also within the scope of the Risk Management Committee meetings.

The Risk Division provides the CEO and the Board of Directors with periodic reports on the liquidity risk.

The Bank has structured its liquidity management on three interconnected levels through its Liquidity Policy and Contingency Funding Plan, which meet specific requirements:

- **Operating liquidity** (short term - up to 12 months), in order to guarantee the Bank's ability to meet its expected and unexpected cash payment commitments, for the upcoming 12 months;
- **Structural liquidity** (medium/long term - over 12 months) in order to maintain an adequate relationship between overall liabilities and medium/long term assets;
- **Contingency Funding Plan** (CFP), which governs the process, roles and responsibilities in the event of liquidity crisis situations.

The liquidity management policy and CFP provides for the following basic actions:

- 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.

Excessive leverage risk is the risk that a particularly high level of debt over the availability of own funds would make the bank vulnerable, forcing it to amend its business plan, including selling assets at a loss which could lead to value adjustments of its remaining assets.

In accordance with the provisions of article 521 of Regulation EU 575/13, Banca Sistema will publish the information relating to the levels of leverage risk exposure in the Public Disclosure document for 2015.

Reputation risk (or risk to image) is the risk of loss that may incur following events that could harm its image before various types of stakeholders (shareholders, customers, counterparties, investors, the Supervisory Authorities). This negative perception may result from the direct experience of the parties, such as sensations, not necessarily caused by actually observable events.

Reputation is associated with the sum of factors whose value expresses the capacity of the company to create "wealth" for both its shareholders and to a broader extent, for all its stakeholders.

The awareness of the difficulties related to quantifying reputation risk encouraged the Bank to concentrate on finding out more with respect to the quality of the organisational and control structures in order to implement adequate protection to reduce this.

To this end, maximum significance was given to the positions that must ensure substantive compliance with the requirements of honesty and professional competence, especially with regard to:

- the level of awareness of the top bodies with respect to the significance of these matters;
- promotion of a code of ethics and honest behaviour at all company levels
- adequate management of relations with all stakeholders;
- suitability of the risk mitigation and management systems;
- the effectiveness of the Supervisory Body controls.

Strategic risk is the current or prospective risk of a reduction in earnings or capital, generally due to four well-defined cases:

- changes in the operating context;
- erroneous company decisions;
- inadequate implementation of decisions made;
- poor or erroneous reaction to changes in the operating context (structural breaks).

Strategic risk therefore emerges when there is a break in the normal running of the business activities, due either to internal or external changes to the company's structure, it being otherwise assumed that this type of risk would not exist since it would be assumed that the business should normally run on a stable basis.

Special emphasis is placed on the fact that this risk could be especially critical as currently configured due to the high levels of dynamism required by the decision-making bodies to establish adequate and timely corrections in response to the continuous changes in the macroeconomic/economic context that characterises the market in which the Bank operates.

Some typical situations that could give rise to strategic risk are described below:

- acquisitions/partnership operations;
- changes in the corporate structure;
- consolidation/growth operations in order to achieve greater economies of scale for example;
- diversification of products and distribution channels;
- technological innovation and operational optimisation in order to increase the quality of the services offered.

Compliance risk is the risk of non compliance with the regulations and involves the risk of incurring legal or administrative sanctions, significant financial loss or damage to reputation due to breach of the law (laws, regulations) or self-regulation rules (for example articles of association, codes of conduct or the corporate governance code).

This risk is common at all levels of company organisation, especially within the scope of the operating guidelines; prevention activities should be concentrated where the risk is generated: therefore all staff must be made properly aware of their responsibilities.

In general, the most significant regulations regarding the risk of non-compliance are those that regard the exercise of intermediation, anti-money laundering regulations, management of conflicts of interest, transparency with respect to customers, and more generally, the rules established to protect the consumer.

With respect to monitoring the risk of non-compliance, starting from the second half-year, following the joining of the Compliance and Anti-Money Laundering Department of the Bank with the Risk Division, new methodological guidelines were established governing the activities of that Department, based on a risk-based rationale and exploiting the synergy with the risk management measures that had already been taken by Management. To that end, a centralised compliance model was adopted which provides for direct framework rules, i.e. monitored directly by the Department, and indirect framework rules, where there is a specialist department with primary responsibility for managing and monitoring the applicable risk of non-compliance.

SECTION 2 - SCOPE OF APPLICATION

QUALITATIVE DISCLOSURE

The public disclosure obligations in this document apply to Banca Sistema S.p.A in accordance with article 19 of EU Regulation 575/2013, which provides for the option of extending the prudential consolidation of companies of the total amount of assets and off-balance sheet elements of the company involved is less than Euro 10 million and 1% of the total amount of the assets and off-balance sheet elements that hold the investment.

On 31 December 2014, Banca Sistema comprised the Parent Company, Banca Sistema S.p.A., and the company Specialty Finance Trust Holding Limited, a company incorporated under U.K. law, with registered office in Dukes House 32-38 Dukes Place, London EC3A 7LP UK, fully controlled by Banca Sistema. The company provides administrative services to Banca Sistema for the receivables acquired.

SECTION 3 - OWN FUNDS

QUALITATIVE DISCLOSURE

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, along with the previous aggregate, comprise the Tier 1 Capital (T1);
- 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.

A summary of the terms and conditions of the Common Equity Tier 1 instruments, Additional Tier 1 capital and Tier 2 capital is provided below:

Main characteristics of the equities				
		Ordinary shares	Tier 1 subordinated bonds	Lower Tier 2 subordinated bonds
1	Issuer	Banca Sistema S.p.A.	Banca Sistema S.p.A.	Banca Sistema S.p.A.
2	International Securities Identification Number (ISIN)	IT0003173629	IT0004881444	IT0004869712
3	Law applicable to the instrument	Italian law	Italian law	Italian law
Regulatory treatment				
4	Transitional CRR provisions	Common Equity Tier 1	Additional Tier 1 capital	Tier 2 capital
5	Post-transitional CRR provisions	Common Equity Tier 1	Additional Tier 1 capital	Tier 2 capital
6	Admissible at the single entity level; consolidated; single entity and consolidated	Single entity (1)	Single entity ¹	Single entity (1)

(1) The public disclosure obligations apply to Banca Sistema S.p.A only, in accordance with article 19 of the CRR that provides for the right of exemption from prudential consolidation of the companies that fall within specific exemption thresholds.

7	Instrument type	Ordinary shares article. 28 CRR	Debt securities article 52 CRR	Debt securities article 62 CRR
8	Amount calculated in own funds (€/million)	8,451	8.0	12.0
Main characteristics of the equities				
		Ordinary shares	Tier 1 subordinated bonds	Lower Tier 2 subordinated bonds
9	Nominal instrument amount (€/million)	N/A	8.0	12.0
9a	Issue price	N/A	At par	At par
9b	Reimbursement price	N/A	At par	At par
10	Accounts classification	Shareholders' equity	Liabilities - amortised cost	Liabilities - amortised cost
11	Original issue date	N/A	- 5 mln on 18/12/2012 - 3 mln on 18/12/2013	- 10 mln on 15/11/2012 - 2 mln on 18/12/2013
12	Irredeemable or at maturity	N/A	At maturity	At maturity
13	Original maturity date	N/A	Date of winding-up or liquidation of Banca Sistema or due to expiry of the time provided in its articles of association (currently the articles of association of Banca Sistema have an end date of 31 December 2100)	15/11/2022
14	Early repayment at the discretion of the issuer subject to prior approval by the supervisory authorities	No	Yes	No
15	Date and amount of early repayment	N/A	The issuer reserves the right to provide the full or partial early repayment of the residual par value of the shares starting from 18/12/2017. Early repayment clauses related to tax and/or regulatory events are also provided for. The early repayment is subject to prior authorisation by the Bank of Italy.	N/A
16	Dates following the early repayment	N/A	After the first date of early repayment, the issuer reserves the right to decide whether to make the early repayment on an annual basis.	N/A
Coupons/dividends				
17	Fixed or variable dividends/coupons	N/A	Fixed then variable	Variable
18	Interest rate on coupon and any related indices	N/A	Fixed rate: 7% Variable rate: Euribor 6 months + 5%	Euribor 6 months + 5.50%
19	Presence of a "dividend stopper" mechanism	no	YES	No

