NOTES TO THE FINANCIAL STATEMENTS

Part A - Accounting policies

A1 - General section

Section 1 – Statement of compliance with International Financial Reporting Standards

The Financial Statements for the year ended 31 December 2014 were drawn up in accordance with the international accounting standards issued by the International Accounting Standards Board (IASB) and approved on the date of preparation of these financial statements, illustrated in the following point A.2; they were also drawn up in accordance with the related interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Circular No. 262 of 22 December 2005 of the Bank of Italy, updated as at 22 December 2014, 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.
Circular No. 262 contains the formats of the financial statements, the guidelines and the contents of the explanatory notes.
Reference was also made to the "framework for the preparation and presentation of financial statements" (known as framework).
The derogation laid down by Article 5.1 of Italian Legislative Decree No. 38/2005 was not used.

Section 2 – Basis of preparation

The financial statements comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of changes in 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 reported in the Financial Statements are expressed in Euro, while the figures in the Explanatory Notes are in thousands of Euro.
The financial statements and the Explanatory notes show, in addition to the amounts for the reporting period, also the comparative figures as at 31 December 2013.
The basis of presentation laid down by IAS 1 and used for preparing these financial statements involved:

1) Going concern: the financial statements were prepared with a view to the Bank continuing its business activities for the foreseeable future, therefore assets, liabilities and "off-balance sheet" transactions were valued in accordance with the operational features.
   The possible foreseeable future taken into consideration is that which emerges from all the available information used for preparing the strategic plan and the budget for 2015. Furthermore, in relation to the activities carries out, taking account of all the risks that 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 exist, the requirement of the company as a 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" were used.

2) Accrual-basis accounting: costs and revenues and costs are recognised, irrespective of the time of their monetary settlement, in an accrual basis and on matching principals.

3) Financial statement presentation consistency: the presentation and classification of the items are 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 is 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 dissimilar in nature or with regard to intended use are presented separately unless they are insignificant.

5) Substance over form: transactions and other events are recognised and stated in compliance with their economic substance and reality and not by also considering their legal form.

6) 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 statement reporting format for banks.

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

Estimates and valuations

The preparation of the financial statements requires the use of estimates and valuations that may have a significant impact on the values recorded in the balance sheet and income statement.
The use of valuations and assumptions is more commonly required for:
- quantifying the impairment of financial assets, loans and receivables, tangible and intangible assets;
- determining the fair value of financial instruments to be used for disclosure purposes and the use of valuation models for determining fair value of financial instruments not listed on active markets;
- assessing the reasonableness of the amount of goodwill and of other intangible assets;
- quantifying employees' provisions and provisions for risks and charges;
- the actuarial and financial assumptions used to determine liabilities associated with defined benefit plans for employees;
- the estimates and assumptions made with regard to the recoverability of deferred tax assets.

Reasonable estimates and assumptions are formulated by using all the internal and external information available and past experience.
The adjustment of an estimate further to changes in the circumstances on which it was based or further to new information or additional experience, is applied prospectively 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 valuation process is particularly complex in consideration of the current macro-economic and market scenario, characterised by unusual levels of volatility that can be found on all the financial balances decisive for the purposes of the valuation and consequent difficulty in the formulation of performance forecasts, including short-term, relating to financial parameters that significantly affect the estimated values.

Section 3 - Events after the reporting date

During the period of time between the reporting date of these financial statements and their approval by the Board of Directors on 4 March 2015, no events took place which led to an adjustment of the figures approved at that time nor were there any significant events that would require a supplement to the disclosure provided.

Section 4 - Other aspects

Audit

The 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 company with the shareholders' resolution on 9 April 2011. The audit report is published in full, as per Article 135 septies of Italian Legislative Decree No. 58/98.

Amendment to 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, whose mandatory application starts - in the event of financial statements coinciding with the calendar year - as from 1 January 2014 or later.

EU Reg. No. 1254 of 11 December 2012 (Effective as from the financial year 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 of 4 April 2013 "transition guide" and Regulation No. 1174 of 20 November 2013 for subsidiaries held by investment entities). By means of the aforementioned 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 it has: power over the entity, it is exposed to or benefits from variable returns deriving from the relation with the entity and it has the capacity to exercise its power over the entity so as to affect the amount of its returns.
IFRS 11 "Joint Arrangements" establishes the financial reporting principles for entities that are party to joint agreements and replaces IAS 31 "Interests in joint ventures" and SIC 13 "Joint 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 that 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 that brings together the disclosure requirements for all forms of investment in subsidiaries, associated companies, non-consolidated structured entities, joint arrangements.

