EXPLANATORY NOTES

Part A – Accounting standards

A1 - General section

Section 1 – Statement of compliance with the international accounting standards

The financial statements for the year ended 31 December 2013 have been drawn up in accordance with the international accounting standards issued by the International Accounting Standards Board (IASB) and approved as of the date of the drafting of the same; they have also been drawn up in accordance with the related interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Circular No. 262 dated 22 December 2005 of the Bank of Italy issued on the basis of the authorisation contained in Italian Legislative Decree No. 38/2005 which acknowledged in Italy EU Regulation No. 1606/2002 regarding international accounting standards, up-dated as at 21 January 2014.
Circular No. 262 contains the formats of the financial statements, the compilation rules and the content of the explanatory notes.
Recourse was not made to the departure laid down by Article 5.1 of Italian Legislative Decree No. 38/2005.

Section 2 – Basis of presentation

The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statements of changes in shareholders' equity, statement of cash flows and the explanatory notes and are also accompanied by a Directors' report on operations.
As per Article 5 of Italian Legislative Decree No. 38/2005, the financial statements are drawn up using the Euro as the reporting currency. The amounts presented in the financial statements are expressed in Euro, while the figures in the explanatory notes are expressed in thousands of Euro.
The financial statements have been drawn up applying the general principles envisaged by IAS 1 and the specific accounting principles approved by the European Commission and illustrated in Section A.2 of these Explanatory notes, also making reference to the "systematic framework for the preparation and presentation of the financial statements" (so-called framework).
The financial statements and the explanatory notes present the corresponding comparative balances as at 31 December 2012 in addition to the amounts for the reporting period.

The basis of presentation laid down by IAS 1 and used for preparing these financial statements involved:

1) Principle of the going-concern: the financial statements have been drawn up with a view to the bank continuing its business activities for the foreseeable future, therefore the assets, liabilities and "off-balance sheet" transactions have been valued according the functioning values.
The possible foreseeable future taken into consideration is that which emerges from all the available information used for the drawing up of the strategic plan and the budget for 2014. Furthermore, in relation to the activities carries out, taking into account all the risks which are analysed and illustrated in other parts of the financial statements, the Bank believes that it falls within the sphere

of application of IAS 1 according to which when pre-existing profitable activities and easy access to financial resources exists, the condition of the company as going-concern is appropriate without carrying out detailed analysis.
When assessing the business as a going-concern, the references to IAS 1 contained in the joint "Bank of Italy/Consob/ISVAP No. 2 dated 6 February 2009" have been used.

2) Accruals accounting: revenues and costs are recognised, regardless of the moment of their monetary settlement, on the basis of economic accrual and according to the criterion of correlation.

3) Financial statement presentation consistency: the presentation and classification of the items is maintained from one year to the next for the purpose of ensuring the comparability of the information unless a change is requested by an International Accounting Standard or by an Interpretation or it is clear that another presentation or classification is more appropriate in terms of relevancy and reliability for the representation of the information. When the presentation or classification of the financial statement items has been changed, the comparative amounts are reclassified, where possible, also indicating the nature and the reasons for the classification.

4) Significance and aggregation: each significant class of similar items is stated separately in the financial statements. Items which are dissimilar in nature or with regard to intended use are presented separately unless they are insignificant.

5) Offsetting: assets, liabilities, costs and revenues are not offset unless this is required or permitted by an International Accounting Standard or by an interpretation or it is expressly envisaged by the financial statements layouts for banks.

6) Comparative information: the comparative information is provided for the previous period for all the balances stated in the financial statements with the exception of when an International Accounting Standard or Interpretation permits otherwise. The commentary and descriptive information is also included when this is significant for an improved comprehension of the related annual financial statements.

Recourse to estimates and appraisals

The drawing up of the financial statements requires recourse to estimates and appraisals which may have a significant impact on the balances in the balance sheet and income statement.
The use of appraisals and assumptions is more commonly required for:
- the quantification of the value adjustments to financial assets, loans, receivables and tangible and intangible assets;
- the determination of the fair value of the financial instruments to be used for financial statement disclosure and the use of appraisal models for the calculation of the fair value of financial instruments not listed on active markets;
- the appraisal of the fairness of the value of goodwill;
- the quantification of staff provisions and the provisions for risks and charges;
- the actuarial and financial hypotheses used for the determination of the liabilities linked to defined-benefit plans for employees;
- the estimates and assumptions regarding the recoverability of the deferred tax assets.

Reasonable estimates and assumptions are formulated by means of the use of all the internal and external information available and past experience.
The adjustment of an estimate further to changes in the circumstances on which the same was based or further to new information or, further still, additional experience, is applied on a forward basis and

therefore generates an impact on the income statement for the year in which the change takes place and, possibly, on that relating to future years.
The appraisal process is made particularly complex in consideration of the current macro-economic and market context, characterised by unusual levels of volatility which can be seen on all the financial balances decisive for the purposes of the appraisal and the consequent difficulty in the formulation of performance forecasts, including short-term, relating to financial parameters which significantly influence the values subject to estimation.

Section 3 - Events subsequent to the accounting reference date

During the period of time running between the reference date of these financial statements and their approval by the Board of Directors on 26 February 2014, no events took place which led to an adjustment of the approved figures at that time nor were the any significant events which would require a supplement to the disclosure provided.

Section 4 – Other aspects

Audit

The annual financial statements are subject to audit, pursuant to Italian Legislative Decree No. 58/98, by BDO S.p.A., in accordance with the appointment granted for the 2011-2019 period to said firm by means of shareholders' resolution dated 9 April 2011. The audit report is published in full, as per Article 135 *septies* of Italian Legislative Decree No. 58/98.

Amendment of the accounting standards approved by the European Commission.

The table below shows the new international accounting standards or the amendments to the standards already in force, with the related approval regulations applied by the European Commission, which came into force as from 2013.

Approval regulation	**Title**
EU Reg. No. 475 dated 5 June 2012 In force from the accounting period as at: 1 January 2013 (early application permitted)	IAS 19 - Employee benefits - The amendments should help the readers of financial statements to more fully comprehend in what way the defined-benefit plans influence the balance sheet-financial situation, the economic result and the cash flows of the entity. The purpose of the Standard is to define the accounting formalities and the additional information relating to the employee benefits.
EU Reg. No. 475 dated 5 June 2012 In force from the accounting period as at: 1 January 2013 (early application permitted)	IAS 1 - Presentation of financial statements - Statement in the financial statements of the items of the other components of the statement of comprehensive income.
EU Reg. No. 1255 dated 11 December 2012 In force from the accounting period as at: 1 January 2013	IFRS 13 - The new IFRS 13 standard "Fair value measurement" established a single reference framework for the determination of the fair value, replacing the regulations dispersed in the various accounting standards and providing a complete guide on how to measure the fair value of financial and non-financial assets and liabilities, also in the presence of inactive and illiquid markets. The new standard does not extend the use of the accounting principle of the fair value, whose application is by contrast required or permitted by other standards, but provides practical, complete and agreed on instructions regarding the methods for determining the fair value. For further details on the method adopted, please see the matters contained in the following section "A.2 - Section relating to the main financial statement items".
EU Reg. No. 1256 dated 13 December 2012	IFRS 7 - The amendments introduced to IFRS 7 have the twofold aim of permitting the readers of the financial statements to assess the real or potential effects of all the

In force from the accounting period as at: 1 January 2013	netting agreements on the financial situation of the entity and to analyse and compare the accounting results of transactions drawn up using the international accounting standards with those drawn up according to the differing American accounting standards. In detail, the provision of specific disclosure is requested on the financial instruments which have been offset in the balance sheet in accordance with IAS 32 and those which can potentially be offset, if certain conditions apply, but stated in the balance sheet with open balances since they are regulated by "outline netting agreements or similar agreements" which do not observe all the criteria established by IAS 32 for financial statements offsetting. In providing disclosure on these agreements, the standard also requires that account be taken of the effects of the financial guarantees (financial collateral) received and given. For the disclosure on the financial assets and liabilities subject to offsetting in the financial statements, or subject to outline offsetting agreements or similar, reference is made to the new tables introduced by the afore-mentioned up-date of Circular No. 262 in Section B of these explanatory notes, under "other information".
EU Reg. No. 301 dated 27 March 2013	IFRS1, IAS 16, IAS 32, IAS 34 - These concern the standardisation of the "Annual cycle of improvements 2009-2011 to the international accounting standards", approved by the IASB on 17 May 2012. The limited amendments introduced by the afore-mentioned cycle of improvements has the aim of sorting out a number of inconsistencies noted in the body of the IFRS, providing clarifications with regard to terminology and drawing up additional guidelines with regard to the application of certain requirements.

The table below shows the new international accounting standards or the amendments to the standards already in force, with the related approval regulations applied by the European Commission, whose mandatory application starts - in the event of financial statements coinciding with the calendar year - as from 1 January 2014 or a latter date.

Approval regulation	Title
EU Reg. No. 1254 dated 11 December 2012 In force from the accounting period as at: 1 January 2014	IFRS 10, IFRS 11, IFRS 12, amendments to IAS 27 and IAS 28 (and subsequent amendments approved by means of Regulation No. 313 dated 4 April 2013 "transition guide" and Regulation No. 1174 dated 20 November 2013 for subsidiary companies held by an investment body). By means of the afore-mentioned Regulation, a number of new standards and correlated amendments to the existing standards were ratified, as approved by the IASB in 2011 and 2012. The objective of IFRS 10 "Consolidated financial statements" is to provide a single model for the consolidated financial statements, which envisages control as the basis for the consolidation of all the types of entity, in replacement of the standards envisaged by IAS 27 "Consolidated and separate financial statements" and SIC 12 "Consolidation - special purpose entities". An investor holds control when at the same time they have: power over the entity, they are exposed to or benefit from variable returns deriving from the relationship with the entity and they have the capacity to exercise their power over the entity so as to affect the amount of its returns. IFRS 11 "Joint arrangements" establishes the accounting standards for the entities which are parties to joint arrangements and replaces IAS 13 "Interests in joint ventures" and SIC 13 "Jointly-controlled entities - non-monetary contributions by venturers". The standard requires the entity to determine the type of agreement in which it is involved, evaluating its rights and its obligations. The interests held in a joint venture, in which the parties which hold joint control have a claim to rights on the net assets of the agreement, are recognised as an investment to be measured at equity, in compliance with the new version of IAS 28. On the basis of the new standard, the proportional consolidation of joint ventures is no longer permitted. IFRS 12 "Disclosure of interests in other entities" is a new standard which brings together the disclosure requirements for all the forms of investment in subsidiaries, associated companies, non-consolidated structured entities, joint-control arrangements.
EU Reg. No. 1256 dated 13 December 2012	IAS 32 - By means of the afore-mentioned regulation, the amendment of IAS 32 " Financial instruments: presentation", approved by the IASB on 16 December 2011,

In force from the accounting period as at: 1 January 2014	was ratified. The amendment introduces, within the application guide of the standard, a number of paragraphs aiming to clarify the application methods for the current regulations on offsetting in the balance sheet of the financial assets and liabilities, on the basis of which the net balance representation is only possible when the entity usually has the legal right to offset the amounts recorded in the accounts and intends to discharge for the net residual or realise the asset and at the same time discharge the liability. In detail, it is clarified that the right to offset must not be subject to a future condition precedent and must be legally exercisable both during the normal course of the business activities and in the event of breach, bankruptcy or any other insolvency procedure which regards the entity and all the counterparts.
EU Reg. No. 1375 dated 19 December 2013	IAS 39 - The amendment introduced by the regulation in question envisages that the renewal of a derivative, designated as hedging, by an existing counterpart to a new central counterpart, as a consequence of legislation or regulations, does not lead to the termination of the hedging relationship, provided that any changes in the hedging instrument are limited to those necessary for carrying out the same replacement of the counterpart.

In conclusion, the list of the international accounting standards, amendments and interpretations issued by the ISAB pending approval by the European Commission, is presented.

Accounting standard/ Interpretation/ Amendment
IFRS 7 and IFRS 9: Financial instruments amended on 16 December 2011, 19 December 2013
IAS 19: amendment relating to the defined-benefit plans issued on 21 November 2013
Improvements to a number of IFRS approved on 12 December 2013
IFRIC 21 containing interpretations on certain particular taxes, issued on 20 May 2013

Statement of comprehensive income

The statement of comprehensive income, drawn up in light of the amendments to IAS 1, includes the revenue and cost items which, as required or permitted by the IAS/IFRS, are not recognised in the income statement but booked to shareholders' equity.
The "Comprehensive income" expresses the change that the equity has undergone in a financial year deriving from both the business transactions which usually give rise to the profit/loss for the year and from other transactions (e.g. valuations) booked to shareholders' equity on the basis of a specific accounting principle. By means of the recent up-date to Bank of Italy circular No. 262, the items included in the "Statement of comprehensive income" are divided up into two categories, according to whether they have the characteristic to be reversed in the income statement in a subsequent year or not.

Comparability

For the sake of comparability, Euro 342 thousand was reclassified in the 2012 financial statements, from item 150 a) payroll and related costs to item 150 b) other administrative expenses. This is the amount relating to "reimbursement of expenses upon submitting a documented expense account, mileage allowance, medical check-ups" which according to the new instructions should be classified under other administrative expenses instead of payroll and related costs.
By means of Article 6 *bis* of Italian Decree Law No. 201/2011 ("Monti Manoeuvre") converted in Italian Law No. 212/2011, and subsequent amendments, the application on customer current accounts of "Fast credit processing fees" in replacement of other commission applied to overdrafts, has been envisaged. The same involves an expense reimbursement which is applied for the "fast approval processing" of a temporary credit facility, which the bank has applied since October 2012.
On the basis of the instructions imparted by the Supervisory Body, the commission has been booked to item 190) Other operating income / expense, while the other overdraft commission was booked to item 40) Commission income.

A.2 - Section relating to the main financial statement items

1 - Financial assets and liabilities held for trading

Recognition criteria

Initial recognition takes place as of the date of settlement for securities and the date of subscription for derivatives. The recognition value is equal to the purchase cost understood as the fair value of the instrument (fair value corresponds to the price at which an asset could be traded, or a liability discharged, in a free transaction between informed and independent parties), without considering the transaction costs and revenues relating to said instrument.

Classification criteria

Financial assets held for trading include the financial instruments held for the purpose of generating, over the short-term, profits deriving from the changes in their prices, inclusive of derivative contracts, with positive fair value, excluding hedging instruments.
A derivative contract is a financial instrument whose value is linked to the performance of an interest rate, the listed price of a financial instrument, the price of a commodity, the exchange rate of a foreign currency, a price or rate index or other indices; it requires an initial net investment with respect to that which would be required by other types of contracts and is settled on maturity.
Commitments to deliver securities sold and not yet purchased are classified as trading liabilities (so-called “uncovered short positions”).

Measurement criteria

The trading book is measured at fair value. The determination of the fair value of the assets and liabilities of a trading book is based on prices struck on active markets or on internal measurement models generally used in financial practice. If the fair value of a financial asset becomes negative, this asset is recognised as a financial liability.

Derecognition criteria

The derecognition of the financial assets held for trading takes place when the contractual rights on the cash flow of the assets in question expire or when further to disposal essentially all the risks and benefits relating to the same financial assets are transferred.

Recognition criteria for income components

The gains and losses generated by means of disposal or reimbursement, as well as the unrealised gains and loses deriving from changes in the fair value of the trading book are recorded in the income statement under item 80 “Net profit (loss) from trading activities”.

2 - Available-for-sale financial assets

Recognition criteria

Initial recognition takes place as of the date of settlement for securities and the date of disbursement for loans and receivables. At the time of initial recognition, these assets are recorded at fair value, inclusive of the transaction costs or income directly attributable to said instrument. Without prejudice to the exceptions envisaged by IAS 39, transfers from the available-for-sale portfolio to other portfolios and vice versa are not possible.

The assets stated on the basis of the amendments to IAS 39 are measured, if stated by 31 October 2008, at the fair value as at 1 July 2008; those stated subsequently, are measured on the basis of the fair value as of the reclassification date.

Classification criteria
Available-for-sale financial assets include the non-derivative financial assets which are designated as available for sale or which are not classified as loans or receivables, investments held until maturity or financial assets at fair value through profit and loss. This item also includes the shareholdings not handled for trading purposes and not open to qualification as control, associated or joint control-based and the units in stock & share and real estate UCITs.

Measurement criteria
Subsequent to the date of initial recognition, available-for-sale assets are measured at fair value with recognition in the income statement of the value corresponding to the amortised cost. An exception to this rule are investments in equities not listed on active markets for which it is not possible to measure the fair value reliably and derivatives linked to the same, which must be settled by means of delivery of said instruments, which are stated at cost.
The determination of the fair value of the securities is based on prices struck on active markets or on internal measurement models generally used in financial practice.
The profits and the losses which emerge from the measurements at fair value but which are not realised, are booked to a specific equity reserve, net of the related taxation, until the moment that the financial asset is sold or written down.
If an available-for-sale financial asset undergoes a permanent loss in value (impairment), the cumulative loss further to the previous measurements at fair value booked to shareholders' equity is stated in the income statement item "Net value adjustment for impairment of available-for-sale financial assets".
Checking of the existence of impairment losses on the basis of objective evidence (impairment test) is carried out at the time of each financial statements closure or at the time of the drafting of the interim statements.
For example, this circumstance applies in the event of:
- the disappearance of an active market relating to the financial asset in question as a result of the financial difficulties of said issuer. However, the disappearance of an active market due to the fact that the instruments of the company are no longer publically traded is not evidence of the fair value reduction;
- occurrences which indicate an appreciable decrease in the future cash flows of the issuer (the general conditions of the local and national reference economy in which the issuer operate fall within this category).

Additionally, for an investment in an instrument representative of capital, there is objective evidence of an impairment loss in correspondence with the following additional negative events:
- significant changes with a negative impact in the technological, economic or legislative environment in which the issuer operates, such as to indicate that the investment in the same cannot be recovered;
- a prolonged and significant decrease in the fair value under the purchase cost.

In particular, with regard to equities listed on an active market, objective evidence of impairment is represented by the significant or prolonged decrease of the fair value under the purchase cost; according to the criteria adopted internally, this loss is considered to be significant if greater than 50% of the purchase price and prolonged if the price remains lower than cost for an uninterrupted period of at last 24 months.

Derecognition criteria
The derecognition of the available-for-sale financial assets takes place when the contractual rights on the cash flows of the assets in question expire or when further to disposal essentially all the risks and benefits relating to the same financial asset are transferred.

Recognition criteria for income components
If an available-for-sale financial asset is sold or disposed of, the profits or losses up to that moment which are not realised and booked to shareholders' equity, are transferred to the item "Profit /loss from disposal of available-for-sale financial assets" in the income statement.
Any value writebacks on investments in debt instruments are stated in the accounts with a matching balance in the income statement only of this writeback may be objectively correlated to an event which takes place after the loss due to impairment has been booked to the income statement, within the limit of the value of the amortised cost which the financial assets would have had in the absence of previous adjustments.
Writebacks on investments in equities, which can be correlated to an event which has taken place after the impairment loss has been booked to the income statement, should be recorded as a matching balance under shareholders' equity.

3 - Loans and receivables

These are recorded in the items "60 Amounts due from banks" and "70 Amounts due from customers".

Recognition criteria
Initial recognition takes place as of the date of disbursement on the basis of the related fair value which corresponds to the amount disbursed, to customers and banks, inclusive of costs and income directly attributable to the same and which can be determined as from the origin, irrespective of the moment they were settled. All the charges which are repayable by the debtor or which are attributable to internal costs of an administrative nature, are not included in the initial recognition value. In cases were the net recognition value of the loan/receivable is lower than the related fair value, due to the lower interest rate applied with respect to the market rate or that normally applied to loans with similar features, the initial recognition is made for an amount equal to the discounting back of the future cash flows at a market rate and the difference between the fair value thus determined and the amounts disbursed is booked directly to the income statement in the interest item.
This item, according to the pertinent commodities composition, includes the loans subject to securitisation transactions for which the requirements requested by IAS 39 for the derecognition from the financial statements does not exist.

Classification criteria
Loans and receivables include the amounts disbursed to customers and banks, both directly and via acquisition from third parties, which entail fixed or in any case determinable payments, which are not listed on an active market and which are not classified at inception under "Available-for-sale financial assets". Amounts receivable for repurchase agreements are also included in this item.

Measurement criteria
Subsequent to initial recognition, the loans and receivables are stated at amortised cost. Amortised cost is the value at which the financial asset has been measured, at the time of initial recognition, net

of the capital repayments, increased or decreased by the overall amortisation using the effective interest rate approach on any difference between the initial value and the value on maturity, and less any reduction further to a drop in value or non-recoverability. The effective interest rate is the rate that discounts back the flow of the future estimated payments for the estimated term of the loan in such a way as to exactly obtain the net book value at the time of initial recognition, inclusive of both directly attributable transaction costs/revenues and all the fees paid or received between the contracting parties.

The loan book is subject to periodic measurement at least as of each annual financial statement or interim closure, so as to identify and establish any objective impairment losses.

This circumstance applies when it is envisaged that the bank is not able to collect the amounts due, on the basis of the original contractual conditions or rather, for example, in the presence of:

-significant financial difficulties of the issuer or the debtor;

-violation of the contract, such as breach or non-payment of the interest or the principal;

- granting to the beneficiary of a concession/facility which the bank has taken into consideration mainly for economic or legal reasons relating to the financial difficulties of the same and which otherwise it would not have granted;
- probability that the debtor may be subject to bankruptcy/insolvency proceedings or other financial reorganisations.

The "non-performing" category includes all the loans and receivables for which objective evidence exists of a loss in value (doubtful, watchlist, restructured and positions past due by more than 90 days, as more clearly identified in part E, section 1 . Credit risk, 2.4 - Impaired financial assets, in these explanatory notes), measured by the difference between the book value and the current value of the estimated future cash flows, discounted at the original effective interest rate of the relationship. For the estimate of the collections and the related maturities of problem loans, reference is made to analytical repayment plans if available and, in the absence thereof, estimated and forfeit values are used taken from internal time series and sector studies.

The measurement is analytical in type and takes into account the estimated possibility of recovery, the timescale envisaged for collection and the outstanding guarantees. The loss must be possible to quantify in a reliable manner and be correlated to actual and not merely expected events.

The exposures whose anomalous situation is attributable to profiles pertaining to country risk are excluded.

Amounts due for default interest accrued on impaired assets (non-performing positions) are recorded, and therefore written down, to the extent that there is no certainty with regard to their effective collection.

"Performing" loans and receivables are measured collectively, dividing them up into standardised risk classes, establishing the Estimated Loss (EL) on the basis of the Probability of Default (PD) produced by the Credit rating System model and the losses in the event of breach (Loss Given Default – LGD) taken from the historic-statistical analysis of the performance of non-performing and watchlist loans. The estimated loss takes into account the deterioration of the loans as from the reference date, but whose entity is still not known at the time of measurement, for the purpose of taking the measurement model from the notion of estimate loss to the notion of latent loss.

With regard to exposure for a significant amount, specific analysis is carried out.

This method has been adopted since it is convergent with the measurement criteria envisaged by the New Basel Agreement on capital requirements (Basel 2).

In the presence of loans to non-residents, the value of the same is adjusted on a forfeit basis in relation to the difficulties in servicing the debt by their countries of origin.

Derecognition criteria

The full or partial derecognition of the loan or receivable is recorded respectively when the same is considered definitively unrecoverable, subject to bankruptcy proceedings or on any event after all the debt collection procedures have been completed.

Recognition criteria for income components

The effects deriving from the analytical and collective measurements are booked to the income statement.
The original value of the loan or receivable is reinstated if the reasons for the value adjustment made cease to exist, recording the effects in the income statement.
The amount of the losses due to full or partial derecognition of a loan or receivable is recorded in the income statement net of the write-downs previously made.
Recoveries of amounts previously written down are booked to reduce the item "Net valuation adjustments for impairment of loans and receivables".

4- Hedging transactions

Risk hedging transactions are aimed at neutralising potential losses on exchange and interest rates. The hedges can be divided up into the following categories:
• hedging of the fair value of a specific asset or liability which has the aim of maintaining the current value of a financial asset/liability in the presence of interest rate changes;
• hedging of the future cash flows attributable to a specific asset or liability, which has the aim of maintaining the cash flow of a financial asset/liability in the presence of interest rate changes;
• hedging of the effects of an investment in foreign currency.

Recognition criteria

Financial hedging derivatives are initially recognised and subsequently measured at fair value and classified in asset item 80 and liability item 60 "Hedging derivatives".
A relationship qualifies as hedging if all the following conditions are satisfied:
•at the start of the hedge there is a designation and formal documentation of the hedge relationship, the nature of the risk hedged and the risk objectives pursued;
• the definition of the criteria for determining the efficacy of the hedge;
• the expected hedge is highly effective and can be reliably measured and the measurement is carried out on an on-going basis.

Measurement criteria

The determination of the fair value of the derivative instruments is based on prices taken from organised markets or provided by qualified operators on models for the measurement of the options or on models discounting back future cash flows. A hedge is considered highly effective if, both at the start and during its life, the change in the fair value or the cash flows of the element hedged are almost completely offset by the change in the fair value or the cash flows of the hedging derivative, or rather the effective results remain within an interval between 80% and 125%.
Transactions are no longer considered hedging if:
• the hedge made via the derivative ceases or is no longer highly effective;
• the derivative matures, is sold, terminated or exercised;
• the element hedged is sold, has expired or is reimbursed;
• the hedging definition is revoked.

The ineffective part of the hedge is provided by the difference between the change in the fair value of the hedging instrument and the change in the fair value of the element hedged.
For the purposes of determining the efficacy of the hedge, both forecast and retrospective tests are carried out, at least on closure of the financial statements.

Derecognition criteria

The recognition in the financial statements of hedging transactions is interrupted when the efficacy requirements are no longer observed, when they are revoked, when the hedging instrument or the instrument hedged matures, is discharged or sold.

Recognition criteria for income components

The change in the fair value of the hedging instrument, in effective fair value hedges, is recorded in the income statement item “90 Net profit (loss) from hedging activities”. The changes in the fair value of the element hedged, attributable to the risk hedged with the derivative instrument, are recorded in the income statement as matching balances to the change in the book value of the hedged element.
If the hedge no longer satisfies the criteria for being recorded as such or the derivative is terminated, also due to the insolvency of the counterpart, the difference between the book value of the element hedged at the time the hedge ceases and that which would have been its book value if the hedge had never existed, in the event of interest-bearing financial instruments, is amortised in the income statement, over the residual life of the original hedge; in the event of non-interest bearing financial instruments, this difference is recorded directly in the income statement.

5 - Equity investments

Recognition criteria

Equity investments are stated in the financial statements at purchase value.

Classification criteria

The item includes the shareholdings in subsidiary and associated companies and those subject to joint control (joint ventures) or subject to the considerable influence of the Bank.

Measurement criteria

Equity investments are carried at cost.
If evidence exists that the value of an equity investment may have undergone a reduction, steps are taken to estimate the recoverable value of said investment, including the final disposal value and/or other measurement elements, which are compared with the book value of the equity investment. If this is lower, the difference is booked to the income statement under the item “Profits (losses) on equity investments”.
If the reasons for the loss in value cease to exist further to an event which has taken place after the recognition of the drop in value, writebacks are made with booking to the income statement, in the same item indicated above, up to the extent of the previous adjustment.

Derecognition criteria

Equity investments are derecognised from the financial statements when the contractual rights to the cash flows deriving from the same assets expire or when the equity investment is sold essentially transferring all the risks and benefits associated with the same.

Recognition criteria for income components

In compliance with IAS 18, dividends are recognised when the right of the shareholders to receive the payment is established and, therefore, after the date of adoption of the resolution by the shareholders' meeting of the company in which the shareholdings are held.

6 - Tangible assets

Recognition criteria

Tangible assets whose cost is reliably determined and from which it is probable future economic benefits will derive, are recognised in the financial statements.
The tangible assets are initially recognised at purchase cost, inclusive of accessory charges incurred for the purchase and bringing onto stream of the asset.
As of first time adoption of the IAS/IFRS accounting standards, the exception envisaged by IFRS 1, Article 16 was availed of, opting for the measurement of the properties at fair value as the replacement for cost as of 1 January 2005.
After this date, the cost model was adopted for the measurement of the properties.
Extraordinary maintenance costs which increase the value of the asset, are allocated to the asset to which they refer. Ordinary maintenance costs are booked directly to the income statement.
Assets acquired under financial leases are recorded in accordance with the matters envisaged by IAS 17, which envisages the recording of the same under the balance sheet assets, as a matching balance to the amounts due to the lessor, and the calculation of the depreciation over the estimated useful life of the asset. The fees paid are booked to reduce the debt for principal and in the income statement under interest expense for the financial component.
Leasehold improvement and incremental costs incurred as a result of a lease agreement on third party assets which are expected to provide future benefits, are recorded in item "150 Other assets" when they are not autonomously identifiable or separable.

Classification criteria

Tangible assets include real estate properties, land, installations, furniture and furnishings, and other office equipment. These are assets instrumental for the supply of services.
The land relating to the self-contained property units owned, is recorded separately from the building, since, as a rule, it has an unlimited life and therefore cannot be depreciated, while buildings having a limited life can be depreciated.

Measurement criteria

Subsequent to initial recognition, the tangible assets are measured at cost net of depreciation and any write-downs for permanent losses in value (impairment).
The depreciation is calculated systematically on a straight-line basis by means of technical-economic rates representative of the residual possibility of use of the assets. Land is an exception, not subject to depreciation given the impossibility of determining its useful life, and in consideration of the fact that the related value is not usually destined to drop in relation to the passage of time.
At the time of closing of the financial statements for a year or period and if there is any indication that the asset may have been subject to a loss in value, a comparison is made between the book value of the asset and its recoverable value, equal to the fair value, net of any sales costs, and the related value in use of the asset, understood as the current value of the future flows originated by the asset, whichever is the lower. Potential adjustments are recorded in the income statement.

Derecognition criteria

A tangible fixed asset is eliminated from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and in the case that no future economic benefits are expected from its disposal.

Recognition criteria for income components

Value adjustments are recognised in the income statement under item "170 Net value adjustments / writebacks on tangible assets".
The amortisation of leasehold improvements and incremental costs on third party assets takes place on the basis of the contractual duration, a minimum of 5 years, in relation to the physical deterioration and the residual possible useful life. This is recorded in the income statement under item "190 Other operating income / expense".

7 - Intangible assets

Intangible assets comprise software for long-term use, intangible assets linked to the valorisation of dealings with customers (core deposits) and goodwill.

Recognition and classification criteria

Intangible assets represented by software and usage licences owned by the Bank are recognised in the financial statements only if they respect the requisites of being autonomously identifiable or separable, they will probably generate future economic benefits and the cost can be reliably measured.
The core deposits were recognised in the consolidated financial statements at the time of the acquisition of Credito Veronese and, at the time of the incorporation, recorded in the 2012 financial statements using the same criteria. They were originally recognised by means of the discounting back of the flows representative of the profit margins over a period which expresses the residual duration, contractual or estimated, of the relationships at the time of merger.
The goodwill is represented by the difference, when positive, between the purchase cost incurred and the value in use, as from the purchase date, of the assets and the balance sheet elements acquired within the sphere of a company merger.

Measurement criteria

Intangible assets represented by software and usage licences are recorded in the financial statements at cost net of amortisation and permanent losses in value (impairment). The amortisation is calculated systematically on a straight-line basis by means of technical-economic rates representative of the residual possibility of use of the assets. On closure of each accounting period, the residual life is measured to check the adequacy.
Intangible assets represented by core deposits are amortised on a straight-line basis over eight years, a period which approximates the period of greater significance of the expected economic benefits, as from 30 April 2011, date of acquisition of control over Credito Veronese.
Goodwill is not amortised in consideration of its indefinite useful life, but it is subject to checking of the adequacy of the recognition value (impairment test) at least once a year, generally at the time of drafting of the annual financial statements and in any event on occurrence of events which suggest that the asset has suffered a drop in value. Any value adjustments made to the goodwill, even if in subsequent years the reasons they were made cease to exist, cannot be reinstated.

Derecognition criteria

An intangible fixed asset is eliminated from the balance sheet at the time of disposal or when its use permanently ceases.

Recognition criteria for income components

Value adjustments are recognised in the income statement under item “180 Net value adjustments / writebacks on intangible assets”.

8 – Current and deferred taxation

The items “tax assets” and “tax liabilities” in the balance sheet contain tax receivables and payables.
Current taxes for the year are determined by applying the tax rates and current legislation; they are recorded as liabilities, net of advances paid, to the extent that they have not been paid. They include those not yet paid relating to previous years.
They are recognised as assets in the event that the amount paid, by way of advance or withholdings made, is in excess with respect to the amount due and to the extent that the credits are recoverable in subsequent years.