Main characteristics of the equities				
		Ordinary shares	Tier 1 subordinated bonds	Lower Tier 2 subordinated bonds
20a	Fully discretionary, partially discretionary or obligatory (in terms of time)	N/A	Partially discretionary. Loss absorption mechanisms are provided for that result in the cancellation of all matured and unpaid interest, and if insufficient, a reduction in the residual par value of the securities. These mechanisms are generated when there is a “capital event” or a significant reduction in the retention of profits to a reserve or other reserves to the extent of causing a “capital event” in the opinion of the issuer of the supervisory body. A “capital event” is a) a reduction of the capital ratios to lower than the minimum regulatory level; b) the Common Equity Tier 1 ratio falls to lower than the threshold of 5.125%. In addition, the securities will be subject to loss absorption measures if the Bank of Italy believes it is necessary to use that measure on the basis and in accordance of prevailing law.	N/A
20b	Fully discretionary, partially discretionary or obligatory (in terms of amount)	N/A	Partially discretionary.	N/A
21	Step up or other reimbursement incentive	N/A	No	No
22	Non cumulative or cumulative	N/A	Non cumulative	N/A
23	Convertible or non-convertible	N/A	Non-convertible	Non-convertible
24	If convertible, the event(s) that will trigger the conversion	N/A	N/A	N/A
25	If convertible, in whole or in part	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify the type of instrument it can be converted into	N/A	N/A	N/A
29	If convertible, specify the issuer of the instrument that it is to be converted into	N/A	N/A	N/A
30	Write-down mechanisms	N/A	Yes	No

Main characteristics of the equities				
		Ordinary shares	Tier 1 subordinated bonds	Lower Tier 2 subordinated bonds
31	In the event of a write-down mechanism, the event that triggers it/them	N/A	See point 20	N/A
32	In the event of write-down, total or partial write-down	N/A	Fully or partially	N/A
33	In the event of write-down, permanent or temporary write-down	N/A	Permanent	N/A
34	In the event of temporary write-down, description of the revaluation mechanism	N/A	N/A	N/A
35	Position in the subordinated hierarchy in the event of liquidation (specify the type of instrument in the next highest rank (senior))	N/A	If Banca Sistema is wound up or subject to insolvency proceedings, the securities and relative capital and interest rights will be (i) subordinated to all the non-subordinated Banca Sistema creditors (including those with deposits) or with a lower level of subordination compared to the level of the Securities such as Tier II instruments, (ii) at the same level and with respect to the additional Tier 1 instruments and the other debtor positions of Banca Sistema that do not have a higher or lower level of subordination compared to the Securities, and (iii) subordinated compared to the ordinary shares and every category (including any preference shares or savings shares) of Banca Sistema.	The bond loan is issued with a subordination clause in accordance with the provisions of the Supervisory Instructions for Banks issued by the Bank of Italy. Therefore, in the event of voluntary winding-up or enforced winding up of the Issuer, the bond-holders will be only repaid after all the other creditors of the Issuer who are not subject to the same subordination have been paid.
36	Non-compliant characteristics of the instruments that favour the transitional provisions	N/A	No	No
37	If yes, specify the non-compliant characteristics	N/A	N/A	N/A

QUANTITATIVE DISCLOSURE

The tables below show:

- the amount of own funds in accordance with the publication form pursuant to EU regulation no. 143/2013;
- the reconciliation between the own fund elements and the Balance Sheet of the individual Financial statements of Banca Sistema and the association of the own fund elements with the relative items on the publication form described in the previous point.

OWN FUNDS

(Amounts in thousands of Euros)

Equity elements		(A) Amount	(B) Reference regulation (EU) no. 575/2013	(C) Standard amounts
Tier 1 capital: instruments and reserves				
1	Equities and related Share Premium Reserves	13,009	26, Paragraph 1, 27, 28, 29, ABE list pursuant to article 26, paragraph 3	13,009
2	Retained earnings	9,294	26, paragraph 1, letter c)	9,294
3	Other components of the comprehensive income statement accumulated (and other reserves, including unrealised gains and losses in accordance with applicable accounting rules)	1.8	26, Paragraph 1	1.8
5a	Earnings for the period checked by independent persons net of all expected charges or dividends	17,455	26, Paragraph 2	17,455
6	Common equity Tier 1 (CET1) before regulatory adjustments	39,759		39,759
Common equity Tier 1 (CET1): regulatory adjustments				
8	“Intangible assets (net of relative tax liabilities) (negative amount)”	-1,904	36, Paragraph 1, letter b), 37, 472, Paragraph 4	-1,904
26	Regulatory adjustments applied to the common equity Tier 1 in relation to the amounts subject to pre-CRR treatment	-5.9		-43
26a	Regulatory adjustments relating to unrealised gains and losses in accordance with articles 467 and 468.	-5.9		-43
	of which unrealised gains relating to the exposures to central authorities classified under the category “Available-for-sale financial assets” of IAS 39 approved by the EU.	-23	467	-23
	of which filtered for unrealised losses	17	467	-21
28	Total regulatory adjustments to the common equity Tier 1 (CET1)	-1,910		-1,953
29	COMMON EQUITY TIER 1 (CET1)	37,849		37,806
Additional Tier 1 capital (AT1): instruments				
30	Equities and related Share Premium Reserves	8,000	51.52	8,000
32	of which classified as liabilities in accordance with the applicable accounting standard	8,000		8,000

Equity elements		(A) Amount	(B) Reference regulation (EU) no. 575/2013	(C) Standard amounts
36	Additional Tier 1 capital (AT1) prior to regulatory adjustments	8,000		8,000
44	Additional Tier 1 capital (AT1)	8,000		8,000
45	Tier 1 capital (T1=CET1+AT1)	45,849		45,806
Tier 2 capital (T2): instruments and provisions				
46	Equities and related Share Premium Reserves	12,000	62.63	12,000
51	Tier 2 capital (T2) prior to regulatory adjustments	12,000		12,000
58	Tier 2 capital (T2)	12,000		12,000
59	Share Capital Total (TC = T1 + T2)	57,849		57,806
60	Total weighted assets for risk	363,771		363,771
Capital ratios and reserves				
61	Common equity Tier 1 (as a percentage of the amount of the exposure to the risk)	10.4%	92, Paragraph 2, letter a), 465	10.4%
62	Tier 1 capital (as a percentage of the amount of the exposure to the risk)	12.6%	92, Paragraph 2, letter b), 465	12.6%
63	Total share capital (as a percentage of the amount of the exposure to the risk)	15.9%	92, Paragraph 2, letter c)	15.9%
64	Specific capital reserve requirement for an entity (requirement relating to the common equity Tier 1 in accordance with article 92, paragraph 1, letter a), requirement for capital protection reserve, countercyclical capital reserve, capital reserve against systemic risk and capital reserve of entities with systemic relevance as a percentage of the amount of risk exposure	2.50%	CRD 128, 129, 130	2.50%
65	of which: capital protection reserve requirement	2.50%		2.50%

RECONCILIATION OWN FUNDS - BALANCE SHEET

(Amounts in thousands of Euros)

Assets	Accounting figures	Significant amount for the purpose of Own Funds	Ref. Transitional model table for the publication of information on asset funds
120. Intangible assets	1,904	-1,904	8
of which: goodwill	1,786	-1,786	8
of which: other intangible assets	118	-118	8

Liabilities	Accounting figures	Significant amount for the purpose of Own Funds	Ref. Transitional model table for the publication of information on asset funds
30. Securities in issue	20,109	20,000	30,32,46
of which subordinated instruments that are not subject to transitional provisions	20,109	20,000	30,32,46
130. Valuation reserves	1.8	-4.1	3,26,26a
of which: valuation reserves of available-for-sale securities	23	-23	26,26a
of which: other valuation reserves	-21	17	26,26a
160. Reserves	9,527	9,527	1.2
170. Share premiums	4,325	4,325	1
180. Capital	8,451	8,451	1
220. Profit (Loss) for the period	19,394	17,455	5a
of which: net profit for the period dividend distributed drawn from profit for the year		17,455	5a

Total own funds as at 31 December 2014		57,849	
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SECTION 4 - CAPITAL REQUIREMENTS

QUALITATIVE DISCLOSURE

In accordance with the Second Pillar provisions, banks must periodically assess their current and prospective capital adequacy, with an expanded range of risks to calculate compared to the First Pillar.