EU Reg. No. 1256 of 13 December 2012 (Effective as from the financial year as at 1 January 2014)
IAS 32 - By means of the aforementioned regulation, the amendment to IAS 32 "Financial instruments: presentation", approved by the IASB on 16 December 2011, was ratified.
This amendment introduces, in the application guide of the standard, a number of paragraphs aiming to clarify the application methods of 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 that regards the entity and all the counterparts.

EU Reg. No. 1375 of 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 transfer of the hedging relationship, provided that any changes in the hedging instrument are limited to those necessary for carrying out this replacement of the counterpart.
With reference to the principles/interpretations applicable optionally to the 2014 financial year, note IFRIC 21 "Levies", issued on 20 May 2013 and approved by EU Regulation. 634 of 13 June 2014, whose objective is to provide some guidelines on the accounting method of some levies, not falling under the taxation provided for in IAS 12. In particular, details on what is the binding action for recognising the liability associated with the levy are provided (if, for example, the obligation to pay the levy derives from the achievement of a minimum level of activity or from the fact that the entity is operational at a certain future date). This interpretation is applicable at the latest starting from the financial year beginning on 17 June 2014 or later.

It should be noted, for completeness, that at the date of approval of this report and limited to the cases of potential impact, the IASB issued the following new standards and interpretations/amendments of existing standards:
- IFRS 9 "Financial instruments" issued on 24 July 2014, which replaced the previous versions published in 2009 and in 2010 for the "classification and measurement" phase and in 2013 for the "hedge accounting" phase. With this publication, the process of reform of IAS 39 is completed: it was broken down in the three phases of "classification and measurement", "impairment", "hedge accounting"; the revisions of the macro hedge accounting, managed by means of a project other than IFRS 9, must still be completed. In a nutshell, the new standard introduces new rules for:
- the classification and measurement of financial assets, based on the business model and on the characteristics of the instrument;
- a single impairment model based on a concept of forward-looking expected loss, in order to ensure a more immediate recognition of losses compared to the IAS 39 model of incurred loss, whereby losses can only be detected in the face of objective evidence of impairment that occurred after the initial recognition of assets;
- the recognition and measurement of hedging accounting, with the aim of ensuring greater alignment between the accounting representation of hedges and management logic (risk management);
- the recognition of the so-called "own credit", i.e. changes in the fair value of the liabilities designated at fair value option attributable to fluctuations in creditworthiness. The new standard requires for such changes to be recognised in a reserve in shareholders' equity rather than in the income statement as is required by IAS 39, thus eliminating a source of volatility in economic results that has become particularly evident during periods of economic and financial crisis. The mandatory application of the principle is envisaged as from 1 January 2018, with earlier application of all the principle or only the changes related to the accounting treatment of "own credit" for financial liabilities designated at fair value;
- IFRS 15 "Revenue from contracts with customers", issued on 28 May 2014;
- Amendments to IAS 16 and IAS 38 containing some clarification on acceptable methods for the recognition of depreciation of tangible assets and amortisation of intangible assets, issued on 12 May 2014;
- Amendments to IFRS 11 relating to the accounting of companies subject to joint control (joint ventures), approved on May 6, 2014;
- Amendment to IAS 19 relating to the defined-benefit plans issued on 21 November 2013;

- Improvement projects of some IFRS (2010-2012, 2011-2013), approved on 12 December 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 allowed by the IAS/IFRS, are not recognised in the income statement but booked to shareholder' equity.
The "Comprehensive income" expresses the change that the equity has undergone in a financial year deriving from both the business transactions that usually give rise to the profit/loss for the year and from other transactions (e.g. valuations) booked to shareholder' equity on the basis of a specific accounting principle.

Comparability

The financial statements show, in addition to the amounts for the reporting period, also the comparative figures as at 31 December 2013.
Based on new insights and interpretations, the following figures of the 2013 financial statements recorded these changes:

- The spot differences in currency were reclassified from financial assets and liabilities held for trading to other assets and liabilities of Euro 4,477 and Euro 2,499, respectively;
- Allocation for the personnel of Euro 800,000 and the charity fund of Euro 87,225 were reclassified from provisions for risks and charges (item 120) to other liabilities (item 100).

A.2 - Main items in the financial statements

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 the purchase cost deemed as the fair value of the instrument. On the basis of IFRS 13 (Fair Value Measurement), effective as from 1 January 2013, the fair value is the "price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators on the measurement date", 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 losses 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 that are designated as available for sale or that 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 equity investments not managed for trading purposes and that do not qualify as establishing control or joint control over or association with the companies and the movable and real estate UCIT units.