Prepaid and deferred taxes are determined on the basis of the balance sheet liability method, taking into account the timing differences (deductible or taxable) between the book value of an asset or liability and its value recognised for tax purposes.
The recognition of “prepaid tax assets” is carried out if their recoverable value is deemed probable. They involve a future reduction of the taxable base, in the presence of an advance tax paid with respect to the economic - statutory pertinence.
“Deferred tax liabilities” are recognised in all the cases where it is probable that the related liability will arise. They represent a future increase in the taxable base, determining a deferral of the taxation with respect to the economic - statutory pertinence.
Deferred taxes have not been provided for with regard to reserves subject to deferred taxation, since no distributions are envisaged with regard to these reserves.
The provision for income taxes is determined on the basis of a prudential forecast of the current tax liability, deferred and prepaid.

Tax assets and liabilities, as a rule, are recorded as matching balances in the income statement, except in the case that they derive from transactions whose effects are attributed to shareholders’ equity, in which case they concern the calculation of the specific valuation reserves.

9 - Provisions for risks and charges

Provisions for risks and charges concern specific costs and liabilities of a certain or probable nature, the timing and extent of which cannot be determined as of the year end date. The allowance to provisions for risks and charges is made exclusively when:
- an actual obligation exists (legal or implicit) being the result of a past event;
- it is probable that the fulfilment of this obligation will involve payment;
- a reliable estimate can be made of the amount of the obligation.

The amount of the allowance is represented by the current value of the liabilities which it is supposed will be incurred for discharging the obligation. The rate used for the discounting back is the current market rate.

10 - Employee leaving indemnities (TFR)

On the basis of the international accounting standards, the TFR is considered to be “a benefit subsequent to the employment relationship” of a defined-benefit type, whose value is determined by means of actuarial methods. Consequently, the year end measurement of the item in question is carried out on the basis of the method of the benefits accrued using the unit credit method envisaged (Projected Unit Credit Method). This method envisages the discounting back of the projection of the future outlays on the basis of historic analysis, statistical and probabilistic and the adoption of suitable demographic technical bases. This makes it possible to calculate the TFR accrued at a given date in an actuarial sense, distributing the liability over all the years of estimated residual permanence of the workers existing, and no longer as a liability to be settled in the event the company ceases its activities as of the balance sheet date, as envisaged by Italian legislation.
The measurement of the TFR of the employees is carried out by an independent actuary in compliance with the method indicated above.

Further to Italian Law No. 296 dated 27 December 2007, the portions of indemnity accrued up until 31 December 2006 remain with the company, while those accrued after are assigned to supplement pension funds or the INPS treasury fund, at the choice of the employee. No actuarial calculations have been made on these amounts, which take on the form of a defined-contribution plan, since the Bank’s obligation vis-à-vis the employee ceases with the payment of the accrued portions.

By means of the amendment of IAS 19, made by EU Regulation No. 475 dated 5 June 2012, the actuarial gains and losses, which arise due to changes or adjustment of the previous hypotheses formulated, including the effects of changes in the discount rate, lead to a re-measurement of the TFR liability. They are booked to shareholders’ equity under the valuation reserve “Actuarial gains/loss relating to defined-benefit pension plans” and the booking to the income statement is no longer permitted. The Bank has availed itself of the faculty to apply, as permitted, the amendments to IAS 19 “Employee benefits” in force as from 1 January 2013, in advance, already as from the financial statements drawn up as at 31 December 2012.

11 – Payables and securities issued

The item represents the various forms of funding established by the Bank: amounts due to banks, amounts due to customers, bonds and certificates of deposits issued by the Bank.

Recognition criteria

The recognition of these financial liabilities takes place at the time of receipt of the deposits taken or the issue of the debt securities. Recognition is at fair value, generally equal to the value received, or the issue price, adjusted by any directly attributable initial charges or income.

Measurement criteria

After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method if the duration is more than 12 months, with a matching balance in the income statement.
Financial liabilities lacking repayment plans are measured at cost.

Financial liabilities subject to hedging of the fair value are subject to the same measurement criteria as the hedging instrument, limited to just the change in the fair value, as from the moment of designation of said hedge, with a matching balance in the income statement.
The fair value of the hedging instruments is determined by discounting back the cash flow with the risk free curve. Debt instruments linked to share-based instruments, foreign currency, credit instruments or indices are considered to be structured. The embedded derivative is separated from the host contract and represents a stand-alone derivative if the criteria for the separation are observed. In this latter case, the host contract is recorded at amortised cost.

Derecognition criteria

Payables and securities issued are cancelled from the financial statements when they mature, are discharged or disposed of.
Securities issued by the Bank are stated net of any repurchases. The re-allocation of own securities previously re-purchased is recorded as a new issue at sale value.

12 - Other information

Other assets

Item “150 other assets” includes the assets not attributable to the other balance sheet asset items. It also comprises the expenses for leasehold improvements, essentially involving the costs for renovating rented property; the related amortisation is recorded in the item “Other operating income and expense”.

Purchases and sales of financial assets

Purchases and sales of financial assets are recognised as of the settlement date.

Repurchase agreements and security lending transactions

Repurchase agreement transactions which envisage the obligation for the transferee to resell/repurchase forward the assets covered by the transaction (for example, securities) and security lending transactions in which the guarantee is represented by cash which falls under the complete disposition of the bearer, are treated as repos. Therefore, the amounts received and disbursed are recorded in the financial statements as payables and receivables. In detail, the afore-mentioned funding repurchase agreements and security lending transactions are stated in the financial statements as payables for the forward amount received, while those involving lending are stated as receivables for the spot amounts.
These transactions do not lead to changes in the securities portfolio. Accordingly, the cost of the funding and the income from lending, represented by the coupon accrued on said securities and the differential between the spot price and the forward price, are stated on an accruals basis in the income statement items relating to interest.

Foreign currency assets and liabilities

Foreign currency assets and liabilities are recognised at the time of settlement of the related transactions.
Upon initial recognition, foreign currency transactions are measured in the reporting currency by applying the exchange rate in force at the date of the transaction to the foreign currency amount.
Each time the financial statements are closed, the foreign currency items are measured as follows:
• monetary items are converted using the exchange rate as of the closing date;

• non-monetary items valued at historical cost are converted using the exchange rate as of the transaction date;

• non-monetary items valued at fair value are converted using the exchange rates as of the closing date.

The exchange differences which derive from the settlement of monetary elements or the conversion of monetary elements at rates other than those of initial conversion, are recognised in the income statement for the period in which they arise. When a gain or loss relating to a non-monetary element is recognised under shareholders' equity, the exchange difference relating to this element is also recognised under equity. By contrast, when a gain or loss is recognised in the income statement, the related exchange difference is also recognised in the income statement.

Own shares

Issued shares repurchased are booked directly against the shareholders' equity. No gain or loss deriving from the purchase, sale, issue or discharge of these instruments is recorded in the income statement. Any amount paid or received for these instruments is recognised directly under shareholders' equity.

Steps are taken to recognise a specific reserve as envisaged by Article 2357 *ter* of the Italian Civil Code.

Recognition criteria for income components

Besides the matters illustrated in the basis of presentation, revenues are recognised when they are received or in any event when it is probable that future benefits will be received and these benefits can be quantifiable reliably. In detail:

- interest on amounts due from customers and banks is classified under interest income and similar revenues deriving from amounts due from banks and customers and is recognised on an accruals basis. Default interest is recognised on an accruals basis and written down for the portion which is deemed as non-recoverable;
- dividends are recognised in the income statement when received or when, on the basis of IAS 39, section 55, the right to payment arises;
- commission and interest received or paid relating to financial instruments is recognised on an accruals basis.

The costs are recorded at the time they are incurred, in observance of the criteria of correlation between the costs and revenues which derive directly and jointly from the same transactions or events. The costs directly attributable to the assets valued at amortised cost and which can be determined as from inception, irrespective of the moment when they are settled, flow to the income statement via application of the effective interest rate. The costs which cannot be associated with the revenues are immediately recognised in the income statement.

The losses in value are recognised in the income statement in the period they are noted.

A.3 Disclosure on transfers between financial asset portfolios

During 2008, the Bank availed itself of the amendment to IAS 39 issued on 13 October by the International Accounting Standard Board and assimilated in the EEC Regulation dated 15 October 2008, which in "rare circumstances" permits the transfer of financial instruments allocated in the trading book to other portfolios characterised by a different accounting method. This amendment aimed to correct the distortions caused by the international financial market crisis which led to the loss of significance of the market shares. In situations similar to those at the end of 2008, the market values - no longer suitably expressing the fair value of the financial instruments - risk distorting the representation of the same in the financial statements of the companies which apply the IAS, causing excessive fluctuations in the income statement and shareholders' equity.

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

Type of financial instrument (1)	Source portfolio (2)	Target portfolio (3)	Book value as at 31 December 2013 (4)	Fair value as at 31 December 2013 (5)	Income components in absence of the transfer (pre-tax)		Income components registered during the period (pre-tax)	
					Valuational (6)	**Other (7)**	**Valuational (8)**	**Other (9)**
Equities	FV&PL	AFS	-	-	-	-	-	-
UCIT funds	FV&PL	AFS	-	-	-	-	-	-
Debt securities	FV&PL	AFS	2,426	2,426	347	-	-	57
Total			**2,426**	**2,426**	**347**	-	-	**57**

Of the securities reclassified in 2008 for Euro 286.9 million, those still outstanding at year end amounted to around Euro 2.5 million.
With regard to the securities indicated above, the adjustment to fair value led overall to a capital gain of Euro 347 thousand which was booked, together with the other capital gains/losses for the year generated on available-for-sale financial assets, to the valuation reserves net of taxation.

A.3.2 Reclassified financial assets: effects on comprehensive income before transfer
A.3.3 Transfer of financial assets held for trading
A.3.4 Effective interest rate and cash flows expected from reclassified assets

The tables have not been drawn up since during 2013 there were no reclassifications of financial assets.

A.4 Information on fair value

In December 2012, the European Commission approved, by means of EU Regulation No. 1255/2012, the new IFRS 13 standard "Fair Value Measurement", in force as from 1 January 2013.
IFRS 13 defines the fair value as: "the price which would be perceived for the sale of an asset or would be paid for the transfer of a liability in a regular transaction between market operators as of the valuation date". This is a definition of fair value which for the financial instruments replaces the previous version in IAS 39 Financial instruments: recognition and measurement
In the event of financial liabilities, the new fair value definition envisaged by IFRS 13 therefore requires the identification as such of that value which would be paid for the transfer of the same liability (exit price), rather than as the value necessary for discharging the same (definition contemplated by IAS 39). This leads to an enhancement of the subject of recognition of the adjustment to fair value of the financial liabilities, with respect to that already disciplined on the subject by IAS 39. In detail, with regard to the determination of the fair value of the OTC derivatives of the balance sheet assets, IFRS 13 confirmed the rule of applying the adjustment relating to the counterpart risk (Credit Valuation Adjustment - CVA). With regard to the financial liabilities represented by OTC derivatives, IFRS 13 introduces the so-called Debit Valuation Adjustment (DVA), or rather a fair value adjustment aimed at reflecting the related risk of default on these instruments, a subject not explicitly dealt with by IAS 39.
The fair value of the investments listed on active markets is determined with reference to the market listings ("bid" price or, in the absence thereof, average price) struck on the last reference day of the period.
In the event of financial instruments listed on active markets (e.g. MOT/MTS), the determination of the fair value is based on the listings of the active reference market (or rather that on which the majority of the trading takes place) also inferable from international providers and struck on the last reference day of the period. A market is defined as active if the listings reflect normal market transactions, they are promptly and duly available and express the price of effective and regular market transactions. If the same financial instrument is listed on several markets, the listing to be taken into consideration is that present on the most advantageous markets the company has access to.
In the event of unlisted financial instruments, the fair value is determined by applying valuation techniques aimed at determining the price which the instrument would have had on the market as of the valuation date in a free exchange justified by normal market considerations. The determination of the fair value is obtained by means of the following techniques: use of recent market transactions; reference to the price of financial instruments with the same features as that being valued; quantitative methods (option pricing models); techniques for calculating the current value - discounted cash flow analysis; pricing models generally accepted by the market and which are able to provide suitable estimates of the prices applied in market transactions). In detail, with regard to unlisted bonds models are applied for the discounting back of the estimated future cash flows - using interest rate structures which appropriately take into account the business sector the issuer belongs to and the rating class, if available.
In the presence of mutual investment funds, not traded on active markets, the fair value is determined in relation to the Net Asset Value published, possibly corrected to take into account possible changes in value between the reimbursement request date and the effective reimbursement date.
Equities not traded on an active market, in relation to which the fair value cannot be determined to a reliable extent according to the most common methods (in the fist place, the discounted cash flow analysis) are stated at cost, adjusted to take into account any significant decreases in value.
With regard to on-demand / upon revocation deposits and loans, an immediate maturity of the contractual obligations is undertaken coinciding with the balance sheet date, and therefore their fair value is approximate to the book value. Likewise, the book value is adopted for short-term loans.

With regard to medium/long-term loans to customers, the fair value is obtained by means of valuation techniques, discounting back the residual contractual flows to the current interest rates, appropriately adjusted to take into account the credit worthiness of the individual borrowers (represented by the probability of default and by the estimated loss in the event of default).
With regard to impaired assets, the book value is deemed to be an approximation of the fair value.

With regard to medium/long-tern debt, represented by securities and for which application of the fair value options was opted for, the fair value is determined discounting back the residual contractual flows using the “zero coupon” rate curve obtained, via the bootstrapping method, from the curve of the market rates.
With regard to medium/long-term debt represented by securities valued at amortised cost and subject to hedging for the rate risk, the book value is adjusted due to the hedging of the fair value attributable to the risk hedged discounting back the related flow.
With regard to derivative contracts traded on organised markets, the market price on the last listing day of the period is adopted as fair value.
With regard to over the counter derivative contracts: the market value as of the reference date is adopted as fair value, determined according to the following methods in relation to the type of contract:

- for contracts on interest rates: the market value is represented by the so-called “replacement cost”, determined by means of the discounting back of the differences, to the envisaged settlement dates, between the flows calculated at the contract rates and the estimated flows calculated at market rates, objectively determined, current at year end by equal residual maturity;
- for option contracts on securities and other instruments: the market value is determined making reference to recognised pricing models (e.g. Black & Scholes).

In order to maximise the consistency and comparability of the measurements of the fair values and the related disclosure, INFRS 13 establishes a fair value hierarchy (already introduced by IFRS 7), which divides the parameters used for measuring the fair value up into three levels in relation to the characteristics and the significance of the inputs used in the valuation process.
This classification has the aim of establishing a hierarchy in terms of the objectivity of the fair value in relation to the degree of discretion adopted, giving precedence to the use of parameters which can be observed on the market which reflect the assumptions which the market participants would use in the valuation of the assets and liabilities.
The hierarchy of the fair value is defined in the basis of input data (with reference to their origin, type and quality) used in the models for determining the fair value and not on the basis of the same valuational models.
Maximum priority is assigned to the official prices available on active markets and lower priority is given to the use of inputs which cannot be observed, since they are more discretional. Consequently, the fair value is determined via the use of prices acquired from the financial markets in the event of instruments listed on active markets, or by means of the use, for the other financial instruments, of the valuation techniques which aim to estimate the fair value (exit price).
The hierarchy of the fair value must be applied to all the financial instruments for which the valuation at fair value is recognised in the balance sheet.

Fair value determined on the basis of level 1 input

"Level 1": the fair value of the financial instruments is determined on the basis of listed prices observable on active markets (not adjusted) which can be accessed as of the valuation date.
A price listed on an active market provides more reliable proof of the fair value and, when available, must be used without any adjustment for valuing the fair value.
Government debt securities, corporate debt securities, equities, open-end funds, derivative financial instruments and financial liabilities issued whose fair value corresponds, as of the valuation date, to the price listed on an active market, are considered to be "Level 1".

A.4.1 Level 2 and 3 fair value: measurement techniques and inputs used

In the absence of prices listed on active markets, the financial instruments must be classified in levels 2 or 3.
Classification in level 2 rather the Level 3 is determined on the basis of the possibility to observe on the market significant inputs used for the purpose of determining the fair value.
In the absence of an active market, the overall fair value of the instrument may present, internally, different levels in consideration of the significance of each input used for the valuation with respect to the overall fair value. Market data which cannot be observed may have a significant effect on the overall determination of the fair value of the instrument, so much so as to make the overall valuation uncertain (or impossible to verify via market data).
In the cases where the weight of the data which cannot be observed is predominant with respect to the overall valuation, the level assigned is "3".

Fair value determined on the basis of level 2 input

"Level 2": the fair value of the financial instruments is determined on the basis of listed inputs directly or indirectly observable for the asset or the liability, also using valuation techniques;
The Level 2 inputs include:
- listed prices for similar assets or liabilities on active markets;
- listed prices for identical assets or liabilities on active markets;
- different data than the listed prices which can be observed for the asset or liability (for example interest rates or curves of the returns which can be observed at intervals commonly listed, implied volatility and credit spreads);
- inputs corroborated by the market such as price indications provided by the issuer counterpart possibly adjusted to take into account the counterpart and/or liquidity risk (for example: the price resolved by the Board of Directors/Shareholders' meeting for the shares of listed industrial co-operative banks, the value of the holding communicated by the management company for closed-end funds reserved for institutional investors, the redemption value determined in compliance with the issue regulations for insurance agreements).

All the other variables used in the valuation techniques which cannot be corroborated on the basis of observable market data are not considered observable.

The following are considered to be Level 2:
- government debt securities, corporate debt securities, equities and financial liabilities issued by issuers of national and international standing, not listed on an active market (for example those which can be taken from external infoproviders such as Bloomberg and/or Reuters) or valued mainly by means of prices of similar assets or liabilities on active markets;

- OTC (Over the counter) financial derivatives finalised with institutional counterparts and valued mainly by means of observable market data;
- funds whose fair value corresponds to the related NAV published weekly and/or monthly, since it is considered to be the most reliable estimate of the fair value of the instruments given that it is the exit value in the event of disposal of the investment.

Fair value determined on the basis of level 3 input

“Level 3”: the fair value of the financial instruments is determined on the basis of inputs not observable for the asset or the liability, also using valuation techniques.

The following are classified as Level 3:

equities and financial liabilities issued for which prices listed on active markets do not exist, as of the valuation date, and which are valued predominantly according to a technique based on market data which cannot be observed, such as the value emerging from independent appraisals if available for from the shares, the value corresponding to the portion of shareholders’ equity held emerging from the last set of approved financial statements of the company;

- OTC financial derivatives (Over the counter) finalised with institutional counterparts, whose valuation takes place on the basis of pricing models entirely similar to those used for the Level 2 valuations and which they differentiate from due to the degree of observability of the input data used in the pricing techniques (reference is mainly made to implicit correlations and volatility);
- the derivative financial instruments entered into with customers in relation to which the adjustment portion of the fair value, which takes into account the risk of breach, is significant with respect to the overall value of the financial instrument;
- closed-end funds whose fair value corresponds with the related NAV published more than once a month;
- equities classified in the AFS portfolio valued at cost, possibly adjusted to take into account significant reductions in value, when the fair value cannot be determined reliably.

A.4.2 Processes and sensitivity of the measurements

The measurement methods indicated above are periodically implemented to take into account the change in the observable elements (e.g. rates, market prices) and any significant change in the credit and market risk of the financial assets valued which requires a change to the valuation technique.

A.4.3 Fair value hierarchy

The Bank classifies the measurements at fair value of the financial assets and liabilities on the basis of a level hierarchy which reflects the significance of the inputs used in the measurements, whose criteria has been stated previously.

In detail, the following are classified in FV Level 2 for a total of Euro 12,504 thousand:

- bonds for Euro 3,965 thousand in relation to which there is no price determined on a liquid market, valued according to the listing for similar securities traded on a liquid market, with a prudent spread;
- units of real estate mutual funds for Euro 3,669 thousand on the basis of prices indications provided by the issuer counterpart;
- shares for Euro 4,870 thousand, valued according to the price determined by the shareholders’ meeting of the issuer or the price taken from the last significant transactions;

FV Level 3 for a total of Euro 6,990 thousand, includes:

- a bond issued by a leading bank for Euro 471 thousand, in relation to which there is no market and in any event which is now close to maturity (May 2014);
- shares for Euro 6,519 thousand, of which Euro 2,133 thousand relating to the equity investment in Ubi Leasing, carried at equity as at 30 September 2013 and Euro 4,386 thousand in relation to Cassa di Risparmio di Ferrara.

With regard to Cassa di Risparmio di Ferrara, the accounting approach was changed with respect to that used in the past (valued at the price registered by the transactions carried out on the internal market managed by the same bank) in relation to the unreliability of the trading system due to the scant depth of the quantity handled and the current situation of extraordinary receivership. With regard to the valuation, the Bank was assisted by the technical support of a specialised company, which, since this is a valuation of a group, followed the approach defined as “sum of the parts”, which makes it possible to quantify the value of a group adding together the fair value of each entity, the latter estimated in turn by applying the most appropriate valuation methods according to the quantity and the quality if the information available for each entity. In particular, recourse was made:

- to the total equity method with income correction for the valuation of the group parent Cassa Risparmio di Ferrara, a method which emerged as the most appropriate in the case in question given the particular situation which characterises the Company and the unavailability of an economic-financial plan on the future development of operations;
- to recent transactions or share capital increases which concerned the investee entities;
- to other market information publically available;
- where it has not been possible to apply an analytical or market valuation approach, which is the case of certain subsidiary/associated companies of the Group representative of a residual value, the entities were carried at equity or book value.

The transfer of the security led to the reclassification of the value of Euro 9,433 thousand (book value as at 31 December 2012 already net of a negative gross reserve for Euro 566 thousand) and in accordance with the valuation made the booking to the income statement of Euro 5,614 thousand inclusive of the reversal of the negative reserve for Euro 566 thousand.

A.4.4 Other information

Impaired assets

The definition of the financial assets in the various risk categories is that envisaged in the current Supervisory reports and the internal provisions, which fix the rules for the transfer of the loans and receivables within the sphere of the various risk categories.

Reference is made to the recognition, classification, measurement and derecognition criteria previously indicated for each financial statement item as well as to Part E, section 1 - Credit risk, 2.4 Impaired financial assets in these explanatory notes.

With regard to impaired assets, the book value is deemed to be an approximation of the fair value.

Method for determining the amortised cost

The amortised cost of a financial asset or liability is the value at which it has been measured at the time of initial recognition, net of the capital repayments, increased or decreased by the overall amortisation, determined using the effective interest rate approach, of the differences between the initial value and the value on maturity, net of any loss in value.

The effective interest rate is the rate which equals the current value of a financial asset or liability to the contractual flows of the future payments or those received up until maturity or on the subsequent rate recalculation date.

With regard to fixed rate instruments or those at fixed rate for temporary periods (e.g. step up bonds), the future cash flows are determined in the basis of the interest rate noted during the life of the instrument.
With regard to floating rate financial assets or liabilities, the determination of the future cash flows is carried out on the basis of the last known rate. As of each price review date, steps are taken to recalculate the repayment plan and the effective rate of return on the entire useful life of the financial instrument, in other words until the maturity date.
The amortised cost is applied for loans and receivables, for financial assets held until maturity, for those available for sale, for payables and securities issued.
The financial assets and liabilities traded under market conditions are initially recognised at their fair value, which normally corresponds with the amount paid or disbursed inclusive of the transaction costs and the directly bookable commission.
Transaction costs are considered to be the internal marginal costs and income attributable at the time of initial recognition of the instrument, not rechargeable to the customer.
These accessory components, which must be attributable to the individual assets or liability, affect the effective return and make the effective interest rate different from the contractual interest rate.
Therefore, the costs and income referable without distinction to several transactions and the correlated components which may be subject to recognition during the life of the financial instrument, are excluded.
Furthermore, the costs which the Bank will have to incur irrespective of the transactions, such as administrative, stationery and communication costs, are not considered in the calculation.

Methods for determining the losses in value on financial assets (impairment).

Reference is made to the impairment formalities indicated previously for each financial statement item.
With reference to available-for-sale assets, the process for the recognition of any impairments envisages the checking of the presence of impairment indicators and the determination of any write-down.

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets / liabilities measured at fair value	Total 31 Dec. 2013			Total 31 Dec. 2012		
	L 1	L 2	L 3	L 1	L 2	L 3
1. Financial assets held for trading	-	195	2	5	152	-
2. Financial assets measured at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	989,661	12,504	6,990	820,437	21,372	3,008
4. Hedging derivatives	-	-	-	-	-	-
5. Tangible assets	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**989,661**	**12,699**	**6,992**	**820,442**	**21,524**	**3,008**
1. Financial liabilities held for trading	-	400	-	19	78	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**400**	**-**	**19**	**78**	**-**

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

A.4.5.2 Changes during the year in financial assets measured at fair value (level 3)

	Financial assets held for trading	Financial assets measured at fair value	Available-for-sale financial assets	Hedging derivatives	Tangible assets	Intangible Assets
1. Opening balances	**-**	**-**	**3,008**	**-**	**-**	**-**
2. Increases	**1,758**	**-**	**9,506**	**-**	**-**	**-**
2.1 Purchases	1,756	-	-	-	-	-
2.2 Profits booked to:	-	-	72	-	-	-
2.2.1 Income statement	-	-	-	-	-	-
- of which: Capital gains	-	-	-	-	-	-
2.2.2 Shareholders' equity	-	-	72	-	-	-
2.3 Transfers from other levels	-	-	9,433	-	-	-
2.4 Other increases	2	-	1	-	-	-
3. Decreases	**1,756**	**-**	**5,524**	**-**	**-**	**-**
3.1 Sales	1,756	-	-	-	-	-
3.2 Reimbursements	-	-	-	-	-	-
3.3 Losses booked to:	-	-	5,524	-	-	-
3.3.1 Income statement	-	-	5,524	-	-	-
of which: capital losses	-	-	-	-	-	-
3.3.2 Shareholders' equity	-	-	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-

4. Closing balances	**2**	-	**6,990**	-	-	-

The table shows the change during the year in the securities, both debt and equities, with level 3 fair value.
The change in "financial assets held for trading" is not significant and therefore presents a more less nil balance.
The group of securities registered in the AFS portfolio by contrast includes, as already describe above, Ubi Leasing shares for Euro 2,133 thousand, Carife shares for Euro 4,386 thousand and Centrosim S.p.A. shares for Euro 471 thousand.
The profits booked to shareholders' equity relate to the valuation of Centrosim; the transfer from other FV levels relate to the transfer of Carife; the amounts booked to the income statement concern Ubi Leasing for Euro 476 thousand and Carife for Euro 5,048 thousand.

A.4.5.3 Changes during the year in financial liabilities measured at fair value (level 3)

The bank has not issued any financial liabilities measured at fair value.

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurrent basis	**31 Dec. 2013**				**31 Dec. 2012**			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	-	-	-	-	-	-	-	-
2. Amounts due from banks	114,234	-	-	114,234	91,273	-	-	91,273
3. Amounts due from customers	2,982,170	-	-	3,136,391	3,090,821	-	-	3,250,471
4. Tangible assets held for investment purposes	-	-	-	-	-	-	-	-
5. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**3,096,404**	**-**	**-**	**3,250,625**	**3,182,094**	**-**	**-**	**3,341,744**
1. Amounts due to banks	585,598	-	-	585,598	522,492	-	-	522,492
2. Amounts due to customers	1,947,122	-	-	1,947,122	1,866,069	-	-	1,866,069
3. Securities issued	1,237,452	-	-	1,237,452	1,271,746	-	-	1,271,746
4. Liabilities associated with assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**3,770,172**	**-**	**-**	**3,770,172**	**3,660,307**	**-**	**-**	**3,660,307**

A.5 Information on the so-called "day one profit/loss"

This section is not drawn up since there were no transactions of this type.

Part B: Information on the balance sheet Assets

Section 1 - Cash and cash equivalents - Item 10

The balances of currencies in legal tender and on-demand deposits with the Bank of Italy are reported on in this section.

1.1 Cash and cash equivalents: breakdown

Items/Amounts	Total 31 Dec. 2013	Total 31 Dec. 2012
a) Cash	14,580	14,400
b) On demand deposits with Central Banks	-	-
Total	**14,580**	**14,400**

The item "Cash" includes the balances of coins and banknotes care of the branch accounts, cash point machines and the centralised account. Foreign banknotes amount to Euro 342 thousand. At year end, there were no on-demand deposits with the Bank of Italy. The Compulsory Reserve is recorded in item "60 Amounts due from banks".

Section 2 - Financial assets held for trading - Item 20

All the financial assets (debt securities, equities, UCIT units, derivatives) used for trading with the aim of generating profits from the change in the related prices or availing of the related liquidity over the short-term, are classified in this item.

2.1 Financial assets held for trading: breakdown by type of instrument

Items/Amounts	Total 31 Dec. 2013			Total 31 Dec. 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A On-balance sheet assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equities	-	-	2	-	-	-
3. UCIT units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**-**	**-**	**2**	**-**	**-**	**-**
B Derivative instruments						
1. Financial derivatives	-	195	-	5	152	-
1.1 trading	-	195	-	5	152	-
1.2 associated with the fair value	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 associated with the fair value	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**195**	**-**	**5**	**152**	**-**
Total (A+B)	**-**	**195**	**2**	**5**	**152**	**-**

"Derivative instrument" financial assets for trading are made up of:

- with regard to level 2, Euro 91 thousand in foreign currency spot and forward transactions, whose value is matched by liability item 40 "Financial liabilities held for trading". The book amount "intrinsic value" is the expression of a notional value of the transactions equating to Euro 8,100 thousand;
- again with regard to level 2, Euro 104 thousand being the intrinsic value referring to hedges of foreign currency transactions carried out by the Bank, with a notional value of Euro 2,229 thousand.

The term "level", in the heading of the various columns, represents the different method of measurement of the financial assets with the use for level 1 of market values, for level 2 of different external sources either direct (prices) or indirect (derived from prices), and for level 3 of internal measurements or the cost.
Complete disclosure on the fair value level is provided at the end of the accounting standards: "Fair value disclosure".

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items/Amounts	Total 31 Dec. 2013	Total 31 Dec. 2012
A. On-balance sheet assets		
1. Debt securities	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equities	**2**	**-**
a) Banks	-	-
b) Other issuers:	2	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	*2*	-
- others	-	-
3. UCIT units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	**2**	**-**
B. Derivative instruments		
a) Banks	133	147
b) Customers	62	10
Total B	**195**	**157**
Total (A+B)	**197**	**157**

2.3 On-balance sheet financial assets held for trading: annual changes

Items/Amounts	Debt securities	Equities	UCIT units	Loans	Total
A. Opening balances	**-**	**-**	**-**	**-**	**-**
B. Increases	**3,025**	**1,518**	**594**	**-**	**5,137**
B1. Purchases	3,023	1,516	594	-	5,133
B2. Positive fair value changes	-	-	-	-	-
B3. Other changes	2	2	-	-	4
C. Decreases	**3,025**	**1,516**	**594**	**-**	**5,135**
C1. Sales	3,025	1,515	594	-	5,134
C2. Redemptions	-	-	-	-	-
C3. Negative fair value changes	-	-	-	-	-
C4. Transfers to other portfolios	-	-	-	-	-
C5. Other changes	-	1	-	-	1
D. Closing balances	**-**	**2**	**-**	**-**	**2**

Section 3 - Financial assets measured at fair value - Item 30

This section, intended to recognise financial assets designated at fair value with the valuational results recorded in the income statement on the basis of the faculty acknowledged by IAS 39 (so-called “fair value option”), is not drawn up since the Bank does not hold financial assets classified as such.

Section 4 - Available-for-sale financial assets - Item 40

Available-for-sale financial assets (debt securities, equities, units of mutual investment funds - UCIT - etc.), valued at year end using the fair value with matching balance in the shareholders’ equity valuation reserves, are classified in this item.

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

Items/Amounts	Total 31 Dec. 2013			Total 31 Dec. 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**978,744**	**3,966**	**471**	**801,500**	**3,456**	**399**
1.1 Structured securities	-	1,955	-	-	1,656	-
1.2 Other debt securities	978,744	2,011	471	801,500	1,800	399
2. Equities	**910**	**4,869**	**9,644**	**4,110**	**16,957**	**2,956**
2.1 Measured at fair value	910	4,869	6,519	4,110	16,957	2,609
2.2 Measured at cost	-	-	3,125	-	-	347
3. UCIT units	**10,007**	**3,669**	**-**	**14,827**	**960**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**

Total	**989,661**	**12,504**	**10,115**	**820,437**	**21,373**	**3,355**

The portfolio of available-for-sale financial assets includes:
- government securities and bonds (banking book) not intended for trading;
- units of mutual investment funds (UCIT);
- equities including the interests held for long-term investment, a list of which is included in the report on operations.

