Part E
Information on risks and related hedging policies

Foreword

The Bank carries out its activities on a sound and prudent basis and with a contained propensity to risk, this 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 by identifying, as part of the Bank's equity ("own funds"), a capital component not intended for the taking of risks (unexpected losses), but oriented to pursue the following 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 internal control system ensures the implementation of the corporate strategies and policies and is made up of a series of rules, procedures and organisational structures that 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 internal control system.
The Bank has adopted a traditional type of governance model that envisages the presence of a Board of Directors, a Board of Statutory Auditors and General Management.
The Board of Directors is responsible for the strategic supervision function and for managing the Bank, accompanied also by the General Management, whereas the control functions are assigned to the Board of Statutory Auditors.
The Board of Directors defines the business model by approving the strategic business plan and the annual budgets, with the awareness of the risks that this model exposes the Bank to and comprehension of the methods by means of which the risks are reported and assessed. The Board of Directors defines and approves the strategic guidelines and sees to their periodic review, establishes the tolerance threshold and the risk controlling policies and ensures that the Bank's structure is consistent with the activities carried on and the business model adopted.
The risk controlling policies are formalised in specific regulations/policies that 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 considering the development 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 controlling policies defined by the Board of Directors. In particular, it proposes

operating limits for the taking of the various types of risk, considering 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 risk control, plans the training programmes for the Bank's personnel 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, adequacy, functionality and reliability of the internal control system.
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 management events.
The Bank's internal control system is divided up into three different levels of control:

- line controls: aimed at ensuring proper execution of transactions. They are carried out by the production structures themselves or incorporated in the procedures and the IT systems, or carried out as part of back office activities.
  For the purpose of spreading within the entire structure deep-rooted awareness of the controls to be implemented within each business process, 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. Updates to the internal and external regulations are also immediately communicated to all relevant corporate functions using the dedicated electronic portal.
- Controls on risks and on compliance (the "second-level controls"), aimed at ensuring, among other things:
  - The correct implementation of the risk management process;
  - the compliance with the operating limits assigned to various functions;
  - the compliance of business operations to regulations, including 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 (known as "third-level controls"): aimed at identifying violations of procedures and regulations as well as evaluating on a regular basis the completeness, adequacy, functions and reliability of the internal control system and of the IT system. This activity is carried out by the Internal Audit Service.

The company's control functions seeing to the second and third level controls have the authority, resources and expertise necessary for the performance of their tasks.
The company organisation chart envisages - in compliance with the Prudential Supervisory regulations - the hierarchical and functional relationship of the company's control functions with regard to the Board of Directors.
The control functions have access to all the activities carried out by the Bank, both at the central offices and at 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 functions 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 that 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 2014, the activities of the Supervisory Body focused on the one hand on the checking and up-dating of the Organisational Model the Bank has endowed itself with in accordance with the aforementioned Law 231 and with the most recent regulatory innovations introduced, as well as the new guidelines issued by Confindustria, and on the other hand on the verification of the existence of the necessary organisational and/or control safeguards.
In the first half of 2014, the internal project aimed at implementing the new regulatory provisions introduced by the Bank of Italy by means of the 15th update of Circular No. 263/2006 regarding Internal Controls was completed. As part of the project, the Bank has further defined and updated the methods of management, measurement and mitigation of main business risks. The Board of Directors also approved the document called "Risk Appetite Framework Policy" that defined the policies, controls and functional processes for setting the risk objectives. The Bank has therefore defined through the use of qualitative and quantitative parameters and in line with the strategic plan and with the results of the internal capital adequacy assessment process, its risk appetite.

Compliance department

The risk of non-compliance is overseen by the Compliance Service. The activities of the compliance department include the monitoring of new regulations (also with the support of specialist functions), the assessment of impacts, the proposal of organisational and procedural changes aimed at ensuring adequate monitoring of identified non-compliance risks, as well as the checking of the efficacy of the organisational adaptations carried out by the operating units (structures, processes, procedures including operational 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 strategies and business operations, checks whether situations involving conflicts of interest, or the possible occurrence of such conflict, can be eliminated, reduced or managed, and submits the new cases for the attention of General Management, making suggestions for their overcoming or solution.
The regulatory areas monitored 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 Department 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 department collaborates in staff training activities on the provisions applicable to the activities carried 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 2014, the Compliance Service defined a system for monitoring the relevant regulations (known as “Compliance Framework”) based on the characteristics of the Bank (i.e. size, operations and complexity). The "Compliance Framework" allows the Compliance Department of the Bank to monitor, according to a risk-based approach, the management of non-compliance risk with regard to business activities, verifying the adequacy of internal procedures.