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.
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, as better specified in the chapter on fair value.
The profits and the losses deriving from fair value measurements but that are not realised, are booked to a specific equity reserve, net of the related tax effect, 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 fair value measurements booked to shareholder' equity is stated in the income statement item “Net impairment losses on 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 end of each reporting period or at the time of preparation 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 publicly traded is not evidence of the fair value reduction;
- occurrences that 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 operates fall within this category).

Additionally, for an investment in an equity instrument, 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 below the purchase cost.

The Bank uses different thresholds depending on the fair value hierarchy to which the instrument belongs (for the definition of fair value hierarchy adopted by the Bank, see section "A.4 Information on fair value"):
- in case of shares and funds classified as level 1 of the FV hierarchy, objective evidence of impairment is recorded if the fair value is 40% lower than the initial recognition value (significance) or if the fair value does not record a value higher than the book value continuously for more than 18 months;
- in case of shares and funds classified as level 2 and 3 of the FV hierarchy, objective evidence of impairment is recorded if the fair value is 30% lower than the initial recognition value (significance) or if the fair value does not record a value higher than the book value continuously for more than 18 months;
- In case of bonds and government securities, whatever the hierarchy, the objective evidence of impairment is recorded when there is insolvency in the payment of principals and interests, there are significant delays in the payment of the principal/interest or there is a granting of moratoria and at the same time renegotiations at rates lower than those paid by the market.

For instruments listed on active markets, the Bank believes that the changes in fair value can be determined by economic market conditions such as to enable the use of thresholds higher than those required for financial instruments not listed on markets.

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 and 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, the profits or losses up to that moment that are not realised and booked to shareholder' equity, are transferred to the item "Profit/loss on sale of available-for-sale financial assets" in the income statement.

Impairment losses on investments in debt instruments are recognised with an offset in the income statement only if this impairment may be objectively correlated to an event that 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 that the financial assets would have had in the absence of previous adjustments.
Impairment losses on investments in equities, which can be correlated to an event that has taken place after the impairment loss has been booked as an offset to the income statement, should be recognised in shareholder' equity.

3 - Loans and receivables

Loans and receivables are recognised under “60 Loans and receivables with banks” and “70 Loans and receivables with customers”.

Recognition criteria
Initial recognition takes place as of the date of disbursement on the basis of the related fair value that corresponds to the amount disbursed, to customers and banks, inclusive of costs and income directly attributable to it and that can be determined as from the origin, irrespective of the moment they were settled. All the charges that are repayable by the debtor or that are attributable to internal costs of an administrative nature, are not included in the initial recognition value. In cases where 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 pertaining breakdown by type, includes the loans subject to securitisation transactions for which the IAS 39 requirements for the derecognition from the financial statements do 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 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 at each reporting date or interim statement, 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 amount 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 that the bank has taken into consideration mainly for economic or legal reasons relating to its financial difficulties and that otherwise it would not have granted;
- probability that the debtor may be subject to bankruptcy/insolvency proceedings or other financial reorganisations;
-the disappearance of an active market of the security as a result of the financial difficulties of the issuer;
-other evidence pointing to an objective reduction of the issuer's ability to generate future cash flows sufficient to meet its contractual commitments.

The “non-performing” category includes all the loans and receivables for which objective evidence of impairment exists (doubtful, substandard, restructured and 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 relation. 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 collective values are used taken from internal time series and sector studies.
The analytical measurement takes account of the estimated possibility of recovery, the timing 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 impaired, 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 historical-statistical analysis of the trend of non-performing and substandard loans. The estimated loss takes account of the impairment of the loans as from the reporting 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 exposures for a significant amount, specific analyses are carried out.
This method was 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 and receivables with non-residents, their value is adjusted on a collective 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 it 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 impairment 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 impairment previously made.
Recoveries of amounts previously impaired are booked to reduce the item "Net impairment losses on 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 relation 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 accounting, 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 regulated 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 expires, is sold, terminated or exercised;
• the element hedged is sold, expires 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 hedged element.
For the purposes of determining the efficacy of the hedge, both forecast and retrospective tests are carried out, at least at the end of each reporting date.

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 expires, is discharged or sold.

Recognition criteria for income components
The fair value change of the hedged instrument, in effective fair value hedges, is recorded in the income statement item “90 Net hedging income (expense)”. The fair value changes of the hedged element, attributable to the hedged risk with the derivative instrument, are recorded in the income statement to offset 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 hedged element 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.

At the end of the reporting period, the Bank has no hedging transactions in place.

5. - Equity Investments

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

Classification criteria
The item includes the equity investments in subsidiaries, associates and jointly controlled entities (joint ventures) or subject to significant 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 amount of said investment, including the final disposal value of the investment 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 “Net gains (losses) on investments”.

If the reasons for the impairment cease to exist further to an event that has taken place after the recognition of the drop in value, reversals of impairment losses are booked to the income statement, in the same item indicated above, up to the extent of the previous impairment.