FV level 3 includes Euro 3,125 thousand in unlisted shares maintained at cost, in the absence of manifestations of risk which require a different valuation.

The term "level", in the heading of the various columns, represents the different method of measurement of the financial assets with the use for level 1 of market values, for level 2 of different external sources either direct (prices) or indirect (derived from prices), and for level 3 of internal measurements or the cost.
Complete disclosure on the fair value level is provided at the end of the accounting standards: "Fair value disclosure".

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Amounts	Total 31 Dec. 2013	Total 31 Dec. 2012
1. Debt securities	**983,181**	**805,355**
a) Governments and Central Banks	978,744	787,894
b) Other public entities	-	-
c) Banks	4,437	17,461
d) Other issuers	-	-
2. Equities	**15,423**	**24,023**
a) Banks	10,165	17,535
b) Other issuers	5,258	6,488
- insurance companies	-	-
- financial companies	2,449	2,925
- non-financial companies	2,809	3,563
- others	-	-
3. UCIT units	**13,676**	**15,787**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**1,012,280**	**845,165**

With regard to the distribution of the financial assets by economic sector the issuers belong to, the classification criteria envisaged by the Bank of Italy have been used.

Table "4.3 Available-for-sale assets: subject to micro hedging" is not drawn up since no micro hedges have been made.

4.4 Available-for-sale financial assets: annual changes

Items/Amounts		Debt securities	Equities	UCIT units	Loans	Total
A.	**Opening balances**	**805,355**	**24,023**	**15,787**	-	**845,165**
B.	**Increases**	**3,596,915**	**4,351**	**33,805**	-	**3,635,071**
	B.1 Purchases	3,531,680	3,910	33,288	-	3,568,878
	B.2 Positive fair value changes	564	-	2	-	566
	B.3 Value writebacks	-	-	-	-	-
	- booked to income statement	-	-	-	-	-
	- booked to shareholders' equity	-	-	-	-	-
	B.4 Transfers from other portfolios	-	-	-	-	-
	B.5 Other changes	64,671	441	515	-	65,627
C.	**Decreases**	**3,419,089**	**12,951**	**35,916**	-	**3,467,956**
	C.1 Sales	3,098,223	6,010	35,193	-	3,139,426
	C.2 Redemptions	280,597	-	697	-	281,294
	C.3 Negative FV changes	4,498	1,066	26	-	5,590
	C.4 Write-downs from impairment	-	5,696	-	-	5,696
	- booked to income statement	-	5,696	-	-	5,696
	- booked to shareholders' equity	-	-	-	-	-
	C.5 Transfers to other portfolios	-	-	-	-	-
	C.6 Other changes	35,771	179	-	-	35,950
D.	**Closing balances**	**983,181**	**15,423**	**13,676**	-	**1,012,280**

The Bank has continued to pursue, as in 2012, a policy aimed at the improvement of the liquidity profile consisting in the undertaking of loans care of the ECB, (as per liability item 10) and at the same time an increase in the debt security portfolio, almost entirely made up of Government securities.
The amount of the write-downs from impairment booked to the income statement under item “130. B” amounts to Euro 6,788 thousand. The difference with respect to Euro 5,696 thousand shown in the table corresponds to the amount reversed from the valuation reserves due to the capital losses present at the end of last year.

Section 5 - Financial assets held to maturity - Item 50

This section is not drawn up because the Bank does not hold any financial assets classified as thus.

Section 6 - Amounts due from banks - Item 60

This item includes the unlisted financial assets due from banks, classified in the “loans/receivables” book including the deposit with the Bank of Italy for the Compulsory Reserve.

6.1 Amounts due from banks: breakdown by type of instrument

Transaction type/Balances	Total 31 Dec. 2013				Total 31 Dec. 2012			
	BV	FV Level 1	FV Level 2	FV Level 3	BV	FV Level 1	FV Level 2	FV Level 3
A. Loans and receivables due from Central Banks	**20,844**	**-**	**-**	**-**	**6,433**	**-**	-	-
1. Time deposits	-	-	-	-	-	-	-	-
2. Compulsory reserve	20,844	-	-	-	6,433	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-
B. Amounts due from banks	**93,390**	**-**	**-**	**-**	**84,840**	-	-	-
1. Loans	63,338	-	-	-	54,676	-	-	-
1.1 Current accounts and unrestricted deposits	23,224	-	-	-	16,097	-	-	-
1.2. Time deposits	40,000	-	-	-	20,000	-	-	-
1.3. Other loans:	114	-	-	-	18,579	-	-	-
- Repurchase agreements receivable	-	-	-	-	18,538	-	-	-
- Finance leases	-	-	-	-	-	-	-	-
- Other	114	-	-	-	41	-	-	-
2. Debt securities	30,052	-	-	-	30,164	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	30,052	-	-	-	30,164	-	-	-
Total	**114,234**	**-**	**-**	**114,234**	**91,273**	**-**	**-**	**91,273**

The balances recorded in this item have not been subject to impairment because they are deemed to be fully recoverable considering the duration of the investment and the quality of the counterparts.

Just the balance of the Compulsory reserve, amounting to Euro 20,844 thousand, is recorded under amounts due from Central banks.
The aggregate of amounts due from banks is made up as follows:
- current accounts and unrestricted deposits, held with both Italian and foreign banks, for amounts in Euro totalling Euro 9,685 thousand and amounts in currency for Euro 13,539 thousand;
- time deposits, held with Italian banks for Euro 40,000 thousand;
- other loans, comprising cheques for collection care of non-resident banks, for Euro 114 thousand;
- debt securities, issued by banking counterparts for Euro 30,052 thousand.

The tables “6.2 Amounts due from banks: subject to micro hedge” and “6.3 Financial leases” are not drawn up due to the absence of such transactions.

Section 7 - Amounts due from customers - Item 70

This section includes unlisted financial assets due from customers classified in the "loans/receivables" book.

7.1 Amounts due from customers: breakdown by type of instrument

Transaction type/Balances	Total 31 Dec. 2013						Total 31 Dec. 2012					
	Book value			Fair value			Book value			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Acquired	Other					Acquired	Other			
Loans	**2,578,643**	**-**	**403,527**	**-**	**-**	**-**	**2,727,010**	**-**	**363,811**	**-**	**-**	**-**
1. Current accounts	610,894	-	98,207	-	-	-	677,265	-	93,468	-	-	-
2. Repurchase agreements receivable	-	-	-	-	-	-	-	-	-	-	-	-
3. Mortgage loans	1,675,305	-	289,578	-	-	-	1,746,795	-	250,469	-	-	-
4. Credit cards, personal loans and salary-backed loans	3,644	-	863	-	-	-	8,315	-	816	-	-	-
5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other loans	288,800	-	14,879	-	-	-	294,635	-	19,058	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
8. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
9. Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**2,578,643**	**-**	**403,527**	**-**	**-**	**3,136,391**	**2,727,010**	**-**	**363,811**	**-**	**-**	**3,250,471**

Amounts due from customers are stated net of value adjustments.
Financial statement legislative envisages that amounts due from customers are stated in separate columns with distinction between performing and impaired, on the basis of their technical form; there are no acquired impaired positions.
The impaired exposures include positions classified as non-performing, watchlist, restructured and past due as more fully illustrated in part E of these explanatory notes. Section 1 - Credit risk
The fair value measures the exposures on the basis of the rates applied to the individual transactions and the duration of the loans, discounting back on the basis of the outstanding curve of the market rates.

The loans and receivables of Credito Veronese, outstanding as at 31 December 2011, have been assigned the additional value (fair value delta) of the loans in order to take into account their effective return with respect to the market. This additional value was maintained also with the incorporation. The original amount came to Euro 5,612 thousand, dropping as at 31 December 2013 to Euro 3,768 thousand. This additional value is amortised in the income statement, decreasing the interest income, on the basis of the residual life of the original transactions, taking into account the repayments, the early discharges and any transfer to non-performing status. The portion pertaining to 2013 amounts to Euro 633 thousand.

7.2 Amounts due from customers: breakdown by debtor/issuer

Transaction type/Balances	Total 31 Dec. 2013			Total 31 Dec. 2012		
	Performing	Impaired		Performing	Impaired	
		Acquired	Other		Acquired	Other
1. Debt securities:	**-**	**-**	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public bodies	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial	**-**	**-**	**-**	**-**	**-**	**-**
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- others	-	-	-	-	-	-
2. Loans to:	**2,578,643**	**-**	**403,526**	**2,727,010**	**-**	**363,811**
a) Governments	-	-	-	-	-	-
b) Other public bodies	22,923	-	-	24,021	-	-
c) Other parties	2,555,720	-	403,526	2,702,989	-	363,811
- non-financial	1,827,198	-	314,595	1,992,677	-	278,555
- financial companies	92,172	-	5,977	65,459	-	5,680
- insurance companies	-	-	-	-	-	-
- others	636,350	-	82,954	644,853	-	79,576
Total	**2,578,643**	**-**	**403,526**	**2,727,010**	**-**	**363,811**

The distribution of loans/receivables by debtor/issuer is obtained using the classification criteria envisaged by the Bank of Italy.
The tables “7.3 Amounts due from customers: subject to micro hedge” and “7.4 Financial leases” are not drawn up due to the absence of such transactions.

Section 8 - Hedging derivatives – Item 80

This section is not drawn up because as at 31 December 2013 the Bank did not have any transactions of this type, as in the previous year.

Section 9 - Value adjustment to financial assets subject to macro-hedging - Item 90

This section is not drawn up because the Bank does not hold any financial assets classified as thus.

Section 10 – Equity investments - Item 100

This section includes the equity investments in subsidiary companies, jointly controlled companies and equity investments in companies subject to significant influence.

10.1 Equity investments in subsidiary companies, jointly controlled companies or companies subject to significant influence: information on investment relationships

Company name	Registered offices	Ownership percentage %	% of votes available
A. Exclusively-controlled subsidiary companies			
1. Valsabbina Real Estate S.R.L.	Brescia	100.00%	100.00%
B. Jointly-controlled subsidiary companies	-	-	-
C. Companies subject to significant influence	-	-	-
1. Polis Fondi Immobiliare di Banche popolari SGR p.A.	Milan	9.8%	9.8%

During 2013, the acquisition of 50,960 shares in Polis Fondi Immobiliare SGR was resolved, equal to 9.8% of the share capital, for Euro 1,204 thousand with the principal aim of taking part in the management of the closed-end real estate funds which have been assigned properties by the subsidiary Valsabbina Real Estate and in view of a further future development of said assets.
By virtue of the shareholders' agreements, the holding has been classified under equity investments subject to significant influence.

10.2 Equity investments in subsidiary companies, jointly controlled companies or companies subject to significant influence: accounting information

Company name	Total assets	Total revenues	Profit (Loss)	Shareholders' equity	Book value	FV L1	FV L2	FV L3
A. Exclusively-controlled subsidiary companies								
1. Valsabbina Real Estate S.R.L.	9,686	1,766	(25)	131	171	-	-	-
B. Jointly-controlled subsidiary companies	-	-	-	-	-	-	-	-
C. Companies subject to significant influence	-	-	-	-	-	-	-	-
1. Polis Fondi Immobiliare di Banche popolari SGR p.A. (financial statements as at 31 December 2012)	10,531	6,188	354	8,597	1,204	-	-	-
Total	**20,217**	**7,954**	**329**	**8,728**	**1,375**	-	-	-

Consolidated financial statements are not drawn up due to the scant significance and relevance of the balances of the subsidiary with respect to those of the parent company, as emerges from the

"Systematic framework for the preparation and presentation of the financial statements", which represents the conceptual model underlying the IAS standards. The financial statement total of the subsidiary (Euro 9.7 million) is lower than the limits envisaged by the Supervisory instructions for the consolidated indications (financial statement assets less than Euro 10 million).

10.3 Equity investments: changes during the year

Items	Total 31 Dec. 2013	Total 31 Dec. 2012
A. Opening balances	**171**	**31,746**
B. Increases	**1,204**	**8,873**
B.1 Purchases	1,204	8,802
B.2 Value writebacks	-	-
B.3 Revaluations	-	-
B. 4 Other changes	-	71
C. Decreases	**-**	**40,448**
C.1 Sales	-	-
C.2 Value adjustments	-	-
C.3 Other changes	-	40,448
D. Closing balances	**1,375**	**171**
E. Total revaluations	-	-
F. Total value adjustments	-	-

The purchases concern Polis Fondi SGR for the reasons indicated above.

10.4 Commitments relating to equity investments in subsidiary companies

A credit facility for Euro 15 million was made available to Valsabbina Real Estate, established on 25 May 2010 as an operating instrument to support the debt recovery activities of the Bank; this facility was used at year end for Euro 9,526 thousand, for possible transactions already indicated as falling within the cases for which the company was established.

10.6 Commitments relating to equity investments in companies subject to significant influence

A commitment was taken out to subscribe to 34 units worth Euro 250 thousand each, of the closed-end real estate mutual investment fund reserved for qualified investors entitled "Asset Bancari IV", of which 3 units were subscribed at year end and settled for Euro 580 thousand with the contribution of properties by Valsabbina Real Estate and for Euro 170 thousand in cash; the remaining 31 units for Euro 7,750 thousand will be subscribed in the next three years and settled with the contribution of other properties by said real estate company.

Section 11 – Tangible assets - Item 110

This item includes the tangible assets (properties, plant, machinery, furniture and other tangible assets for operating use) owned or acquired under financial lease.

11.1 Tangible assets for operating purposes: breakdown of assets measured at cost

Assets/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
1 Owned assets	**27,805**	**27,172**
a) land	2,111	1,755
b) buildings	23,502	22,724
c) furniture	834	1,113
d) electronic systems	352	509
e) other	1,006	1,071
2 Acquired under financial lease	**504**	**1,014**
a) land	108	**232**
b) buildings	396	782
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**28,309**	**28,186**

At the time of initial application of the IAS standards, the properties were valued at deemed cost with a matching balance, net of taxation, in the specific revaluation reserve "Special revaluation laws" for Euro 8,934 thousand. As from 2011, this reserve had a residual balance of Euro 979 thousand; the amount of Euro 7,955 thousand was reversed to the share capital to service the bonus portion of the share capital increase carried out in 2011.

Owned properties have been used almost entirely during the year for banking activities.

11.2 Tangible assets held for investment purposes: breakdown of assets measured at cost
11.3 Tangible assets for operating purposes: breakdown of revalued assets
11.4 Tangible assets held for investment purposes: breakdown of assets measured at fair value

There are no assets held for investment purposes or revalued assets for operating purposes.

11.5 Tangible assets for operating purposes: annual changes

Items	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balances	**1,987**	**27,631**	**7,160**	**6,328**	**8,818**	**51,924**
A.1 Total net value reductions	-	4,125	6,047	5,819	7,747	23,738
A.2 Net opening balances	**1,987**	**23,506**	**1,113**	**509**	**1,071**	**28,186**
B. Increases	**232**	**1,044**	**88**	**70**	**399**	**1,833**
B.1 Purchases	**232**	1,044	88	70	399	1,833
B.2 Capitalised improvement expenditure	-	-	-	-	-	-
B.3 Value writebacks	-	-	-	-	-	-
B.4 Positive fair value changes booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**652**	**367**	**227**	**464**	**1,710**
C.1 Sales	-	-	6	-	4	10
C.2 Depreciation	-	652	361	227	460	1,700
C.3 Impairment value adjustments booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative fair value changes booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) tangible assets held for investment purposes	-	-	-	-	-	-
b) assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Net closing balances	**2,219**	**23,898**	**834**	**352**	**1,006**	**28,309**
D.1 Total net value reductions	-	4,777	6,388	6,046	7,316	24,527
D.2 Gross closing balances	**2,219**	**28,675**	**7,222**	**6,398**	**8,322**	**52,836**
E. Valuation at cost	-	-	-	-	-	-

The item tangible fixed assets amounts to Euro 28,309 thousand, with an increase of Euro 123 thousand with respect to the previous year, as the imbalance between purchases for Euro 1,833 thousand, depreciation for Euro 1,700 thousand and net disposals for Euro 10 thousand.
During the period, purchases of properties and land were made pertaining to the branches of Legnago for Euro 714 thousand and Roncadelle for Euro 457 thousand and the redemption of the lease in the Sarezzo property; furthermore, renovation measures were carried out care of a number of branches.
The purchases recorded in the table columns entitled “furniture, electronic system and other assets” concern the purchase of furniture, plant, electronic machines for the office, alarm systems and other minor categories, both for the head offices and the branches.

The depreciation has been calculated on all the tangible assets, with the exclusion of land, in relation to the estimated useful life of the same as indicated below:
Properties 33 - 50 years
Furniture and furnishing 7 years
Vehicles 4 years
Armoured counters 5 years
Electronic systems 4 years
Sundry machinery and equipment 5 years

In the event of the purchase of properties, without indication in the deed of the separate value pertaining to the underlying land, steps are taken to assign this category 20% of the initial cost and the remaining 80% to the item property.

11.6 Tangible assets held for investment purposes: annual changes

There are no assets held for investment purposes and therefore steps have not been taken to draw up the related tables.

Section 12 – Intangible assets - Item 120

This section comprises the intangible assets as defined by IAS 38.

12.1 Intangible assets: breakdown by type of asset

Assets/Balances		Total 31 Dec. 2013		Total 31 Dec. 2012	
		Specified duration	Unspecified duration	Specified duration	Unspecified duration
A.1	**Goodwill**	**-**	**8,458**	**-**	**8,458**
A.2	**Other intangible assets**	**2,730**	**-**	**3,380**	**-**
A.2.1	Assets measured at cost:	2,730	-	3,380	-
	a) intangible assets internally generated	-	-	-	-
	b) other assets	2,730	-	3,380	-
A.2.2	Assets measured at fair value:	-	-	-	-
	a) intangible assets internally generated	-	-	-	-
	b) other assets	-	-	-	-
	Total	**2,730**	**-**	**3,380**	**8,458**

Intangible assets with a specified duration include:

- Euro 444 thousand relating to the costs incurred for the purchase of EDP programmes with a defined useful life inclusive of those supplied with specific invoicing by our outsourcer; these costs have been amortised each year on the basis of the same useful life, as a rule 3 years. The accounting approach used is cost for all the classes of intangible assets.
- Euro 2,286 thousand relating to intangible assets linked to the relationship with the customer and identified as “Core Deposits” emerging from the incorporation of Credito Veronese. This item was recorded on a consistent basis with that valorised in the consolidated financial statements as at 31 December 2011 and relates to the additional value acknowledged to the “stable deposits” of the absorbed company. IFRS 3 in fact envisages that the acquisition of a “Business Combination” (such as the acquisition of Credito Veronese represents) must be recorded using the purchase method and that the price paid must be allocated to the assets acquired and the liabilities undertaken measured at their respective fair values. Amortisation over 8 years is envisaged. The initial amount was Euro 3,428 thousand, the portion pertaining to the 2013 income statement comes to Euro 428 thousand.

Intangible assets with an unspecified duration comprise:
-Euro 6,476 thousand for the goodwill relating to the acquisition of Credito Veronese,
-Euro 1,982 thousand for the residual goodwill, recorded for Euro 4,220 thousand with the incorporation of Cassa Rurale di Storo in 2000, less the amortisation of Euro 2,238 made between 2000 and 2004.

On the basis of the IAS international accounting standards, annual systematic amortisation is no longer applied, but it is necessary at least once a year to check whether the goodwill assigned to a specific CGU (Cash Generating Unit) has suffered a permanent loss in value (impairment test). Pursuant to IAS 36, an asset has undergone a permanent reduction in value when its book value exceeds its recoverable value understood as the higher between its fair value less selling costs and its value in use.
By means of the incorporation which took place in December 2012, the CGU made up of the branches of Credito Veronese lost its legal status. In 2013, the Board of Directors approved:
- a new geographic reorganisation in which a new “Verona Area” was defined, which has also been assigned the branches of Desenzano and Rivoltella;
- the 2014-2016 Strategic plan on which the specific contribution of the new “Verona Area” is envisaged and to which the Bank’s management, control, planning and reporting systems will make reference.
Since:

- the goodwill paid for the purchase of Credito Veronese represents the premium paid for entry and development in the reference area. The purchase of Credito Veronese in fact is one of the actions undertaken within the sphere of the overall strategy which envisaged the development of the Bank’s operations eastwards;
- the creation of the Verona Area consequent to the absorption of the former Credito Veronese branches led to a reorganisation of the organisational structure with an exchange of resources and contracts with the customers between some of the Bank’s branches and the branches acquired. This on the one hand indicates the complete re-arrangement of all the original structure acquired and on the other the transfer of know-how to the benefit of the entire Bank;
- the reference area, as confirmed in the Strategic Plan, is central in the future development programmes of the Bank, by means of the opening of new branches amongst other things;

it has been deemed appropriate to consider the entire “Verona Area” as the Cash Generating Unit to which the goodwill deriving from Credit Veronese should be assigned.
Therefore, on the basis of IAS 36, the recoverable value of the Verona Cash Generating Unit (CGU) corresponds to the additional value between the fair value and the value in use of the same CGU.

The estimate of the recoverable value, both of the goodwill and the core deposits net of the tax effect, was carried out, with the support of a specialised firm of consultants, using the forecasts contained in the Strategic Plan approved on 27 November 2013 and in the 2014-2016 Verona Plan, which represents the interpretation of the strategic objectives for the Verona Area. Therefore, inertial projections were made from 2017 until 2018 to standardise the results.
The value in use of the CGU has been established by discounting back the forecast cash flows, which in the case of banking concerns correspond to the values of capital available after the capitalisation requirements laid down by sector regulations (Excess Capital Method or Dividend Discount Method - DDM) have been satisfied .
The development of the DDM envisages the estimate of the projections of the available cash flows, the discounting back rate and the long-term growth rate (g).
The discount rate was estimated as equal to the cost of the capital on the basis of the Capital Asset Pricing Model (CAPM) from which a rate of 8.89% emerges. The model expresses a linear

relationship, under conditions of balance of the markets, between the return of an investment and its systematic risk. The return on an investment is calculated as the sum of the risk free rate and the premium for the risk assigned to the same according to the following formula:

$Ke = rf + \beta \times (rm - rf)$ where:

- rf is the return of an asset with no risk (free risk rate);
- β is the volatility index of the investment;
- (rm - rf) is the premium for the risk.

The parameters used were:

- Risk free rate: 4.29% (average value of the returns on 10-year Government securities recorded during 2013 to average out the volatility registered in the markets);
- Beta: 0.92 average of the betas revealed by Bloomberg for a sample of listed small-medium sized banks. The ratio expresses the correlation between the returns of an individual risk investment and the returns of the market portfolio.
- Premium at risk: 5% estimate of the market premium provided by the difference between the return of a diversified portfolio made up of all the risk investments available on the market and the return of a security lacking risk.

The growth rate (g) has been adopted as 2%, essentially in line with the expected rate of inflation.

The valuation led to an estimate for the Verona Area of a value in use of Euro 31.6 million with respect to operating capital - minimum shareholders' equity requisite - referring to all 9 branches for Euro 21.4 million, corresponding to goodwill of Euro 10.2 million, higher than the Euro 8 million of the book value of the intangible assets recorded (goodwill Euro 6.5 million + core deposits net of taxation Euro 1.5 million).

For the purpose of checking the measurement of the change in the values obtained with respect to the parameter used, subsequent sensitivity analysis was carried out, including analysis developed considering changes in the "Ke" discount rate and the medium/long-term growth rate "g" of ±25 bps.

The analysis provided a range of estimates of the value of the goodwill attributable to the CGU ranging between Euro 8.4 million and Euro 12.3 million; therefore, also varying the parameters used, it is indicated that the book value of the intangible assets is confirmed.

A valuation was carried out using the method of the market multiples on the basis of the following ratios: Goodwill/Total deposits (4.3%) and Goodwill/Amounts brokered (2.7%) struck on a sample of branch transactions in the north-east in the last 3 years.

The analysis disclosed goodwill for the Verona CGU of Euro 14.1 million.

With regard to 2013 alone, since it is a transition period, analysis was carried out considering the old perimeter of the CGU, made up of 7 branches belonging to the former Credito Veronese. This latter analysis was carried out only with reference to the estimate of the fair value since economic projections referring to just the former Credito Veronese area are not available. The application of the multiples of Total Deposits and the Amounts Brokered to the respective fundamental magnitudes of the entity made up of 7 former Credito Veronese branches, estimated goodwill of Euro 9.2 million.

With regard to the 4 former CR Storo branches, having considered the minor complexity in carrying out the valuation, since these are matured and well-established branches, which do not require a development plan, and which have guaranteed adequate profitability over the last few years, the following have been calculated:

- the value in use, applying the inertial projections to the actual amounts and profitability, on the basis of the previous parameters, estimating goodwill of Euro 3.6 million;
- the fair value, applying the same market multiples (Goodwill/Total deposits and Goodwill/Amounts brokered) applied in the valuation of the Verona area, estimating goodwill of Euro 3.8 million.

Both the methods lead to a valuation higher than the current book value of the goodwill, equal to Euro 1.9 million.
On the basis of the results of the analysis carried out, additional amounts were not booked to the income statement as value adjustments on intangible assets with an unspecified duration.

12.2 Intangible assets: annual changes

Items		Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
			Specified	Unspecified	Specified	Unspecified	
A.	**Gross opening balances**	**8,458**	-	**-**	**4,352**	-	**12,810**
A.1	Total net value reductions	-	-	-	972	-	972
A.2	**Net opening balances**	**8,458**	-	**-**	**3,380**	-	**11,838**
B.	**Increases**	**-**	-	**-**	**214**	**-**	**214**
B.1	Purchases	-	-	-	214	**-**	214
B.2	Increases in internal intangible assets	-	-	-	-	-	-
B.3	Value writebacks	-	-	-	-	-	-
B.4	Positive fair value changes	-	-	-	-	-	-
	- to shareholders' equity	-	-	-	-	-	-
	- to income statement	-	-	-	-	-	-
B.5	Exchange gains	-	-	-	-	-	-
B.6	Other changes	-	-	-	-	-	-
C.	**Decreases**	-	-	**-**	**864**		**864**
C.1.	Sales	-	-	-	-	-	-
C.2.	Value adjustments	-	-	-	864	-	864
	- Amortisation	-	-	-	864	-	864
	- Write-downs	-	-	-	-	-	-
	+ shareholders' equity	-	-	-	-	-	-
	+ income statement	-	-	-	-	-	-
C.3	Negative fair value changes	-	-	-	-	-	-
	- to shareholders' equity	-	-	-	-	-	-
	- to income statement	-	-	-	-	-	-
C.4	Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5	Exchange losses	-	-	-	-	-	-
C.6	Other changes	-	-	-	-	-	-
D.	**Net closing balances**	**8,458**	-	**-**	**2,730**	-	**11,188**
D.1.	Total net value adjustments	-	-	-	1,836	-	1,836
E.	**Gross closing balances**	**8,458**	-	**-**	**4,566**	-	**13,024**
F.	Valuation at cost	-	-	-	-	-	-

12.3 Other information

With regard to intangible fixed assets (IAS 38, sections 122 and 124), it is hereby specified that:
- there are no intangible assets pledged as collateral for the Bank's liabilities;
- there are no commitments to purchase intangible assets;

- - there are no intangible assets acquired under financial or operating lease agreement or via government concession;
- there are no revalued intangible assets recorded at fair value.

Section 13 – Tax assets and tax liabilities

This section includes the tax assets (current and prepaid) and tax liabilities (current and deferred), without offsetting between the prepaid tax assets and deferred tax liabilities, stated respectively in items 130 of the assets and 80 of the liabilities.

Asset item 130 and Liability item 80

Prepaid taxes are recorded on the basis of the probability of sufficient taxable income in the future. The rates used for the recognition of the prepaid and deferred taxation are 27.5% for IRES (company earnings' tax) and 5.57% for IRAP (regional business tax).
IRES on 5% of any capital gains and IRAP according to the normal rate is reckoned on the shares subject to participation exemption, on the basis of current legislation.

With respect to the previous year, the following legislative changes took place, laid down by the "Stability Law" No. 147/2014:
- with regard to IRES, Article 1.160 of the afore-mentioned law envisages that the write-downs and the losses of amounts due to customers, other than those realised by means of disposal against payment, are deductible on a straight-line basis in the year in which they are recorded and in the following four. Previously, the write-downs were deductible in 18 parts as from the year after the registration, for the part exceeding 0.3% of the amounts due from customers. The change does not have any impact on the related taxation but leads to a different tax recovery time plan;

With regard to IRAP, Article 1.158 of the same law establishes that the net value adjustments and writebacks for impairment of the loans and receivables contribute towards the value of net production on a straight-line basis in the year in which they are recorded and in the next four, while in the past they were non-deductible, for a positive impact on taxation of Euro 2,407 thousand, of which Euro 481 thousand on current taxes and Euro 1,926 thousand on prepaid taxes.

The current liabilities for Euro 3,102 thousand represent: the liability for IRES, IRAP for Euro 1,366 thousand net of the advances paid for Euro 14,675 thousand, the residual substitute tax for Euro 873 thousand to be paid on the tax-related freeing up of the goodwill and the other intangible assets and the liability of Euro 863 thousand for the substitute tax for realignment of the tax values on properties as envisaged by Article 1.147 of Italian Law No. 147 dated 27 December 2013.
With regard to the tax period, pursuant to Article 2.2 of Italian Decree Law No. 133/2013, banks are obliged to pay a surtax of 8.5% to be calculated on the taxable IRES adjusted by the increase of 4/5ths of the net adjustments relating to customer loans; the surtax amounts to Euro 1,003 thousand.

Current taxes for Euro 15,747 thousand together with the positive effect of the prepaid taxes and those deferred - matching balances in the income statement - recognised and cancelled during the year, amounting respectively to Euro 9,990 thousand and Euro 2,131 thousand, are recorded in the income statement item "260 income taxes for the year on current operations" for Euro 3,626 thousand.

13.1 Prepaid tax assets: breakdown

Items	Total 31 Dec. 2013		Total 31 Dec. 2012	
	Law No. 214/2011	Other	Law No. 214/2011	Other
Matching balance in the income statement:				
Write-down of receivables deductible on a	30,595	-	19,960	-
- from previous years	19,160	-	10,866	-
- from current year	11,435	-	9,094	-
Securities	-	-	-	1,333
Freeing up of goodwill and other elements from incorporation	2,374	-	2,141	-
Freeing up of goodwill from consolidation	2,937	-	2,674	-
Allowance to provision for risks and charges	-	372	-	428
Provision for guarantees given	-	77	-	29
Tangible assets	-	3	-	4
Administrative expenses	-	694	-	580
Total matching balance in the income	**35,906**	**1,146**	**24,775**	**2,374**
Matching balance under shareholders' equity:				
AFS securities	**-**	**1,871**	**-**	**2,057**
- bonds	-	1,607	-	1,880
- shares	-	255	-	123
- mutual funds	-	9	-	54
Actuarial effect on employee benefits	**-**	**81**	**-**	**237**
Total matching balance under shareholders'	**-**	**1,952**	**-**	**2,294**
Total	**35,906**	**3,098**	**24,775**	**4,668**

Prepaid taxes "as per Italian law No. 214/2011" are those recorded in relation to the write-downs of loans and receivables not yet deducted and the value of the goodwill and other intangible assets whose negative components are deductible in subsequent tax periods. In the event of the recording of a statutory or tax loss, they permit transformation into a tax credit which can be used immediately, with benefits, including supervisory.
On the basis of Stability Law No. 147/2014, in the same circumstances, the same possibility has been extended to the IRAP advances, in the presence of financial statements closing with a loss or a negative net production value (IRAP declaration with a loss).
These amount to Euro 35,906 thousand compared with Euro 24,775 thousand in the previous year.
They concern:

- Euro 11,435 thousand in relation to the prepaid taxes on the write-downs and losses on loans and receivables made this year. By means of the legislative changes established by means of Italian Law No. 147/2013, the recovery of the same is envisaged by the end of 2017, in four straight-line portions.
- Euro 19,160 thousand in relation to the write-downs of residual loans and receivables in previous years for which the deductibility regimes previously in force are confirmed, with deduction envisaged for just IRES purposes and division into 18 parts according to the year of recognition;
- Euro 2,374 thousand in relation to the freeing up of the elements emerging from the incorporation of Credito Veronese of which Euro 2,023 thousand concerns the goodwill originating from the

financial statements as at 31 December 2012, as envisaged by Article 186 of the ITCA (with regard to this case, taxes for 1/18th were recovered in 2013, for Euro 119 thousand) and Euro 351 thousand referring to "other elements from incorporation" and in other words to the Core Deposits and the Loans/Receivables Fair Value, for which a temporary misalignment of one year exists between the time of booking to the financial statements and the year of recovery for tax purposes;

- Euro 2,937 thousand in relation to the misalignment for tax purposes of the goodwill and the other intangible assets recorded autonomously in the 2011 consolidated financial statements as envisaged by Article 23 of Italian Decree Law No. 98/2011 and Article 20 of Italian Decree Law No. 201/2011. By means of the amendments made by Italian Law No. 228 dated 24 December 2012, the recovery in 10 annual portions will take place by the end of 2020.