Anti-money Laundering Function

The Anti Money Laundering Service is hierarchically and functionally autonomous, compared to each operating structure of the Bank and acts autonomously and independently, reporting the results of the activity carried on to the Corporate bodies with objectivity and impartiality.
The Anti-money Laundering Service has the task of continually checking that the company procedures are consistent with the aim of preventing and contrasting money laundering and the financing of terrorism.

The operations of the Service pursue the twofold need of:

- implementing the fulfilments with regard to reporting of suspect transactions, carrying out checks with regard to the observance, by the sales network, of the provisions regarding anti-money laundering, notifying to the Ministry of the Economy and Finance any violations of the regulations on the use of cash and bearer securities as well as responding 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 consider the provisions issued by the Bank of Italy with “Measure of 3 April 2013 relating to customer due diligence and keeping of the Centralised Computer Archive” and Circular No. 263 of 27 December 2006 “New prudential supervisory provisions for banks - 15th update of 2 July 2013”. The “Anti-money laundering Policy”, approved by the Board of Directors, brings together the guiding principles relating to the strategic stances and the government policies, the organisational and control safeguards for risk, appropriate checks, obligations to abstain and active collaboration vis-à-vis the Supervisory Authorities.

The Anti Money Laundering Service adopts, as an instrument for internal regulation of the specialist function, its own Regulations approved by the Board of Directors; internal regulations for use by all personnel is instead summarised in the form of a Manual, with the aim to collect together the operational principles and rules adopted by the Bank on the prevention of money laundering and terrorist financing 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 Corporate Functions, assesses their impact on the process and the internal procedures. As for the previous financial year, the activity carried on with the collaboration of the outsourcer Cedacri is of particular significance with regard to the project for completing the procedural systems associated with the application of the regulations introduced by means of the Measure of the Bank of Italy of April 2013, effective as from 2014, and the staff training activities on the matter, via both internal and external courses.

Risk Management Department

The purpose of the risk control department is to implement the risk control policies, through an adequate risk management process; this Department is assigned to the Risk Management, Planning and Control Service. The structure of the Service and its positioning within the organisational model of the Bank provide integrated management of the various risks to which the intermediary is exposed.

The Bank’s Organisational Structure and the regulations of the Service regulate the following tasks:

- supervising and coordinating the process of identifying the risks to which the Bank is or may be exposed;
- seeing to the measurement/valuation of the individual Pillar I and II risks, both 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 and producing the related reports;
- periodically checking the overall exposure of the Bank to the different types of risk;
- seeing to the calculation of the current and forecast capital requirements of the Bank for ICAAP purposes;
- proposing the quantity and quality parameters required for defining the RAF (tolerance thresholds and operational limits), consistent with the methods used within the ICAAP process;
- seeing to the drafting of the "Disclosure to the general public" (Pillar III);
- collaborating to the definition of policies for the management and regulation of individual types of risk.

The area of operations of the Risk Management Department include the following types of risk:

- credit risk;
- market risk (relating to both the trading book and the bank book);
- interest rate risk on the banking book;
- liquidity risk;
- risk of excessive leverage;
- operational risk;
- counterparty risk;
- concentration risk;
- securitisation risk;
- reputational risk;
- strategic risk;
- residual risk.

As part of the periodic review activities on the risk monitoring perimeter 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.

The activity of the Department aims at identifying, assessing, monitoring, preventing or mitigating all the risks taken or that can be taken in the various business segments, seizing - within an integrated logic - the interrelationships, reporting the records to the Corporate Bodies.

The Risk Management Department 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 ICAAP report.

Finally, the Risk Management, Planning and Control Service constantly monitors the risk profile taken by the Bank compared to the risk appetite defined in the RAF, reporting to the Corporate Bodies.

Internal Audit Department

The Internal Audit Department checks the suitability and the efficiency of the organisational structures and the Internal Control System, the regularity of the corporate operations and the observance of the policies adopted with regard to risk taking; it also checks the efficiency and the effectiveness of the second level controls assigned to the other corporate control functions and, in particular, those aimed at ensuring the containment of the business risks within the level deemed acceptable by the Bank. The department also takes steps to ascertain the removal of anomalies reported 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 Internal control system.

The Internal Audit Department 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 compliance with the statutory provisions.