This is carried out within the scope of the ICAAP (Internal Capital Adequacy Assessment Process), where the responsibility lies entirely with “the body in charge of strategic supervision, which designs and organises it on a fully independent basis in accordance with the respective duties and privileges”.

In its meeting of 26 March 2015, the Board of Directors approved the ICAAP report, considering the capitalisation to be adequate both for current and for future purposes.

In order to properly apply the principle of proportionality, the Bank of Italy divided the banks into three different classes, in accordance with their sizes and the operational complexity. Banca Sistema is currently placed in class 3 regarding “banking groups and banks that use standardised methods, with consolidated or individual assets equal to or less than Euro 3.5 billion respectively”.

The following First and Second Pillar risks are included in the applicable scope for ICAAP purposes, with the methods indicated in the table below:

CATEGORY	RISK TYPE	METHODS
First pillar	Credit risk	Standardised method
	Counterparty credit risk	Standardised method (exposure: CRM - line-by-line method with regulatory volatility adjustments)
	Market risk	Standardised method
	Operational risk	Basic method (BIA) Qualitative assessment (self-assessment)
Second pillar	Concentration risk	Granularity Adjustment
	Interest rate risk	Standard approach
	Liquidity risk	Net Financial Position and Basel III indicators
	Excessive leverage risk	Leverage ratio
	Reputation risk	Qualitative assessment
	Strategic risk	Qualitative assessment
	Compliance risk	Qualitative assessment

The ICAAP is organised into 5 sub-activities, set out in detail below:

1) Identification of the material risks and their management: the identification of the risks that the Bank could be exposed to is activated by the applicable organisational structures, taking various elements into account:

- recognition of the asset aggregates;
- company strategic plan in which the top management illustrates the investment policies and targets, both in the short and medium term;
- changed market context, new opportunities or significant size changes (absolute or relative) of the business components to the extent of influencing the positioning on the market and the consequent assessments of the initial risk;
- introduction of new products or services;
- economic situation.

2) Measurement/assessment of material risks and calculation of the related internal capital: the Bank defines the measurement, assessment and risk management methods.

With reference to the First Pillar risks, the measurement methods adopted are those used for the purposes of Prudential Supervision.

With reference to the Second Pillar risks, which are difficult to quantify, a judgemental type analysis is made in order to define the assessment and risk mitigation techniques, in association with the other Bank departments.

3) Calculation of total internal capital and reconciliation with the regulatory capital: in accordance with the provisions of the applicable regulations, the Bank calculates its total internal capital using the building block approach, which sums any internal capital relating to the other material risks revealed by the Second Pillar to the First Pillar risk regulatory requirements.

The Bank then reconciles the total internal capital with regulatory requirements.

4) Calculation of total capital and reconciliation with the Regulatory Capital: the Bank analyses all the capital components available in order to quantify the total capital available.

Subsequently, the Own Funds is reconciled with the Total Internal Capital.

5) Management and maintenance of the ICAAP: the Bank will check whether the total capital is enough to cover the Total Internal Capital requirements that had previously been calculated. If there is insufficient capital, top management will be promptly informed.

Upon conclusion of the Process, the analysis of the capital adequacy will be submitted to the Internal Auditing office and the Board of Directors for approval.

Once the ICAAP has been concluded, the Internal Auditing Division will have to produce its assessment of the solidity of the entire process and identify any problematic issues in the activities carried out or areas for improvement.

The review of the ICAAP will end with the formalisation of the internal audit report that will be submitted to the Board of Directors for approval.

QUANTITATIVE DISCLOSURE

(Amounts in thousands of Euros)

Categories / Values	Unweighted amounts		Weighted amounts / requirements	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
A. RISK ASSETS				
A.1 Credit risk and counterparty credit risk	1,799,310	1,782,077	298,803	250,482
1. Standardised method	1,799,310	1,782,077	298,803	250,482
2. Method based on internal ratings	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty credit risk			23,904	20,039
B.2 Risk of adjusting the value of the receivable			1	0
B.3 Settlement risk			0	0
B.4 Market risk			0	105
1. Standard method			0	105
2. Internal models			0	-
3. Concentration Risk			0	-
B.5 Operational risk			5,196	2,967
1. Basic method			5,196	2,967
2. Standardised method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			0	-5,778
B.7 Total prudential requirements			29,102	17,333
C. RISK ASSETS AND REGULATORY RATIOS			363,771	216,657
C.1 Risk-weighted assets			363,771	216,657
C.2 Common Equity Tier 1 (CET1) / Weighted Risk Assets (CET1 capital ratio)			10.40%	9.46%
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			12.60%	13.15%
C.4 Total Own Funds / Risk-weighted assets (Total capital ratio)			15.90%	18.69%

SECTION 5 - CREDIT RISK ADJUSTMENTS

QUALITATIVE DISCLOSURE

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.

Following initial recognition, the receivables from customers are measured at amortised cost which, using the actual interest rate method, allows the economic effect of costs/income relating to the single transaction to be distributed over the remaining expected life of the receivable.

Generally, the Bank continuously performs analyses and assessments for all credit risk exposure, aimed at classifying exposures where considered necessary among the impaired credit risk categories. On the basis of the regulatory provisions in place at the applicable date of this document and internal provisions, impaired exposures can be broken down among the following categories:

- **non-performing loans:** loans with debtors in serious long-term difficulties or irremediably insolvent, even if this has not yet been legally decided;
- **watch list loans:** loans with parties who are undergoing temporary difficulties but where the difficulties are objective and are expected to be resolved in a reasonable length of time;
- **restructured loans:** loans for which restructuring agreements have been reached where changes from the original contractual terms are permitted that will result in a loss for the Bank;
- **loans past due and/or impaired:** debtors with past due and/or impaired loans of more than 90 days at the applicable date; with respect to the factoring business with the Public Administration, past due exposures are considered to be those positions relating to a single debtor where no payment has been made in the past 90 days.

The receivables that do not fall within the aforesaid classifications are considered to be performing.

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).

With reference to the exposures towards the SMEs, 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 were recorded as at the applicable date, the Bank wrote-down the receivables on the basis of market benchmarks.

QUANTITATIVE DISCLOSURE

The tables below were taken from the Financial statements as at 31 December 2014, part E of the Notes to the financial statements. The amounts at year-end are considered to represent the exposures to risk of the Bank during the applicable period.