Derecognition criteria
Equity investments are derecognised when the contractual rights to the corresponding cash flows deriving from the assets expire or when the equity investments are sold substantially transferring all related risks and benefits.

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.
Tangible assets are initially recognised at purchase cost, inclusive of accessory charges incurred for the purchase and putting the asset into operation.
For the first-time adoption of IAS/IFRS, the exemption provided by IFRS 1, Article 16, was taken advantage of by opting for the measurement of buildings at fair value, as a substitute for cost, as at 1 January 2005.
The cost model was adopted for the measurement of buildings subsequent to that date.
Extraordinary maintenance costs that increase the value of assets are allocated to the assets to which they refer. Ordinary maintenance costs are recognised directly in the income statement.
Assets acquired under financial leases are recorded in accordance with the provisions of IAS 17, which envisages the recording of the asset under the balance sheet assets, offsetting the amounts due to the lessor, and the calculation of the depreciation over the estimated useful life of the asset. The lease payments are booked to reduce the debt for principal and in the income statement under interest expense for the financial component.
Leasehold improvement and expenses incurred as a result of a lease agreement on third party assets that 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, tangible assets are measured at cost net of depreciation and any impairment losses.
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 end of each reporting period or interim period, if there is any indication that the asset may have been impaired, a comparison is made between the book value of the asset and its recoverable amount, 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 impairments are recognised in the income statement.

Derecognition criteria

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

Recognition criteria for income components

Impairments are recognised in the income statement under item “170 Depreciation and net impairment losses on tangible assets”.
The amortisation of leasehold improvements to and expenses for 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 enhancement of relations with customers (core deposits) and goodwill.

Recognition and classification criteria

Intangible assets represented by software and user licences owned by the Bank are recognised in the financial statements only if they comply with the requirements that they are independently identifiable and distinct, that it is probable that future economic benefits will be realised, and that the cost itself can be measured reliably.

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 that expresses the residual duration, contractual or estimated, of the relations 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 user licences are recorded in the financial statements at cost net of amortisation and impairment losses. 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. At the end of each reporting 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 that 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 preparation of the annual financial statements and in any event on occurrence of events that suggest that the asset has been impaired. Any goodwill impairment, 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
Impairment losses are recognised in the income statement under item "180 Amortisation and net impairment losses 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 recognised as an offsetting item in the income statement, except in the case that they derive from transactions whose effects are attributed to shareholder' 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 whose existence is certain or likely, but whose amount or timing is not yet known at the end of the reporting period. 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 that it is supposed will be incurred for discharging the obligation. Whenever the time factor is significant, provisions are discounted using current market rates. The effect of discounting is recognised in the income statement, as is the increase in provisions as a result of the passing of time.

10 - Post-employment benefits

On the basis of the international accounting standards, post-employment benefits are 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 historical, statistical and probabilistic analyses and the adoption of suitable demographic technical bases. This makes it possible to calculate the post-employment benefits accrued at a given date in an actuarial sense, distributing the liability over all the years of estimated residual permanence of the existing workers, and no longer as a liability to be settled in the event the company ceases its activities at the end of the reporting period, as envisaged by Italian legislation.
The measurement of the leaving indemnities of the employees is carried out by an independent actuary in compliance with the method indicated above.

Further to Italian Law No. 296 of 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 of 5 June 2012, the actuarial gains and losses, which arise due to changes or adjustment of the previous cases formulated, including the effects of changes in the discount rate, lead to a re-measurement of the post-employment benefits liability. They are booked to shareholder' equity under the valuation reserve "Actuarial gains/loss on defined-benefit pension plans" and the booking to the income statement is no longer allowed. The Bank has availed itself of the right to apply, as allowed, the amendments to IAS 19 "Employee benefits" in force as from 1 January 2013, in advance, already as from the financial statements prepared up as at 31 December 2012.

11 - Liabilities and securities issued

The item represents the various forms of funding established by the Bank: due to banks, 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, as an offsetting item to 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, as an offsetting item to 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 expire, are discharged or sold.
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 that 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 that 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.
Transactions denominated in foreign currency are recorded, at initial recognition, in the reporting currency by applying the exchange rate ruling on the transaction date.
At the end of each reporting period, the foreign currency items are measured as follows:
• monetary items are converted using the exchange rate at the end of the reporting period;
• non-monetary items carried at their historical cost are converted at the exchange rate in effect at the transaction date;
• non-monetary items valued at fair value are converted using the exchange rates at the end of the reporting period.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in previous financial statements are recognised in the income statement relating the period in which they arise. When a gain or loss from a non-monetary item is carried at shareholder' equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

Treasury shares

Shares issued and repurchased are recorded as a direct reduction of shareholders' equity. No profit or loss resulting from the purchase, sale, issue or cancellation of said instruments is recorded in the income statement. Any amount paid or received for said instruments is recorded directly under shareholders' equity.
A specific reserve is recorded, pursuant to Article 2357-ter of the Italian Civil Code.