The activity of credit disbursement mainly addresses the retail, small business and small/medium-sized company segments, in that they are entities which require a reference contact, capable of understanding and satisfying the needs; lending activities also address the corporate segment to a lesser extent.

The Board of Directors outlines the lending policies overseeing the quality of the loans both during the first loan proposal resolution and in the subsequent management of the relation, taking into due consideration the Bank’s economic/equity amounts and the related economic scenario.

The policies in the last few years have seen the splitting of the loans and the loans portfolio diversification as the strategic approach in order to mitigate the impact of the current economic situation on the overall credit risk of the Bank.

The loan policies established by the Board of Directors have contributed towards the adoption, by the appointed structures, of greater precision both during the opening of the relation and in its subsequent management.

In the starting stage of the relation, particular attention must be paid to the quality of the entrepreneurial projects underlying the financial intervention required of the Bank, in particular, the income-earning prospects of the business as well as the consequent ability to repay are evaluated.

The management and monitoring of the loan already disbursed is aimed at timely restructuring the relation in accordance with the changes in the economic and financial situation of the counterparties and identifying any potential irregular trend. This monitoring is useful for preventing the effects of the deterioration in creditworthiness as well as for promptly intervening with corrective actions in removing anomalies (i.e. reiteration of overruns, increase in unpaid instalments, acceptance of portfolio presentations on names already in default). The management of the credit facilities granted is based on the principles of utmost prudence and therefore any sign of performance not in line with correct operations is regularly analysed in order to implement the necessary actions.
Commercial policy is pursued through the branch network both in the geographical areas in which the Bank has a traditional presence, the objectives being the constant consolidation of its position, and in its new markets, in order to acquire new market shares and to facilitate the growth of loan brokerage activities.

2. Credit risk management policies

2.1 Organisational aspects

The factors that give rise to credit risk are related to the possibility of an unexpected change in the creditworthiness of a counterpart to which there is exposure generating a corresponding unexpected change in the current value of the relevant loan exposure.
Therefore, the credit risk is not only the possibility of insolvency of the counterpart, but also the mere worsening of its creditworthiness.

The taking and management of the credit risk was regulated 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 functions.
The “Market Division” central management is at the head of the organisational structure that oversees the performance of the process. In particular, the “Market Division” co-ordinates the operations of the Loan Sector and helps the General Management as part of the implementation of the loan policies issued by the Board of Directors.
The "Performance Monitoring" Service, hierarchically working for the Market Division, is entrusted with the monitoring of performing and past due loans, in coordination with the area network. This activity is aimed at encouraging an anticipatory management of the credit risk and implementing the management strategies for improving the Bank’s credit quality.

The company functions involved in the credit process are as follows:

- The Loans Committee, whose mission involves guiding and optimising the Bank’s loan policy, as part of the strategies established by the Board of Directors;
- the Market Division that, with the aid of the Strategic Planning Sector, sees to checking the sustainability of the lending policies adopted, making proposals to the General Management relating to:
    - the instruments and 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 that manages and checks the process for taking the risks related to the disbursement of credit, proposes the credit management policies and plans the consequent activities, supporting the branch network both during the first origination and as part of the review of credit facilities granted;

- the Performance Monitoring Service that deals with the monitoring of performing positions with anomalies and past due loans;
- the Pre-dispute Service that manages the loan portfolio classified as substandard and the restructured loans of the Bank;
- 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 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 263/2006 "New prudent supervisory rules for banks";
- The Internal Audit Service that assesses the functionality and reliability of the entire internal control system and checks, amongst other aspects, that lending is carried out in accordance with the rules.

As part of the adopted risk management and taking, initial supervision is in the Branch, both via constant and continual dialogue with the customers and availing itself of information sources of an internal and external nature, with the help also of the IT procedures.
During the loan approval and review, the Bank analyses the financial requirements of the customer and the documents required for making an adequate assessment of the borrower's creditworthiness. Therefore, the decision to grant credit is based both on the analysis of the complete set of information relating to the economic subject and on the direct knowledge of customers and of the economic environment in which it operates. All the approval process activities concerning the operational process, which lead to the disbursement and periodic review of the position, are developed with the aim of disbursing a fair loan at individual name (and/or group) level, envisaging the most suitable technical forms of the credit facility and proper compensation for the risk assumed.
The Board of Directors defined, as part of the "Loan Regulations", the autonomous decision-taking systems of each body delegated to grant credit. The observance of the powers authorised by the Board of Directors is guaranteed by the automated checks provided in the data processing system with which the loan approval process is managed.