The values of the last two items have been adjusted in the 2013 financial statements to the declarations presented, with recognition of additional prepaid taxes for Euro 805 thousand, matching the substitute taxes paid for Euro 428 thousand and with the recognition in the income statement item 260 of the difference of Euro 376 thousand.

The prepaid taxes matching the balance under shareholders' equity amount to Euro 1,952 thousand; of this, Euro 1,871 thousand refers to the capital losses booked to the negative valuation reserves (the amount derives from the application of the rate envisaged on total gross negative reserves for Euro 5,789 thousand), and Euro 81 thousand refers to the actuarial differences registered on employee leaving indemnities.

13.2 Deferred tax liabilities: breakdown

Items	Total 31 Dec. 2013	Total 31 Dec. 2012
Matching balance in the income statement:		
- on sundry capital gains	3	3
- on valuation of properties at revalued cost	60	1,809
- on accumulated depreciation of land	181	181
- on default interest	97	180
- on amortisation of goodwill	324	246
- on leasehold improvements/long-term charges	2	2
Total matching balance in the income	**667**	**2,421**
Matching balance under shareholders'		
Available-for-sale financial assets		
- bonds	35	57
- shares	27	10
- mutual funds	1	7
Total matching balance under shareholders'	**63**	**74**
Total	**730**	**2,495**

The amounts of the deferred taxes with matching balance in the income statement discloses a considerable decrease due to the transaction for the freeing up of the misalignment between the tax and statutory value relating to the revaluation of the properties made at the time of transition to the IAS; by means of this freeing up, permitted by Article 1.147 of Italian Law No. 147/2013, the deferred taxes decreased Euro 1,749 thousand; the liability for substitute tax has been recorded under

the current tax liabilities for Euro 863 thousand and the surplus amount no longer necessary has been released to the income statement for 886 thousand.
Deferred taxes with a matching balance under shareholders' equity relate to the positive reserves from valuation of available-for-sale securities.
Liabilities for deferred taxes on monetary revaluation reserves subject to deferred taxation have not been recognised, since it is deemed that the possibility that the taxation pre-requisite will apply (distribution of the same) is very remote.

13.3 Changes in prepaid taxes (through profit and loss)

	Total 31 Dec. 2013	Total 31 Dec. 2012
1. Opening balance	**27,149**	**13,254**
2. Increases	**14,475**	**17,066**
2.1 Prepaid taxes recognised during the year	14,475	13,103
a) relating to previous years	1,997	218
b) due to changes in accounting standards	-	-
c) writebacks	-	-
d) other	12,478	12,885
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	3,963
3. Decreases	**4,572**	**3,171**
3.1 Prepaid taxes cancelled during the year	4,572	2,882
a) reversals	2,539	2,833
b) write-down due to non-recoverability	-	-
c) change in accounting standards	-	-
d) other	2,033	49
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-	289
a) transformation into tax credits as per It. Law No. 214/2011	-	289
b) other	-	-
4. Closing balance	**37,052**	**27,149**

The increase in prepaid taxes includes Euro 11,435 thousand relating to the value adjustments on loans and receivables whose deduction is deferred on a straight-line basis to the next four years,

13.3.1 Changes in prepaid taxes as per Italian Law 214/2011 (through profit and loss)

	Total 31 Dec. 2013	Total 31 Dec. 2012
1. Opening balance	**24,775**	**11,702**
2. Increases	**13,706**	**15,388**
3. Decreases	**2,576**	**2,315**
3.1 Reversals	1,791	1,980
3.2 Transformations into tax credits	-	289

a) deriving from losses for the year	-	275
a) deriving from tax losses	-	14
3.3 Other decreases	785	46
4. Closing balance	**35,905**	**24,775**

13.4 Changes in deferred taxes (through profit and loss)

	Total 31 Dec. 2013	Total 31 Dec. 2012
1. Opening balance	**2,421**	**2,515**
2. Increases	**78**	**2,448**
2.1 Deferred taxes recognised in the year	78	76
a) relating to previous years	-	-
b) due to changes in accounting standards	-	-
c) other	78	76
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	2,372
3. Decreases	**1,832**	**2,542**
3.1 Deferred taxes cancelled during the year	1,832	2,542
a) reversals	969	1,336
b) due to changes in accounting standards	-	-
c) other	863	1,206
3.2 Tax rate reductions	-	-
	-	-
4. Closing balance	**667**	**2,421**

13.5 Changes in prepaid taxes (through shareholders' equity)

Items		Total 31 Dec. 2013	Total 31 Dec. 2012
1.	**Opening balance**	**2,294**	**8,304**
2.	**Increases**	**1,722**	**877**
2.1	Prepaid taxes recognised during the year	1,722	877
	a) relating to previous years	-	-
	b) due to changes in accounting standards	-	-
	c) other	1,722	877
2.2	New taxes or tax rate increases	-	-
2.3	Other increases	-	-
3.	**Decreases**	**2,064**	**6,887**
3.1	Prepaid taxes cancelled during the year	1,982	6,837
	a) reversals	1,676	2,927

	b) due to changes in accounting standards	-	-
	c) other	306	3,910
3.2	Tax rate reductions	7	6
3.3	Other decreases	75	44
4.	**Closing balance**	**1,952**	**2,294**

13.6 Changes in deferred taxes (through shareholders' equity)

	Items	Total 31 Dec. 2013	Total 31 Dec. 2012
1.	**Opening balance**	**74**	**19**
2.	**Increases**	**58**	**65**
2.1	Prepaid taxes recognised during the year	36	65
	a) relating to previous years	-	-
	b) due to changes in accounting standards	-	-
	c) other	36	65
2.2	New taxes or tax rate increases	22	-
2.3	Other increases	-	-
3.	**Decreases**	**69**	**10**
3.1	Prepaid taxes cancelled during the year	69	-
	a) reversals	65	-
	b) due to changes in accounting standards	-	-
	c) other	4	-
3.2	Tax rate reductions	-	-
3.3	Other decreases	-	10
4.	**Closing balance**	**63**	**74**

Section 14 - Non-current assets held for sale and discontinued operations and associated liabilities - Asset item 140 and Liability item 90

As of the balance sheet date, there were no non-current assets and liabilities or discontinued operations.

Section 15 – Other assets – Item 150

15.1 Other assets: breakdown

Items	Total 31 Dec. 2013	Total 31 Dec. 2012
Credits for direct taxes relating to previous years and accrued interest	1,532	1,633
Withholdings made	161	232
Amounts due from the tax authorities for advances paid	7,713	3,356
Current account cheques and foreign currency drawn on banks and third parties	257	250
Guarantee deposits on behalf of the Bank	36	54
Securities transactions pending final allocation	99	4
Cheques being processed	5,759	8,540
Direct debit and sundry utilities to be debited	11,001	10,446
Cheques returned unpaid	115	682
Credit cards and Cashline card withdrawals	508	628
Credit transfers and debits to be made	2,795	4,301
Prepaid expenses	726	762
Costs for leasehold improvements	782	946
Other items	4,450	3,211
Total	**35,934**	**35,045**

The decrease in the item “credits for direct taxes relating to previous years and accrued interest” is linked to the reimbursement of a credit for Euro 100 thousand paid by the Verona Internal Revenue Office.

The amounts due from the tax authorities for advances paid refer to the advances paid for stamp duty, for substitute tax on mortgage loans and on the capital gain as well as the recent increase in the advances for withholdings on interest from deposits and current accounts.

Liabilities and shareholders' equity

Section 1 - Amounts due to banks - Item 10

1.1 Amounts due to banks: breakdown by type of instrument

Transaction type/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
1. Amounts due to central banks	**585,192**	**503,830**
2. Amounts due to banks	**406**	**18,662**
2.1 Current accounts and unrestricted deposits	406	128
2.2 Time deposits	-	-
2.3 Loans	-	18,534
2.3.1 Repurchase agreements payable	-	18,534
2.3.2 Other	-	-
2.4 Payables for commitments to repurchase own shares and	-	-
2.5 Other payables	-	-
Total	**585,598**	**522,492**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	**585,598**	**522,492**
Total fair value	**585,598**	**522,492**

Deposits with Central Banks are made up of three loans taken out care of the ECB with the following maturities: Euro 80 million, January 2014, Euro 100 million, February 2014 and Euro 400 million, February 2015; the possibility of early repayment with a minimum notice period is envisaged for these loans. The nominal total therefore amounts to Euro 580 million which is joined, so as to reach the book balance, by accruals of interest matured.
The aggregate of amounts due to banks is represented by Euro 406 thousand relating to balances of running current accounts.

The following tables have not been drawn up: 1.2 Breakdown of item 10 "Amounts due to banks: subordinated debt", 1.3 Breakdown of item 10 "Amounts due to banks: structured debt", 1.4 "Amounts due to banks subject to micro hedge" and 1.5 "Financial lease payables", since these types of transactions are not present.

Section 2 - Amounts due to customers - Item 20

2.1 Amounts due to customers: breakdown by type of instrument

Transaction type/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
1. Current accounts and unrestricted deposits	**1,576,145**	**1,453,624**
2. Time deposits	**370,285**	**411,764**
3. Loans	**165**	**213**
3.1 Repurchase agreements payable	-	-
3.2 Other	165	213
4. Payables for commitments to repurchase own shares and similar instruments	**-**	**-**
5. Other payables	**527**	**468**
Total	**1,947,122**	**1,866,069**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**1,947,122**	**1,866,069**
Total fair value	**1,947,122**	**1,866,069**

The current accounts and unrestricted deposits comprise:

	Total 31 Dec. 2013	Total 31 Dec. 2012
Euro current accounts	1,488,749	1,379,413
Savings deposits	44,446	18,713
Foreign currency current accounts	42,950	55,498
	1,576,145	**1,453,624**

Time deposits are restricted deposits with a maximum maturity of 24 months.
The item “Loans: other” includes just the payables for leased properties, as per section 2.5.

The following tables have not been drawn up: 2.2 Breakdown of item 20 “Amounts due to customers: subordinated debt”, 2.3 Breakdown of item 20 “Amounts due to customers: structured debt”, 2.4 “Amounts due to customers: payables subject to micro hedge”, since these types of transactions are not present.

2.5 Payables for financial leases

The amount due to financial leasing companies amounts in total to Euro 165 thousand and concerns the contract for the Leno branch, expiring in 2016 for an original amount of Euro 216 thousand. The residual life of the payable is as follows:

	Total 31 Dec. 2013
within 1 year	18
between 1 and 5 years	147
beyond 5 years	-
Total	**165**

Section 3 – Securities issued - Item 30

3.1 Securities issued: breakdown by type of instrument

Securities type/Balances	Total 31 Dec. 2013				Total 31 Dec. 2012			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,228,742	-	-	1,228,742	1,268,310	-	-	1,268,310
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,228,742	-	-	1,228,742	1,268,310	-	-	1,268,310
2. Other securities	8,710	-	-	8,710	3,436	-	-	3,436
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	8,710	-	-	8,710	3,436	-	-	3,436
Total	**1,237,452**	-	-	**1,237,452**	**1,271,746**	-	-	**1,271,746**

The bonds outstanding are inclusive of the coupon accruals in course and are net of the bonds repurchased, which on the basis of the IAS accounting standards must be eliminated.
They include subordinated bonds for a book value of Euro 25,003 thousand (Euro 25 million in nominal value).
The bonds issued by the bank are unlisted; the fair value level assigned corresponds to the amortised cost approach.

Medium/long-term certificates of deposit are recorded under other securities.

3.2 Breakdown of item 30 "Securities issued": subordinated securities

Items	Book value	
	Total 31 Dec. 2013	Total 31 Dec. 2012
Subordinated securities issued	25,003	139,283
Total	**25,003**	**139,283**

Subordinated bonds include the IT0004982481 security issued on 30 December 2013 for Euro 25 million, fixed rate of 4.50% and expiry 30 December 2019, with repayment of 20% per annum as from 30 December 2015.
During 2013, two bonds issued matured for a nominal overall amount of Euro 140 million.

3.3 Securities issued: securities subject to micro hedging

This table is not drawn up since these types of transactions are not present.

Section 4 – Financial liabilities held for trading - Item 40

4.1 Financial liabilities held for trading: breakdown by type of instrument

Transaction type/Balances	**Total 31 Dec. 2013**					**Total 31 Dec. 2012**				
	NV	**FV**			**FV ***	**NV**	**FV**			**FV ***
		L1	**L2**	**L3**			**L1**	**L2**	**L3**	
A.On-balance sheet liabilities										
1. Amounts due to banks	-	-	-	-	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments										
1. Financial derivatives	-	-	400	-	-	-	19	78	-	-
1.1 Trading	-	-	400	-	-	-	19	78	-	-
1.2 Associated with the fair value option	-	-	-	-	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-	-	-	-	-
2.2 Associated with the fair value option	-	-	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-	-	-
Total B	-	-	**400**	-	-	-	**19**	**78**	-	-
Total (A+B)	-	-	**400**	-	-	-	**19**	**78**	-	-

Key				
FV = fair value	NV = nominal or notional value	L1 = level 1	L2 = level 2	L3 = level 3
FV* = fair value calculated excluding the changes in value due to the change in the credit worthiness				

The amount of Euro 400 thousand (level 2) comprises:

- Euro 82 thousand in foreign currency spot and forward transactions, whose value is matched by asset item 20 “Financial assets held for trading”. The book amount (intrinsic value) is the expression of a notional value of the transactions equating to Euro 7,458 thousand.
- Euro 318 thousand being the intrinsic value referring to hedges of foreign currency transactions carried out by the Bank, with a notional value of Euro 24,252 thousand.

In the absence of transactions, the following tables are not drawn up:
4.2 Breakdown of item 40 “Financial liabilities held for trading”: subordinated liabilities,

4.3 Breakdown of item 40 “Financial liabilities held for trading”: structured debt,

4.4 On-balance sheet financial liabilities (excluding uncovered short positions) held for trading: annual changes.

Section 5 - Financial liabilities measured at fair value - Item 50

The Bank does not have any financial liabilities designated at fair value with the valuation results recorded in the income statement on the basis of the faculty acknowledged by the IAS standards. Therefore the following tables are not drawn up:

5.1 Financial liabilities measured at fair value: breakdown by type of instrument,

5.2 Breakdown of item 50 “Financial liabilities measured at fair value”: subordinated liabilities,

5.3 Financial liabilities measured at fair value: annual changes.

Section 6 - Hedging derivatives – Item 60

As at 31 December 2013 and 31 December 2012 the bank did not have any hedging derivatives outstanding. The following tables are not drawn up:

6.1 Hedging derivatives: breakdown by type of hedge and by hierarchical levels,

6.2 Hedging derivatives: breakdown by hedged portfolios and by type of hedging.

Section 7 - Adjustment to financial assets subject to macrohedging - Item 70

The Bank has not establish any liability subject to macro hedging from the interest rate risk. The related tables 7.1 and 7.2 are not drawn up.

Section 8 – Tax liabilities - Item 80

The breakdown as well as the changes in liabilities for current and deferred taxes are illustrated in part B - Asset Section 13 of these explanatory notes.

With reference to the tax situation of the Bank, it is hereby specified that the years up to 2008 have been settled for tax purposes.

Section 9 - Liabilities associated with assets held for sale and discontinued operations - Item 90

As of the balance sheet date, there were no liabilities associated with assets held for sale and discontinued operations.

Section 10 – Other liabilities - Item 100

10.1 Other liabilities: breakdown

Items	Total 31 Dec. 2013	Total 31 Dec. 2012
Tax withholdings and contributions relating to staff	2,083	2,013
Amounts to be paid to staff and related contributions	2,192	1,846
Taxes to be paid to the tax authorities	3,795	3,542
Taxes to be paid to the tax authorities on behalf of third parties	1,657	2,084
Dividends not yet collected	1	1
Credit transfers to be carried out	8,190	9,651
Credit cards and Cashline card withdrawals	461	233
Companies being formed due to payment of the share capital	93	148
Amount paid for withdrawal of bills and cheques and payment by advice collections	1,228	3,625
Currency spreads on portfolio transactions	40,729	46,921
Provision for guarantees and commitments	278	213
Suppliers	4,871	4,635
Deferred income	767	717
Other items	5,247	4,994
Total	**71,592**	**80,623**

The “amounts to be paid to staff, inclusive of related contributions” also include the productivity bonuses to be paid to staff in the following year.

“Currency spreads on portfolio transactions” represent the imbalance between the “debit adjustments” and the “credit adjustments” of the portfolio subject to due reserve and after collection, whose breakdown is indicated in the specific table Other information in part B of these explanatory notes.

Section 11 - Employee leaving indemnities - Item 110

11.1 Employee leaving indemnities: annual changes

Items	Total 31 Dec. 2013	Total 31 Dec. 2012
A. Opening balances	**5,896**	**4,698**
B. Increases	**1,390**	**2,565**
B.1 Provision in the year	1,390	1,436
B.2 Other changes	-	1,129
C. Decreases	**1,961**	**1,367**
C.1 Indemnities paid	156	182
C.2 Other changes	1,805	1,185
D. Closing balances	**5,325**	**5,896**
TOTAL	**5,325**	**5,896**

The increases correspond to the provision for the year, in other words the cost of the indemnities attributable to the revaluation of the provision present in house, in as far as the Treasury Fund and the Supplementary Funds are competent.
With regard to other decreases, the greatest outgoings are represented by the amounts paid to the Treasury Funds, the Supplementary Funds and the IAS discounting back effect for around Euro 560 thousand.

11.2 Other information

The balance of the employee leaving indemnity provision as at 31 December 2013 calculated on the basis of Italian legislation amounts to Euro 5,693 thousand, Euro 368 thousand higher than the book value; in 2012, the same came to Euro 5,753 thousand , Euro 143 thousand less with respect to the book value. The difference is due to the discounting back rate used, which rose from 2.40% to 3.17%, leading to an actuarial gain of Euro 563 thousand, compared with a loss of Euro 860 thousand in 2012.

The Bank applies the amendments to IAS 19 “Employee benefits”, in force since 1 January 2013, as described in part “A Accounting standards”; this amendment to the standard was applied by the Bank in advance as from the financial statements as at 31 December 2012, as permitted by legislation. The accounting standard, in its new definition, enforces the recognition of the actuarial changes with a matching balance under shareholders’ equity and no longer recognition in the income statement.
The actuary carried out the calculation on the basis of the following financial hypotheses: annual discount rate of 3.17% (determined, on a consistent basis with section 78 of IAS 19, with reference to the average returns curve which derives from the IBOXX Eurozone Corporates AA index with a duration of 10+ struck on 31 December 2013, rate considered as the best expression of returns of businesses of primary standing), annual rate of inflation 2.00%, annual leaving indemnity increase rate 3.00%.

The actuarial loss is illustrated in part D - Comprehensive income”.

Section 12 – Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts	Total 31 Dec. 2013	Total 31 Dec. 2012
1. Company pension funds	**-**	**-**
2. Other provisions for risks and charges	**1,980**	**2,070**
2.1. legal disputes	1,036	1,233
2.2 personnel costs	800	710
2.3 other	144	127
Total	**1,980**	**2,070**

12.2 Provisions for risks and charges: annual changes

Items	Pension funds	Other provisior	Total
A. Opening balances	**-**	**2,070**	**2,070**
B. Increases	**-**	**1,090**	**1,090**
B.1 Provision in the year	-	1,030	1,030
B.2 Changes due to the passage of time	-	-	-
B. 3 Changes due to discount rate fluctuations	-	-	-
B. 4 Other changes	-	60	60
C. Decreases	**-**	**1,180**	**1,180**
C.1 Uses in the year	-	1,096	1,096
C.2 Changes due to discount rate fluctuations	-	-	-
C.3 Other changes	-	84	84
D. Closing balances	**-**	**1,980**	**1,980**

12.3 Defined-benefit company pension funds
The Bank has no funds of this kind recorded in the financial statements.

12.4 Provisions for risks and charges - other
The provision for legal disputes includes the amounts set aside for disputes relating to revocatory action on non-performing positions or those already written off or for other disputes which arise during the performance of the ordinary activities. The Bank makes provisions for such reasons when, in agreement with its legal advisors, it believes it is probable that it will have to may a payment and the amounts of the same can be reasonably estimated.
The Provision for personnel costs refers to remuneration and the related charges which are still probable at year end. Other amounts to be disbursed to staff during the coming year are allocated under “other liabilities”.

Section 13 - Redeemable shares - Item 140
The Bank has not issued any redeemable shares. The related tables are not drawn up.

Section 14 – Company equity - Items 130, 150, 160, 170, 180, 190, and 200

14.1 “Share capital” and “Own shares”: breakdown

The fully paid-in and subscribed share capital is made up of 35,796,827 shares with a par value of Euro 3.00 each for a total of Euro 107,390 thousand.

14.2 Share capital - Number of shares: annual changes

Items/Types	Ordinary	Other
A. Shares existing at the beginning of the year	**35,796,827**	**-**
- fully freed up	35,796,827	-
- not fully freed up	-	-
A.1 Own shares (-)	366,000	-
A.2 Shares in circulation: opening balances	**35,430,827**	**-**
B. Increases	**516,823**	**-**
B.1 New issues	-	-
- against payment	-	-
- business combination transactions	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B. 2 Sales of own shares	223	-
B.3 Other changes	516,600	-
C. Decreases	**464,570**	**-**
C.1. Cancellation	-	-
C. 2 Purchase of own shares	464,570	-
C.3 Business disposal transactions	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balances	**35,483,080**	**-**
D.1 Own shares (+)	313,747	-
D.2 Shares existing at the end of the year	35,796,827	-
- fully freed up	35,796,827	-
- not fully freed up	-	-

Other increases include the number of bonus shares issued free-of-charge to shareholders in 2013.

14.3 Share capital - Other information.

The following revaluation reserves have been transferred over time to the share capital:
Italian Law No. 576 dated 2 December 1975 for Euro 88 thousand, reserve from monetary revaluation
Italian Law No.72 dated 19 March 1983 for Euro 2,067 thousand, reserve from monetary revaluation

Italian Law No.413 dated 30 December 1991 for Euro 1,375 thousand, reserve from monetary revaluation

Italian Legislative Decree No. 38 dated 28 February 2005 (application of the IAS principles in Italy) for Euro 7,955 thousand.

14.4 Income reserves: other information

The reserves as per liability item 160 amount to Euro 43,670 thousand; Euro 46,762 refers to provisions of income, while the "other" reserves includes the negative reserves from the merger of Credito Veronese for Euro 3,092 thousand.

Additional information relating to their changes can be found in the statement of changes in shareholders' equity and in part F of these explanatory notes.

Pursuant to Article 2427.7 *bis* of the Italian Civil Code, the composition of the shareholders' equity, according to the origin and the degree of availability and distributable nature of the various items, is as follows:

Items	Amount	Possibility of use	Portion available	Tax restriction	Uses made in the last three accounting periods	
					to cover losses	for other purposes
A) SHARE CAPITAL						
- Share capital (1)	107,390		91,371	16,019	no use	no use
B) CAPITAL RESERVES:						
- Share premium reserve (2)	235,405	ABC	234,732	-	no use	no use
C) INCOME RESERVES						
- Legal reserve (3)	20,805	B		-	no use	no use
- Extraordinary reserve	13,419	ABC	13,419	-	no use	no use
- Reserve for purchase of own shares	12,014	ABC	6,350	-	no use	no use
- Other reserves	524	ABC	524	-	no use	no use
D) OTHER RESERVES						
- Merger differences	(3,092)			-	no use	no use
- IAS valuation reserves (5)	(2,516)	AB		-	no use	no use
E) OWN SHARES						
- Own shares	(5,664)					
TOTAL	**378,285**					
- 2013 net profit for the year	7,685					
TOTAL EQUITY	**385,970**					

Key:

A: for share capital increases - B: for coverage of losses - C: for distribution to shareholders

Note:

1) In the event of distribution, the share capital is subject to a tax restriction equal to the booking of monetary revaluation reserves for Euro 11,485 thousand as specified in point 14.3 plus Euro 4,534 equal to the difference between the freed up amount of the additional values acknowledged to the properties for Euro 5,398 thousand and the substitute tax of 16% for Euro 864 thousand.
2) On the basis of Article 2431 of the Italian Civil Code, the "share premium reserve" cannot be distributed until the legal reserve has reached a fifth of the share capital, equal to Euro 21,478 thousand.
3) On the basis of Article 24 of the Banking Consolidation Act, Italian Legislative Decree No. 385 dated 1 September 1993, industrial co-operative banks must allocate at least ten percent of the annual net profits to the legal reserve.
4) The reserve is available for the surplus with respect to the amount of the own shares in the portfolio, which amounted to Euro 5,664 thousand as at 31 December 2013.
5) The reserve is restricted in accordance with Article 6 of Italian Legislative Decree No. 38/2005 (introduction of the IAS accounting standards) and in any event negative.

14.6 Other information

With regard to the disclosure requested, the following specifications are made:
1) the Bank does not have any of the instruments indicated in section 80.A and 136.A of IAS 1;
2) The Board of Directors proposes the payment of a dividend equal to Euro 0.120 per share, amounting in total to Euro 4,296 thousand.

Other information

1. Guarantees given and commitments

Transactions	Amount 31 Dec. 2013	Amount 31 Dec. 2012
1) Financial guarantees given	**20,793**	**19,875**
a) Banks	3,334	3,612
b) Customers	17,459	16,263
2) Commercial guarantees given	**114,826**	**111,593**
a) Banks	241	242
b) Customers	114,585	111,351
3) Irrevocable commitments to disburse funds	**53,355**	**103,112**
a) Banks	-	32,369
i) certain to be used	-	32,369
ii) not certain to be used	-	-
b) Customers	53,355	70,743
i) certain to be used	21	2,382
ii) not certain to be used	53,334	68,361
4) Underlying commitments on credit derivatives: sales of protection	-	-
5) Assets pledged as collateral for third party obligations	**7,510**	**4,647**
6) Other commitments	-	-
Total	**196,484**	**239,227**

Item "1) Financial guarantees given - a) banks not certain to be used" amounting to Euro 3,334 thousand refers to the commitment to the Interbank Guarantee Fund. Neither the timing nor the amounts of the possible payments is certain with regard to this commitment.

At the end of 2013, on the basis of Italian Decree Law No. 201 dated 6 December 2011, there was a Government guarantee on the bond issue IT0004796923, maturing on 21 February 2015, for a nominal value of Euro 150 million. The security was subscribed in full by Banca Valsabbina and used as collateral for accessing the ECB loans.

2. Assets pledged to guarantee own liabilities and commitments

Portfolio	Amount 31 Dec. 2013	Amount 31 Dec. 2012
1. Financial assets held for trading	-	-
2. Financial assets measured at fair value	-	-
3. Available-for-sale financial assets	561,089	398,766
4. Financial assets held to maturity	-	-
5. Amounts due from banks	-	-
6. Amounts due from customers	-	-
7. Tangible assets	-	-

The above amounts refer to owned securities granted to third parties as collateral; each amount refers to the specific portfolio used.

4. Management and trading services on behalf of third parties

Types of services	Amount
1. Execution of orders on behalf of customers	
a) Purchases	-
1. settled	-
2. unsettled	-
b) Sales	-
1. settled	-
2. unsettled	-
2. Portfolio management	**-**
a) individual	-
b) collective	-
3. Custody and administration of securities	**4,348,949**
a) third party securities held on deposit: associated with	-
custodian bank business (portfolio management excluded)	
1. securities issued by the Bank which draws up the financial statements	-
2. other securities	-
b) third party securities held on deposit (excluding portfolio management):	2,084,256
1. securities issued by the Bank which draws up the financial statements	1,286,688
2. other securities	797,568
b) third party securities deposited with third parties	1,083,436
d) own securities deposited with third parties	1,181,257
4. Other transactions	-

7. Receivables collected on behalf of third parties: credit and debit adjustments

The table provides a breakdown of the differences deriving from the elimination of the asset items relating to the portfolio received subject to due reserve and after collection with those of the liabilities relating to transferors with settlement date subsequent to closure of the financial statements. According to the Supervisory instructions, in the annual financial statements the “other assets” or the “other liabilities” will have to contain, according to the value of the sign, only the imbalance of the items relating to the portfolio, indicating the individual components in the Explanatory notes.
The imbalance between the sum of the “debit adjustments” represented by the asset items for bank collection order, bills of exchange, direct debits, etc. accepted subject to due reserve and after collection by customers and banks and the sum of the “credit adjustments” represented by the liability items of the transferors, is equal to Euro 40,729 thousand and is recorded in the financial statement liability item 100 “other liabilities”.
Points a.1 and b.1 include the amount of the items, with settlement date in 2014, flowing to the current accounts of the correspondent banks already during 2013 and related to remittances of bills for collection. These items have been reversed from the individual pertinent accounts and booked to the original portfolio items (bills received on collection from banks or rather bills sent for collection to banks).

Items	Total 31 Dec. 2013	Total 31 Dec. 2012
a) “debit” adjustments	557,050	595,804
1. Current accounts	2,952	3,214
2. Portfolio	542,695	588,430
3. Cash	1,914	1,649
4. Other accounts	9,489	2,511
b) “credit” adjustments	597,779	642,725
1. Current accounts	2,694	2,214
2. Transferors’ bills and documents	584,725	637,335
3. Other accounts	10,360	3,176
Currency spreads on portfolio transactions	**40,729**	**46,921**

Part C – Information on the income statement.

Section 1 - Interest - Items 10 and 20

This section comprises the interest income and expense, the similar income and charges relating, respectively, to financial assets held for trading, available-for-sale financial assets, financial assets held until maturity, loans, receivables, financial assets measured at fair value (asset items 10, 20, 30, 40, 50, 60 and 70) and to payables, securities issued, financial liabilities held for trading, financial assets measured at fair value (liability items 10, 20, 30, 40, and 50), as well as any interest accrued during the year on other transactions.
The interest income and expense also includes the differentials or margins, positive or negative, accrued up until the reference date of the financial statements or expired or closed by the reference date relating to the derivative contracts.

1.1 Interest income and similar revenues: breakdown

	Items/Technical forms	Debt securities	Loans	Other transactions	Total 31 December 2013	Total 31 December 2012
1.	Financial assets held for trading	-	-	-	-	-
2.	Available-for-sale financial assets	25,559	-	-	25,559	23,989
3.	Financial assets held to maturity	-	-	-	-	-
4.	Amounts due from banks	938	192	-	1,130	1,346
5.	Amounts due from customers	-	121,959	-	121,959	123,781
6.	Financial assets measured at fair value	-	-	-	-	-
7.	Hedging derivatives	-	-	-	-	-
8.	Other assets	-	-	12	12	21
	Total	**26,497**	**122,151**	**12**	**148,660**	**149,137**

The sub-item 4 “Amounts due from banks” includes:

Interest income on amounts due from banks for:	Total 31 Dec. 2013	Total 31 Dec. 2012
- deposit tied to compulsory reserve	104	148
- current accounts for services rendered	6	24
- deposits	82	123
- issue of bankers’ drafts	-	1
- debt securities	938	1,050
Total	**1,130**	**1,346**

The sub-item 5 “Amounts due from customers” includes:

Interest income on amounts due from customers for:	Total 31 Dec. 2013	Total 31 Dec. 2012
- current accounts	54,755	57,226
- mortgage and personal loans	37,653	40,797
- import - export advances	3,179	3,462
- other credit transactions	24,446	21,586
- default interest	1,926	710

Total	**121,959**	**123,781**

During 2013, default interest accrued on non-performing positions for Euro 3,800 thousand, fully written down; item 10 comprises the default interest collected for Euro 1,096 thousand.
With regard to the other performing and impaired positions other than non-performing, default interest was recorded in the income statement for a total of Euro 830 thousand.