DISTRIBUTION OF FINANCIAL ASSETS BY RELATED PORTFOLIO AND BY CREDIT QUALITY (BOOK VALUES)

(Amounts in thousands of Euros)

Portfolios / Quality	Banking group						Total
	Non-performing loans	Watch list loans	Restructured loans	Impaired past due exposures	Non-impaired past due exposures	Other assets	
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	-	-	-	-	-	16,591	16,591
5. Loans to customers	9,158	9,955	-	20,610	63,330	1,091,704	1,194,757
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	1,966,365	2,069,418
Total 2013	4,504	-	-	9,194	33,575	1,948,214	1,995,486

CREDIT EXPOSURE DISTRIBUTION BY RELATED PORTFOLIO AND BY CREDIT QUALITY (GROSS AND NET VALUES)

(Amounts in thousands of Euros)

Portfolios / Quality	Impaired assets			Performing			Total Exposure (net)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	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	-	-	-	16,591	-	16,591	16,591
5. Loans to customers	42,197	2,473	39,724	1,157,490	2,457	1,155,033	1,194,757
6. Financial assets carried at fair value	-	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 2014	42,197	2,473	39,724	2,031,029	2,457	2,029,694	2,069,418
Total 2013	13,716	18	13,698	1,983,088	1,300	1,981,784	1,995,486

CASH AND OFF-BALANCE SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

(Amounts in thousands of Euros)

Type of exposure / Values	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURE				
a. Non-performing loans	-	-	-	-
b. Watch list loans	-	-	-	-
c. Restructured loans impaired	-	-	-	-
d. Past due loans	-	-	-	-
e. Other assets	16,591	-	-	16,591
TOTAL A	16,591	-	-	16,591
B. OFF-BALANCE SHEET EXPOSURES				
a. Impaired	-	-	-	-
b. Other	2,029	-	-	2,029
TOTAL B	2,029	-	-	2,029
TOTAL A+B	18,620	-	-	18,620

Cash credit exposures to banks - movements of gross impaired exposures and “country risk” parties: The cash exposures to Banks are all performing.

Cash credit exposures to banks - movements of total value adjustments: The cash exposures to Banks are all performing.

CASH AND OFF-BALANCE SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

(Amounts in thousands of Euros)

Type of exposure / Values	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURES				
a. Non-performing loans	11,439	2,281	-	9,158
b. Watch list loans	10,078	122	-	9,956
c. Restructured impaired loans	-	-	-	-
d. Past due loans	20,680	70	-	20,610
e. Other assets	2,015,500	-	2,457	2,013,043
TOTAL A	2,057,697	2,473	2,457	2,052,767
B. OFF-BALANCE SHEET EXPOSURES				
a. Impaired	-	-	-	-
b. Other	22	-	-	22
TOTAL B	22	-	-	22
TOTAL A+B	2,057,719	2,473	2,457	2,052,789

CASH CREDIT EXPOSURES TO CUSTOMERS: MOVEMENTS OF GROSS IMPAIRED EXPOSURES

(Amounts in thousands of Euros)

Reasons / Categories	Non-performing loans	Watch list loans	Restructured loans	Past due loans
A. Gross opening exposure	4,505	-	-	9,210
▪ of which: exposures disposed of and not derecognised	-	-	-	-
B. Increases	9,002	11,000	-	21,326
B.1 income from performing credit exposures	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 transferred to performing credit exposures	212	-	-	3,774
C.2 write-offs	-	-	-	-
C.3 collections	1,856	922	-	2,209
C.4 gains on disposals	-	-	-	-
C.4 bis gains on disposals	-	-	-	-
C.5 transfers to other categories of impaired exposures	-	-	-	3,874
C.6 other decreases	-	-	-	-
D. Gross closing exposure	11,439	10,078	-	20,679

CASH CREDIT EXPOSURES TO CUSTOMERS: MOVEMENTS OF TOTAL VALUE ADJUSTMENTS

(Amounts in thousands of Euros)

Reasons / Categories	Non-performing loans	Watch list loans	Restructured loans	Past due loans
A. Overall opening adjustments	1	-	-	17
▪ of which: exposures disposed of and not derecognised	-	-	-	-
B. Increases	2,282	122	-	79
B.1 value adjustments	2,274	118	-	57
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	-	-	-	20
D. Closing total adjustments	2,282	122	-	69
▪ of which: exposures disposed of and not derecognised	-	-	-	-

SEGMENT DISTRIBUTION OF CASH AND "OFF-BALANCE SHEET" CREDIT EXPOSURES TO CUSTOMERS (BOOK VALUE)

(Amounts in thousands of Euros)

Exposures / Counterparties	Governments			Other public entities			Financial companies			Insurance companies			Non-financial companies (excl. SMEs)			SMEs			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	Net exposure	Specific value adjustments	Portfolio value adjustments			
A. Cash exposures																								
A1. Non-performing loans	-	-	-	8,942	2,197	-	-	-	-	-	-	-	-	-	-	217	84	-	-	-	-	-	-	-
A2. Watch list loans	-	-	-	-	-	-	-	-	-	-	-	-	7,269	17	-	90	100	-	2,596	6	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	-	-	-	842	2	-	-	-	-	-	-	-	19,646	67	-	-	-	-	121	-	-	-	-	-
A5. Other exposures	1,037,189	-	70	542,134	-	1,885	304,358	-	-	-	-	-	93,767	211	228	18,357	-	228	17,229	-	58	-	-	-
TOTAL A	1,037,189	-	70	551,918	2,199	1,885	304,358	-	-	-	-	-	120,683	84	211	18,664	184	228	19,947	6	58	6	6	58
B. "Off-balance sheet" exposures																								
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B2. Watch list loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22	-	-	22	-	-
TOTAL B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22	-	-	22	-	-
TOTAL (A+B) 2014	1,037,189	-	70	551,918	2,199	1,885	304,358	-	-	-	-	-	120,683	84	211	18,664	184	228	19,969	6	58	6	6	58
TOTAL (A+B) 2013	1,000,934	-	62	493,084	9	1,173	346,141	-	-	-	-	-	93,242	6	66	-	-	-	3,367	3	-	3	-	-

GEOGRAPHIC DISTRIBUTION OF CASH AND “OFF-BALANCE SHEET” CREDIT EXPOSURES TO CUSTOMERS
(BOOK VALUE)

(Amounts in thousands of Euros)

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. Watch list loans	9,955	122	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	20,610	70	-	-	-	-	-	-	-	-
A5. Other exposures	2,011,777	2,457	1,266	-	-	-	-	-	-	-
TOTAL A	2,051,500	4,930	1,266	-	-	-	-	-	-	-
B. “Off-balance sheet” exposures										
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
B2. Watch list loans	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	22	-	-	-	-	-	-	-	-	-
TOTAL B	22	-	-	-	-	-	-	-	-	-
TOTAL (A+B) 2014	2,051,522	4,930	1,266	-	-	-	-	-	-	-
TOTAL (A+B) 2013	1,934,904	1,318	1,864							

TIME DISTRIBUTION BY RESIDUAL CONTRACT DURATION OF FINANCIAL ASSETS AND LIABILITIES

(Amounts in thousands of Euros)

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	97,932	280,764	1,638	28,098	78,435	449,791	651,208	410,941	38,645	16,115
A.1 Government securities	-	-	-	-	-	303,752	438,212	117,181	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	97,932	280,764	1,638	28,098	78,435	146,039	212,996	293,760	38,645	16,115
▪ Banks	477	-	-	-	-	-	-	-	-	16,115
▪ Customers	97,455	280,764	1,638	28,098	78,435	146,039	212,996	293,760	38,645	-
Cash liabilities	951,395	518,805	-	150,000	355,000	-	-	-	20,000	-
B.1 Deposit 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	-	-	-	-	-

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
"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	-	-	-	-	-	-	-	-	-	-

GEOGRAPHIC DISTRIBUTION OF CASH AND “OFF-BALANCE SHEET” CREDIT EXPOSURES TO BANKS

(BOOK VALUE)

(Amounts in thousands of Euros)

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. Watch list loans	-	-	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	-	-	-	-	-	-	-	-	-	-
A5. Other exposures	16,591	-	-	-	-	-	-	-	-	-
TOTAL A	16,591	-	-	-	-	-	-	-	-	-
B. “Off-balance sheet” exposures										
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
B2. Watch list loans	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	1,966	-	63	-	-	-	-	-	-	-
TOTAL B	1,966	-	63	-	-	-	-	-	-	-
TOTAL (A+B) 2014	18,557	-	63	-	-	-	-	-	-	-
TOTAL (A+B) 2013	60,964	-	-	-	-	-	-	-	-	-

As at 31 December 2014, the significant risks (exposures for amounts equal to or greater than 10% of the Regulatory Capital) comprise 34 positions for an amount of:

- a. Book value: Euro 1,926,093 (in thousands);
- b. Weighted value: Euro 126,014 (in thousands).