Securitisations

All the existing securitisation transactions were carried out after 1 January 2004.
The loans sold are not derecognised from the financial statements if a substantial amount of risks and benefits is still retained, although formally they have been sold without recourse to a special purpose entity. This may occur, for example, when the bank subscribes tranches of Junior notes or similar exposures, as in this case it shall bear the risk of the initial losses, and likewise it shall benefit from the return on the transaction.
As a result, loans are shown in the financial statements as "Assets sold and not derecognised" against the loan received by the special purpose entity, net of the securities issued by the latter, subscribed by the transferring bank. Similar representation criteria, based on the prevalence of substance over form, are applied in recognising accruals.

Recognition criteria for income components

Besides the matters illustrated in the basis of presentation, revenues are recognised when they are received or, on any event, when it is likely that future benefits will be received and these benefits can be reliably quantified. Specifically:
- interest on due from customers and banks is classified under interest income and similar revenues deriving from 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 that 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 are recognised on an accruals basis.

The costs are recognised when they are incurred, following the criterion of correlation between costs and revenues that derive directly and jointly from the same transactions or events. Costs directly attributable to the assets valued at amortised cost and that can be determined from the beginning, regardless of the moment when they are paid, flow to the income statement by applying the effective interest rate. Costs that cannot be linked to revenues are immediately charged to the income statement.

Impairment losses are recognised in the income statement in the financial year in which they are recognised.

A.3 - Information on transfers between portfolios of financial assets

The Bank has not carried out, either in the current or in the previous financial year, reclassifications of the portfolio of financial assets from categories measured at fair value to the categories carried at amortised cost based on the possibilities introduced by EC Regulation no. 1004/2008 of the European Commission. It allows in "rare circumstances" to transfer financial instruments allocated in the trading book to other portfolios with a different measurement method. In situations similar to those of the end of 2008, due to the crisis that had hit the international markets, since market prices no longer adequately expressed the fair value of financial instruments, they had lost significance and ran the risk of distorting the representation of these instruments in the financial statements of companies applying IAS/IFRS, causing abnormal fluctuations in the income statement and in equity.

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

During 2008, the bank availed itself of the amendment to IAS 39 issued on October 13 by IASB and adopted in EC Regulation 1004/2008, reclassifying securities totalling Euro 286.9 million from the FV&PL portfolio to the AFS portfolio.
As at 31 December 2014, there are no securities reclassified at that time.

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 2014 there were no reclassifications of financial assets.

A.4 Fair value information

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 fair value as: "the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators on the measurement date".

In determining the fair value, IFRS 13 provides a hierarchy of techniques to determine this value in order to maximise the criteria of reliability and verifiability (IFRS 13 par. 72).
The concept of Fair Value Hierarchy (hereinafter also "FVH") provides for the classification of the fair value measurement based on three different levels (Level 1, Level 2 and Level 3) in descending order of observability of the inputs used to estimate the fair value.

FVH provides for the following levels:

1. Quoted prices taken from active markets (Level 1): the fair value derives from quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (IFRS 13 par. 76).
An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis (IFRS 13 Appendix A).

2. Measurement methods based on observable market parameters (Level 2): the fair value is determined from inputs that are observable for the asset or liability, either directly or indirectly. (IFRS 13 par. 81).
Level 2 inputs include (IFRS 13 par. 82):

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability, for example: interest rates, yield curves, volatility etc.);
- input from or corroborated by observable market data.

3. Measurement methods based on unobservable market parameters (Level 3): the fair value is a level 3 if the inputs used in the valuation techniques of the fair value are unobservable on the market (IFRS 13 par. 86).
When using level 3 inputs, it must be considered that the aim of the measurement is to determine an exit price (transfer price) to the market participant holding the financial instrument. Level 3 inputs must reflect the assumptions of the Bank, on market participant assumptions, in attributing a price to the instrument (IFRS 13 par. 87).

Level 3 inputs are developed based on the best information available on the basis of inside information to the Bank.
As a result, the information inside the Bank must be correct if there are evidences, without excessive costs or efforts, that the market participants will use different assumptions (IFRS 13 par. 89).
The Fair Value Hierarchy gives the highest priority to the use of Level 1 inputs and the lowest priority to Level 3 inputs (IFRS 13 par. 72). In general, if the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement, as described in IFRS 13 par. 73.
A fair value measurement, developed using the technique of the present value, could be classified in level 2 or 3 depending on the significant inputs for the entire measurement and the level of these inputs (IFRS 13 par. 74).
The assessment as to the significance of the input, which determines the classification in level 2 rather than level 3, requires the expression of a judgment by the evaluator, which takes into account specific factors of the asset or liability.