With regard to the positions which were impaired as at 31 December 2013, interest was recorded in the income statement other than default interest, accrued throughout the year to the following extent:
- past due Euro 2,647 thousand
- restructured Euro 362 thousand
- watchlist Euro 7,744 thousand

1.3 Interest income and similar revenues: other information
1.3.1 Interest income on foreign currency financial assets

Items/Amounts	Total 31 Dec. 2013	Total 31 Dec. 2012
Total	990	1,089

Interest expense and similar charges: breakdown

	Items/Technical forms	Payables	Securities	Other transactions	Total 31 December 2013	Total 31 December 2012
1.	Amounts due to central banks	(2,449)	-	-	(2,449)	(4,298)
2.	Amounts due to banks	(239)	-	-	(239)	(62)
3.	Amounts due to customers	(35,494)	-	-	(35,494)	(36,046)
4.	Securities issued	-	(45,008)	-	(45,008)	(42,297)
5.	Financial liabilities held for trading	-	-	-	-	-
6.	Financial liabilities measured at fair value	-	-	-	-	-
7.	Other liabilities and provisions	-	-	(2)	(2)	(7)
8.	Hedging derivatives	-	-	-	-	-
	Total	**(38,182)**	**(45,008)**	**(2)**	**(83,192)**	**(82,710)**

The sub-item 2 “Amounts due to banks”, “Payables” column includes:

Interest expense for amounts due to banks:	Total 31 Dec. 2013	Total 31 Dec. 2012
- foreign currency deposits	-	(3)
- current accounts	(13)	(2)
- loans received	(226)	(57)
Total	**(239)**	**(62)**

The sub-item 3 “Amounts due to customers”, “Payables” column includes:

Interest expense on amounts due to customers:	Total 31 Dec. 2013	Total 31 Dec. 2012
- current accounts	(20,240)	(24,407)
- savings deposits and time deposits	(14,982)	(11,451)
- repurchase agreement transactions	-	(18)
- NewMIC market loans	(189)	(103)
- deposits and accounts in foreign currency	(83)	(67)

Total	**(35,494)**	**(36,046)**

The sub-item 4 "Securities issued" includes the amount of Euro 45,008 thousand which comprises interest expense on certificates of deposit for Euro 108 thousand; the rest concerns the cost of the bonds issued.

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on foreign currency financial liabilities

Items/Amounts	Total 31 Dec. 2013	Total 31 Dec. 2012
Total	**(83)**	**(67)**

1.6.2 Interest expense on liabilities for financial lease transactions

Items/Amounts	Total 31 Dec. 2013	Total 31 Dec. 2012
Total	**(2)**	**(7)**

Section 2 – Commission - Items 40 and 50

These items include the income and expense relating to the services which the bank provides to its customers and those received from third parties. These items do not comprise the costs recharged within the sphere of other operating income.

2.1 Commission income: breakdown

Type of services/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
a) guarantees given	1,174	1,259
b) credit derivatives	-	-
c) management, trading and advisory services:	7,145	5,413
1. trading of financial instruments	-	-
2. foreign exchange dealing	301	225
3. portfolio management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. custody and administration of securities	94	76
5. custodian bank	-	-
6. placement of securities	2,098	1,483
7. collection of order transmission and receipt activities	1,329	1,409
8. advisory activities	-	-
8.1 regarding investments	-	-
8.2 regarding financial structure	-	-
9. distribution of third party services	3,323	2,220
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	3,323	2,220
9.3 other products	-	-
d) collection and payment services	5,549	5,478
e) servicer activities for securitisation operations	130	163
f) services for factoring transactions	-	-

g) tax collection and payment services	-	-
h) management activities for multi-lateral trading systems	-	-
i) current account keeping and management	8,265	8,311
j) other services	2,993	6,507
Total	**25,256**	**27,131**

Item j) other services includes the commission relating to credit cards, the use of Cashline and POS cards for around Euro 1,300 thousand, current accounts loans and related services for the residual amount; the decrease is justified by the abolition of overdraft commission, essentially replaced by the fast credit processing fees, recorded in item “190 - Other operating income and expense”.

2.2 Commission income: distribution channels for products and services

Channels/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
a) care of Bank branches:	**5,422**	**3,703**
1. portfolio management	-	-
2. placement of securities	2,098	1,483
3. third party products and services	3,324	2,220
b) off bank premises:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party products and services	-	-
c) other distribution channels	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party products and services	-	-

2.3 Commission expense: breakdown

Services/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
a) guarantees received	(1,580)	(2,012)
b) credit derivatives	-	-
c) management and trading services:	(120)	(104)
1. trading of financial instruments	-	-
2. foreign exchange dealing	-	-
3. portfolio management	-	-
3.1 own	-	-
3.2 delegated by third parties	-	-
4. custody and administration of securities	(120)	(104)
5. placement of financial instruments	-	-
6. offer outside bank premises of financial instruments, products and services	-	-
d) collection and payment services	(1,443)	(1,388)
e) other services	(597)	(469)
Total	**(3,740)**	**(3,973)**

Commission for guarantees received includes the amounts acknowledged by the Ministry of the Economy and Finance for the guarantee granted on securities issued by the bank and used as collateral for the purpose of accessing the ECB loans pursuant to Article 8 of Italian Decree Law No. 201 dated 6 December 2011.

Section 3 – Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	Items/Income	Total 31 Dec. 2013		Total 31 Dec. 2012	
		dividends	income from UCIT units	dividends	income from UCIT units
A.	Financial assets held for trading	-	-	-	-
B.	Available-for-sale financial assets	179	-	166	-
C.	Financial assets measured at fair value	-	-	-	-
D.	Equity investments	-	-	-	-
	Total	**179**	-	**166**	-

These are dividends collected on available-for-sale financial assets.

Section 4 – Net profit (loss) from trading activities - Item 80

The item includes:
a) the balance between the profits and losses on transactions classified under "financial assets held for trading" and "financial liabilities held for trading", including the results of the valuations of these transactions;
a) the balance between the profits and losses on financial transactions, differing from those designated at fair value and hedging ones, denominated in foreign currency, including the results of the valuations of these transactions.

4.1 Net profit (loss) from trading activities: breakdown

Transactions/ Income components	Capital gains (A)	Profits on trading (B)	Capital losses (C)	Losses on trading (D)	Net profit (loss)[(A+B) - (C+D)]
1. Financial liabilities held for trading	-	**336**	-	**(2)**	**334**
1.1 Debt securities	-	3	-	(1)	2
1.2 Equities	-	2	-	(1)	1
1.3 UCIT units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	331	-	-	331
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	-	-	-	-	-
4. Derivative instruments	**13**	-	-	-	**13**
4.1 Financial derivatives:	13	-	-	-	13
- On debt securities and interest rates	13	-	-	-	13
- On equities and share indices	-	-	-	-	-
- On currency and gold	-	-	-	-	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**13**	**336**	-	**(2)**	**347**

The sub-item “financial trading activities: other” includes the gains and losses deriving from foreign currency trading.

Section 5 - Net gain (loss) from hedging activities - Item 90

5.1 Net gain (loss) from hedging activities: breakdown

The Bank has not carried out any hedging transactions over the last few years; therefore, the table belonging to the section is not drawn up.

Section 6 - Gains (Losses) on disposal/repurchase - Item 100

This section includes the positive and negative balances of the gains and losses generated by means of the sale of financial assets and liabilities other than those relating to trading and those designated at fair value.

6.1 Gains (Losses) on disposal/repurchase: breakdown

Items/Income items	Total 31 December 2013			Total 31 December 2012		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Amounts due from banks	-	-	-	-	-	-
2. Amounts due from customers	627	(3,064)	(2,437)	-	-	-
3. Available-for-sale financial assets	26,661	(238)	26,423	31,106	(5)	31,101
3.1 Debt securities	25,859	(42)	25,817	30,496	-	30,496
3.2 Equities	412	(196)	216	84	(5)	79
3.3 UCIT units	390	-	390	526	-	526
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**27,288**	**(3,302)**	**23,986**	**31,106**	**(5)**	**31,101**
Financial liabilities						
1. Amounts due to banks	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-
3. Securities issued	648	(179)	469	850	(211)	638
Total liabilities	**648**	**(179)**	**469**	**850**	**(211)**	**638**

The overall result from sale/repurchase activities amounts to Euro 24,455 thousand compared with Euro 31,739 thousand in 2012. It includes Euro 26,423 thousand in total income deriving from the sale of the securities included in the portfolio of available-for-sale financial assets, mainly Government securities, and Euro 469 thousand relating to the repurchase of Bank bonds at a price lower than that recognised in the accounts at amortised cost.
Furthermore, this year the mass disposal of non-performing loans was implemented, a transaction aimed at improving the management profiles of the impaired credit maximising the recoverable value at the time of disposal; with respect to the balances recorded as at 31 December 2012 this transaction lead to the accounting results indicated above.

Section 7 Profits (Losses) on financial assets and liabilities measured at fair value - Item 110

The table is not drawn up since the Bank does not hold financial assets and liabilities classified in the specific “measured at fair value” portfolio.

Section 8 – Net value adjustments/writebacks for impairment - Item 130

The balances of the value adjustments and value writebacks associated with the deterioration of amounts due from customers and banks, the available-for-sale financial assets, the financial assets held until maturity and other financial transactions are presented in this item.

8.1 Net value adjustments for impairment of loans and receivables: breakdown

The breakdown of net value adjustments for impairment of loans and receivables is as follows:

Transactions/ Income components	Value adjustments (1)			Value writebacks (2)				(1-2) Total 31 Dec. 2013	Total 31 Dec. 2012
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Amounts due from banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Amounts due from customers	**(12,980)**	**(41,626)**	**(1,182)**	**5,456**	**7,110**	-	-	**(43,222)**	**(56,613)**
Impaired loans and receivables acquired	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other receivables	(12,980)	(41,626)	(1,182)	5,456	7,110	-	-	(43,222)	(56,613)
- Loans	(12,980)	(41,626)	(1,182)	5,456	7,110	-	-	(43,222)	(56,613)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(12,980)**	**(41,626)**	**(1,182)**	**5,456**	**7,110**	-	-	**(43,222)**	**(56,613)**

Key
A = From interest
B = Other writebacks

The value adjustments, in correspondence to the “Specific - Derecognitions” column, are those pertaining to the year which derive from discharging events including arrangements with creditors and counterpart insolvencies, while those corresponding to the “Specific - Other” column correspond to the amount booked to the income statement as a consequence of the analytical writedowns of impaired loans and receivables, adjustments inclusive of the discounting back of the estimated future cash flows which populate the specific writedown allowances.
The value adjustments recorded in the “portfolio” columns represent the adjustment of the measurement of the overall risk on performing loans and receivables and their accounting counterpart

is the allowance for the writedown of performing loans and receivables (portfolio value adjustments in the tables in part E).
The value writebacks stated in the "Specific - A" column refer to the value writebacks deriving from the discounting back and corresponding to the interest accrued in the period on the basis of the original interest rate used to calculate the value adjustments.
The specific writebacks illustrated in column B by contrast refer to all the valuation value writebacks (also for return to performing status) and collection value writebacks on impaired positions, as well as the recovery of positions by now amortised.

8.2 Net value adjustments for impairment of available-for-sale financial assets: breakdown

Transactions/ Income components	Value adjustments		Value writebacks		Total 31 Dec. 2013	Total 31 Dec. 2012
	Specific		Specific			
	Derecognitions	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equities	-	(6,788)	-	-	-	(3,990)
C. UCIT units	-	-	-	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	**(6,788)**	-	-	-	**(3,990)**

Key
A = From interest
B = Other writebacks

The amounts refers to:
- the alignment to the stock market price as at 30 June 2013 of the Ubi Banca (Euro 423 thousand) and Deutsche Bank shares (Euro 275 thousand); both securities were subject to disposal in the second half of the year;
- the write-down of the shares held in Ca.Ri.Fe. for Euro 5,614 thousand, taking the unit book price from Euro 21.00 to Euro 9.21; this latter value is supported by an estimate made by an outside firm of consultants;
- the write-down of the equity investment UBI Leasing for Euro 476 thousand, aligning the value recorded in the financial statements to the shareholders' equity of the investee company as at 30 September 2013.

8.3 Net value adjustments for impairment of financial assets held until maturity: breakdown
The table is not drawn up because there are no financial assets classified as thus.

8.4 Net value adjustments for impairment of other financial transactions: breakdown

Transactions/ Income components	Value adjustments (1)			Value writebacks (2)				(1-2) Total 31 Dec. 2013	Total 31 Dec. 2012
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Guarantees granted	-	(148)	-	-	83	-	-	**(65)**	**52**
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	-	**(148)**	-	-	**83**	-	-	**(65)**	**52**

Key
A = From interest
B = Other writebacks

The table shows the value adjustments and writebacks on endorsement loans to customers which are impaired.

Section 9 - Administrative expenses - Item 150

This section provides analysis of the “payroll and related costs” and the “other administrative expenses” recorded during the year.

9.1 Payroll and related costs: breakdown

Type of expense/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
1) Employees	**(31,284)**	**(29,186)**
a) wages and salaries	(21,770)	(20,551)
b) social security charges	(5,759)	(5,471)
c) leaving indemnities	(331)	(285)
d) welfare and pension costs	-	-
e) provision for employee leaving indemnities	(160)	(272)
f) provision for pensions and similar commitments:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external supplementary pension funds:	(1,622)	(1,584)
- defined contribution	(1,622)	(1,584)
- defined benefits	-	-
h) costs deriving from payment agreements based on own shares and similar instruments	-	-
i) other employee benefits	(1,642)	(1,023)
2. Other personnel in service	**(169)**	**(118)**
3) Directors and statutory auditors	**(846)**	**(1,231)**
4) Retired personnel	-	-
5) Costs recharged for employees seconded care of other companies	**98**	**21**
6) Reimbursements of expenses for third party employees seconded to the company	-	-
Total	**(32,201)**	**(30,514)**

Note: with regard to 2012, the balance have been reclassified taking into account a) the reclassification of the “staff travel and business trip costs” for Euro 341 thousand under point “9.5 Other administrative expenses”, 2) the reversal of the mandatory payment to the supplementary provisions from point 1c) to point 1g) in this table. These changes were made in observance of the Bank of Italy circular No. 262.

The overall amount of the payroll and related costs increased in relation to the salary and wage dynamics and contractual rises.

The items “wages and salaries” and “social securities contributions” also include the provision for the 2013 results bonus, which will be paid during 2014.

The sub-item “c) leaving indemnities” includes the amounts intended for the INPS Treasury Fund, in accordance with the provisions introduced by the welfare reform as per Italian Legislative Decree No. 252/2005 and Italian Law No. 296/2006.

The sub-item “e) provision for leaving indemnities - salaried employees” includes the revaluation of the indemnity which has remained in-house (employee leaving indemnity provision) and the non-actuarial components of the IAS measurements.

The sub-item g) includes the portions relating to the supplementary pension fund paid by the Bank to the Supplementary Funds on a compulsory (portion relating to the leaving indemnity) and optional basis.

The sub-item 2) “other personnel” includes Euro 169 thousand relating to costs for atypical employment contracts, including those for “temp work” contracts for Euro 139 thousand.

Item 3) “Directors and statutory auditors” amounts to Euro 846 thousand, compared with Euro 1,231 thousand for 2012; the costs for the previous year were higher since they also included the emoluments paid to the bodies of Credito Veronese, a bank absorbed only at the end of 2012. In detail, the costs recorded in this item for 2013 include:

- the fee, inclusive of VAT and contributions, for the Board of Statutory Auditors totalling Euro 178 thousand;
- the fee, inclusive of VAT and contributions, if due, for the members of the Board of Director totalling Euro 668 thousand;

Point 5) includes the recharging of the services provided by one of our employees in favour of an outside company, services provided in 2013 for the entire year and in 2012 for just the latter part of the year.

9.2 Average number of employees by category

	Items	Total 31 Dec. 2013	Total 31 Dec. 2012
°	**Salaried employees:**	**457**	**447**
	a) senior executives	9	9
	b) middle managers	161	149
	c) other salaried staff	287	289
°	**Other personnel**	**13**	**13**

The exact number of employees at year end was by contrast the following:

Exact number of employees	Total 31 Dec. 2013	Total 31 Dec. 2012
Salaried employees	467	458
of which part time	12	12

Under staff leasing	5	4
Other personnel	14	11

Our employee seconded care of an outside company is excluded.
Other personnel includes the 11 directors and 3 external co-workers.

12.3 Defined-benefit company pension funds: costs and revenues

There are no defined-benefit company pension funds.

9.4 Other employee benefits

This item includes various types of expense, as analysed below:

Type of expense/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
luncheon vouchers	(520)	(528)
insurance premiums	(426)	(353)
training expenses	(158)	(58)
redundancy incentives	(514)	-
other	(24)	(83)
Total	**(1,642)**	**(1,022)**

9.5 Other administrative expenses: breakdown

Administrative expenses other than payroll and related costs amounted to Euro 26,940 thousand at year end.
Within "Indirect taxes and dues", the main balance refers to the stamp duty paid on behalf of customers; the revenue for the recovery of costs is recorded in item "190 Other operating income and expense"; the increase in the line is in fact due to the general increase in the extent of the stamp duty with respect to last year.

Type of expense/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
Telephone, postal and data transmission expense	(1,960)	(2,616)
Intangible fixed asset maintenance expenses	(1,397)	(2,104)
Rentals payable on properties	(1,577)	(1,699)
Security, transportation and custody of valuables expenses	(716)	(919)
Transportation expenses	(206)	(85)
Fees paid to professionals	(959)	(822)
Costs for office materials and supplies	(618)	(766)
Electricity and heating costs	(770)	(799)
Advertising and entertaining expenses	(259)	(330)
Legal costs	(1,350)	(1,162)
Insurance premiums	(1,421)	(1,615)
Costs for information and searches	(1,463)	(1,332)
Data processing centre	(4,072)	(3,928)
Indirect taxes and duties	(7,937)	(5,347)
Cleaning services	(422)	(427)
Membership fees	(429)	(464)
Contributions for Treasury Service and sundry associations	(69)	(77)
Processing of bills, cheques and documents care of third parties	(402)	(484)
Rented property maintenance and condo charges	(107)	(100)
Subscriptions and ads for newspapers and magazines	(97)	(118)

Purchase of promotional materials	(78)	(163)
Cost of the staff leasing contracts service	(12)	(8)
Expenses for travel and business trips involving personnel in service	(339)	(341)
Securitisation administrative expenses	-	(467)
Sundry minor costs and expenses for general meetings	(280)	(346)
Total	**(26,940)**	**(26,519)**

Section 10 - Net allocations to provisions for risks and charges - Item 160

This item includes the balance, positive or negative, between the allocations and any re-assignments to the income statement of provisions deemed in excess, relating to the provisions as per sub-item b) "other" in item 120 "provisions for risks and charges" under the balance sheet liabilities.

10.2 Net allocations to provisions for risks and charges: breakdown

Items	Total 31 Dec. 2013	Total 31 Dec. 2012
Provision for legal disputes, compound interest and securities as well as for bankruptcy revocatory action	(368)	(749)
Return to income statement for settlement of disputes arising during core business activities	84	98
Total	**(284)**	**(651)**

Section 11 - Net value adjustments/writebacks on tangible assets - Item 170

The item comprises the balance between the value adjustments and the value writebacks relating to tangible assets held for operating use, including those relating to activities acquired under financial lease.

11.1 Net value adjustments on tangible assets: breakdown

Assets/Income items	Depreciation (a)	Value adjustment for impairment (b)	Value writebacks (c)	Net result (a + b - c)
A. Tangible assets				
A.1 Owned	**(1,678)**	-	-	**(1,678)**
- Used in operations	(1,678)	-	-	(1,678)
- For investment	-	-	-	-
A.2 Acquired under financial lease	**(22)**	-	-	**(22)**
- Used in operations	(22)	-	-	(22)
- For investment	-	-	-	-
Total	**(1,700)**	-	-	**(1,700)**

The depreciation for 2013 amounts in total to Euro 1,700 thousand. Reference is made to table 11.3 in Section 11 of the balance sheet - Assets "Intangible assets".

In detail, the depreciation is broken down as follows:
• on properties Euro 652 thousand;

• on furniture and furnishings Euro 361 thousand;
• on electronic installations Euro 227 thousand;
• on the remaining assets Euro 460 thousand.

As at 31 December 2013, there were no assets held for sale and discontinued operations as per IFRS 5.

Section 12 - Net value adjustments/writebacks on intangible assets - Item 180

This section comprises the balance between the value adjustments and the value writebacks relating to intangible assets, other than goodwill, including those relating to assets acquired under financial lease and assets provided under operating lease.

12.1 Net value adjustments on intangible assets: breakdown

Assets/Income items	Amortisation (a)	Value adjustment for impairment (b)	Value writebacks (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(864)	-	-	(864)
- Internally generated by the company	-	-	-	-
- Other	(864)	-	-	(864)
A.2 Acquired under financial lease	-	-	-	-
Total	**(864)**	-	-	**(864)**

The value adjustments refer to the amount of intangible assets with a specified useful life acquired externally.

Intangible assets are more fully described in Section 12 of the balance sheet - Assets "Intangible fixed assets" in these explanatory notes

Section 13 - Other operating income and expense - Item 190

The costs and revenues not attributable to other items, which contribute to the formation of item 270 "Profit (Loss) from operations net of taxation" are illustrated in this section.

13.1 Other operating expense: breakdown

The breakdown of other operating expense is provided below.

Types of expense/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
Out-of-period expense	(207)	(74)
Costs for leasehold improvements and expenses on third party assets	(212)	(329)
Interbank Guarantee Fund	(576)	(155)
Sundry	(347)	(163)
Total	**(1,342)**	**(721)**

The item “costs for leasehold improvements and expenses on third party assets” includes the amortisation of improvements made to third party assets, in detail structural work necessary for the setting up of new branches in rented properties.
The Interbank Guarantee Fund includes the Bank’s portion relating to the measures, already resolved, in favour of Banca Tercas in extraordinary receivership.
The item “Sundry” mainly comprises costs of legal and similar transactions pertaining to the year.

13.2 Other operating income: breakdown

The breakdown of other operating income is provided below.

Types of income/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
Rental income on properties	102	104
Taxes recharged to customers	7,318	4,989
Insurance premiums recharged to customers	872	840
Recovery of expenses on deposits and current accounts	116	163
Services provided to other Group companies	15	15
Recoveries on legal costs	1,022	564
Out-of-period income	65	63
Fast credit processing fees	3,260	-
Total	**12,770**	**6,738**

Taxes recharged for Euro 7,318 thousand concern the stamp duty on current accounts and securities deposits; the increase with respect to last year is due to the legislative amendments regarding stamp duty (also see the costs recorded under “9.5 Other administrative expenses”).
The item “Recoveries on legal costs” includes the legal costs inherent to specific recovery activities vis-à-vis non-performing positions, recharged to the same.
Fast credit processing fees are classified here as required by Bank of Italy financial statement legislation and from this year replace, in essence, the overdraft commission, which was by contrast recorded in the “Item 40 - commission income”.
Services provided to Group companies includes revenues for Euro 15 thousand vis-à-vis Valsabbina Real Estate.

Section 14 - Gains (Losses) on equity investments - Item 210

Section 15 – Net profit (loss) from the fair value valuation of tangible and intangible assets - Item 220

Section 16 - Value adjustments to goodwill - Item 230

These tables have not been drawn up since there have been no transactions which would require indication in these sections.

Section 17 - Gains (Losses) on disposal of investments - Item 240

17.1 Gains (Losses) on disposal of investments: breakdown

Income components/Balances	Total 31 Dec. 2013	Total 31 Dec. 2012
A. Properties	**-**	**-**
- Profits on disposal	-	-
- Losses on disposal	-	-
B. Other assets	**(16)**	**5**
- Profits on disposal	-	5
- Losses on disposal	(16)	-
Net result	**(16)**	**5**

Section 18 - Income taxes for the year on current operations - Item 260

This item discloses the tax liability - equal to the balance between the current taxation and the deferred taxation - relating to the profit for the year.

18.1 Income taxes for the year on current operations: breakdown

The breakdown of taxation for the year is provided below.

	Income components/Balances	**Total 31 December 2013**	**Total 31 December 2012**
1.	Current taxes (-)	(15,747)	(15,452)
2.	Changes in current taxes for previous years (+/-)	-	1,273
3.	Reduction in current taxes for the year (+)	-	-
3.*bis*	Reduction in current taxes for the year for tax credits as per Italian Law No. 214/2011 (+)	-	-
4.	Change in prepaid taxes (+/-)	9,990	9,015
5.	Change in deferred taxes (+/-)	2,131	1,260
6.	**Taxation pertaining to the year (-) (-1+/-2+3+3bis+/-4+/-5)**	**(3,626)**	**(3,904)**

Current taxes have been provided for on the basis of current tax legislation, which was recently amended by the stability law No. 147/2013 and by Italian Decree Law No. 133/2013.
Taxes for 2013 have benefited for IRAP purposes from the deduction in fifths of the net value adjustments on loans to customers for a positive impact on current taxation of Euro 2,407 thousand, of which Euro 481 thousand on current taxes and Euro 1,926 thousand on prepaid taxes. The changes to the deduction for IRES purposes of the value adjustments on loans have not had any direct impact on the income statement since they exclusively involved a change in the timing of the deduction.
The 8.5% IRES surtax, introduced by Italian Decree Law No. 133/2013, limited to 2013 for just lending and financial bodies, to be calculated on the taxable IRES adjusted so as not to take into account the increase of 4/5ths of the net adjustments relating to customer loans, amounts to Euro 1,003 thousand.
Furthermore, as indicated in the comment to part B), section 13 of the assets, the release of the deferred taxes for the alignment of the tax values of the properties led to a positive effect on the income statement of Euro 885 thousand. A further positive effect for Euro 376 thousand emerges from the integration of the freeing up of the goodwill and the other intangible assets in relation to the declarations presented.

18.2 Reconciliation between the theoretical tax liability and effective tax liability in the financial statements

The following table shows the reconciliation of the effective tax liability (32.06%) with respect to the theoretical one calculated on the profit from continuing operations gross of taxation (income statement item 250).

IRES	Taxable amount	IRES 36%	% effect
Profit before taxation (theoretical taxation)	11,311	(4,072)	36.00%
Permanent increases			
- 4% non-deductible interest expense	3,319	(1,195)	10.56%
- other non-deductible expense	6,710	(2,416)	21.09%
Permanent decreases			
-10% IRAP deduction and payroll and related costs	(1,666)	600	(5.30%)
- dividends	(170)	61	(0.54%)
- equity increase (a.c.e.)	(2,405)	866	(7.66%)
- property value alignment		885	(7.82%)
- freeing up of goodwill and other intangible assets		343	(2.77%)
- prepayments reversal rate difference	(8,390)	713	(6.30%)
IRES tax liability		**(4,214)**	**37.26%**
IRAP	**Taxable amount**	**IRAP 5.57%**	**%**
Profit before taxation (theoretical taxation)	11,311	(630)	5.57%
Permanent increases			
- 4% non-deductible interest expense	3,319	(185)	1.64%
- non-deductible payroll and related costs	30,828	(1,717)	15.18%
- other changes (10% general and other expenses)	9,474	(528)	4.67%
Permanent decreases			
- dividends	(90)	5	(0.04%)
- tax wedge	(11,225)	625	(5.53%)
- merger alignment		63	(0.56%)
- Recapture of negative components from previous years	(53,049)	2,955	(26.13%)
Effective IRAP tax liability		588	(5.20%)
Total effective IRAP and IRES tax liability		**3,626**	**32.06%**

Section 19 – Profit (loss) from groups of assets held for sale, net of tax - Item 280

The table is not drawn up because there are no assets classified as thus.

Section 20 – Other information

This section is not drawn up since it is deemed that the information provided previously is complete.

Section 21 - Earnings per share

The new international standards (IAS 33) require the returns indicator to be published on a mandatory basis: “earnings per share” (commonly known as “EPS”), in the two versions:
• “Basic EPS”, calculated by dividing the net profit by the weighted average of the ordinary shares in circulation;
• “Diluted EPS”, calculated by dividing the net profit by the weighted average of the ordinary shares in circulation, also taking into account the classes of instruments with diluting effects.

21.1 Average number of ordinary shares in terms of diluted capital

There are no ordinary shares which will be issued in the future with diluting effects on the capital.

21.2 Other information

Items	Total 31 Dec. 2013	Total 31 Dec. 2012
Profit (Loss) for the year	7,685	3,040
Ordinary shares (weighted average)	35,534,048	35,539,221
Earnings per share	**0.216**	**0.086**

On the basis of sections 19 - 20 of IAS 33, with regard to the calculation of the basic earnings per share, the number of the ordinary shares in circulation must be equal to the weighted average for the number of days which the shares have been in circulation for, therefore net of the own shares repurchased.

Part D - Comprehensive income

This is additional disclosure required for presenting not only the profit for the year but also the other income components not recognised in the income statement (these include, in essence, the changes in the shareholders' equity valuation reserves).
In addition to the statement of comprehensive income shown after the financial statement schedules, the following additional details are provided.

Analytical statement of comprehensive income

	Items	Gross amount	Income tax	Net amount
10.	**Profit (Loss) for the year**	**X**	**X**	**7,685**
	Other comprehensive income components without reversal to income statement	**563**	**(155)**	**408**
40.	Defined benefit plans	563	(155)	408
	Other comprehensive income components with reversal to income statement	**933**	**(176)**	**757**
100.	Financial assets available for sale:	**933**	**(176)**	**757**
	a) fair value changes	(5,025)	1,539	(3,486)
	b) reversal to income statement	5,958	(1,686)	4,272
	- impairment adjustments	1,091	(75)	1,016
	- realised gains/losses	4,867	(1,611)	3,256
	c) other changes	-	(29)	(29)
130.	**Total other comprehensive income components**	**1,496**	**(331)**	**1,165**
140	**Comprehensive income (Item 10+130)**	**1,496**	**(331)**	**8,850**

With regard to item 100, the breakdown of the fair value changes and the reversal to the income statement of the impairment adjustment recognised in 2013 is as follows:

	Gross amount	Income tax	Net amount
a) fair value changes	**(5,025)**	**1,539**	**(3,486)**
Debt securities	(3,934)	1,301	(2,633)
Equities	(1,066)	230	(836)
UCIT units	(25)	8	(17)
b) reversal to income statement - impairment adjustments	**1,091**	**(75)**	**1,016**
Equities	1,091	(75)	1,016
b) reversal to income statement - realised gains/losses	**4,867**	**(1,611)**	**3,256**
Debt securities	4,696	(1,553)	3,143
Equities	29	(11)	18
UCIT units	142	(47)	95
c) other changes		**(29)**	**(29)**
previous years' tax adjustment on equities partially under PEX	-	(29)	(29)

Item 40 is equal, as already indicated in the comment to liability item 110, to the actuarial change for the year in the provision for employee leaving indemnities, a change which as from last year's financial statements was registered with a matching shareholders' equity balance; as at 31 December 2013, the change adopted a positive sign.

The amount of the income tax for Euro -331 thousand, is also indicated in the tables 13.5 and 13.6 of the "Tax assets", as follows:

13.5 Changes in prepaid taxes (through shareholders' equity)	
Increases	1,722
Decreases	(2,064)
13.6 Changes in deferred taxes (through shareholders' equity)	
Increases	(58)
Decreases	69
Effect of the income taxes on comprehensive income	**(331)**

Part E
Information on risks and the related hedging policies

Introduction

The Bank carries out its activities on a prudent basis and with a contained propensity to risk. Thus, in relation:

- to the need for stability associated with the performance of banking activities;
- the profile of its investors.

The overall propensity to risk is measured in summary form via the identification, within the sphere of the Bank's equity (regulatory capital), of a capital component not intended for the undertaking of risks (unexpected losses), but oriented towards the pursuit of the following chief purposes:

- the business as a going-concern over the mid/long-term, gradually strengthening equity and maintaining conditions of operational flexibility (so-called strategic capital reserve);
- equity coverage of the impacts deriving from the occurrence of stress (so-called stress capital coverage).

The Bank's system of internal controls ensures the implementation of the corporate strategies and policies and is made up of a series of rules, procedures and organisational structures which aim to observe the standards of sound and prudent management.

The Corporate Bodies have the prime responsibility of ensuring, according to specific responsibilities, the completeness, adequacy, functionality and reliability of the system of internal controls.

The Bank has adopted a traditional type of governance model which envisages the presence of a Board of Directors (Body with strategic supervision functions) a Board of Statutory Auditors (Body with control functions) and General Management (Body with management functions).

The Board of Directors defines and approves the business model by means of the approval of the strategic business plan and the annual budgets, with the awareness of the risks which this model exposes the Bank to and comprehension of the methods by means of which the risks are detected and assessed. The Board of Directors defines and approves the strategic guidelines and sees to their periodic review, the tolerance threshold and the risk governance policies and ensures that the Bank's structure is consistent with the activities carried out and the business model adopted.

The risk governance policies are formalised in specific regulations/policies which are promptly submitted for the approval of the Board of Directors.

The adoption of new products and services, the launch of new activities, introduction into new markets and, in general, the most significant operations are always approved by the Board of Directors.

The Board of Directors periodically assesses whether the capital ratios of the bank are compatible with the regulatory levels and with the matters defined in the capital plan and that the exposure to the liquidity risk is compatible with the tolerance thresholds specifically defined. The Board of Directors also ensures that the strategic plan, the budget and the results of the ICAAP process are consistent, also having taken into account the evolutions of the internal and external conditions in which the Bank operates.