2.2 Management, measurement and control systems

The credit risk management, measurement and control systems develop within an organisational context that involves the entire credit process cycle, 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 particular, the quantitative assessments use different instruments that provide information from an economic, financial and equity standpoint of the customer:

- Financial statements and tax returns: assessments of the equity and financial balances, determination of the degree of indebtedness, determination of the net financial positions, analysis of the economic indicators;
- Relation with the Bank: analysis of the current account transactions, the average use of the credit facilities agreed, checking of the regularity in repayment of loans;
- Relations 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 updated 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 current and future 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 relation compared to the risk taken;
- the control of the performance of the individual positions carried out by means of the periodic review of the cases and systematic monitoring activities;
- the best management of impaired loans.

With regard to the determination of the capital requirement in the presence of credit risk (First Pillar), the Bank uses the standardised method envisaged by the Supervision Provisions, in line with the proportionality criteria. The related information is subject to quarterly reporting to the Bank of Italy.

The Bank uses the procedure known as C.C.M. (Credit Capital Management), in support for the calculation of the prudent requirements (First Pillar), as part of the supervisory review process (Second Pillar) and for the drafting of reports for public disclosure (Third Pillar).

The Bank, for merely internal management and operational purposes, adopted the rating model provided by the outsourcer Cedacri (CRS Credit Rating System), which is used in monitoring the credit quality of exposures previously granted. The adopted model assigns a probability of default for each customer, through an internal statistical scoring system, based on the analysis of internal and external indicators. In particular, the credit relation is analysed on the basis of the following information:

- performance of the relation with the Bank,
- performance of the customer with the system (Central Credit Register),
- economic and financial performance of the customer, (financial statements)
- customer's business segment (Private consumers, Small Businesses, SMEs, Large Corporate, Small Business, PMI, Large Corporate - Financial and Institutional).

Based on the estimated probability of default, each portion is assigned the corresponding rating; the rating scale used was defined by the IT outsourcer, with the help of Prometeia, based on the analysis of the decline rates released by the Bank of Italy for each micro sector.
During 2014, the Bank continued to study and analyse the rating models developed by the outsourcer. The analysis carried out showed that the new models perform better than the previous ones with regard to the prompt identification of signs of deterioration in credit quality, thanks also to a better

segmentation of customer portfolio and a more careful selection of the indicators used for estimating the probability of default.

As part of the credit trend monitoring, the Functions involved in the process are supported by specific operational procedures provided by the Outsourcer Cedacri.
In particular, the S.E.A.C. (Sistema Esperto Analisi Cliente) procedure, through the observation of particular indicators of anomaly and incorrect operation, assesses the customer by means of a numerical score. S.E.A.C. uses an expert system that allows to interpret the indicators and their correlations and to identify the risk positions.
The Bank also used the "Quality Credit Management" application, which replaced the previous ICC instrument (Iter Controllo Crediti, Credit Control Process).
The "Quality Credit Management" application supports the departments in charge of identifying the counterparts to be subjected to monitoring and managing the already anomalous positions. In particular, it 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, providing an integrated view of current operations and the historical analysis of the relations.

The key elements of the procedure 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.

2.3 Credit risk mitigation techniques

The main levers for the mitigation of the credit risk are represented by the system of guarantees that 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 particular, with reference to concentration risk, 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. These limits are constantly monitored by the Risk Management, Planning & Control Service.
The method for managing the guarantees is integrated in the information system, from which it is possible to infer the main information related to them.
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 rules provided by prudential supervision.

The Bank, in order to mitigate credit risk, uses collaterals and personal guarantees.
In particular, the main types of collaterals used are real estate mortgage liens and financial collaterals.
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 liens, 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 updating 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. The relationship between the loan and the value of the asset provided as collateral is subject to constant monitoring for the appropriate precautionary measures in the event of a possible decline in the real estate property market.

The organisational processes and the policies applied to the supervision of the pledge on financial instruments protect the loans from fluctuations in the prices of the stock market.
Personal guarantees consist for the most part in performance bonds granted by both natural persons and companies. Note also the use of guarantees given by specialised bodies (e.g.: Confidi) and by Financial institutions (e.g.: government guarantee via Mediocredito Centrale pursuant to Italian law 662/1996).
To date, the Group has not used credit derivatives to hedge or transfer the risk against the portfolio loans.