SECTION 6 - USE OF ECAIS

QUALITATIVE DISCLOSURE

Banca Sistema currently calculates the capital requirements for credit risk on the basis of the standardised method.

The Bank mainly acquires corporate receivables owed by central authorities, territorial entities and in general by the Public Administration, directly taking on the credit risk with respect to the end debtor.

The Bank used the rating issued by the ECAI as at 31 December 2014:

- “Dominion Bond Rating Service” (DBRS), for exposures towards: Central authorities and central banks; supervised intermediaries; public sector entities and territorial entities;
- “Fitch Ratings”, for exposures to companies and other entities.

The identification of a reference ECAI does not represent - with respect to the objective or the 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.

QUANTITATIVE DISCLOSURE

The table below shows the distribution of the exposures subject to credit risk on the basis of the weighting factors (creditworthiness classes), without considering the SME supporting factor.

(Amounts in thousands of Euros)

Regulatory class	Weighting						Total
	0%	20%	50%	75%	100%	150%	
Central Authorities and Central Banks	1,068,405	-	-	-	2,711	-	1,071,116
Territorial entities, public sector entities, non-profit entities	-	542,134	-	-	-	-	542,134
Supervised intermediaries	-	14,647	23	-	-	-	14,670
Multilateral development banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Companies and other entities	-	-	-	-	109,960	-	109,960
Retail	-	-	-	17,209	-	-	17,209
UCITS	-	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-	-
Guaranteed bank bonds	-	-	-	-	-	-	-
Property-backed loans	-	-	-	-	-	-	-
Capital instrument exposures	-	-	-	-	2,377	-	2,377
Impaired exposures	-	-	-	-	2,939	36,580	39,519
Other exposures	66	-	-	-	2,267	-	2,333

SECTION 8 - USE OF CREDIT RISK MITIGATION TECHNIQUES

QUALITATIVE DISCLOSURE

With reference to the credit risk mitigation of the factoring portfolio at the applicable date, Banca Sistema drew up a specific standard hedging contract (Credit Default Swap) for Euro 5,035,023 as protection buyer of a single Public Administration entity relating to the assignment of certified receivables. The Credit Default Swap, maturing on 28/02/2015, was closed early due to collection of the entire amount by the customer.

The issuing of this type of instrument allows the Bank to reduce exposures to risk concentration limit levels.

In 2014, the Bank brought out the “SME loan” product, a loan granted by Banca Sistema to companies classified as micro, small and medium-sized entities (SMEs). The loan is granted on the back of a guarantee issued by the State Guarantee Fund Fund (the average guarantee on the loans as at 31/12 amounted to about 80%) for SMEs (Law no. 662/96 as amended), managed by Mediocredito Centrale S.p.A. (MCC).

These exposures fall under the regulatory segments “Retail Exposures” and “Exposures to companies”.

On a residual basis, the “Retail exposures” also include personal loans (about Euro 257 thousand) through the product “SI conto! SUBITO”. The product allows advances to be had on the amounts deposited on the fixed-term deposit account (SI conto! DEPOSITO). The loan granted is guaranteed by the fixed-term amounts.

As at 31 December 2014, there was about Euro 1.5 million in “Credit from current accounts secured by pledge” granted. The value of the exposure is completely backed by eligible secured guarantees for the purposes of credit risk mitigation⁶.

QUANTITATIVE DISCLOSURE

(Amounts in thousands of Euros)

Segment	Exposure	Guarantee	Post CRM exposure	RWA
Exposures to territorial entities	355,203	5	355,198	71,040
Retail exposures	29,223	12,014	17,209	12,429
Exposures to companies	112,842	2,883	109,960	109,842

(6) See: “Supervision provisions for banks” - Bank of Italy Circular no. 285 of 17 December 2013 as amended, Part II, Chapter 5.

SECTION 9 - EXPOSURE TO COUNTERPARTY CREDIT RISK

QUALITATIVE DISCLOSURE

The Bank pays adequate attention to counterparty credit risk, understood as the risk of default by the counterparty to a transaction with respect to certain financial instruments such as over the counter instruments, repurchase agreements and reverse repurchase agreements on securities or goods, assignments or borrowing of loaned securities or goods and security financing transactions, transactions with long-term settlement in which one of the counterparties undertakes to sell or acquire a security, goods or foreign currency against the collection or payment of cash at a contractually established settlement date that falls later than the standard market date for similar types of transactions.

This is a specific type of credit risk that generates a bilateral type risk, whereby both counterparties are exposed to the risk of incurring unexpected loss.

The Bank manages counterparty credit risk in a careful, balanced manner, establishing an adequate limit system in terms of portfolio consistency and composition. With reference to the repurchase agreement positions, the Bank counterparty is Cassa Compensazione Garanzia (which does not generate requirements against counterparty credit risk) or institutional counterparties.

There were only repurchase agreements in place with the counterparty Cassa Compensazione Garanzia as at 31/12/2014.

QUANTITATIVE DISCLOSURE

REPURCHASE AGREEMENTS IN PLACE

(Amounts in thousands of Euros)

Type of instruments	Regulatory trading portfolio	Banking portfolio
Repurchase agreements	-	290,316
Reverse repurchase agreements	-	238,807

SEZIONE 12 - OPERATIONAL RISK

QUALITATIVE DISCLOSURE

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. The following cases fall under the operational risk classification:

- fraud;
- human error;
- interruption of operations;
- system unavailability;
- inadequate execution of the processes;
- contractual breach;
- natural disasters, etc.

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 this context, there is more awareness about operational risk and controls, which, along with the implementation of a functional internal reporting system and the availability of emergency plans, form the essential elements of an effective and efficient operational risk management system.

In order to calculate the capital requirements to cover the operational risk, the Bank 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.

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. 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 “Net 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. This instrument produces performance indicators (IROR) by combining the scores associated with the individual operating procedures/processes used to analyse the risk level associated with each procedure or by type of risk.

The Bank continuously monitors the concise indicator of the degree of operational risk relating to company operations (total IROR), the capital absorption generated by the operational risk and their development compared to the previous report.

Following conclusion of the operational risk assessment, the Bank identified the risks for which corrective action would be necessary. The mitigation measures were defined with the Heads of Management and compliance with the expiry dates of these actions is monitored with the support of a corrective action plan used as a remedy.

As further protection against operational risks, the Bank took out insurance cover on 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, and it also approved a Business Continuity Plan.

SECTION 13 - EXPOSURES IN EQUITIES NOT INCLUDED
IN THE TRADING BOOK

QUALITATIVE DISCLOSURE

Investments in equities forming part of the bank portfolio pursue a number of different objectives such as: strategic, institutional, financial investments and supporting operational activities.

Accounting techniques

The capital instrument exposures included in the banking portfolio are classified under Equity investments and Assets available for sale in the financial statements.