General Management, availing itself of the support of the Strategic Committee made up of all the senior members of the Bank, is fully aware of all the business risks, sees to the implementation of the strategic guidelines and the risk governance policies defined by the Board of Directors. In particular, it proposes operating limits for the undertaking of the various types of risk, taking into account the

stress tests carried out by the appointed units, in accordance with the matters envisaged by the Bank's internal policies.
General Management, with a view to facilitating the development and the divulgation at all levels of a culture of control, plans the training programmes for the Bank's staff, on the basis of the proposals made by the Market Division and the General Affairs, Organisation and HR Division.
The Board of Statutory Auditors carries out periodic checks so as to ascertain the completeness, suitability, functionality and reliability of the system of internal controls.
When carrying out its tasks, the Board of Statutory Auditors uses suitable information flows provided by other Corporate Bodies and the corporate control functions. The regular attendance of the Board of Statutory Auditors during Board meetings, which are held weekly, represents a guarantee with regard to prompt information to the Control Body with regard to operational events.
The Bank's system of internal controls is divided up into three different levels of control:

- line controls: aimed at ensuring the correct performance of the operations. They are carried out by the same production structures (for example: hierarchical type controls) or incorporated in the procedures and the IT systems, or carried out within the sphere of the back office activities.

For the purpose of spreading deep-rooted awareness of the controls to be implemented within the sphere of each business process within the entire structure, the Bank has endowed itself with a "line control manual". Furthermore, with the aid of the T.U.N.E. application (Testo Unico della Normativa Elettronica), the mapping of all the significant processes is made available on-line to the head office operators and the other operators. The T.U.N.E. has the purpose of harmonising the conduct of the operators facilitating the integration of the controls.

- Controls on the risks and on compliance (so-called "second level controls") which have the purpose of ensuring, amongst other aspects:
  - The correct implementation of the risk management process;
  - The observance of the operating limits assigned to the various divisions;
  - The compliance of the business operation with standards; including those concerning self-regulation.

The second level controls are delegated by the organisational rules to the Risk Management, Planning & Control Service, the Compliance Service and the Anti-money Laundering Service.

- Internal Audit (so-called "third level controls"): aimed at identifying violations of the procedures and the regulations as well as periodically assessing the completeness, suitability, functionality and reliability of the system of internal controls and the information system. These activities are carried out by the Internal Audit Service.

The company control Units who see to the second and third level controls have the authority, resources and expertise necessary for the performance of their tasks.
The company Staff organisation chart envisages - in compliance with recent updates of the Prudent Supervisory instructions - the hierarchical and functional relationship of the company control units with regard to the Board of Directors.
The control units have access to all the activities carried out by the bank, both care of the central offices and care of the peripheral structures, as well as any information relevant for the performance of their tasks.

Pursuant to Italian Law No. 231/01, a specific Supervisory Body of a formal nature is present, made up of seven members, including one member of the Board of Statutory Auditors, the heads of the control units and a Bank official who also carries out the role of secretary; the Chairman of the Supervisory Body is an outside professional of proven experience.

The Supervisory Body has the task of assessing the correct functioning of the organisational safeguards adopted by the Bank so as to avoid involvement in events which could be subject to sanction pursuant to and for the purposes of Italian Law No. 231 dated 2001. As established by the Organisational Model, it periodically reports to the Bank's Board of Directors.
During 2013, the activities of the Supervisory Body focused on the one hand on the checking and up-dating of the Organisational Model which the Bank has endowed itself with in accordance with the afore-mentioned Law 231 in line with the most recent legislative innovations introduced and on the other hand on the verification of the existence of the necessary organisational and/or control safeguards.
During the meetings held in the year, the Body was in a position to then stop and look at, with greater attention, the adoption by the Bank of the necessary organisational measures advised by the Bank of Italy and in particular those associated with the application of the legislation contrasting money laundering and the funding of international terrorism.

In September 2013, an internal project was launched aimed at assimilating the recent legislative provisions introduced by the Bank of Italy by means of the 15th up-date of Circular No. 263/2006 regarding Internal Controls, Information Systems and Operational Continuity.
This project was carried out by a work group, in which the heads of the company control units, the General Affairs, Organisation and HR Division, the Market Division and three members of the Board of Directors took part; they were involved in the work also with a view to increasing the control culture within the Bank. The results of the work carried out have been illustrated to the appropriate units of the Bank by means of specific training seminars.
The Bank availed itself of outside and independent advisory support for the entire self-assessment process which ended with the forwarding to the Bank of Italy of a final report.

The Compliance Unit

The risk of non-compliance is overseen by the Compliance Service. The compliance unit's activities include the monitoring of new legislation (also with the support of specialist units), the assessment of the impacts, the proposal of organisational and procedural changes aimed at ensuring suitable safeguarding of the non-compliance risks identified, as well as the checking of the efficacy of the organisational adaptations carried out by the operating units (structures, processes, procedures including operative and commercial) suggested for the prevention of the non-compliance risk. In detail, the Compliance Service works together with the other control areas (Internal Audit, Risk Management, Anti-money Laundering) for the purpose of developing its risk management methods in a consistent manner with the strategies and business operations, checks whether situations involving conflicts or interest, or the possible occurrence of such conflict, can be eliminated, reduced or handled and submits the new cases for the attention of General Management, making suggestions for the overcoming or solution of the same.
The legislative spheres overseen directly by the Compliance Service are attributable to the regulations on the provision of investments services, the regulations on market abuse, the regulations regarding remuneration and incentive policies and practices in banks and banking groups, the regulations safeguarding customers (Banking Transparency as per Section VI of the CBA) and consumers (Consumer Code as per It. Decree Law No. 206/05), the regulations regarding conflicts of interest and codes of conduct.
The Compliance unit sees to consulting and assistance vis-à-vis the Bank's Corporate Bodies with regard to all the matters in which the risk of non-compliance is relevant. Furthermore, the unit collaborates in staff training activities on the provisions applicable to the activities carries out, for the purpose of spreading a corporate culture instilled with principles of honesty, correctness and respect of the spirit and letter of the law.

During 2013, a review of the current Compliance model was launched, with a view to adaptation to the new Provisions on the internal controls system issued by the Bank of Italy in July, which extended the supervision tasks which the compliance unit is responsible for to all the legislative spheres applicable to the corporate activities.
The Compliance Service identified the contact individual within the company structure for the legislative supervision activities relating to specific sectors for which specialist skills are required.

Anti-money Laundering unit

The Anti-money Laundering Service was spun off by the compliance unit in 2012 further to the issuance of the new supervisory instructions in this connection. The Anti-money Laundering unit has the task of continually checking that the company procedures are consistent with the aim of preventing and contrasting money laundering and the funding of terrorism.

The operations of the Service pursue the twofold need of:
- implementing the fulfilments with regard to reporting of suspect transactions; remote checks with regard to the observance, by the sales network, of the provisions regarding anti-money laundering, communications to the Ministry of the Economy and Finance of violations of the norms on the use of cash and bearer securities and response to the requests of the Authorities;
- providing advisory support to the organisational structures further to the issuance of new provisions regarding anti-money laundering having an impact on the Bank.

The guidelines adopted by the Bank with regard to anti-money laundering have been implemented in light of the “Provision of the Bank of Italy dated 3 April 2013 relating to the adequate checking of customers and keeping of the Centralised Computer Archive” and the Bank of Italy Circular No. 263 dated 27 December 2006 “New prudent supervisory instructions for banks - 15th up-date dated 2 July 2013”. For such purposes, an “Anti-money laundering” document has been adopted, approved by the Board of Directors which brings together the guiding principles relating to the strategic stances and the government policies, the organisational and control safeguards for mitigating the risk, appropriate checks, obligations to abstain and active collaboration vis-à-vis the Supervisory Authorities.

In addition, the new Anti-money Laundering Service Regulations have been drawn up, as an instrument for internal regulation of the specialist unit and an overall up-date of the regulations was carried out for the use of all the staff, summarised in the form of a Manual, with the aim of systematically bringing together the principles adopted by the Bank with regard to laundering and terrorism funding risks.

The Anti-money Laundering Service, aided by the Compliance Service, takes steps to identify the external regulations applicable and, in collaboration with the competent company Functions, assess their impact on the process and the internal procedures. The activities carried out with the collaboration of the outsourcer Cedacri are of particular significance with regard to the project for adapting the procedural systems associated with the application of the norms introduced by means of the Provision of the Bank of Italy dated April 2013 and the staff training activities on specific aspects, via both internal and external courses,

Risk Management Unit

The Risk Management, Planning & Control Service is tasked with the performance of the second level controls on the management of the risks; the intricacy of the structure and its positioning within the Bank's organisational model ensures an integrated management of the different risks which the intermediary is exposed to.

The Bank's Organisational Code and the regulations of the structure discipline the tasks of the risk management unit, including:

- seeing to the valuation of the individual Pillar I risks, detection, gauging/assessment of the other Pillar II risks in situations of normal course of business and in situations of stress of the other risks difficult to quantify, seeing to the development of the related instruments and methods;
- periodically checking the overall exposure of the bank to the different types of risk and producing the related reports;
- seeing to the calculation of the current and forecast capital requirements of the Bank for ICAAP purposes;
- seeing to the drafting of the Pillar III disclosure to the general public.

In addition to the aspects indicated above, the Risk Management unit collaborates with regard to the definition of the company management policies referring to the individual types of risk.

The sphere of the operations of the Risk Management unit include the following types of risk:

- credit risk;
- market risk, relating to both the trading book and the bank book;
- rate risk of the banking book;
- liquidity risk;
- risk of excessive financial leverage;
- operational risk;
- counterpart risk;
- concentration risk;
- securitisation risk;
- reputational risk;
- strategic risk;
- residual risk.

Within the sphere of the periodic review activities on the risk monitoring perimeter which the bank is subject to, the Risk Management, Planning and Control Service also takes steps to monitor other risk aspects which are not subject to specific measurements (both qualitative and quantitative).

Examples of these risks are the model risk, the country risk, the transfer risk, the risks linked to the macroeconomic environment, etc..

These activities aim to identify, assess, monitor, prevent or mitigate, as well as communicate to the appropriate hierarchical levels, all the risks undertaken or which can be undertaken in the various business segments, seizing - within an integrated logic - also the interrelationships, both reciprocal and associated with the evolution of the external context.

The Risk Management Unit checks the adequacy and efficacy of the measures adopted to remedy the shortfalls noted in the risk management process. The opinion on the adequacy of the measures adopted is formalised within the sphere of the ICAAP report.

On the basis of the evidence emerging further to the self-assessment activities carried out with respect to the new Prudent Supervisory instructions, the Bank has decided to see to the drawing up and implementation of the “Risk objectives system” (so-called Risk Appetite Framework, in short RAF), by means of which the following will be further defined, with respect to that already currently envisaged by the internal policies: the propensity to risk, the tolerance thresholds, the risk limits, the risk governance policies, the reference processes necessary for defining and implementing the same, At present, the Document is currently being drawn up by the Risk Management, Planning and Control Service, with the aid of a specific work group set up to analyse the new Prudent Supervisory instructions and the technical committees established within the Bank (Finance Committee, Risks Committee, Steering Committee), and will shortly be analysed by the Board of Directors.

Internal Audit Unit

The Internal Audit Unit checks the suitability and the efficiency of the organisational set ups and the System of internal controls, the regularity of the corporate operations and the observance of the policies adopted with regard to the undertaking of the risks; the efficiency and the effectiveness of the second level controls assigned to the other corporate control units and, in particular, those aimed at ensuring the containment of the business risks within the level deemed acceptable by the Bank. The unit also takes steps to ascertain the removal of anomalies detected in the operating processes and in the functioning of the controls by means of follow up activities, and to carry out checks on the overall functioning of the system of internal controls.
It carries out checks also with regard to specific irregularities, as per its own initiative or upon the request of the Board of Directors, the Board of Statutory Auditors or General Management. In conclusion, the tasks of the unit include the checking of the observance in the various operating sectors of the limits envisaged by the authorisation mechanisms, with particular reference to the Loans and Financial Sectors, as well as the full and correct use of the information available in the various activities.

Section 1 - Credit risk
Qualitative information

1. General aspects

The business model adopted from day one by the Bank is essentially based on loan brokerage activities and is aimed at supporting families and the manufacturing sphere in the various areas of competence, according to the management guidelines outlined by the Board of Directors and in accordance with its role as an industrial co-operative.
The activities mainly address the retail, small business and small/medium-sized company segments, in that they are entities which, extraneous to the financial circuits of greater importance, require a reference contact, capable of understanding and satisfying the needs; lending activities also address the corporate segment to a lesser extent.
Each year, the Board of Directors outlines specific lending policies overseeing the quality of the loans both at the time for initial resolution and in the subsequent management of the relationship, taking into due consideration the Bank’s economic/equity situation and the related economic context. The policies in the last few years have seen the splitting of the credit risk as the strategic approach first and foremost.
The loan policies established by the Board of Directors have contributed towards the adoption, by the appointed units, of greater attention in the approval process. In fact, in this delicate stage of launching the relationship, particular attention must be paid to the quality of the entrepreneurial projects

underlying the financial intervention required of the Bank. Elevated importance is assigned to the ability to repay, guaranteed in turn by the income-earning prospects of the business.
The efficacy of the management of the credit already disbursed is fundamental for the purpose of identifying trend anomalies and preventing the effects of the deterioration of credit worthiness. The precise indications imparted on the management of the credit which shows sign of anomaly, have the purpose of reducing the exposure to risky counterparts in time and of promptly intervening with correct action in the removal of the anomalies (reiteration of overruns, increase in the unpaid instalments, acceptance of portfolio presentations on names already in default). The management of the credit facilities granted aspires, in this critical economic context, to principles of extreme prudence and therefore any sign of performance not in line with correct operations is promptly analysed, for the purpose of establishing all the necessary measures.
The commercial policy is pursued by means of the branches both in the geographic areas in which the Bank is traditionally present, for the purpose of constantly consolidating its position, and in new markets of presence, with the aim of acquiring new market shares and facilitating the growth of loan brokerage activities.

2. Credit risk management policies

2.1 Organisational aspects

The factors which generate credit risk are attributable to the possibility that an unexpected change in the credit worthiness of a counterpart, vis-à-vis whom exposure exists, generates a corresponding unexpected change in the market value of the loan position.
Therefore, not only the possibility of the insolvency of the counterpart must be considered to be a manifestation of the credit risk, but also the mere deterioration in the credit worthiness.
The credit control and implementation policies are defined by the Board of Directors, both because this involves prerogatives pertaining specifically to the management body and because the informed assessment of the risk preliminarily involves the accuracy of the loan approval process and the joint nature of the opinions regarding the reliability of the borrowers.

The undertaking and handling of the credit risk has been disciplined by means of the formalisation of the underlying process, detailing the role of the corporate bodies, the operations of all the parties involved, defining the first level controls and specifying the role of the control units. The organisational unit which oversees the execution of the process, was overhauled during 2013.
In detail, the head office “Market Division” was set up which, co-ordinating the operations of the loan sector, sees in particular to aiding General Management within the sphere of the implementation of the loan policies issued by the Board of Directors.
During 2013, for the purpose of optimising the supervision over the quality of credit and the level of forecast risk regarding the individual positions, the Trend Monitoring Service was set up, on the staff of the Market Division. This service was entrusted, in co-ordination with the area network, with the monitoring activities on performing loans and past due loans, with the aim of encouraging an anticipatory handling of the credit risk for the purpose of implementing the management strategies aimed at improving the Bank’s credit quality.

In light of the review of the Bank’s organisational set up, the company units involved in the credit process are as follows:

- The Loans Committee, whose mission involves guiding and optimising the Bank’s loan policy, within the sphere of the strategies established by the Board of Directors;

- The Market Division which with the aid of the Strategic Planning Sector sees to checking the sustainability of the lending policies adopted, making proposals to General Management relating to:
  - the instruments and the types of counterpart to which the loan is destined for the purpose of generating profitable and fractioned loans;
  - the technical forms to be preferred defining the maximum limits in terms of amount and maturity;
  - the business sectors and geographic areas to be preferred with a view to diversification of the risk.
- the Loans Sector which handles and checks the process for the undertaking of each type of risk associated with the disbursement of credit, proposing the credit management policies and planning the consequent activities, providing the unit with constant assistance so as to ensure the containment of the level of risk;
- the Trend Monitoring Service which, by means of routine activities and portfolio analysis on performing loans and on the past due book, sees to highlighting all the signs necessary for a correct monitoring of the credit positions;
- the Pre-dispute Service which carries out, in relation to the bank's watchlist and restructured positions book, all the control activities for the purpose of preventing and minimising the risks deriving from the deterioration of the individual loan positions and credit quality;
- the Legal and Dispute Service sees to the legal aspects of the cases classified as non-performing, with the aim of optimising the debt recovery phase also by means of the efficient use of outside legal professional and collaborators;
- the Risk Management, Planning & Control Service which is entrusted with the credit risk monitoring and control process in compliance with the matters envisaged by Circular 236/2006 "New Prudent Supervisory instructions for Banks";
- The Internal Audit Service which assesses the functionality and reliability of the entire system of internal controls and carries out, amongst other aspects, the checks on the operational regularity of the lending activities.

Within the sphere of the risk management formalities adopted, initial supervision of efficient monitoring of the risks undertaken takes place care of the Branch, both via constant and continual dialogue with the customers and availing itself of information sources of an internal and external nature.

In the loan approval stages, the Bank carries out internal and external investigations with regard to the customer requesting credit, and reaches its final decision to grant the loan considering all the information relating to the business, the result of direct knowledge of the customers and the economic context in which they operate. All the approval process activities inherent to the operational process, which lead to the disbursement and periodic review, are developed with the aim of disbursing a fair loan at individual name (and/or group) level, in relation to the autonomous ability of the latter to repay, the technical form of the credit facility, the guarantees offered and the entrepreneurial abilities of the management.

In the approval process stage, the Bank acquires all the documentation necessary for making a suitable appraisal of the credit worthiness of the borrower, from an equity and income-related standpoint, and a correct remuneration of the risk undertaken.

2.2 Management, measurement and control systems

The credit risk management, measurement and control systems develop within an organisational context which sees the entire credit process cycle involved, from the initial approval process to the periodic review stage, and up to the revocation and recovery stage.
The Bank also carries out quantitative and qualitative analysis for the purposes of the measurement and periodic control of the Credit Risk for operational purposes. In detail, the quantitative assessments avail themselves of different instruments which provide information from an economic, financial and equity standpoint of the customer:

- Financial statements: assessments of the equity and financial balances, determination of the degree of indebtedness, determination of the net financial positions, analysis of the economic indicators;
- Relationship with the Bank: analysis of the current account transactions, the average use of the credit facilities agreed, checking of the methods of repayment of the loans;
- Relationships with other Banks: analysis of the Credit Reference Agency.

At any given time, the Bank is aware of its exposure to each customer, since the information system adopted makes it possible for each counterpart (customer or group of associated customers) to use up-dated information and data each day.

Generally speaking, when providing credit, in addition to observance of the legal and supervisory provisions envisaged for financial brokers, the Bank resolves to achieve the following:

- the best knowledge of the contractual counterparts for the purpose of assessing the related credit capacity;
- the use of the most appropriate technical form with regard to the loan requirement to be satisfied, taking into account the guarantees and the duration;
- the diversification of the credit risk, limiting the concentration of the exposures on groups of associated customers/groups of businesses or on individual sectors/branches of business activities;
- a suitable economic return from the relationship;
- the control of the performance of the individual positions carried out by means of the periodic review of the cases and systematic monitoring activities, via computerised processings;
- the best handling of impaired loans.

Despite the use of the standardised method for the calculation of the capital requirements in the presence of credit risks, a consortium database is used (C.R.S. – Credit Rating System), provided by the outsourcer Cedacri, which establishes an internal scoring system aimed at the assignment of an insolvency probability for each customer. This system comprises a statistical-type insolvency risk gauging model which, by means of fundamental and trend analysis of the main economic - financial indicators of the borrower, makes it possible to assess the main relationship data. In detail, the following information is used:

- Information of a quantitative nature regarding the customer (relationship trend, performance of the customer within the system, company financial statements);
- Sector-related information (sector-related impairment rates divulged by the Bank of Italy, analysis of the micro-sectors with identification of a calculation indicator provided by Prometeia).

The application of this model makes it possible to assign a rating on the basis of the information sources used and the pertinent segment (Private consumers, Small Businesses, SMEs, Large Corporate, Financial and Institutional); specifically, the segmentation criteria of the counterparts are established taking into account the sector of business activities, the legal status and the dimension of the turnover of the counterpart.

During 2013, the Bank launched the process for the adoption of the second generation rating models developed by the outsourcer; in particular, it proceeded with training activities for internal staff The backtesting analysis carried out with regard to the probability of default assigned by the new model to the loan exposures has revealed how the latter perform better, with respect to the previous ones, with regard to the identification of signs of deterioration in the loan quality.

The action undertaken to protect and oversee the credit quality came about both by resorting to the use of management applications and by means of the development of internal control procedures; in this way, the systematic monitoring of the data produces reports which highlight the situations exposed to greater criticalities and on which the specialised internal units carry out targeted checks and assessments.

The credit monitoring activities are delegated to the “Pre-dispute” Service and to the “Trend Monitoring” Service. In detail, the Trend Monitoring Service sees to the performing positions and the positions persistently non-performing (past due), while the Watchlist positions, including objective Watchlist, and restructured positions are handled by the Pre-dispute Service. The handling of the non-performing positions falls under the responsibility of the Legal and Dispute Service.

The “Pre-dispute Service” and the “Trend Monitoring Service” are supported within the sphere of their operations by specific operating procedures.

In detail, the customers are divided up into classes, by means of the trend-related analysis of the relationships and the credit reference agency via the S.E.A.C. (Sistema Esperto Analisi Cliente) procedure. This examination makes it possible to divide up the customers who present anomalies in the relationship from those who have regular relationships.

Within the sphere of the loan monitoring activities, the Bank adopted, during the year, a new application provided by Cedacri: “Quality Credit Management”, replacing the previous instrument ICC (Credit Control Process).

The new procedure has the aim of identifying the counterparts to be subjected to monitoring and of handling the positions in which anomalies have already manifested, with the end purpose of minimising the Bank’s credit risk.

The new IT platform makes it possible to divide the customers up into monitoring sub-portfolios according to the Bank’s strategic guidelines; for each customer “cluster” identified, it is possible to associate different lending strategies, with a customisation of the process chosen in terms of players and actions to be undertaken.

The cornerstone elements on which the new procedure lies are: the definition of the status of the credit, the assignment of the risk class for the performing positions, the definition of the management process for each position classified as “anomalous” by the application and the operating roles involved in the process.

In particular, the procedure proposes to each player involved in the process and for each position identified, the individual activities to be carried out. For each position, the procedure ensures an integrated view of the operations underway and the historical analysis of the relationships.

The Bank also uses the procedure known as C.C.M. (Credit Capital Management), made available by the outsourcer Cedacri, with the aim of providing support for the calculation of the prudent requirements (First Pillar), the prudent control process (Second Pillar) and the drafting of reports for public disclosure (Third Pillar).

With regard to the determination of the prudent requirements in the presence of credit risk, the Bank uses the standardised method, in line with the proportionality criteria. The related information is subject to quarterly reporting to the Bank of Italy.

2.3 Credit risk mitigation techniques

The main levers for the mitigation of the credit risk are represented by the system of guarantees which assist the loan exposures, a contained degree of concentration with respect to the borrowers, as well as by a suitable level of diversification of the loan by credit type and commodities sector.
In detail, the methods for the handling of the guarantees is integrated in the information system, from which it is possible to infer the main information related to the same.
With a view to ensuring the observance of the specific requirements envisaged by the new Supervisory provisions, Cedacri's C.R.M. (Credit Risk Mitigation) system has been used for some time, providing the instruments for the management of the processes and the data relating to the classification and assessment of the instruments guaranteeing the credit, in compliance with the Bank's management and strategic objectives, according to the dictates of Basel 2.
The main types of secured guarantee used are mortgages on properties and pledges on financial instruments.
The Bank uses an *ad hoc* procedure, known as "Collateral", provided by the outsourcer Cedacri, so as to efficiently oversee the entire process for the acquisition, assessment, checking and realisation of the mortgage guarantees, identifying all the inherent information and the link between the assets provide as collateral and those entitled to the asset. The procedure also permits the periodic up-dating of the "current" value of said guarantee and the control of the consistency of the value of the guarantee with respect to the risk resolved.
Unsecured guarantees mainly comprise sureties provided by individuals, companies and specialised Bodies and trade associations (e.g. Confidi and loans backed by Mediocredito Centrale guarantee as per Italian Law No. 662/1996).
With regard to the mortgage guarantees on residential properties, the relationship between the loan and the value of the assets provided as collateral is subject to constant monitoring for the appropriate precautionary measures in the event of possible dips in the real estate property market. The organisational processes and the policies applied to the supervision of the pledge on financial instruments safeguard the loans from fluctuations in the prices of the stock market.
To-date, the Bank has never used credit derivatives for the hedging or transfer of the credit risks.
Further safeguarding the credit risk, for the purpose of containing the effects of the progressive and lasting deterioration of the real economy, within the sphere of the "lending policies" the Bank has established a series of limits relating to the concentration of the loan exposures vis-à-vis individual counterparts or groups of associated counterparts and vis-à-vis counterparts belonging to the same business sector.

2.4 Non-performing financial assets

With regard to the classification of the loans, the Bank applies criteria compliant with the international accounting standards and the Supervisory Instructions.
With regard to the classification of the impaired exposures, the Bank makes reference to the legislation issued by the Bank of Italy, supplemented by the internal regulations which fix criteria and rules for the classification of the loans within the sphere of the various risk categories and in greater detail:

- **Non-performing** (loans with debtors in serious long-term difficulty or in a state of irremediable insolvency, even if not yet established by the courts);
- **Watchlist** (loans to parties in temporary situations of objective difficulty that it is thought can be solved in a reasonable period of time);
- **Restructured Loans** (loans for which a restructuring agreement has been reached and changes to the original contract conditions are permitted);
- **Past Due and/or overrun exposures** (so-called past due or rather those loans - other than those indicated as non-performing, watchlist or under restructured positions - which present past due or overrun loans on an on-going basis by more than 90 days, in compliance with the matters envisaged by the Supervisory instructions relating to the pertinent loan book.

The information relating to the impaired exposures is supplemented in the information system with the aid of specific instruments which support the handling thereof and indicate the related status.
On the basis of the specific anomaly indices detected both with the IT procedures and on the basis of internal assessments, the Trend Monitoring and Pre-dispute Service govern the classification process for the loan positions and the process of the variation of the related status within the limits of autonomy established by the Board of Directors and General Management.
The Trend Monitoring Service sees to the performing positions and the positions persistently non-performing.
Within the sphere of the performing positions, for operational purposes the Bank has defined a sub-class of loans known as “Under Control”, in which the exposures which show a not fully regular trend of the loan relationship are classified.
The Pre-dispute Service has the task of handling, in centralised form, the positions classified as watchlist, objective watchlist and restructured, furthering the initiatives aimed at protecting the Bank’s outstanding amounts referring to the same.
The non-performing positions are handled by the Legal and Dispute Service which assesses the action to be undertaken for maximising the recovery of the credit. The adequacy of the value adjustments made is also periodically assessed.

Quantitative information
A. Credit quality

A.1. Impaired and performing exposures: amounts, value adjustments, trend, economic and geographic distribution

A.1.1 Distribution of exposures by portfolio classification and credit quality (book values)

Portfolios/Quality	Non-performing loans	Watchlist loans	Restructured exposures	Impaired past due exposures	Unimpaired past due exposures	Other assets	Total
1. Financial assets held for trading	-	-	-	-		197	197
2. Available-for-sale financial assets	-	-	-	-		983,179	983,179
3. Financial assets held to maturity	-	-	-	-		-	-
4. Amounts due from banks	-	-	-	-		114,234	114,234
5. Amounts due from customers	167,764	162,266	16,870	56,627	161,510	2,417,133	2,982,170

6. Financial assets measured at fair value	-	-	-	-		-	-
7. Discontinued financial assets	-	-	-	-		-	-
8. Hedging derivatives	-	-	-	-		-	-
Total 31 Dec. 2013	**167,764**	**162,266**	**16,870**	**56,627**	**161,510**	**3,514,743**	**4,079,780**
Total 31 Dec. 2012	**146,197**	**164,764**	**12,718**	**40,132**	**175,297**	**3,448,498**	**3,987,606**

A.1.2 Distribution of exposures by portfolio classification and credit quality (gross and net values)

Portfolios/Quality	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	-	-	-	-	-	197	197
2. Available-for-sale financial assets	-	-	-	983,179	-	983,179	983,179
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Amounts due from banks	-	-	-	114,234	-	114,234	114,234
5. Amounts due from customers	514,989	111,462	403,527	2,594,561	15,918	2,578,643	2,982,170
6. Financial assets measured at fair value	-	-	-	-	-	-	-
7. Discontinued financial assets	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 31 Dec. 2013	**514,989**	**111,462**	**403,527**	**3,691,976**	**15,918**	**3,676,253**	**4,079,780**
Total 31 Dec. 2012	**483,283**	**119,472**	**363,811**	**3,638,373**	**14,735**	**3,623,795**	**3,987,606**

The breakdown between exposure subject to renegotiation within the sphere of collective agreements and other exposures is provided below, for the performing “loans to customers” portfolio, along with, again for the same loans, the analysis of the ageing of the amounts past due.
There are no renegotiated and/or past due positions for the other portfolios.

Aging of the past due positions	Exposures subject to renegotiation - performing loans			Other exposures - performing loans			Total		
	Gross exposure	Portfolio adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure
Not past due	63,569	389	63,180	2,367,224	13,271	2,353,953	2,430,794	13,660	2,417,133
Up to 3 months	937	9	928	125,702	1,804	123,898	126,639	1,813	124,826
Between 3 and 6 months	693	9	684	14,759	199	14,560	15,452	208	15,244
Between 6 months and 1 year	-	-	-	21,537	234	21,303	21,537	234	21,303
Beyond 1 year	-	-	-	139	1	138	139	1	138
Total 31 Dec. 2013	**65,199**	**407.**	**64,792**	**2,529,361**	**15,509**	**2,513,852**	**2,594,561**	**15,917**	**2,578,644**

A.1.3 Cash and "off-balance sheet" exposures due from banks: gross and net values

Type of exposures/amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURES				
a) Non-performing	-	-	-	-
b) Watchlist	-	-	-	-
c) Restructured exposures	-	-	-	-
d) Past due exposures	-	-	-	-
E) Other assets	118,671	-	-	118,671
TOTAL A	**118,671**	-	-	**118,671**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	-	-	-	-
b) Other	3,709	-	-	3,709
TOTAL B	**3,709**	-	-	**3,709**
TOTAL (A+B)	**122,380**	-	-	**122,380**

"Other assets" are made up of "amounts due from banks" of which as per asset item 60 for Euro 114,234 and bank bonds for a total of Euro 4,437 thousand included in asset item 40.

A.1.4 Cash exposures due from banks: trend in the gross impaired exposures

A.1.5 Cash exposures due from banks: trend of the total value adjustments

These two tables are not drawn up since there are no impaired exposures due from banks.

A.1.6 Cash and "off-balance sheet" exposures due from customers: gross and net values

Type of exposures/amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURES				
a) Non-performing	257,598	89,834	-	167,764
b) Watchlist	179,518	17,252	-	162,266
c) Restructured exposures	19,070	2,201	-	16,869
d) Past due exposures	58,802	2,175	-	56,627
E) Other assets	3,573,306	-	15,918	3,557,388
TOTAL A	**4,088,294**	**111,462**	**15,918**	**3,960,914**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	14,219	278	-	13,941
b) Other	171,519	-	-	171,519
TOTAL B	**185,738**	**278**	-	**185,460**

The item “other assets” includes amounts due from customers for Euro 2,982,170 thousand and bonds present under assets for sale totalling Euro 978,744.
The specific value adjustments relating to non-performing loans also includes those relating to the interest for the portion deemed unrecoverable.

A.1.7 Cash exposures due from customers: trend in the gross impaired exposures

Causes/Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. Initial gross exposure	**246,803**	**181,556**	**13,997**	**40,928**
- of which: exposures transferred not derecognised	-	-	-	-
B. Increases	**98,272**	**139,614**	**9,888**	**129,816**
B.1 transfers from performing exposures	15,040	38,726	1,209	122,553
B.2 transfers from other categories of impaired exposures	77,755	49,496	5,492	844
B.3 other increases	5,477	51,392	3,187	6,419
C. Decreases	**87,477**	**141,652**	**4,815**	**111,942**
C.1 transfers to performing exposures	-	18,250	-	36,481
C.2 derecognitions	55,537	-	-	-
C.3 collections	31,490	49,304	3,764	17,022
C.4 from disposals	450	-	-	-
C.5 transfers to other categories of impaired exposures	-	74,098	1,051	58,439
C.6 other decreases	-	-	-	-
D. Final gross exposure	**257,598**	**179,518**	**19,070**	**58,802**
- of which: exposures transferred not derecognised	-	-	-	-

The line “Other increases” includes:

- with regard to non-performing positions, the charge of the default interest and other increases (expenses, outstanding amounts, etc.) on positions recorded in previous years;
- with regard to the other categories, in particular for watchlist positions, also the account transfer between relationships relating to the same name carried out after the date of inclusion in the category (e.g. advance transactions subject to due reserve).
- the cancellations include Euro 42,193 thousand relating to positions completely written off as of 31 December 2013, while Euro 13,344 relates to positions not completely written off as of the same recognition date.