For the financial instruments measured at fair value in the financial statements, the Board of Directors of Banca Valsabbina, with the collaboration of external professionals, approved a "Fair Value Policy" that gives the highest priority to quoted prices in active markets and the lowest priority to the use of unobservable inputs, in that they are more discretionary, in line with the fair value hierarchy shown above.
More specifically, this policy defines:
- the rules for identifying the market data, the selection/hierarchy of information sources and price configurations required for enhancing the financial instruments on active markets and classifies at level 1 of the fair value hierarchy (“Mark to Market Policy”);
- the valuation techniques and the related input parameters in all cases where it is not possible to adopt the Mark to Market Policy ("Mark to Model Policy" for level 2 or 3 of the hierarchy).

Mark to Market Policy
To determine fair value, the Bank uses information based on market data, any time it is available, obtained from independent sources, in that considered to be the best evidence of fair value. In this case, the fair value is the market price of the same measured instrument, meaning without changes in or recomposition of the instrument itself, which can be taken from the listings expressed by an

active market (and classified in level 1 of the fair value hierarchy). A market is considered active when the transactions occur with sufficient frequency and volume to provide useful information for determining the price on an ongoing basis (IFRS 13 Appendix A).
The following are generally considered active markets:
- regulated securities and derivative markets, with the exception of the “Luxembourg” stock market;
- certain OTC electronic trading networks, when given circumstances are in place based on the presence of a certain number of contributors with executable offers, characterised by bid-ask spreads – i.e., the difference between the price a seller is offering for a security (ask price) and the price a buyer is willing to pay (bid price) – falling within a given tolerance threshold;
- the secondary market for UCIT units, expressed by the official NAV (Net Asset Value), based on which the issuing asset management company guarantees to settle the units in a short time. In particular, these are open-end harmonised UCIT funds, characterised by type of investment and high levels of transparency and liquidity

Mark to Model Policy
When the Mark to Market Policy is not applicable, because there are no prices directly observable on active markets, it is necessary to use valuation techniques that maximise the use of information available on the market, based on the following measurement approaches: recent transactions, transactions in similar instruments, methods of asset valuations, discounting of future cash flows.

Specifically:
- debt securities are measured by discounting expected cash flows, suitably adjusted to account for issuer risk;
- unlisted equity securities are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the comparably company market multiples method, and subordinately using financial, income and equity valuation methods;
- investments in UCITs, other than those harmonised open-end, are measured on the basis of the NAVs made available by the fund administrator or by the management company. These investments usually include private equity funds, real estate funds and hedge funds.

A.4.1 Levels of fair value 2 and 3: valuation 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. A financial instrument must be fully classified in a single level; therefore, if the inputs used to measure fair value are categorised into different levels, the fair value measurement is categorised in its entirety in the level of the lowest level input if it is significant to the entire measurement.
If the weight of the unobservable data is prevalent with respect to the overall measurement, the level assigned is "3".

Fair value determined using Level 2 inputs

The following types of investments are normally considered level 2:
- unlisted equity securities on active markets, measured:
    - by means of the multiple valuation techniques, referring to a selected sample of comparable companies with respect to the subject-matter of valuation;
    - based on the prices of recent transactions;
    - 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 unlisted 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);
- debt securities, not listed on active markets, for which the inputs, including the credit spreads, are taken from market sources (for example, interest rates or yield curves observable at commonly quoted intervals, implicit volatility and credit spreads);
- funds characterised by significant levels of transparency and liquidity, measured on the basis of NAVs provided by the management company/fund administrator, published on a weekly and/or monthly basis.

Fair value determined on the basis of level 3 input

The following financial instruments are generally considered Level 3:
- hedge funds characterised by significant levels of illiquidity and for which it is believed that the valuation process of the fund significantly requires a number of assumptions and estimates. The fair value measurement is carried based on the NAV, adjusted if necessary to account for the fund's diminished liquidity, i.e., the time span between the date of the request for redemption and that of the actual redemption, as well as for possible commissions for exiting from the investment;
- real estate funds measured based on the latest available NAV;
- illiquid share-based securities for which no recent transactions are observable or comparable, usually measured on the basis of the equity model;
- illiquid equity securities 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 first place, the discounted cash flow analysis) stated at cost, adjusted to take account of any significant decreases in value;
- debt securities characterised by complex financial structures for which sources not publicly available are generally used; these are non-binding prices and also not corroborated by market evidence;
- debt securities issued by entities in financial distress for which the management must use its judgement in defining the "recovery rate", since there is no significant prices observable on the market.