2.4 Impaired 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 impaired exposures, the Bank makes reference to the legislation issued by the Bank of Italy, supplemented by the internal regulations that fix criteria and rules for the classification of the loans as part of the various risk categories and in greater detail:

- **Non-performing loans:** loans to insolvent parties (even if not legally declared so) or in similar situations;
- **Substandard loans**: these are loans to parties experiencing temporary financial hardship that are expected to be overcome within a reasonable period of time;
- **Restructured loans**: this category comprises loans whose original contractual terms have changed giving rise to a loss for the bank due to deterioration of the original economic-financial conditions of the debtor;
- **Past Due and/or overdue loans** or rather those loans - other than those indicated as non-performing, substandard or restructured - which present past due or overdue 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 that support the management thereof and indicate the related status.
On the basis of the specific anomaly indices reported 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 Performance Monitoring Service sees to the performing and past due loans. As part of performing loans, for operational purposes the Bank has defined a sub-class of loans known as “Under Control”, in which the exposures showing a not fully regular trend of the loan relation are classified.
The Pre-dispute Service has the task of managing the positions classified as substandard, objective substandard and restructured, furthering the initiatives aimed at protecting the Bank’s claims.
The non-performing loans are managed by the Legal and Dispute Service that assesses the actions to be undertaken for maximising the recovery of the credit, acting also with regard to guarantors and enforcing the payment of possible guarantees.

Quantitative information

A. Credit quality

A.1 Impaired and performing loans: amounts, impairment losses, trend, business and geographical distribution

A.1.1 Distribution of exposures by portfolio and credit quality (carrying amounts)

Portfolio/Quality	Non-performing loans	Substandard loans	Restructured exposures	Past due exposures impaired	Past due exposures not impaired	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	179	179
2. Available-for-sale financial assets	-	-	-	-	-	1,042,541	1,042,541
3. Held-to-maturity financial assets	-	-	-	-	-	-	-
4. Loans and receivables with banks	-	-	-	-	-	108,266	108,266
5. Loans and receivables with customers	162,122	175,646	17,724	27,944	128,951	2,448,190	2,960,577
6. Financial assets measured at fair value	-	-	-	-	-	-	-
7. Discontinues operations	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 31/12/2014	**162,122**	**175,646**	**17,724**	**27,944**	**128,951**	**3,599,176**	**4,111,563**
Total 31/12/2013	**167,764**	**162,266**	**16,870**	**56,627**	**161,510**	**3,514,743**	**4,079,780**

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

Portfolio/Quality	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Individual impairment	Net exposure	Gross exposure	Collective impairment	Net exposure	
1. Financial assets held for trading	-	-	-	-	-	179	179
2. Available-for-sale financial assets	-	-	-	1,042,541	-	1,042,541	1,042,541
3. Held-to-maturity financial assets	-	-	-	-	-	-	-
4. Loans and receivables with banks	-	-	-	108,266	-	108,266	108,266
5. Loans and receivables with customers	553,122	169,686	383,436	2,595,104	17,963	2,577,141	2,960,577
6. Financial assets measured at fair value	-	-	-	-	-	-	-
7. Discontinues operations	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 31/12/2014	**553,122**	**169,686**	**383,436**	**3,745,911**	**17,963**	**3,728,127**	**4,111,563**
Total 31/12/2013	**514,989**	**111,462**	**403,527**	**3,691,976**	**15,918**	**3,676,253**	**4,079,780**

The breakdown between exposure subject to renegotiation as part 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 loans for the other portfolios.

Ageing of past due loans	Exposures subject to renegotiation - performing loans			Other exposures - performing loans			Total		
	Gross exposure	Collective impairment	Net exposure	Gross exposure	Collective impairment	Net exposure	Gross exposure	Collective impairment	Net exposure
Not past due	37,347	228	37,119	2,426,629	15,558	2,411,071	2,463,976	15,786	2,448,190
Up to 3 months	823	8	815	103,760	1,764	101,996	104,583	1,772	102,811
From 3 to 6 months	778	6	772	17,216	255	16,961	17,994	261	17,733
From 6 months to 1 year	182	2	180	8,096	135	7,961	8,278	137	8,141
Beyond 1 year	-	-	-	273	7	266	273	7	266
Total 31/12/2014	**39,130**	**244**	**38,886**	**2,555,974**	**17,719**	**2,538,255**	**2,595,104**	**17,963**	**2,577,141**