A.1.8 Cash exposures due from customers: trend of the total value adjustments

Causes/Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. Initial total value adjustments	**100,605**	**16,792**	**1,279**	**796**
- of which: exposures transferred not derecognised	-	-	-	-
B. Increases	**50,435**	**12,789**	**1,755**	**2,121**
B.1 value adjustments	41,333	12,541	1,202	2,050
B.1 *bis* losses on disposal	3,064	-	-	-
B.2 transfers from other categories of impaired exposures	5,591	248	553	71
B.3 other increases	447	-	-	-
C. Decreases	**61,206**	**12,329**	**833**	**742**
C.1 value writebacks from valuation	3,233	4,638	412	281
C.1 value writebacks from collection	2,254	1,957	56	97
C.2 *bis* profits on disposal	182	-	-	-
C.3 derecognitions	52,473	-	-	-
C.4 transfers to other categories of impaired exposures	-	5,734	365	364
C. 5 other decreases	3,064	-	-	-
D. Final total value adjustments	**89,834**	**17,252**	**2,201**	**2,175**
- of which: exposures transferred not derecognised	-	-	-	-

The results of income statement item 100 a) - Profit (loss) from disposal of loans/receivables are recorded in this table in B.1 *bis* losses on disposal, C.2 *bis* gains on disposal and B.3 other increases (for the portion of profits on disposal relating to positions already written off as at 31 December 2012).

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

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

On the basis of the compilation regulations envisaged by the Bank of Italy, the table in question has not been drawn up since the amount of the exposures with external ratings is exclusively referable to Government securities, since the Bank has chosen to avail itself of the rating issued by the authorised rating agencies for just these assets, as per the specific resolution of the Board of Directors.

A.2.2 - Distribution of the cash and "off-balance sheet" exposures by internal rating classes

The table is not drawn up since, to-date, the internal models for the measuring of the exposure to credit risk are still being streamlined, even if they are used as a customer classification and analysis instrument for the purposes of the handling of the risk.

A.3 Distribution of the secured exposures by type of guarantee

A.3.1 Secured exposures to banks

The table is not drawn up because there are no secured exposures to banks as at 31 December 2013.

A.3.2 Secured exposures to customers

	Net exposure value	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement loans				
							Other derivatives								
		Mortgaged properties	Financially leased properties	Securities	Other secured guarantees	CLN	Governments and Central Banks	Other public bodies	Banks	Other parties	Governments and Central Banks	Other public bodies	Banks	Other parties	
1. Secured cash exposures:	*2,209,783*	*3,509,643*	-	*47,807*	*14,636*	-	-	-	-	-	-	*256,692*	*8,742*	*1,547,499*	*5,385,019*
1.1 fully secured	1,963,642	3,492,512	-	37,464	13,328	-	-	-	-	-	-	98,652	8,742	1,478,979	5,129,677
- of which impaired	331,071	718,476	-	3,142	7,591	-	-	-	-	-	-	8,950	-	376,038	1,114,197
1.2 partly secured	246,141	17,131	-	10,343	1,308	-	-	-	-	-	-	158,040	-	68,520	255,342
- of which impaired	25,538	6,489	-	418	128	-	-	-	-	-	-	14,335	-	14,652	36,022
2. Secured "off-balance sheet" exposures:	*91,887*	*3,929*	-	*24,198*	*1,471*	-	-	-	-	-	-	*399*	*510*	*73,624*	*104,131*
2.1 fully secured	53,962	3,929	-	4,137	159	-	-	-	-	-	-	339	510	70,676	79,750
- of which impaired	7,138	29	-	224	8	-	-	-	-	-	-	-	-	8,176	8,437
2.2 partly secured	37,925	-	-	20,061	1,312	-	-	-	-	-	-	60	-	2,948	24,381
- of which impaired	4,962	-	-	-	-	-	-	-	-	-	-	-	-	1,001	1,001

B. Distribution and concentration of exposures

A.1.6 Sector-based distribution of cash and "off-balance sheet" exposures due from customers (book value)

Exposures/Counterparts	Governments			Other public bodies			Financial companies			Insurance companies			Non-financial companies			Other parties		
	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	-	-	-	-	-	-	156	663	-	-	-	-	135,157	76,832	-	32,451	12,339	-
A2. Watchlist loans	-	-	-	-	-	-	5,176	-	-	-	-	-	126,880	14,879	-	30,210	2,373	-
A.3 Restructured exposures	-	-	-	-	-	-		-	-	-	-	-	16,520	2,178	-	350	23	-
A.4 Past due exposures	-	-	-	-	-	-	645	13	-	-	-	-	36,039	1,754		19,943	408	
A.5 Other exposures	978,745	-	-	22,923	-	17	92,172	-	23	-	-	-	1,827,197	-	13,700	636,350	-	2,178
Total A	**978,745**	**-**	**-**	**22,923**	**-**	**17**	**98,149**	**676**	**23**	**-**	**-**	**-**	**2,141,793**	**95,643**	**13,700**	**719,304**	**15,143**	**2,178**
B. Off-balance sheet exposures																		
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	153	175	-	2	-	-
B.2 Watchlist loans	-	-	-	-	-	-	-	-	-	-	-	-	6,760	70	-	138	3	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	6,833	29	-	55	1	-
B.4 Other exposures	-	-	-	893	-	-	-	-	-	-	-	-	159,927	-	-	10,699	-	-
Total B	**-**	**-**	**-**	**893**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**173,673**	**274**	**-**	**10,894**	**4**	**-**
Total (A+B) 31 Dec. 2013	**978,745**	**-**	**-**	**23,816**	**-**	**17**	**98,149**	**676**	**23**	**-**	**-**	**-**	**2,315,466**	**95,917**	**13,700**	**730,198**	**15,147**	**2,178**
Total (A+B) 31 Dec. 2012	**819,981**	**-**	**-**	**24,918**	**-**	**14**	**71,139**	**658**	**37**	**-**	**-**	**-**	**2,453,815**	**101,847**	**13,064**	**739,316**	**17,180**	**1,620**

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

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of 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	167,668	89,818	96	16	-		-	-	-	-
A2. Watchlist loans	162,266	17,252	-	-	-		-	-	-	-
A.3 Restructured exposures	16,870	2,201	-	-	-	-	-	-	-	-
A.4 Past due exposures	56,626	2,174	-				-	-	-	-
A.5 Other exposures	3,556,433	15,890	31	-	924	28	-	-	-	-
Total	**3,959,863**	**127,335**	**127**	**16**	**924**	**28**	-	-	-	-
B. Off-balance sheet exposures										
B.1 Non-performing loans	156	175	-	-	-	-	-	-	-	-
B.2 Watchlist loans	6,898	73	-	-	-	-	-	-	-	-
B.3 Other impaired assets	6,887	30	-	-	-	-	-	-	-	-
B.4 Other exposures	171,519	-	-	-	-	-	-	-	-	-
Total	**185,460**	**278**	-	-	-	-	-	-	-	-
Total (A+B) 31 Dec. 2013	**4,145,323**	**127,613**	**127**	**16**	**924**	**28**	-	-	-	-
Total (A+B) 31 Dec. 2012	**4,107,731**	**134,365**	**486**	**50**	**953**	**5**	-	-	-	-

The exposures to customers mainly concern customers resident in the province of Brescia, to a lesser extent the province of Verona (former Credito Veronese branches) and the area of Storo in the province of Trento.

B.3 Geographic distribution of cash and “off-balance sheet” exposures due from Banks (book value)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of world	
	Net Exposure	Total value adjustments	Net Exposure	Total value adjustments	Net Exposure	Total value adjustments	Net Exposure	Total value adjustments	Net Exposure	Total value adjustments
A. Cash exposures										
A1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
A2. Watchlist loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	102,505	-	3,699	-	12,283	-	133	-	50	-
Total	**102,505**	-	**3,699**	-	**12,283**	-	**133**	-	**50**	-
B. Off-balance sheet exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Watchlist loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	3,428	-	281	-	1	-	-	-	-	-
Total	**3,428**	-	**281**	-	**1**	-	-	-	-	-
Total (A+B) 31 Dec. 2013	**105,933**	-	**3,980**	-	**12,284**	-	**133**	-	**50**	-
Total (A+B) 31 Dec. 2012	**106,415**	-	**3,654**	-	**2,479**	-	**108**	-	**78**	-

B.4 Significant Exposures

According to the definition of significant risks contained in the Bank of Italy Circular No. 263/2006, “Significant exposures” are represented by the total cash and off-balance sheet exposures vis-à-vis a customer or group of “associated” customers, without the application of weighting factors for an amount greater than 10% of the regulatory capital.
The aggregate includes the exposure to the Italian government in securities.
The off-balance sheet exposures also include the difference between the credit facility granted and the related use.
By contrast, risk position is understood to mean each weighted exposure, which cannot be greater than 25% of the Bank’s regulatory capital (40% for banks belonging to groups).
As at 31 December 2013, among “Significant exposures” there were: 3 exposures to customers for a nominal amount of Euro 161,629 thousand and a weighted amount of Euro 83,117 thousand, 1 exposure to a financial broker for Euro 40,616 thousand in nominal value and Euro 40,192 thousand in weighted value, plus exposure to the Italian government, relating to the securities classified in the item “Available-for-sale financial assets”, for Euro 978,744 thousand. In total, the “Significant exposures” include 5 exposures for a total nominal value of Euro 1,180,990 thousand and a weighted value of Euro 123,310 thousand.

C. Asset disposal and securitisation transactions

C.1 Securitisation operations

Qualitative information

Objectives, strategies and processes underlying the securitisation transactions

The Bank has identified an instrument in the securitisation transactions for diversifying the sources of funding, in particular so as to endow itself with a suitable reserve of liquidity to protect the Bank from any stress situations.
The Bank has a self-securitisation transaction on performing mortgages loans to private individuals known as “Valsabbina SPV 1”, concluded in 2012 with the intention of being able to establish funding transactions with the Central European Bank.
Since this is a self-securitisation transaction, the quantitative information of this section is not required.
The transaction was concluded with the transfer of a portfolio of performing residential mortgage loans by the Bank, as originator, and the subscription by the same originator of the securities issued by the special purpose vehicle.

The related details are provided below for the sake of completeness.

“Valsabbina Spv1” securitisation transaction

- Special purpose vehicle: Valsabbina Spv 1 S.r.l.
- Date of assignment of the receivables: 12 December 2011
- Type of receivables assigned: Residential mortgage loans
- Quality of receivables assigned: *Performing*

- Guarantees on the receivables assigned: Senior mortgage
- Geographic area of receivables assigned: Italy
- Business activities of the assigned debtors: Private parties
- Number of receivables assigned: 7,401
- Price of receivables assigned: Euro 284,703 thousand
- Nominal value of receivables assigned: Euro 284,053 thousand
- Interest accrued on receivables assigned: Euro 650 thousand

As at 31 December 2013, the residual capital to mature amounted to Euro 232,950 thousand, with accruals for Euro 154 thousand.

Within the sphere of the afore-mentioned transactions, the ABS securities indicated below were issued, all subscribed by the originator:
• senior portion for Euro 199,500 thousand (fully subscribed by the Bank) with an external rating assigned by Moody's ("A") and DBRS ("AAA") with a return index-linked to the 3-month Euribor plus 40 bps;
• junior portion for Euro 100,100 thousand (fully subscribed by the Bank) without any rating.

As at 31 December 2013, the situation of the securities issued in correspondence with the securitisation transaction was as follows:

• residual senior portion Euro 140,736 thousand;
• junior portion for Euro 100,100 thousand.

C.2 Disposal transactions

C.2.1 Financial assets transferred and not derecognised: book value and full value

This table indicates what type of assets were used to carry out the repurchase agreement transactions.

Technical forms/Portfolio	Financial assets held for trading			Financial assets measured at fair value			Available-for-sale financial assets			Financial assets held to maturity			Amounts due from banks			Amounts due from customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31 December 2013	31 December 2012
A. On-balance sheet assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**18,702**
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,702
2. Equities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. UCITs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 31 Dec. 2013	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 31 Dec. 2012	-	-	-	-	-	-	**18,702**	-	-	-	-	-	-	-	-	-	-	-	-	**18,702**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Key:

A = financial assets disposed of, recognised in full (book value)
B = financial assets disposed of, recognised partially (book value)
C= financial assets disposed of, recognised partially (full value)

C.2.2 Financial liabilities against financial assets transferred and not derecognised: book value

Liabilities/Asset portfolio	Financial assets held for trading	Financial assets measured at fair value	Available-for-sale financial assets	Financial assets held to maturity	Amounts due from banks	Amounts due from customers	Total
1. Amounts due to customers	-	-	-	-	-	-	-
a) for assets recognised in full	-	-	-	-	-	-	-
a) for assets recognised partially	-	-	-	-	-	-	-
2. Amounts due to banks	-	-	-	-	-	-	-
a) for assets recognised in full	-	-	-	-	-	-	-
a) for assets recognised partially	-	-	-	-	-	-	-
Total 31 Dec. 2013	-	-	-	-	-	-	-
Total 31 Dec. 2012	-	-	**18,534**	-	-	-	**18,534**

This table explains which are the assets underlying the repurchase agreement transactions: at year end, there were no repurchase agreement transactions.

D. Models for the measurement of credit risk

The internal models and the procedures aimed at classifying the customer in risk classes were necessary, as previously mentioned, for a more accurate management of the credit risk.
These models are not used at present for the purposes of calculating the capital ratios, since, for such purposes, the Bank uses the standardised method.

Section 2 - Market risks
2.1 Interest rate risk and price risk - regulatory trading book
Qualitative information

A. General aspects

For the purpose of drawing up this section, just the financial instruments included in the “regulatory trading book” were taken into consideration, as defined in the regulations relating to the regulatory reports on market risks.
The main source of the interest rate risk is represented by the Bank’s bonds. The objectives and the strategies underlying the trading activities aimed at the management of the securities portfolio are focused on the maximisation of the profitability of the same, seizing the investment opportunities, within the sphere of an approach aspiring to the containment of the risks, which translates into a bond portfolio characterised by a contained duration.
The investment strategy is traditionally characterised by prudent management of all the risks, in compliance with the “Securities Investments Risks” Regulations, which envisage a careful and balanced system of limits and operating autonomies in this connection.

B. Management processes and methods for interest rate and price risk measurement

The “Securities Investments Risks” Regulations establish the operating limits (in terms of consistency of the portfolio and composition by type of securities) both with regard to exposure to rate risk (in terms of financial duration) and credit risk (in terms of rating and counterparts). Specifically, with regard to the exposure to rate risk, the average financial duration limit for the current bond portfolio is five years (inclusive of the contribution of the derivatives possibly present in the portfolio).

Quantitative information

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives - EURO

Type/Residual duration	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Between 5 and 10 years	Beyond 10 years	Unspecified duration
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 repurchase agreements payable	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**30,154**	**9,575**	**146**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	30,154	9,575	146	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	30,154	9,575	146	-	-	-	-
+ long positions	-	3,124	4,790	73	-	-	-	-
+ short positions	-	27,030	4,785	73	-	-	-	-

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives - OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Between 5 and 10 years	Beyond 10 years	Unspecified duration
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 repurchase agreements payable	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**34,918**	**9,525**	**145**	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	34,918	9,525	145	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	34,918	9,525	145	-	-	-	-
+ long positions	-	29,306	4,763	73	-	-	-	-
+ short positions	-	5,612	4,762	72	-	-	-	-

2. Regulatory trading book: distribution of the exposures in equities and share indexes for the main countries of the listing market

TYPE OF TRANSACTIONS/LISTING INDEX	LISTED		UNLISTED
	ITALY	OTHERS	
A. Equities	**2**	**-**	**-**
long positions	2	-	-
short positions	-	-	-
B. Purchases/sales not yet settled on equities	**-**	**-**	**-**
long positions	-	-	-
short positions	-	-	-
C. Other derivatives on equities	**-**	**-**	**-**
long positions	-	-	-
short positions	-	-	-
D. Derivatives on shares indexes	**-**	**-**	**-**
long positions	-	-	-
short positions	-	-	-

3. Regulatory trading book: internal models and other methods for analysing sensitivity

The transactions which during the year affected the trading book were marginal. The methods for analysing the sensitivity are applied to the banking book.

2.2 Interest rate risk and price risk - banking book
Qualitative information

A. General aspects, management processes and methods for interest rate and price risk measurement

The interest rate risk is generated by the imbalance between the maturities (repricing) of the asset and liability items belonging to the banking book. The latter is made up of all the financial instruments, assets and liabilities, not included in the trading book as per the supervisory legislation indicated in section 2.1.
General Management is responsible for the interpretation of the guidelines for the management of the banking book, on a consistent basis with the strategic policies defined by the Board of Directors and the monitoring of the trend in the management of the same.
The Market Division proposes to General Management any operations for the management and mitigation of the interest rate risk of the banking book.
The mitigation of the interest rate risk is pursued by means of the integrated handling of the bank assets and liabilities and is aimed at stabilisation of the interest margin and the safeguarding of the economic value of the bank book.
The gauging of the interest rate risk is carried out by the Risk Management, Planning and Control Service. The assessment takes place monthly according to a dynamic approach; therefore, for each

sensitive item identified in the time period chosen for the analysis, account is taken of the specific repricing methods.
The ERMAS procedure makes it possible to monitor all the Bank's activities associated with the transformation of the maturities of the balance sheet assets and liabilities and to quantify the effects, balance sheet and income statement in type, induced by hypothetic shocks of the market rates. Said shocks are processed within the sphere of macro-economic scenarios, or rather theoretic shifts of the market rate curves.
By means of the use of the ERMAS application it is possible to analyse the impact which unexpected changes in the external market conditions have on the Bank's profitability, also offering the possibility of gauging an estimate of the change in the expected interest margin and the corporate value of the capital, based on the monthly balance sheet data.
For the purpose of gauging the variability of the interest margin, determined by positive and negative changes in the rates over a time period of 365 days, monitoring of the differences between asset and liability items of the financial statements is carried out, grouped according to the maturity or rate redefinition date; the method used is in fact "gap analysis", via several approaches which make it possible to achieve increasingly accurate estimates. The techniques for the operational measurement of the rate risk are constantly implemented by the Risk Management, Planning & Control Service.
In detail, in the measurement for operational purposes of the rate risk, the behavioural model created for the on demand funding and lending items is used.
The gauging of the variability of the economic value of the Bank's assets and liabilities (in other words to monitor the current value of the equity), is carried out via Duration Gap analysis and Sensitivity Analysis, approaches which make it possible to check the sensitivity of the Bank's economic value with regard to the change in the interest rates.
The source of the price risk, given the marginal nature of the regulatory trading book, is mainly represented by debt securities and equities falling within the "available for sale assets" book.
With regard to the quantification of the price risk with reference to the securities belonging to the Bank, a model is used based in the Value at Risk (VaR) concept, capable of summarily expressing the maximum probable loss of a static portfolio also in monetary terms, in relation to a specific timescale and a specific confidence level under normal market conditions. For the calculation of the VaR, the Risk Management, Planning and Control Service uses both the ALMpro application and the ERMAS application, both provided by Prometeia, on a parallel. The financial information necessary for the determination of the VaR (volatility, correlations, forward structure of the interest rates, exchange rates, share indexes and benchmark indices) are provided to both applications by the RiskSize product.
The VAR model adopted is parametric in type and a confidence internal of 99% and a timescale of 10 days are prudently used. The measurement of the VAR takes place by taking into consideration the link (so-called beta ratio) which exists between the individual instrument and the related risk factor.
With regard to the quantification of the price risk with reference to equities, the stock market listing (for listed securities), the measurements of the shareholders' equity (for securities with a particular strategic valence), the prices of any transactions which have taken place during the year are constantly monitored and in conclusion alternative valuation methods are used via data deriving from different sources (for unlisted securities).
With regard to the price risk, the Securities Investments Risks Regulations establish 10% of the average carrying price of each security as the maximum loss restriction (stop loss).
Backtesting analysis has also been prepared (or rather a accurate comparison of the portfolio V.A.R. with the daily changes in the banking book), aimed at checking the quality of the VaR model for envisaging the quantification of (any) loss on the trading book. The calculation method adopted

envisages that the theoretical losses/gains registered during the day are compared with the VaR of the previous day. The theoretical losses/gains are determined by revaluing the “t” time of the day end positions at “t-1” (hypothesising that the positions remain unchanged).
The backtesting analysis carried out in 2013 revealed 11 cases of exceeding of the calculated VaR (10 of which concentrated in the first half of the year).

The average duration of the Bank’s securities portfolio as at 31 December 2013 was equal to 1,424 days compared with 1,048 days as at 31 December 2012. As of today’s date, the duration of the securities portfolio has dropped and is equal to 1,102 days.
The investment logics adopted have always emerged as consistent with the Bank’s liquidity situation and therefore the risk profile adopted has always remained at contained levels.

B. Fair value hedging activities

The bank has not carried out any hedging transaction on the fair value, with the exception of the implicit hedging activities deriving from the integrated management of the bank assets and liabilities.

C. Cash flow hedging activities.

The Bank has not carried out any hedging transaction on the cash flows.

Quantitative information

1. Banking book: distribution by residual duration (repricing date) of the financial assets and liabilities - Currency: EURO

Type/Residual duration	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Between 5 and 10 years	Beyond 10 years	Unspecified duration
1. On-balance sheet assets	**2,032,522**	**869,046**	**170,022**	**128,891**	**456,126**	**249,432**	**148,119**	-
1.1 Debt securities	4,973	155,315	115,800	90,731	333,964	184,487	127,963	-
- with early redemption option	-	-	-	-	103	-	-	-
- others	4,973	155,315	115,800	90,731	333,861	184,487	127,963	-
1.2 Loans to banks	9,689	60,844	-	-	-	-	-	-
1.3 Loans to customers	2,017,860	652,887	54,222	38,160	122,162	64,945	20,156	-
- current accts.	665,685	491	3,964	2,866	22,211	12,546	25	-
- other loans	1,352,175	652,396	50,258	35,294	99,951	52,399	20,131	-
- with early redemption option	1,230,715	610,091	34,823	25,652	33,331	17,033	19,936	-
- others	121,460	42,305	15,435	9,642	66,620	35,366	195	-
2. On-balance sheet liabilities	**2,189,392**	**304,405**	**183,690**	**178,686**	**846,384**	**25,003**	-	-
2.1 Amounts due to customers	1,533,745	193,348	69,059	80,687	27,191	-	-	-
- current accts.	1,489,276	193,348	69,059	80,687	27,191	-	-	-
- other payables	44,469	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	44,469	-		-	-	-	-	-
2.2 Amounts due to banks	585,598	-	-	-	-	-	-	-
- current accts.	406	-	-	-	-	-	-	-
- other payables	585,192	-	-	-	-	-	-	-
2.3 Debt securities	69,570	111,057	114,631	97,999	819,193	25,003	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	69,570	111,057	114,631	97,999	819,193	25,003	-	-
2.4 Other liabilities	479	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	479	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**73,318**	-	-	-	-	-	-	-
+ long positions	36,659	-	-	-	-	-	-	-

+ short positions	36,659	-	-	-	-	-	-	-

1. Banking book: distribution by residual duration (repricing date) of the financial assets and liabilities - Currency: OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Between 5 and 10 years	Beyond 10 years	Unspecified duration
1. On-balance sheet assets	**16,752**	**1,455**	**137**	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
1.2 Loans to banks	13,649	-	-	-	-	-	-	-
1.3 Loans to customers	3,103	1,455	137	-	-	-	-	-
- current accts.	643	-	-	-	-	-	-	-
- other loans	2,460	1,455	137	-	-	-	-	-
- with early redemption option	2,460	1,455	137	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**42,423**	-	-	-	-	-	-	-
2.1 Amounts due to customers	42,423	-	-	-	-	-	-	-
- current accts.	42,423	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
2.2 Amounts due to banks	-	-	-	-	-	-	-	-
- current accts.	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet	-	**42**	-	-	-	-	-	-
transactions	-	21	-	-	-	-	-	-

+ long positions								
+ short positions	-	21	-	-	-	-	-	-

2. Banking book: internal models and other methods for analysing sensitivity

The gauging of the interest rate risk takes place first and foremost on the basis of the standard algorithm envisaged by the Bank of Italy Circular No. 263/06, by means of the creation of a summary index which expresses the ratio between the change in the economic value of the bank book in the presence of a rate shock (200 base points) and the regulatory capital. The Bank has always maintained the risk index at a level lower than the maximum threshold established by legislation (20%). The change in the economic value of the bank book is also calculated in the presence of a rate shock which represents the 1st percentile (downward) and the 99th percentile (upward) of the changes in the market rates in the last 6 years.
The ERMAS procedure by contrast makes it possible to quantify both the balance sheet and income statement effects induced by hypothetic shocks of the market rates (for example hypothesising changes in the rates curve, applying different types of scenarios). The adoption of “internal models” for measurement, by means of the use of the ERMAS procedure, also permits more precise measurements with respect to those made on the basis of the standard algorithm, which more fully reflect the peculiarities of the Bank’s asset and liability structure.

2.3 Exchange rate risk
Qualitative information

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

The Bank is exposed to the exchange rate risk to a marginal extent, since it is always focused on the daily breakeven of the foreign exchange positions, which is obtained by means of adding the spot positions to the forward ones. The forward transactions, recorded under trading derivatives and financial trading liabilities, are only used to improve the treasury or counterpart position upon the specific request of the customer and without undertaking any risk positions.
The exchange risk is handled by means of operating limits, intraday and day end; furthermore, the internal Regulations establish stop loss operating limits on single positions or overall.

B. Exchange rate risk hedging activities

The primary objective of the Bank is to prudently handle the exchange rate risk, always taking into consideration the possibility of seizing any market opportunities. Therefore, the transactions which involve the undertaking of exchange rate risk, are handled by means of suitable hedging strategies.

Quantitative information

1. Breakdown of assets, liabilities and derivatives by currency

Items	**Currencies**					
	US dollar	**Yen**	**Swiss franc**	**Canadian dollar**	**Icelandic krona**	**Other currencies**
A. Financial assets	**15,067**	**1,971**	**800**	**9**	**284**	**212**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equities	-	-	-	-	-	-
A.3 Loans to banks	12,848	129	168	9	284	210
1.4 Loans to customers	2,219	1,842	632	-	-	2
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**104**	**4**	**112**	**118**	**-**	**97**
C. Financial liabilities	**41,415**	**-**	**699**	**26**	**275**	**7**
C.1 Amounts due to banks	-	-	-	-	-	-
C.2 Amounts due to customers	41,415	-	699	26	275	7
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**19**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**40,848**	**2,073**	**285**	**908**	**-**	**474**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	40,848	2,073	285	908	-	474
+ long positions	33,550	-	41	429	-	122
+ short positions	7,298	2,073	244	479	-	352
Total assets	**48,721**	**1,975**	**953**	**556**	**284**	**431**
Total liabilities	**48,732**	**2,073**	**943**	**505**	**275**	**359**
Imbalance (+/-)	**(11)**	**(98)**	**10**	**51**	**9**	**72**

2. Internal models and other methods for analysing sensitivity

Steps are not taken to analyse the sensitivity of the exchange rate risk because the asset and liability positions, spot and forward, are deemed as balanced.

2.4 Derivative instruments

8. Financial derivatives

A.1 Regulatory trading book: year-end and average notional values

Underlying assets/ Type of derivatives	Total 31 Dec. 2013		Total 31 Dec. 2012	
	Over-the-counter	Central counterparts	Over-the-counter	Central counterparts
1. Debt securities and interest rates	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and share indices	**-**	**-**	**-**	**397**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	*397*
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	**42,039**	**-**	**12,844**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	42,039	-	12,844	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**42,039**	**-**	**12,844**	**397**
Average values	**-**	**-**	**-**	**-**

A.3 Financial derivatives: gross positive fair value - breakdown by products

Underlying assets/ Type of derivatives	Positive fair value			
	Total 31 Dec. 2013		Total 31 Dec. 2012	
	Over-the-counter	Central counterparts	Over-the-counter	Central counterparts
A. Regulatory trading book	**195**	**-**	**152**	**1**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	195	-	152	1
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	**195**	**-**	**152**	1

A.4 Financial derivatives: gross negative fair value - breakdown by products

Books/ Types of derivatives	Negative fair value			
	Total 31 Dec. 2013		Total 31 Dec. 2012	
	Over-the-counter	Central counterparts	Over-the-counter	Central counterparts
A. Regulatory trading book	**400**	**-**	**78**	**1**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
c) Equity swaps	-	-	-	-
d) Forwards	400	-	78	1
e) Futures	-	-	-	-
f) Others	-	-	-	-
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
c) Equity swaps	-	-	-	-
d) Forwards	-	-	-	-
e) Futures	-	-	-	-
f) Others	-	-	-	-
C. Banking book - other derivatives	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
c) Equity swaps	-	-	-	-
e) Futures	-	-	-	-
f) Others	-	-	-	-
Total	**400**	**-**	**78**	**1**

A.5 Over-the-counter financial derivatives": regulatory trading book: notional values, gross positive and negative fair values by counterpart - contracts not falling under netting agreements

Contracts not falling under netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Equities and and shares indices	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currency and gold	**-**	**-**	**35,725**	**-**	**-**	**6,909**	**399**
- notional value	-	-	34,885	-	-	6,780	375
- positive fair value	-	-	133	-	-	41	20
- negative fair value	-	-	375	-	-	25	-
- future exposure	-	-	332	-	-	63	4
4) Other values	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.9 Residual life of over-the-counter financial derivatives : notional values

Underlying assets/Residual life	Up to one year	Between 1 and 5 years	Beyond 5 years	Total
A. Regulatory trading book	**42,039**	-	-	**42,039**
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equities and share indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	42,039	-	-	42,039
A.4 Financial derivatives on other values	-	-	-	-
B. Banking book	-	-	-	-
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
BA.2 Financial derivatives on equities and share indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other values	-	-	-	-
Total 31 Dec. 2013	**42,039**	-	-	**42,039**
Total 31 Dec. 2012	**12,844**	-	-	**12,844**

A.10 Over-the-counter financial derivatives: counterpart risk/financial risk - Internal models

The financial risk of “plain vanilla” type derivative contracts, if existing, is monitored using traditional discounting back instruments on the basis of the rates curve. When present, the Bank uses derivative contracts, entered into with leading sector operators, exclusively for the hedging of the interest and exchange rate risk. No hedging derivatives were subscribed in 2013.
The transactions indicated in the table refer exclusively to forward foreign currency transactions. Their fair value is recorded in asset item 20 and liability item 40.

Section 3 - Liquidity risk

Qualitative information

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

The management of the liquidity risk is carried out mainly by the Financial Sector, with the aim of checking the Bank's ability to meets any liquidity requirements and avoid finding itself in situations of excessive and/or insufficient liquidity, with the consequent need to invest and/or raise funds at unfavourable rates with respect to the market ones.

The overall model adopted by the bank for the handling and monitoring of the liquidity risk is divided up into three distinct spheres according to the reference scope, the timescale and the analysis frequency:

- the management of the intraday liquidity, or rather the management of the daily settlements of the debit and credit positions in the various settlement, payment and clearing systems which the Bank takes part in;
- the management of the operating liquidity, or rather the management of the most volatile events which impact the Bank's liquidity position over a period between 1 day and up to 6 months, with the primary objective of maintaining the Bank's ability to meet its ordinary and extraordinary payment commitments, minimising the related costs: within this sphere, the registrations of the imbalances between incoming and outgoing sources, as well as the related system of supervision levels, concentrates in particular on expiries of up to 6 months;
- the management of the structural liquidity, or rather the management of all the events of the bank book which impact the Bank's overall liquidity position in the period especially beyond 6 months, with the primary objective of maintaining a suitable dynamic ratio between medium/long-term assets and liabilities.

Significant support for the management of the liquidity risk derives from the monitoring carried out by the Risk Management/Planning and Control Service, by means of an internal model which has the aim of detecting the effects of the investment/financing transactions by means of the distribution by maturity of the transactions. The operations are measured by means of Asset and Liability Management (A.L.M) methods, via the Prometeia ERMAS application, which makes it possible to measure and handle both any liquidity requirement/surplus of the Bank generated by the imbalance of the incoming and outgoing flows, and the structural balance deriving from the correct composition by maturity of the sources and the uses.