A.4.2 Processes and sensitivity of 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 that requires a change to the valuation technique.

A.4.3 Fair value level

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

A.4.4 Other information

As part of the financial assets and liabilities, the IAS standards also include receivables to banks and customers and liabilities to banks and customers or represented by securities.
With regard to unrestricted / upon revocation deposits and loans, an immediate maturity of the contractual obligations is undertaken coinciding with the end of the reporting period, 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 creditworthiness 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-term 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 flows.
With regard to derivative contracts traded on regulated 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).

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 that 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 known 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 that may be subject to recognition during the life of the financial instrument, are excluded.

Furthermore, the costs that 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 impairment losses on financial assets.

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 impairment envisages the checking of the presence of impairment indicators and the determination of any impairment.

Quantitative information

A.4.5 Fair value level

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

Financial assets/liabilities at fair value	Total 31/12/2014	Total 31/12/2013

	L 1	L 2	L 3	L 1	L 2	L 3
1. Financial assets held for trading	-	179	2	-	190	2
2. Financial assets measured at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	1,162,184	6,085	11,276	989,661	12,504	6,990
4. Hedging derivatives	-	-	-	-	-	-
5. Tangible assets	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**1,162,184**	**6,264**	**11,278**	**989,661**	**12,694**	**6,992**
1. Financial liabilities held for trading	-	215	-	-	398	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**215**	**-**	**-**	**398**	**-**

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

In detail, the following are classified in FV Level 2 for a total of Euro 6,085 thousand:

- bonds for Euro 2,054 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;
- shares for Euro 4,031 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 of an amount of Euro 11,276 thousand, includes the securities listed (with changes) in the next table of part A.4.5.2 and that concern:

- a bond issued by a leading bank for Euro 98 thousand, in relation to which there is no market,
- units of real estate mutual funds for Euro 5,078 thousand on the basis of prices indications provided by the issuer counterpart. Based on the impairment tests, the capital loss recorded on the Fondo Asset Bancari I was charged to the income statement. The fund called "Leopardi" was acquired with the restructuring of the credit claimed from the company AEDES, as well as the special related actions.
- shares of Euro 6.100 thousand, of which Istituto Centrale Banche Popolari of Euro 613 thousand, Arca sgr of Euro 1,810 thousand, valued according to the shareholders' equity expressed in their financial statements as at 31 December 2013, Ubi Leasing of Euro 2,033 thousand (based on the shareholders' equity as at 30 September 2014, with impairment to the income statement), special AEDES shares of Euro 160 thousand, CA.RI.FE. of Euro 1,491 thousand.

For CA.RI.FE., owing to the persistent uncertainty related to the future of the Group, the restructuring process in progress and the absence of updated management data, assuming that during the extraordinary management there could have been a gradual impoverishment, the valuation was carried out with the recognition of the value of the implicit goodwill, determined with reference to the sale of some branches. In the valuation, the Bank was assisted by an external specialised company.
Based on the criteria contained in the fair value policy approved by the Board of Directors, the following were transferred from level 2 to level 3:

- the units of real estate mutual funds since they are closed-end funds whose fair value corresponds to the related NAV published more than once a month;
- the shares of Istituto Centrale Banche Popolari for which prices listed on active markets do not exist, as of the valuation date, and that are measured based on the value corresponding to the

portion of shareholders' equity held emerging from the last set of approved financial statements of the company.

For the same reasons, the shares of Arca sgr, measured at cost at the end of 2013, were classified in level 3 and carried at shareholders' equity of the company as at 31 December 2013, with allocation to shareholders' equity of Euro 1,522 thousand, gross of the tax effect.

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

	Financial assets held for trading	Financial assets at fair value	Available-for-sale financial assets	Hedging derivatives	Tangible assets	Intangible assets
1. Opening balance	**2**	**-**	**6,990**	**-**	**-**	**-**
2. Increases	**385**	**-**	**8,122**	-	-	-
2.1 Purchases	384	-	1,839	-	-	-
2.2 Gains recognised in:	-	-	1,522	-	-	-
2.2.1 Income statement	-	-	-	-	-	-
- of which Capital gains	-	-	-	-	-	-
2.2.2 Shareholders' equity	-	-	1,522	-	-	-
2.3 Transfers from other levels	-	-	4,732	-	-	-
2.4 Other increases	1	-	29	-	-	-
3. Decreases	**385**	**-**	**3,836**	-	-	-
3.1 Sales	385	-	-	-	-	-
3.2 Redemptions	-	-	500	-	-	-
3.3 Losses recognised in:	-	-	3,336	-	-	-
3.3.1 Income statement	-	-	3,134	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2 Shareholders' equity	-	-	202	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
4. Closing balance	**2**	-	**11,276**	-	-	-