▪ **Classification criteria**

This category includes the non-derivative financial assets not classified otherwise as “Held-for-trading financial assets” or “Held-to-maturity financial assets” or “Financial assets carried at fair value” or “Receivables”. The investments “available for sale” are financial assets that are intended to be retained for an indefinite period of time and that may be sold for reasons of liquidity, changes in interest rates, exchange rates or market prices. A financial instrument is designated to the category in question when it is initially recorded or following any reclassifications in accordance with paragraphs 50 to 54 of IAS 39, as amended by Regulation (EC) no. 1004/2008 of the European Commission of 15 October 2008.

▪ **Recognition criteria**

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

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

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

Following initial recognition, available-for-sale financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost, recorded in a specific equity reserve recorded in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recorded.

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

If the fair value is reduced in cost by more than 50% or in duration by more than 18 months, the impairment is considered to be permanent. If, however, the decrease in the fair value of the cost of the instrument is lower than or equal to 50% but above 20%, or in duration by not more than 18 months but not less than 9, the Bank will analyse other income and market indicators. If the results of said analysis are such as to shed doubt on the possibility of recovering the amount originally invested, permanent impairment will be recognised. The amount transferred to the income statement is therefore equal to the difference between the book value (acquisition cost net of any losses due to impairment already reported in the income statement) and the current fair value.

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

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

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

- **Derecognition criteria**

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

Equity investments - accounting standards:

- **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.

QUANTITATIVE DISCLOSURE

(Amounts in thousands of Euros)

Type of exposures/values	Book value			Fair Value			Market value	Gains/losses and impairment		Unrealised capital gains/losses and recorded on the Balance Sheet		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Profits	Losses	Plus (+)	Minus (-)	
Available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets carried at fair value	-	-	-	-	-	-	-	-	-	-	-	-
Equity investments			2,377			2,377						
Goodwill	-	-	1,786	-	-	1,786	-	-	-	-	-	-

“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 Bank and its business diversification.

Goodwill is related to acquisition of the Solvi investment by SF Trust Italia which only emerged in the consolidated Group financial statements the previous year during the phase of consolidation of Solvi S.r.l. as a result of its merger with the Bank. The impairment test for goodwill in accordance with IAS 36 requires testing that the recoverable value of the goodwill is higher than its book value in the financial statements.

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

SECTION 14 - EXPOSURE TO INTEREST RATE RISK
ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

QUALITATIVE DISCLOSURE

The banking portfolio is made up of all the financial instruments either due or payable and that are not included in the trading portfolio. As already noted in this document, the risk on the positions in the banking portfolio refers to the possibility of negative changes in the cash flows or market values of the assets and liabilities of the Bank due to adverse and unexpected changes in the market rates.

Generally, loans to customers - apart from SME loans - are at fixed rates, while in other cases the interest rates can be fixed at the sole discretion of the Bank within the scope of applicable law.

Customer deposit accounts and current accounts are at fixed rates, just as with the interbank loans that are mainly very short-term loans at fixed rates.

Taking on of interest rate risk related to the funding activities by the Treasury Division is carried out in accordance with the policies and limits established by the Board of Directors.

Interest rate risk is monitored by identifying the most suitable risk indicators and monitoring the performance of funding assets and liabilities in relation to the limits, loan and funding policies and interest rate risk management, and taking any necessary measures to ensure that the work is carried out in accordance with the risk policies.

Hedging instruments are not used since the risk taken on is not significant.

QUANTITATIVE DISCLOSURE

The internal capital requirement necessary for interest rate risk is calculated, in accordance with indications by Bank of Italy Circular 285/2013, using a simplified model that divides the assets and liabilities of the Group banks banking portfolio into 14 time ranges on the basis of their residual lives; the assets and liabilities at variable rates are slotted into the various time ranges on the basis of the interest rate re-pricing date.

The model provides for the assets and liabilities to be entered onto the timetables in accordance with the instructions of Bank of Italy Circular 272 “Manual to fill out the accounts table” and Circular 115 “Instructions to fill out the consolidated regulatory reports of the credit institutions” apart from:

- current account assets classified as “on demand”;
- current account liabilities and demand deposits to be divided in accordance with the following instructions:
 - if “on demand”, with a standard fixed rate of 25% (“non-core component”);
 - for the remaining amount (“core component”) in the next eight time ranges (from “up to 1 month” to “4-5 years”) in proportion to the number of months contained.

In addition, the Bank models the product “SI conto” DEPOSITO”, considering the implicit option of early withdrawal. The historic percentage of early withdrawals is calculated for this item, and the result is applied to the entire funding from the product and this amount is put into the 1-day bucket. The remaining amounts are “bucketed” in accordance with the contractual expiry chosen by the customer.

The asset positions are offset by the liability positions within each time range, thereby obtaining a net position. The net position of each range is multiplied by certain weighted factors obtained as the product between a hypothetical change in the rates for all the maturities and an approximation of the duration amended with respect to the individual ranges as provided by the simplified Bank of Italy method.

In order to calculate the interest rate risk of the banking book, the Bank of Italy provides that under the “normal state of affairs” reference can be made to the annual changes in interest rates recorded over a 6-year observation period, considering the 99th percentile (raised)”.

The following is reported below:

- the internal capital calculated against the interest rate risk;
- the risk ratio calculated as the ratio between the above-described internal capital and the regulatory capital.

(Amounts in thousands of Euros)

EXPOSURE TO INTEREST RATE RISK	Values at 31/12/2014
1. Internal capital compared to the interest rate risk	1,730
2. Regulatory capital	57,849
3. Risk index	3.0%
4. Threshold limit defined by law	20%

SECTION 15 - REMUNERATION POLICY

QUALITATIVE DISCLOSURE

The remuneration policies were formulated in accordance with the procedure described below, in compliance with the instructions contained in the Regulation and the provisions, in accordance with the Regulation, of article 9.1 of the Banca Sistema Articles of Association.

More specifically, article 9.1 of the articles of association of Banca Sistema state that “the remuneration policies in favour of employees or outside staff who are not employees” and “any remuneration plans based on financial instruments” will be approved by the Shareholders’ Meeting, with approval by at least 60% of the share capital with voting rights, it being understood that this increased decision-making quorum will not apply to resolutions that will be passed by the company due to the regulatory rules on the basis of requests recorded by the Supervisory Authorities.

The formation of Banca Sistema remuneration policies provides for the involvement of the following company bodies and departments in accordance with the duties and responsibilities indicated below:

The Executive Committee of Banca Sistema, using the company departments specified herein, will draft and define the proposals relating to the Banca Sistema and Group remuneration policies, which will then be submitted to the Board of Directors and if it gives its approval, to approval of the Shareholders’ Meeting of Banca Sistema. The Executive Committee will also manage and implement the bonus plan for Group employees and executive managers, approved by the Shareholders’ Meeting and in general will implement the Group remuneration policies. The Executive Committee will be assisted by the following company departments in performing its duties:

- The HR (Human Resources) Division, which coordinates the remuneration policy definition process;
- The Risk Division, which is involved in identifying potential events that could influence company activities, analysing the impact of said events within the scope of the risk limits considered to be acceptable by the company, and periodically monitoring the impact of implementing the remuneration policies on the Group risk profiles. This Division has worked on defining the risk indicators in the new Group remuneration system.
- The Compliance and anti-money laundering Department, which will make a prior check of compliance of the remuneration policies, and will carry out an assessment of compliance of the remuneration policies with the applicable regulatory framework and internal regulations every year, including the Code of Ethics of the Bank, in order to reduce the legal and reputation risks;
- The Internal Auditing Division, which checks and controls implementation of the staff remuneration and bonus policies, in compliance with the Regulation and in general with the regulatory provisions, and informs the competent bodies of any critical issues encountered.

In its capacity as the body in charge of strategic supervision pursuant to article 4.2 of the Regulation, the Board of Directors of Banca Sistema will adopt and review the remuneration policies to submit for approval to the Board of Directors on an annual basis at least, and will be responsible for correctly implementing them. It will also ensure that the remuneration policies are adequately recorded and can be accessed within the company structure.