In line with national and international best practice and the prudent supervisory indications, the model adopted by the Bank for the management and monitoring of the operational liquidity is based on the "Maturity Mismatch" approach, which presupposes the construction of a maturity ladder and on the allocation of the certain and estimated flows on the various time brackets of the same, for the purpose of proceeding with the calculation of the cumulative GAP for each maturity bracket.
Within the sphere of the liquidity policy, the Bank - on a consistent basis with the risk tolerance threshold established by the Board of Directors - defined operating limits both for the management of the operating liquidity and the structural liquidity.
With regard to the management of the operational liquidity the limits are defined in terms of absolute value of the cumulative GAPs, on the various maturities.

The Bank continually checks the value of the Counterbalancing capacities (CBC), understood as the availability of assets which can be reimbursed, sold or used in refinancing transactions with the interbank system and which therefore make it possible to generate liquidity rapidly and efficiently.
The limit adopted by the Bank for the monitoring of the structural liquidity risk is by contrast defined in terms of ratio between the assets and liabilities with a maturity of more than one year. The definition of this limit has the aim of ensuring the maintenance of a structural liquidity profile consistent with the strategy for financing the assets over the mid/long-term with liabilities of the same duration.

The bank has also drawn up a “Contingency Funding Plan”, as an instrument for mitigating the liquidity risk which indicates, in detail, the individuals and the units responsible for the implementation of the extraordinary funding policies in the event of need, as well as the action to be adopted to remedy the same, in accordance with the legislative requirements envisaged by the new prudent supervisory regulations.
Within the sphere of the definition of the “Contingency Funding Plan”, the Bank established a series of risk indicators, which are constantly monitored for the purpose of anticipating possible situations of stress or liquidity crisis.

During 2013, the Bank launched the gauging, using the Jcompass application issued by the outsourcer Cedacri, of the “Liquidity Coverage Ratio” (in short LCR) and “Net Stable Funding Ratio” (NSFR) indicators envisaged by the Basel III Framework. The calculation of the indicators will be further implemented on the basis of the matters envisaged by the specific legislation contained in the EU Regulation No. 575 dated 26 June 2013 of the European Parliament (CRR Legislation).

For an improved management of the liquidity, as from 28 February 2008 the Bank joined the Nuovo Mercato Interbancario Collateralizzato dei Depositi (New MIC).
The New MIC is the e-MID market segment intended for Euro deposits with maturities between one day and a year, which avails itself of the guarantee system managed by Cassa di Compensazione e garanzia (CC&G).

In order to increase its self-financing capacity care of the interbanking system, in January 2012 the Bank finalised a self-securitisation transaction on residential mortgage loans for an initial amount of Euro 284 million.
Furthermore, again in 2012 a bond was issued and self-subscribed for a total of Euro 150 million, in relation to which the backing of the Government was obtained on the basis of the Monti decree (Article 8 of Italian Decree Law No. 201 dated 6 December 2011).
The class A bond deriving from the securitisation transaction and the bond issue guaranteed by the Italian government were centralised care of the ECB to guarantee the existing loan transactions.

Quantitative information

1 - Timing of financial assets and liabilities by residual contractual duration - Currency: EURO

Items/Time bands	on demand	between 1 and 7 days	between 7 and 15 days	between 15 days and 1 month	between 1 and 3 months	between 3 and 6 months	between 6 months and 1 year	between 1 and 5 years	beyond 5 years	unspecified
On-balance sheet assets	**721,451**	**67,715**	**5,252**	**138,409**	**265,360**	**163,021**	**293,892**	**1,230,196**	**1,231,656**	**20,841**
A.1 Government securities	34	-	-	20,000	77,054	62,170	133,212	325,000	340,000	-
A.2 Other debt securities	-	-	-	16	14	835	333	33,601	750	-
A.3 UCIT units	13,676	-	-	-	-	-	-	-	-	-
A.4 Loans	707,741	67,715	5,252	118,393	188,292	100,016	160,347	871,595	890,906	20,841
- banks	9,689	40,000	-	-	-	-	-	-	-	20,841
- customers	698,052	27,715	5,252	118,393	188,292	100,016	160,347	871,595	890,906	-
On-balance sheet liabilities	**1,589,284**	**25,796**	**104,646**	**46,968**	**302,537**	**152,014**	**212,692**	**1,287,079**	**25,000**	-
B.1 Current accounts and deposits	1,534,489	15,941	23,190	41,906	113,605	69,808	82,725	26,896	-	-
- banks	406	-	-	-	-	-	-	-	-	-
- customers	1,534,083	15,941	23,190	41,906	113,605	69,808	82,725	26,896	-	-
B.2 Debt securities	54,268	9,855	1,437	5,062	88,869	82,206	129,967	860,183	25,000	-
B.3 Other liabilities	527	-	80,019	-	100,063	-	-	400,000	-	-
Off-balance sheet transactions	**38,069**	**1,345**	**14,910**	**1,394**	**14,856**	**9,891**	**1,220**	**16,836**	**14,672**	-
C. 1 Financial derivatives with exchange of capital	-	1,345	14,899	354	13,556	9,575	146	-	-	-
- long positions	-	765	877	177	1,305	4,790	73	-	-	-
- short positions	-	580	14,022	177	12,251	4,785	73	-	-	-
C. 2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	38,069	-	11	1,040	1,300	316	1,074	16,836	14,672	-
- long positions	1,410	-	11	1,040	1,300	316	1,074	16,836	14,672	-
- short positions	36,659	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-

C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1 Timing of financial assets and liabilities by residual contractual maturity - Currency: OTHER CURRENCIES

Items/Time bands	on demand	between 1 and 7 days	betwee n 7 and 15 days	between 15 days and 1 month	between 1 and 3 months	between 3 and 6 months	between 6 months and 1 year	between 1 and 5 years	beyond 5 years	unspeci fied
On-balance sheet assets	**16,767**	**33**	**52**	**1,014**	**509**	**4**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	16,767	33	52	1,014	509	4	-	-	-	-
- banks	13,649	-	-	-	-	-	-	-	-	-
- customers	3,118	33	52	1,014	509	4	-	-	-	-
On-balance sheet liabilities	**42,423**	**-**	-	-	-	**-**	**-**	**-**	**-**	**-**
B.1 Current accounts and deposits	42,423	-	-	-	-	-	-	-	-	-
- banks	-	-	-	-	-	-	-	-	-	-
- customers	42,423	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	-	**1,381**	**14,705**	**5,058**	**13,816**	**9,525**	**145**	-	-	-
C. 1 Financial derivatives with exchange of capital	-	1,339	14,705	5,058	13,816	9,525	145	-	-	-
- long positions	-	578	13,842	2,579	12,307	4,763	72	-	-	
- short positions	-	761	863	2,479	1,509	4,762	73	-	-	-
C. 2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	42	-	-	-	-	-	-	-	-
- long positions	-	21	-	-	-	-	-	-	-	-
- short positions	-	21	-	-	-	-	-	-	-	-

C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

2. Disclosure on committed assets recorded in the financial statements

EXPOSURE / PORTFOLIO	Committed		Not committed		TOTAL 31 Dec. 2013	TOTAL 31 Dec. 2012
	BV	FV	BV	FV		
1. Cash and cash equivalents	-	-	14,580	-	14,580	14,400
2. Debt securities	561,089	561,089	452,144	452,144	1,013,233	835,518
3. Equities	-	-	15,424	15,424	15,424	24,023
4. Loans	232,637	-	2,833,715	-	3,066,352	3,151,931
5. Other financial assets	-	-	15,246	-	15,246	16,115
6. Non-financial assets	-	-	114,435	-	114,435	104,512
Total 31 Dec. 2013	**793,726**	**561,089**	**3,445,544**	**467,569**	**4,239,270**	**-**
Total 31 Dec. 2012	**656,048**	**398,766**	**3,490,450**	**460,776**	**-**	**4,146,498**

Key:
BV = Book value
FV = Fair value

The committed debt securities include securities guaranteeing refinancing transactions care of the ECB, while the amount of the committed loans relates to securitised mortgage loans.

3. Disclosure on the Bank's committed assets not recorded in the financial statements

EXPOSURE / PORTFOLIO	Committed	Not committed	TOTAL 31 Dec. 2013	TOTAL 31 Dec. 2012
1. Financial assets	**290,736**	**106,954**	**397,689**	**458,976**
- Securities	290,736	106,954	**397,689**	458,976
- Other	-	-	**-**	-
2. Non-financial assets	**-**	**-**	**-**	**-**
Total 31 Dec. 2013	**290,736**	**106,954**	**397,689**	**-**
Total 31 Dec. 2012	**321,935**	**137,041**	**-**	**458,976**

The amount illustrated relates to the securities received in the securitisation transaction and the securities issued by the Bank and repurchased, divided upon between committed and uncommitted.

Section 4 - Operational risks

Qualitative information

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

Operational risk is the risk of suffering losses due to inadequacy or failures of procedures, human resources and internal systems, external events. This risk is inherent to the performance of banking activities and can be generated and reside therefore in all the company processes.
In general, the main sources of manifestation of the operational risk are attributable to internal fraud, external fraud, employment and work safety relationships, professional obligations vis-à-vis the customers (or due to the nature or characteristics of the product), to damages from external events, the malfunction of the IT system and the execution, consignment and management of the processes.
The Bank has defined a series of organisational processes for the supervision and handling of the types of operational risk, within the sphere of which it avails itself of specific functions:

- the Internal Audit unit, whose activities on the one hand are aimed at checking the due nature of the operations and the trend of the risks, and on the other hand at assessing the functioning of the overall system of internal controls;
- the Control Body, whose composition and functioning are disciplined by means of specific regulations, within the sphere of the Organisational, management and control Model pursuant to Legislative Decree No. 231/2001;
- the Risk Management unit, which responds to the need to detect and measure the typical risks of the banking business by means of constant monitoring of those undertaken and those potentially generated by the investment, lending and service policies;
- the Compliance unit, tasked with the supervision and control of observance of the regulations, providing support for the prevention and management of the risk of incurring legal or administrative sanctions and/or suffering significant losses consequent to the violation of internal or external legislation.

The Operational Risk management process achieved is broken down into the following components:

- Collation of data on the operational loss events (Loss Event Collection): this represents the collection and registration process for the operational loss data which have taken place within the Bank;
- Detection and qualitative assessment of the risks associated with potential loss events (Risk Assessment): this is an estimation self-diagnostic process which sets out to assess the degree of the exposure to the risk by means of a combination of opinions expressed in terms of impact, probability of occurrence, efficacy of the controls;
- Creation of a database of the events which generate losses used to carry out statistical processing of the losses which have occurred and the causes which have led to the same.

For the purpose of improving the operational risk management process, the Bank has adopted an integrated detection, assessment, monitoring, mitigation and control system for this risk.

The objectives intended to be pursued by means of the afore-mentioned process are:

- Identify the causes of the detrimental events which underlie the operational losses and consequently increase the business profitability;

- Improve the efficiency of the management, by means of the identification of the critical areas, their monitoring and the optimisation of the control systems;
- Optimise the risk mitigation and transfer policies;
- Develop the culture of the operational risk at Bank level, raising the awareness of the entire structure.

The organisational model adopted has the following levels of responsibility:

- Reporter (all the organisational units);
- Manager (Internal Audit Service);
- Validator (Risk Management, Planning & Control Service).

The role of reporter of a possible or potential operational risk is carried out by all the organisational units, whether they be branches or head office. On occurrence of a loss event, a report is drawn up and sent to the Internal Audit Service which sees to the handling of the report and its insertion in the procedure (Loss Data Collection). The validation and the consolidation is carried out by the Risk Management Service, which is responsible for overseeing the activities for the collection of the loss events, the checking of the correctness of the information received and the monthly assessment of the degree of exposure to risk.
The containment of the risk is pursued by means of legislative, organisational, procedural and training measures.
Any critical areas, identified by means of the joint analysis of the various sources of data, are analysed in-depth by those responsible for the activities, who contribute towards the identification, with the support of the Risk Management Service, of appropriate corrective measures.

Within the sphere of the Risk Assessment activities, the events indexed in 2012 and 2013, and in relation to which steps were taken to record the related operational loss, have been catalogued by type of operational loss (event type).
The types of event were subsequently assigned to the business lines and to the loss events indicated respectively in the Enclosures A and C of Section II Chapter 5 of Circular No. 263/2006 “New prudent supervisory instructions for banks”.

Furthermore, again overseeing the occurrence o types of operational risk, the following were drawn up and constantly up-dated:

- the Operational Continuity Plan, aimed at safeguarding the Bank in the presence of critical events which may invalidate full operations;
- the mapping of the main operating processes (credit, finance and branch), with the aim of harmonising the conduct of the operators facilitating the integration of the controls.

As from 1 January 2008, the Bank adopted - for the calculation of the capital requirement in the presence of operational risk - the BIA method (Basic Indicator Approach), according to which the capital covering this type of risk equates to 15% of the average of the net interest and other banking income generated in the last three years.
The capital absorption for this type of risk as at 31 December 2013 came to Euro 16,318 thousand.

Quantitative information

By way of disclosure, the historical trend in robberies and claims is presented below, indicating the number of the events and the cost the Bank must cover, recorded under operating expense (amounts in thousand of Euro):

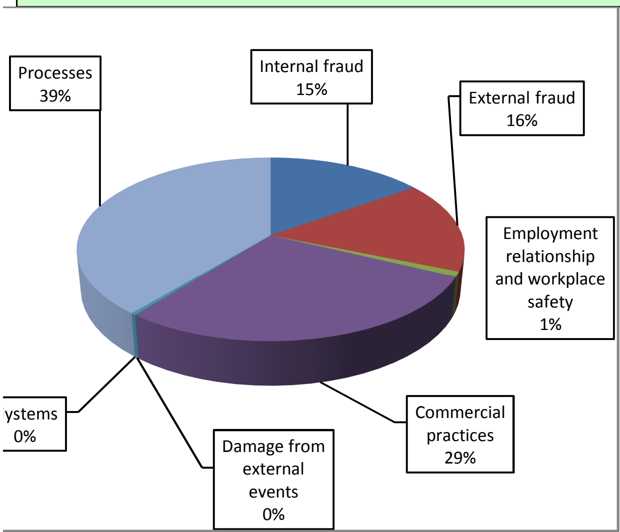
	Robberies		**Claims**		
	No.	**Amount Euro 000s**	**No. which have occurred**	**No. accepted**	**Reimbursements Euro 000s**
2008	2	10	34	14	22
2009	7	23	78	19	20
2010	3	10	74	17	28
2011	3	6	84	28	26
2012	2	10	86	29	107
2013	2	26	109	26	231

in addition to provisions for risks and charges relating to legal action suffered for Euro 142 thousand.

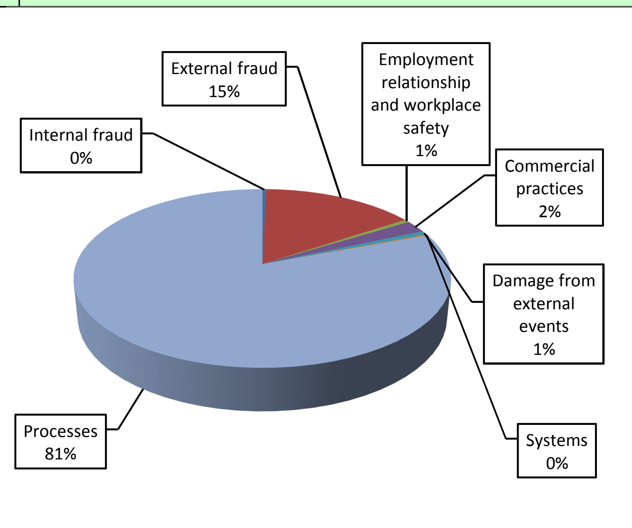
With regard to the loss data, inserted in the Bank's Loss Data Collection archive in 2012 and 2013, the distribution by type of loss is presented below, with indication by impact on the income statement and by numerousness of the events, according to the classification of the events envisaged by the new Supervisory instructions.

Incidence of the operational losses by type of event (2012 - 2013 survey)

Breakdown by economic impact



Breakdown by number of events



Disclosure to the general public

The information regarding the capital adequacy, the exposure to the risks and the characteristics of the systems tasked with the identification, measurement and management of these risks envisaged by the New prudent supervisory instructions for banks (Circular No. 263 date 27 December 2006), in Section IV "Disclosure to the general public", is published on the Bank's website:www.lavalsabbina.it.

PART F – Information on the Equity

Section 1 – Company equity

A. Qualitative information

The Bank's equity corresponds to the algebraic sum of the items 130 "Valuation reserves", 160 "Reserves", 170 "Share premium reserve", 180 "Share capital", 190 "Own shares (-)" and 200 " Profit/loss for the year" in the balance sheet liabilities.
The balance and the trend in the capital components represent one of the Bank's strategic priorities, both in relation to the growth and development prospects of the risk and in relation to regulatory legislation.
Therefore, also with regard to the future, the capital requirements are determined:
- by observance of the capital requirements laid down by supervisory legislation;
- by the supervision of the risks associated with banking activities;
- by the business development projects;
- by the assessments on the amount of the profits to be distributed to the shareholders and to be capitalised.

Part B. Liability Section 14 of these explanatory notes provides disclosure regarding the components, consistency, origin and degree of availability and distributable nature of the various items.

B. Quantitative information

B.1 Company equity: breakdown

ems/Amounts	**Total 31 December 2013**	**Total 31 December 2012**
Share capital	107,390	107,390
Share premium reserve	235,405	235,405
Reserves	43,670	50,676
- income-related	46,762	53,768
a) legal	20,805	20,501
b) statutory	13,419	22,743
c) own shares	12,014	10,000
d) other	524	524
- other	(3,092)	(3,092)
Capital instruments	-	-
(Own shares)	(5,664)	(7,077)
Valuation reserves	(2,516)	(3,682)
- Available-for-sale financial assets	(3,490)	(4,248)
- Tangible assets	-	-
- Intangible assets	-	-
- Hedging of foreign investments	-	-
- Hedging of cash flows	-	-
- Exchange differences	-	-
- Non-current assets held for sale	-	-
- Actuarial gains (losses) relating to defined benefit pension plans	(5)	(413)
- Share of valuation reserves relating to investee companies carried at equity	-	-
- Special revaluation laws	979	979
Profit (loss) for the year	7,685	3,040
Total	**385,970**	**385,752**

The change in the reserves as per point 3. of the table above (financial statement item 160) is described in the following table:

	Balances as of 31 December 2012	Shareholders' resolution for approval of 2012 financial statements			Other changes		Closing balances as at 31 December 2013
		Allocation to reserves	Assignment of own shares to supplement dividend	Reintegration and increase of Provision for purchase of own shares	Absorption of Credito Veronese	Other changes	
Income reserves:	53,768	2,980	(9,986)	-	-	-	46,762
a) legal	20,501	304	-	-	-	-	20,805
b) statutory	22,743	2,676	-	(12,000)	-	-	13,419
c) own shares	10,000	-	(9,986)	12,000	-	-	12,014
d) other	524	-	-	-	-	-	524
"Other" reserves	(3,092)	-	-	-	-	-	(3,092)
Reserves item 160	**50,676**	**2,980**	**(9,986)**	**-**	**-**	**-**	**43,670**

The amount recorded under "Other" Reserves derives entirely from the absorption of Credito Veronese in 2012.

The change in the valuation reserves is commented on in the following tables.

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

Assets/Balances		Total 31 Dec. 2013		Total 31 Dec. 2012	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1.	Debt securities	72	(3,252)	115	(3,805)
2.	Equities	355	(649)	679	(1,142)
3.	UCIT units	2	(18)	15	(110)
4.	Loans	-	-	-	-
	Total	**429**	**(3,919)**	**809**	**(5,057)**

The valuation reserves are assigned both the positive and negative fair value changes registered in available-for-sale financial assets.
The overall net difference with regard to the previous year of Euro 758 thousand is indicated in the statement of comprehensive income included in part D of these explanatory notes.

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

		Debt securities	Equities	UCIT UCITs	Loans
1.	Opening balances	(3,690)	(463)	(95)	-
2.	Positive changes	3,636	1,039	111	-
2.1	Fair value increases	377	-	1	-
2.2	Reversal to income statement of				-
	negative reserves	3,258	1,039	110	-
	from impairment	-	1,016	-	-
	from realisation	3,258	23	110	-
2.3	Other changes	-	-	-	-
3.	Negative changes	3,126	870	32	-
3.1	Fair value reductions	3,011	836	17	-
3.2	Adjustments from impairment	-	-	-	-
3.3	Reversal to income statement from				-
	positive reserves: from realisation	115	5	15	-
3.4	Other changes	-	29	-	-
4.	Closing balances	(3,180)	(294)	(16)	-

B.4 Valuation reserves relating to defined-benefit plans: annual changes

The actuarial reserve relating to the future-benefit pension plans, recorded under Valuation reserves net of the tax effects recorded under prepaid taxes, presented a negative balance of Euro 5 thousand as at 31 December 2013, whilst at the end of 2012 it presented a negative balance of Euro 413 thousand, disclosing a decrease of Euro 408 thousand (Euro 563 thousand with the tax effect).
The difference is due to the discounting back rate used, which rose from 2.40% to 3.17%, leading to an actuarial gain of Euro 563 thousand, compared with a loss of Euro 860 thousand in 2012.
As described in part B of the explanatory notes, the actuary carried out the calculation on the basis of the following financial hypotheses: annual discount rate of 3.17% (determined, on a consistent basis with section 78 of IAS 19, with reference to the average returns curve which derives from the IBOXX Eurozone Corporates AA index with a duration of 10+ struck on 31 December 2013, rate considered as the best expression of returns of businesses of primary standing), annual rate of inflation 2.00%, annual leaving indemnity increase rate 3.00%.

Section 2 - Regulatory capital and ratios

2.1 Regulatory capital

A. Qualitative information

The regulatory capital and capital ratios are calculated on the basis of the balance sheet values and income statement result determined with the application of the financial statements legislation envisaged by the IAS/IFRS international accounting standards and taking into account the specific regulations issued by the Bank of Italy.

1. Tier I capital

The positive elements of Tier 1 capital are made up of the share capital, the share premium reserves, the reserves and the portion of profit for 2013 which will be allocated to the reserves, if the allocation proposal made by the shareholders' meeting is approved.
The negative elements of the Tier 1 capital are represented by the own shares in the portfolio, the intangible assets, including goodwill, the reserve deriving from the discounting back of the employee leaving indemnity and the negative merger reserve relating to Credito Veronese S.p.A. (2012 transaction).
Prudent filters of the Tier 1 capital comprise, for the amounts which can be calculated, the negative reserves in available-for-sale securities, divided up between the aggregate "equities and UCIT units" and the aggregate "debt securities" and the freezing of the prepaid taxes which cannot be calculated recorded further to the freeing up of the goodwill recorded in the financial statements at the time of the merger of Credit Veronese S.p.A. for a total of Euro 1,291 thousand.
The amount includes the negative reserves on equities/UCIT units for Euro 311 thousand (equal to the financial statements value) and on debt securities for Euro 242 thousand, besides the prepaid taxes which cannot be calculated on the freeing up of the goodwill emerging from the merger for Euro 738 thousand.
The Bank in fact, for the sole purpose of the calculation of the regulatory capital, has exercised the option envisaged by the "Provision of the Bank of Italy dated 18 May 2010 - Prudent Filters and effects on the Regulatory capital" which makes it possible to completely neutralise the capital gains and losses relating to the securities allocated in the A.F.S. portfolio and issued by the Central Administrations of countries belonging to the European Union (symmetric approach).

The complete neutralisation is valid for the securities acquired after 31 December 2009 and classified immediately in the A.F.S. portfolio. For the purpose of application of this provision, the Bank has not carried out the transfer of securities during the year between the various accounting portfolios.

2. Tier II capital

The Tier II capital is made up of the valuation reserves for tangible assets (Special revaluation laws), possibly the positive reserves on available-for-sale securities ("equities and UCIT units" aggregate) net of the related prudent filters, besides the portion of subordinated loans issued which can be calculated. The subordinated loans can be calculated net of theoretical annual amortisation of 20% of the nominal amount issued, applied over the last five years of residual life. As at 31 December 2013, the amount of the subordinated bond loan issued in December for a nominal Euro 25 million can be fully calculated.

3. Tier III capital

There are no Tier III capital elements.

B. Quantitative information

	Items	Total 31 Dec. 2013	Total 31 Dec. 2012
A.	**Tier 1 capital before application of prudent filters**	**372,938**	**374,613**
B.	Tier 1 prudent filters:	(1,291)	(989)
B1	- Positive IAS/IFRS prudential filters (+)	-	-
B2	- Negative IAS/IFRS prudential filters (-)	(1,291)	(989)
C.	**Tier 1 capital before items to be deducted (A+B)**	**371,647**	**373,624**
D.	**Items to be deducted from Tier 1**	**-**	**-**
E.	**Total Tier 1 capital (C-D)**	**371,647**	**373,624**
F.	**Tier 2 capital before application of prudent filters**	**25,979**	**28,979**
G.	**Tier 2 prudent filters:**	**-**	**-**
G1	- Positive IAS/IFRS prudential filters (+)	-	-
G2	- Negative IAS/IFRS prudential filters (-)	-	-
H.	**Tier 2 before items to be deducted (F+G)**	**25,979**	**28,979**
I.	**Items to be deducted from Tier 2**	**-**	**-**
L.	**Total Tier 2 capital (H-I)**	**25,979**	**28,979**
M.	**Items to be deducted from total Tier 1 and Tier 2 capital**	**-**	**-**
N.	**Regulatory capital (E+L-M)**	**397,626**	**402,603**
O.	Tier 3 capital	-	-
P.	**Regulatory capital including Tier 3 (N+O)**	**397,626**	**402,603**

There are no effects relating to the application of the new IAS 19, given that before application of the new standard the Bank directly booked the changes from discounting back to the income statement, without using the corridor approach.
In the absence of the option for the neutralisation of the capital gains/losses on the Government securities issued by Central Administrations of European countries and with the maintenance of the asymmetric layout, the Tier I and regulatory capital would be lower by Euro 2,938 thousand.

2.2 Capital adequacy

Qualitative information

The prudent regulations according to the Basel Agreement on Capital (Basel 2) are based on three Pillars as already indicated in the section "The Risk Management System" in the report on operations.
With regard to the valuation of the capital solidity, the "Core tier one" is of particular importance, represented by the ratio between the Tier 1 capital and the total risk-weighted assets.

Quantitative information

Categories/Amounts		Unweighted amounts		Weighted amounts/ requirements	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
A.	**RISK ASSETS**				
A.1	**Credit and counterpart risk**	**4,316,871**	**4,296,077**	**2,521,774**	**2,666,822**
1.	Standardised approach	4,316,871	4,296,077	2,521,774	2,666,822
2.	Methodology based on internal ratings	-	-	-	-
	2.1 Basic	-	-	-	-
	2.2 Advanced	-	-	-	-
3.	Securitisations	-	-	-	-
B.	**CAPITAL REQUIREMENTS**				
B.1	**Credit and counterpart risk**	**-**	**-**	**201,742**	**213,346**
B.2	**Market risks**	**-**	**-**	**45**	**-**
1.	Standard approach	-	-	45	-
2.	Internal models	-	-	-	-
3.	Concentration risk	-	-	-	-
B.3	**Operational risk**	**-**	**-**	**16,318**	**15,144**
1.	Basic approach	-	-	16,318	15,144
2.	Standardised approach	-	-	-	-
3.	Advanced approach	-	-	-	-
B.4	**Other prudent requirements**	**-**	**-**	**-**	**-**
B.5	**Other calculation elements**	**-**	**-**	**-**	**-**
B.6	**Total prudent requirements**	**-**	**-**	**218,105**	**228,490**
C.	**RISK-WEIGHTED ASSETS AND CAPITAL RATIOS**				
C.1.	Risk-weighted assets	-	-	2,726,302	2,856,122
C.2.	Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	-	-	**13.63%**	**13.08%**
C.3	Regulatory capital including Tier 3/Risk-weighted assets (Total capital ratio)	-	-	**14.58%**	**14.10%**

The Bank presents a ratio between Tier 1 capital and risk-weighted assets (Core tier one) equal to 13.63% and a ratio between regulatory capital and risk-weighted assets (total capital ratio) of 14.58%, greater than the minimum requirement of 8%.
The indices are in line with the previous year; without the application of the neutralisation in the reserves pertaining to the securities issued by Central European Administrations, the Core Tier One would have come to 13.52% and the Total capital ratio to 14.48%.

Part G – Business combinations regarding companies or business segments

Section 1 – Transactions achieved during the year
Section 2 – Transactions achieved after the end of the year
Section3 – Retrospective adjustments

This section has not been drawn up since during the year, and even as of the current date, no business combinations were carried out.

Part H - Related-party transactions

Section 1 - Information on the fees of the directors and key executives

The following tables discloses the fees for the year of the directors and statutory auditors, as well as the remuneration paid to the key executives in 2013:

Items/Amounts	**31 December 2013**
Directors	600
Statutory Auditors	140
Key executives	1,273

The fees for the Directors refer to the matters established by the Shareholders' meeting held on 20 April 2013, net of VAT and social security charges if due.
The emolument of the Board of Statutory Auditors is equal to that resolved by the Shareholders' meeting held on 21 April 2012 for the three year period 2012/2014.
The "bank cost" is increased by VAT and social security charges if due.
The income statement amount is detailed in the comments on the income statement, part C of the explanatory notes - section 9.1 - Payroll and related costs.
The amount indicated for the "key executives" includes the amount of the remuneration disbursed, as well as the social security and welfare charges payable by the Bank and the portion of the leaving indemnity accrued during the year. With regard to the executives, no incentive payments linked to the profits achieved are envisaged; no pension plans are envisaged other than those which the employees avail of; and no stock option incentive plans have been envisaged
The members of general management and the two head office directors are key executives.

2 – Information on related-party transactions

Related parties, as defined by the international standard IAS 24, are the following:
1. Subsidiary companies, parent companies or those subject to joint control;
2. The companies which may exercise significant influence over the company which draws up the financial statements;
3. Associated companies;
4. Joint ventures in which the company which draws up the financial statements invests;
5. The Directors, statutory auditors and executives with strategic responsibilities of the company which draws up the financial statements.

6. Close family members of one of the parties as per point 5;
7. Subsidiary companies, jointly controlled companies or parties subject to the significant influence of one of the parties as per points 5 and 6;
8. Pension funds of employee or any other body related to the same.

Close family members are understood to be those who it is expected may influence, or be influenced by, the party concerned in their dealings with the company such as spouses not legally separated and common-law spouses, offspring and dependent individuals of the party, the spouse not legally separated and the common-law spouse.
On the basis of the legislation on industrial co-operative banks, there is no controlling party or a party which exercises management and co-ordination activities over Banca Valsabbina S.C.p.A..

The Bank wholly-owns Valsabbina Real Estate S.R.L., a single-shareholder company.
Dealings with related parties are disciplined on the basis of the market conditions (arms'-length basis) envisaged for the individual transactions or aligned, if the requirements are meet, to the conditions applied to employees.
No specific provisions have been made for losses on loans/receivables during the year, vis-à-vis related parties.

The risks outstanding with the related parties, including companies in which the directors and statutory auditors cover management and audit positions, were as follows at year end:

directors, statutory auditors, key executives	1 December 2013	31 December 2012
ash loans	49,331	39,412
ndorsement loans	3,819	3,898

The ratio between the amounts due from related parties and total loans/receivables in the financial statements came to 1.65% compared with 1.28% last year.
The balance sheet ratios, as well as the income statement balances as of 31 December, with the subsidiary company are illustrated in the table below:

Financial statement items	Valsabbina Real Estate	
	31 December 2013	31 December 2012
Balance sheet balances: assets	**9,526**	**2,068**
Amounts due from customers	9,526	2,068
Balance sheet balances: liabilities	**-**	**-**
Income statement figures	**107**	**75**
Interest income	92	60
Other operating income and expense	15	15

Part L - Segment reporting

This part is not drawn up since the banking activities carried out by the Bank predominantly concern retail customers resident in the province of Brescia, the province of Trento, limited to the branches in the Storo area, and in the province of Verona via the 7 branches under the Credito Veronese trademark.

Publication of the fees for the independent audit and other services differing from the audit as per the Consob Issuers' Regulations Article 149 duodieces

The fees in favour of the independent auditing firm BDO SpA and possibly the companies belonging to the same network for the audit services (control of the annual and interim accounts) and certification services, as resolved by the Shareholders' meeting held on 9 April 2011 (inclusive of any index-linking, but excluding out-of-pocket expenses, the Consob contribution and VAT) amount to Euro 35 thousand.