A.1.3 On and off-balance sheet exposures with banks: gross and net values

Type of exposure/Amounts	Gross exposure	Individual impairment	Collective impairment	Net exposure
A. ON-BALANCE SHEET EXPOSURES				
a) Non-performing loans	-	-	-	-
b) Substandard loans	-	-	-	-
c) Restructured loans	-	-	-	-
d) Past due loans impaired	-	-	-	-
e) Other assets	110,418	-	-	110,418
TOTAL A	**110,418**	**-**	**-**	**110,418**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	-	-	-	-
b) Other	3,750	-	-	3,750
TOTAL B	**3,750**	**-**	**-**	**3,750**
TOTAL (A+B)	**114,168**	**-**	**-**	**114,168**

“Other assets” are made up of “Loans and receivables with banks” of which as per asset item 60 of Euro 108,266 and bank bonds for a total of Euro 2,152 thousand included in asset item 40.

A.1.4 On-balance sheet exposures with banks: gross impaired

A.1.5 On-balance sheet exposures with banks: total impairment losses

These two tables are not drawn up since there are no impaired loans with banks.

A.1.6 On-balance sheet exposures with customers: gross and net values

Type of exposure/Amounts	Gross exposure	Individual impairment	Collective impairment	Net exposure
A. ON-BALANCE SHEET EXPOSURES				
a) Non-performing loans	292,825	130,703	-	162,122
b) Substandard loans	211,120	35,474	-	175,646
c) Restructured loans	19,404	1,680	-	17,724
d) Past due loans impaired	29,773	1,829	-	27,944
e) Other assets	3,635,492	-	17,962	3,617,530
TOTAL A	**4,188,614**	**169,686**	**17,962**	**4,000,966**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	18,755	1,998	-	16,757
b) Other	148,198	-	-	148,198
TOTAL B	**166,953**	**1,998**	**-**	**164,955**

Total on-balance sheet net exposures includes loans and receivables with customers of Euro 2,961 million and bonds present under assets for sale totalling Euro 1,040 million. Non-performing loans are shown net of the value of default interests, fully written down, while during the previous financial year, default interests on non-performing loans contributed both to the forming of gross loans according to the financial statements and impairment losses.

A.1.7 On-balance sheet exposures with customers: gross impaired

Causes/Categories	Non-performing loans	Substandard loans	Restructured loans	Past-due loans
A. Gross opening exposure	**257,598**	**179,518**	**19,070**	**58,801**
- of which: exposures transferred and not derecognised	-	-	-	-
B. Increases	**69,048**	**141,006**	**12,271**	**74,060**
B.1 inflows from performing loans	6,602	57,435	-	68,268
B.2 transfers from other categories of impaired loans	59,812	50,309	6,877	2,146
B.3 other increases	2,634	33,262	5,394	3,646
C. Decreases	**33,821**	**109,404**	**11,937**	**103,088**
C.1 outflows to performing loans	-	13,853	-	40,994
C.2 derecognitions	2,608	-	547	-
C.3 collections	23,269	30,431	5,253	13,371
C.4 gains on sales	49	-	-	-
C.4 *bis* losses on sales	-	-	-	-
C.5 transfers to other categories of impaired loans	-	65,120	5,302	48,723
C.6 other decreases	7,895	-	835	-
D. Gross closing exposure	**292,825**	**211,120**	**19,404**	**29,773**
- of which: exposures transferred and not derecognised	-	-	-	-

The line “Other increases” includes:
- with regard to non-performing loans, the charge of expenses, outstanding amounts and other similar cases on positions recorded in previous years;
- with regard to the other categories, in particular for substandard loans, also the account transfer between relations relating to the same name carried out after the date of inclusion in the category (e.g. advance transactions subject to collection).
Derecognitions on non-performing loans of Euro 2,608 thousand relate for Euro 1,083 thousand to positions completely written off as of 31 December 2014, while Euro 1,525 relates to positions not completely written off as of the same recognition date; for restructured loans, this is the derecognition of an exposure as a result of conversion into securities of the loan to be restructured.
“Other decreases” includes the amount related to receivables for default interest on non-performing loans claimed as at 31 December 2013 by virtue of the change of approach in reporting data compared to what was carried out last year, change already mentioned at the end of table A.1.6; this amount corrects the value of “Gross opening exposure”.