When the Board of Directors examines the proposals to submit to the shareholders' meeting, they will be assisted by the Appointments and Remuneration Committee, comprising three non-executive directors who will carry out the following, also with the assistance with the above-mentioned company departments:

- it will provide consultation and proposals on payments for the corporate representatives pursuant to article 26 of the Consolidated Law on Banking ("TUB"), and heads of the internal control departments, and consultation on determination of the remuneration criteria used for the remaining "key staff" (as defined herein);
- will directly supervise correct application of the rules relating to remunerating the heads of internal control, in close agreement with the control body;
- will prepare the documentation to submit to the body with strategic supervision powers for the relative decisions;
- will assist the other committees in the body with strategic supervision powers;
- will ensure that the right corporate departments get involved in the process of processing and controlling the remuneration policies and procedures.

The Appointments and Remuneration Committee met 3 times during the reference period in accordance with the remuneration policy activities.

Self-assessment process and identification of key staff

The Regulation requires all banks to develop an accurate self-assessment system to identify "key staff", i.e. those people whose professional activities have or could have a significant impact on the risk profile of the bank.

This process must be based on the recognition and evaluation of the individual positions (responsibility, hierarchical levels, work carried out and operational authority). This is required of all banks or parent companies, regardless of whether the more detailed rules apply to the key staff (that do not apply in Banca Sistema since it involves "minor" intermediaries) since it allows to application of the entire subject matter to be adjusted in accordance with the actual capacity of the individual company figures to affect the risk profile of the bank. The self-assessment process and results must be based on adequate grounds and formally drawn up.

In accordance with the Regulation, the "key staff" are presumed to be the following subject to proof to the contrary by the bank:

- i) executive managers;
- ii) the general manager and managers in the main lines of business, corporate departments or geographical areas, and those who report directly to bodies with strategic supervision, management and control powers and persons who have direct responsibility for the truthfulness and validity of the accounting and financial data of the Bank;
- iii) managers and staff at the highest levels of the internal control bodies (in particular the managers and staff at the highest levels of the internal auditing, compliance, risk management and human resource departments);
- iv) other parties who individually or collectively (for example loan granting committees, operating portfolio management tables) take significant risks (known as the "risk takers"); In order to identify these parties,

the banks establish relevant criteria such as the total amount of remuneration in absolute terms, the option of taking on risk positions, generating profits or affecting other items on the financial statements for significant amounts; in any case, staff whose total gross remuneration, including discretionary retirement benefits, does not exceed Euro 200,000 per year, and whose variable portion does not exceed 20%, may not be considered significant.

- v) any employee receiving total remuneration, including discretionary retirement benefits, that puts them into the same remuneration bracket as categories ii) and iv) above, if the work has or could have a material impact on the risk profile of the Bank.

The results of that process, with a total of 18 positions, covered by 16 resources (two resources cover the position of Director in all the Subsidiaries) are summarised below:

- 1) Executive managers
 - Executive managers in the Parent Company (3 positions);
 - Executive managers in the subsidiary Specialty Finance Trust Holdings Ltd (hereinafter "SFTH") (2 positions).
- 2) Managers of the main company departments
 - Central Factoring Division (1 position);
 - Central Banking Division (1 position);
 - Central Finance and Administration Division (2 positions);
 - Legal and company affairs Division (1 position);
 - Central Operations Division (1 position);
 - Marketing and Communication Division (1 position);
 - Servicing Division (1 Position).
- 3) Managers and staff at the highest levels of the internal control bodies
 - Internal Auditing Division (1 position);
 - Human resources Division (1 position);
 - Risk and Compliance Division (1 position).
- 4) Other "Risk Takers"
 - Treasury Department (1 position);
 - Commercial Factoring Division (1 position).

More stringent rules will apply to structuring "key staff" remuneration until there is full correspondence between the remuneration and the economic-financial performance - both current and prospective - in accordance with factors that take account of the risks taken on and sustainability of the corporate results over time.

Detailed *ex-post* disclosure on the structure of the remuneration received by the key staff is provided to the Shareholders' Meeting every year.

The group remuneration system - general principles

Subject to the more detailed provisions below, remuneration is formed of the following components, especially with respect to the “key staff”:

A) Fixed component:

- is provided for at all levels of responsibility;
- is based on the technical, professional and managerial skills of the staff members and the responsibility assigned to each; it is constantly monitored to check both internal and external fairness with respect to the market, including with the assistance of assessments drawn up by independent consultants chosen by the Parent Company;
- it is also calculated in relation to the specific jobs carried out by the members of the Board of Directors, and their involvement in any internal committees;
- it is aimed at ensuring the sound and prudent management of the Bank and the Group;
- it has always been based on the criteria of sustainability.

B) Variable component:

- is also calculated in accordance with the remuneration levels offered by the market for similar functions in comparable structures;
- is determined on the basis of parameters that are as objective as possible;
- it is calculated on the basis of a quantitative and qualitative assessment system;
- with respect to the quantitative criteria, it has been structured on both short and medium-long term goals assigned to key staff who have the most responsibility for running the company;
- calculated in accordance with exclusively qualitative goals and not related in any way to the financial results for those who have control functions and parties who have to draw up the accounting and corporate documents;
- adequately referenced to the risk profile involved;
- characterised by the sustainability criteria over time;
- assigned on an annual basis and given, providing for the following deferral mechanisms and return rules for the cases described below, in order to align the variable component to the actual results and risks taken on.

C) Benefit:

- additional company benefits are added to the remuneration for all employees or for some of them, in accordance with the roles covered.

The remuneration structure of employees who fall under the “key staff” category

A) FIXED COMPONENT

The fixed remuneration component for all Group employees is in line with the applicable Collective Labour Agreement (CCNL) rules, and for employees of the foreign companies, the rules that apply in the jurisdiction where the work is carried out. This principle also applies to employees who fall under the “key staff” category. The fixed component, is the greater element, and applies to the skills and responsibilities related to the role covered, rewarding the professional capacity and experience and the commitment involved.

B) VARIABLE COMPONENT

The variable component of employee remuneration for the “key staff” and all employees who obtain bonuses is represented by a total annual bonus, comprising a cash bonus given 6 months after the year in which the service was provided, and starting from 2013, in compliance with the provisions of the Bank of Italy, a deferred bonus (in cash) paid in the 3 years after the year following the year in which the service was rendered.

The total annual bonus is given at the discretion of the Executive Committee on the basis of individual and company qualitative and quantitative goals, differentiated by job (the bonus is related to qualitative targets only for those who have control functions and parties who draw up the accounting and corporate documents and are not related in any way to the individual or company financial results).

In order to guarantee financial sustainability, the total maximum amount of the bonus paid by the Group may not, in any case, exceed the amount of the “bonus pool” set aside at the end of every year by the Bank’s Board of Directors, upon proposal of the CEO in association with the Financial Manager, with the amount equal to a percentage of the total gross remuneration (company cost) paid by all the Group companies in the applicable year (for 2012, the percentage was about 20% with a “bonus pool” of about Euro 1,200,000).

The total annual bonus for each worker is calculated on the basis of both a corporate and individual performance evaluation.

The targets will be established at the beginning of the year in accordance with the objective financial parameters in order to calculate the corporate performance.

The total annual bonuses for both the key staff and all Group employees may not exceed 100% of the gross annual remuneration. In any case, the cash bonus given during the year will represent 60% of the total annual bonus. The individual bonuses of less than 20% (or in any case less than Euro 10,000 gross) of the base pay form the exception, since there is no deferred component; the entire bonus will be paid in the 6 months following assessment of the performance.