Breakdown of financial assets measured at fair value on a recurring basis (Level 3) – AFS portfolio												
	Bonds		Shares					Mutual funds				
	CENTROSIM - subordinated	POPOLARE DI VICENZA - bond (2)	UBI LEASING	CA.RI.FE.	ARCA S.G.R. S.p.A.(1)	I.C.B.P.I. (2)	AEDES special companies (3)	LEOPARDI - real estate fund (3)	ASSET BANCARI I (2)	ASSET BANCARI IV (2)	ASSET BANCARI V	Total
1. Opening balance	**471**	**-**	**2,133**	**4,386**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,990**
2. Increases	**29**	**103**	**-**	**-**	**1,810**	**673**	**160**	**679**	**1,168**	**2,500**	**1,000**	**8,122**
2.1 Purchases	-	-	-	-	-	-	160	679	-	-	1,000	**1,839**
2.2 Gains recognised in:	-	-	-	-	1,522	-	-	-	-	-	-	**1,522**
2.2.1 Income statement	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which Capital gains	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2.2 Shareholders' equity	-	-	-	-	1,522	-	-	-	-	-	-	**1,522**
2.3 Transfers from other levels	-	103	-	-	288	673	-	-	1,168	2,500	-	**4,732**
2.4 Other increases	29	-	-	-	-	-	-	-	-	-	-	**29**
3. Decreases	**500**	**5**	**107**	**2,895**	**-**	**60**	**-**	**-**	**132**	**137**	**-**	**3,836**
3.1 Sales	-	-	-	-	-	-	-	-	-	-	-	**-**
3.2 Redemptions	500	-	-	-	-	-	-	-	-	-	-	**500**
3.3 Losses recognised in:	-	5	107	2,895	-	60	-	-	132	137	-	**3,336**
3.3.1 Income statement	-	-	107	2,895	-	-	-	-	132	-	-	**3,134**
- of which Capital losses	-	-	-	-	-	-	-	-	-	-	-	**-**
3.3.2 Shareholders' equity	-	5	-	-	-	60	-	-	-	137	-	**202**
3.4 Transfers to other levels	-	-	-	-	-	-	-	-	-	-	-	**-**
3.5 Other decreases	-	-	-	-	-	-	-	-	-	-	-	**-**
4. Closing balance	**-**	**98**	**2,026**	**1,491**	**1,810**	**613**	**160**	**679**	**1,036**	**2,363**	**1,000**	**11,276**

(1) security transferred from the classification at cost level 3 during the adoption of the valuation policy of securities
(2) securities transferred from level 2 to level 3 during the adoption of the valuation policy of securities
(3) securities obtained during the conversion of credit claimed from the customer company "AEDES"

The previous table shows the change during the year in securities with level 3 fair value.
The change in "financial assets held for trading" is not significant and therefore presents an almost nil balance.
Other increases include profits recorded in the income statement deriving from the repayment of a bond. Transfers from other FV levels concern the transfer from level 2 of quotas in real estate funds, of the Istituto Centrale Banche Popolari shares and of a bond issued by Banca Popolare di Vicenza, in accordance with the criteria of the adopted F.V. policy, and, for the same reasons, of the Arca S.g.R. shares no longer valued at cost.
The amounts booked to the income statement are attributable to CA.RI.FE. of Euro 2,895 thousand, Ubi Leasing of Euro 107 thousand and to the UCIT fund Asset Bancari I totalling Euro 159 thousand, of which 27 thousand already to negative reserve as at 31 December 2013.

A.4.5.3 Annual changes of financial liabilities at fair value on a recurring basis (level 3)

The Bank did not issue financial liabilities at fair value.

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2014				31/12/2013			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity financial assets	-	-	-	-	-	-	-	-
2. Loans and receivables with banks	108,266	-	-	108,266	114,234	-	-	114,234
3. Loans and receivables with customers	2,960,578	-	-	3,140,820	2,982,170	-	-	3,136,391
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**3,068,844**	**-**	**-**	**3,249,086**	**3,096,404**	**-**	**-**	**3,250,625**
1. Due to banks	652,260	-	-	652,260	585,598	-	-	585,598
2. Due to customers	2,033,695	-	-	2,033,695	1,947,122	-	-	1,947,122
3. Securities issued	1,221,047	-	-	1,221,047	1,237,452	-	-	1,237,452
4. Liabilities associated with assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**3,907,002**	**-**	**-**	**3,907,002**	**3,770,172**	**-**	**-**	**3,770,172**

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

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