A.1.8 On-balance sheet exposures with customers: total impairment losses

Causes/Categories	Non-performing loans	Substandard loans	Restructured loans	Past-due loans
A. Opening total impairment losses	**89,834**	**17,252**	**2,200**	**2,175**
- of which: exposures transferred and not derecognised	-	-	-	-
B. Increases	**58,099**	**29,370**	**1,343**	**1,773**
B.1 impairment losses	51,797	28,138	1,087	1,700
B.1 bis losses on sale	-	-	-	-
B.2 transfers from other categories of impaired loans	6,147	1,232	256	73
B.3 other increases	155	-	-	-
C. Decreases	**17,230**	**11,149**	**1,863**	**2,119**
C.1 reversals of impairment losses due to valuation	4,913	5,061	577	435
C.2 reversals of impairment losses due to collection	1,859	694	32	76
C.2 bis gains on sale	2	-	-	-
C.3 derecognitions	2,608	-	547	-
C.4 transfers to other categories of impaired loans	-	5,394	707	1,608
C.5 other decreases	7,848	-	-	-
D. Closing total impairment losses	**130,703**	**35,474**	**1,680**	**1,829**
- of which: exposures transferred and not derecognised	-	-	-	-

With regard to the values booked in lines “Derecognition” and “Other decreases”, refer to what is already written at the end of table A1.7

A.2 Classification of exposures based on internal and external ratings

A.2.1 Distribution of on and off-balance sheet exposures by external rating class

On the basis of the guidelines 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, in that the Bank has chosen to avail itself of the rating issued by the authorised agencies for just these assets, as per the specific resolution of the Board of Directors.

A.2.2 Distribution of on and off-balance sheet exposures by internal rating class

The table is not completed in that, to date, the rating models provided by the outsourcer are used only for management purposes as a tool for classifying and analysing the customers.

A.3 Distribution of secured exposures by type of guarantee

A.3.1 Secured credit exposures to banks

The table is not drawn up because there are no secured exposures to banks as at 31 December 2014.

A.3.2 Secured credit exposures to customers

	Value of net exposure	Collaterals (1)				Personal guarantees (2)										Total (1)+(2)
						Credit derivatives					Endorsement credits					
							Other derivatives									
		Mortgaged properties	Financially leased properties	Securities	Other collaterals	CLN	Governments and central banks	Other public bodies	Banks	Other parties	Governments and central banks	Other public bodies	Banks	Other parties		
1. Secured on-balance sheet credit exposures:	*2,123,576*	*3,311,561*	-	*51,720*	*11,873*	-	-	-	-	-	-	*306,942*	*985*	*1,515,201*		*5,198,282*
1.1 fully secured	1,885,067	3,296,858	-	43,420	10,842	-	-	-	-	-	-	120,986	860	1,467,612		4,940,578
- of which impaired	316,289	611,450	-	2,909	6,477	-	-	-	-	-	-	8,636	-	409,926		1,039,398
1.2 partially secured	238,509	14,703	-	8,300	1,031	-	-	-	-	-	-	185,956	125	47,589		257,704
- of which impaired	22,073	8,783	-	1,071	48	-	-	-	-	-	-	10,785	-	12,232		32,919
2. Secured off-balance sheet credit exposures:	*75,919*	*4,021*	-	*23,000*	*2,312*	-	-	-	-	-	-	*408*	*510*	*58,286*		*88,537*
2.1 fully secured	42,391	4,021	-	4,653	333	-	-	-	-	-	-	394	510	56,592		66,503
- of which impaired	4,766	97	-	2,161	130	-	-	-	-	-	-	-	-	5,458		7,846
2.2 partially secured	33,528	-	-	18,347	1,979	-	-	-	-	-	-	14	-	1,694		22,034
- of which impaired	5,903	-	-	987	-	-	-	-	-	-	-	-	-	1,060		2,047

B. Distribution and concentration of credit exposures

B.1 Distribution of on and off-balance sheet credit exposures with customers by business segment (book value)