Starting from 2013, deferred bonuses will no longer be given that have SGBS S.r.l. shares as a component, as decided in the Bonus Policies document approved by the Shareholders’ Meeting in April 2012 since these shares were completely distributed in 2012.

If an assignee leaves his or her position with the Group, the other SGMS shareholders will have the right to acquire the shares of the outgoing shareholder at the price of the most recent sworn valuation, unless the Bank sends SGBS a written statement to the effect that the outgoing shareholder can keep his or her investment in SGBS. The issue of this discretionary statement by the Bank will clearly be related to the behaviour of the employee or manager during their working relationship with the Group, along with the long-term stability of the results obtained.

In addition, the Executive Committee gave the right to each investor to acquire the shares as part of the 2012 Bonus Plan (an “Investor”), establishing, at its own discretion, in accordance with Banca Sistema payment policies, the amount and relative Purchase Price, both in the case of a semi-free assignment, and in the case of assignment at the market value of the Shares at the time of acquisition.

The remuneration structure of employees who do not fall under the “key staff” category

The remuneration of the Group employees who do not fall under the “key staff” category comprises a fixed component, the largest amount, calculated in accordance with the applicable CCNL (for employees of foreign companies, the law that applies in the jurisdiction in which they work), possible in addition to a lower annual bonus, given by the CEO on a discretionary basis, with authorisation from the Executive Committee on the basis of a qualitative analysis of the individual performance. The bonuses given to staff who do not fall under the “key staff” category, in accordance with the Regulation, are subject to the limits of the “bonus pool” and also given in the manner and with the timeframes described above.

Calculation of the variable component of the remuneration

Corporate performance

The Executive Committee, having been advised by the Appointments and Remuneration Committee, will evaluate the 2014 corporate performance, determining the corporate performance index in accordance with the budget and considering any other economic parameters.

This is how a variable remuneration system is created, relating the individual performance parameters to the overall group financial performance, to ensure that the bonus system is consistent with the long-term corporate and bonus objectives, while also encouraging staff loyalty.

The Bank will also be able to maintain or reach a sound capital base by using this instrument.

Individual Performance

The Executive Committee, in accordance with the Appointment Committee, will authorise the CEO to determine the individual performance of each employee in accordance with the hierarchical line and using the criteria described below. The bonus plan will require the approval of the Board of Directors for key staff.

Amounts paid in breach of the provisions of the Bank of Italy Regulation of 30 March 2011 (paragraph 5.2.5) will be subject to a claw back clause.

The discretionary cash bonus - part paid in the year of assessment

In the first quarter following each year, all employees will be assessed with respect to their achievement of the individual goals for the year in question. On the basis of that assessment and whether or not they reached the quantitative and qualitative goals established by the business plan of the Bank, the discretionary bonuses for the previous year will be assigned and given in the first half of each year, and which may vary from 0% to other percentages on the basis of the individual performance.

The individual qualitative criteria that forms the basis of the assessment includes:

- compliance and respect for the values (Integrity, Independence, Excellence, Transparency, Social and Environmental Responsibility) on which Banca Sistema bases its business, applicable law and the Bank Code of Ethics;
- honesty in relations with customers and enhancing customer loyalty;
- professional capacity and skills;
- constant dedication to work, availability with respect to colleagues and the ability to work as a team;
- the capacity to find concrete and possibly innovative solutions, with the objective always being the sound and prudent management of the Bank and its values over the long term;
- the ability to take responsibility for decisions; the ability to promptly to pursue the goals identified;
- the capacity to optimise the use of resources; the capacity to involve and motivate co-workers, encouraging growth including through the attentive use of authorisation;
- the reduction of legal and reputation risk.

The individual quantitative criteria listed can include profitability, volumes, cost control, reduction of risk, funding and loans in the medium-long term.

The CEO and all the staff may receive deferred bonuses within the scope of the long-term bonus plan as described above.

The deferred bonus will be given three years after the year following the one in which the service was provided.

The amount of the deferred bonus will be corrected by a correction factor equal to the ROE for the year in the first year of payment. This figure may obviously be positive or negative in accordance with the Bank's performance for the year.

The bonus amount thereby calculated will form the basis for the calculation of the bonus for the following year.

A member of top management and people whose actions had a significant impact on the risk profile of the entity left the bank during the applicable period, and no amounts were paid since they were left in the provision for the category.

QUANTITATIVE DISCLOSURE

The table below shows the remuneration amounts for the year, divided into the fixed and variable components, and the number of “Executive managers”, “Managers of the main company departments”, and “Managers and staff at the highest levels of the internal control bodies” beneficiaries of Banca Sistema. The total figures include the beneficiaries of Banca Sistema and the breakdown includes persons who hold more than one different position.

No amounts relating to deferred bonuses from previous years were recognised as at 31/12/2014.

(Amounts in thousands of Euros)

Beneficiary Category	Number of beneficiaries	Fixed remuneration	2014 bonus available	Deferred 2014 bonus	% variable
Executive managers	5	628	245	139	65%
Managers of the main company departments	8	1,037	162	108	26%
Managers and staff at the highest levels of the internal control bodies	3	395	25	8	8%
Other “Risk Takers”	2	272	52	35	32%

(Amounts in thousands of Euros)

Beneficiary Category	Overall remuneration
President of the Strategic Supervision Body	124
Management body	523

(Amounts in thousands of Euros)

Areas of activity	Remuneration
Division	865
Support functions	3,968
Business areas and commercial network	1,826
Control functions	413

SECTION 16 - ENCUMBERED ASSETS AND UNENCUMBERED ASSETS

QUALITATIVE DISCLOSURE

The Bank's encumbered assets include debt securities to guarantee refinancing mechanisms with the ECB and debt securities used as collateral in reverse repurchase agreements. The encumbered assets also include the trade receivables used as guarantees with the Central Bank through ABACO.

In order to avoid excessively over collateralizing the available securities, the Bank has taken out certain policies providing that a certain amount of assets must be held that can be readily converted into cash in accordance with the total funding amount from the main retail funding product (SI Conto! DEPOSITO).

As at 31/12/2014, the encumbered debt securities amounted to about Euro 714 million and the book value of the receivables in ABACO amounted to about Euro 95 million.

The "secured guarantees received" include the securities acquired by the bank as part of the repurchase agreements and the securities received as a pledge within the scope of financing operations (Lombard).

Information on the amount of liabilities associated with the encumbered assets and the guarantees received is provided in the final section.

QUANTITATIVE DISCLOSURE

Form A - ASSETS

(Amounts in thousands of Euros)

	Book value of the encumbered assets	Fair value of the encumbered assets	Book value of the unencumbered assets	Fair value of the unencumbered assets
Activities of the reporting entity	808,664	-	1,273,355	-
Equities	-	-	-	-
Debt securities	713,698	713,667	144,309	144,298
Other assets	94,966	-	1,129,046	-

“Other assets” mainly include “Unencumbered financial assets - other than on demand” and to a residual extent “Unencumbered financial assets - mortgage loans”.

Form B - SECURED GUARANTEES RECEIVED

(Amounts in thousands of Euros)

	Fair value of the encumbered secured guarantees received or the own debt securities issued	Fair value of the secured guarantees received or the own debt securities issued that may potentially be encumbered
Secured guarantees received from the reporting entity	126,964	176,751
Equities	-	11,682
Debt securities	126,964	165,070
Other secured guarantees received	-	-
Own debt securities issued other than the own guaranteed bonds or from ABS	-	-

Form C - ENCUMBERED ASSETS/SECURED GUARANTEES RECEIVED AND ASSOCIATED LIABILITIES

(Amounts in thousands of Euros)

	Corresponding liabilities, potential liabilities or securities given in loans	Assets, secured guarantees received and own debt securities issued other than the guaranteed bonds and encumbered ABS
Book value of the selected financial liabilities	238,807	1,148,611