Exposures/Counterparts	Governments			Other public bodies			Financial companies			Insurance companies			Non-financial companies			Other parties		
	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
A. On-balance sheet exposures																		
A.1 Non-performing loans	-	-	-	-	-	-	271	908	-	-	-	-	126,219	112,558	-	35,632	17,238	-
A.2 Substandard loans	-	-	-	-	-	-	665	238	-	-	-	-	151,140	32,208	-	23,840	3,027	-
A.3 Restructured loans	-	-	-	-	-	-	5,017	160	-	-	-	-	12,708	1,520	-	-	-	-
A.4 Past due loans impaired	-	-	-	-	-	-	-	-	-	-	-	-	17,506	1,146		10,438	683	
A.5 Other exposures	1,040,389	-	-	21,837	-	80	199,301	-	221	-	-	-	1,722,634	-	15,388	633,370	-	2,274
Total A	**1,040,389**	**-**	**-**	**21,837**	**-**	**80**	**205,254**	**1,306**	**221**	**-**	**-**	**-**	**2,030,207**	**147,432**	**15,388**	**703,280**	**20,948**	**2,274**
B. Off-balance sheet exposures																		
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	113	196	-	249	58	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-	-	-	15,157	1,721	-	145	4	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	610	14	-	483	5	-
B.4 Other exposures	-	-	-	2,615	-	-	16,300	-	-	-	-	-	118,647	-	-	10,636	-	-
Total B	**-**	**-**	**-**	**2,615**	**-**	**-**	**16,300**	**-**	**-**	**-**	**-**	**-**	**134,527**	**1,931**	**-**	**11,513**	**67**	**-**
Total (A+B) 31/12/2014	**1,040,389**	**-**	**-**	**24,452**	**-**	**80**	**221,554**	**1,306**	**221**	**-**	**-**	**-**	**2,164,734**	**149,363**	**15,388**	**714,793**	**21,015**	**2,274**
Total (A+B) 31/12/2013	**978,745**	**-**	**-**	**23,816**	**-**	**17**	**98,149**	**676**	**23**	**-**	**-**	**-**	**2,315,466**	**95,917**	**13,700**	**730,198**	**15,147**	**2,178**

B.2 Breakdown of on and off-balance sheet credit exposures with customers by geographical segment (book value)

Exposure/region	Italy		Other European countries		America		Asia		Rest of world	
	Net exposure	**Total impairment**	**Net exposure**	**Total impairment**	**Net exposure**	**Total impairment**	**Net exposure**	**Total impairment**	**Net exposure**	**Total impairment**
A. On-balance sheet exposures										
A.1 Non-performing loans	162,032	130,694	90	9	-	-	-	-	-	-
A.2 Substandard loans	175,403	35,443	244	31	-	-	-	-	-	-
A.3 Restructured loans	17,724	1,680	-	-	-	-	-	-	-	-
A.4 Past due loans impaired	27,944	1,829	-	-	-	-	-	-	-	-
A.5 Other exposures	3,560,617	17,932	55,974	-	933	30	-	-	6	-
Total	**3,943,720**	**187,578**	**56,308**	**40**	**933**	**30**	**-**	**-**	**6**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing loans	363	254	-	-	-	-	-	-	-	-
B.2 Substandard loans	15,301	1,727	-	-	-	-	-	-	-	-
B.3 Other impaired assets	1,093	18	-	-	-	-	-	-	-	-
B.4 Other exposures	148,078	-	-	-	120		-	-	-	-
Total	**164,835**	**1,999**	**-**	**-**	**120**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2014	**4,108,555**	**189,577**	**56,308**	**40**	**1,053**	**30**	**-**	**-**	**6**	**-**
Total (A+B) 31/12/2013	**4,145,323**	**127,613**	**127**	**16**	**924**	**28**	**-**	**-**	**-**	**-**

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

B.3 Breakdown of on and off-balance sheet credit exposures with banks by geographical segment (book value)

Exposure/region	Italy		Other European countries		America		Asia		Rest of world	
	Net exposure	**Total impairment**	**Net exposure**	**Total impairment**	**Net exposure**	**Total impairment**	**Net exposure**	**Total impairment**	**Net exposure**	**Total impairment**
A. On-balance sheet exposures										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-
A.4 Past due loans impaired	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	95,754	-	13,898	-	478	-	103	-	185	-
Total	**95,754**	**-**	**13,898**	**-**	**478**	**-**	**103**	**-**	**185**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	3,420	-	230	-	-	-	100	-	-	-
Total	**3,420**	**-**	**230**	**-**	**-**	**-**	**100**	**-**	**-**	**-**
Total (A+B) 31/12/2014	**99,174**	**-**	**14,128**	**-**	**478**	**-**	**203**	**-**	**185**	**-**
Total (A+B) 31/12/2013	**105,933**	**-**	**3,980**	**-**	**12,284**	**-**	**133**	**-**	**50**	**-**

B.4 Large exposures

As defined in EU Regulation 575/2013 (CRR), “Large exposures” are exposures to a customer or a group of related customers when their value is equal or greater than 10% of eligible capital of the body (Article 392), without applying weighting amounts.
Whereas limit to large exposures (Article 395 CRR), considering the mitigating effect of credit risk (weighted values), means 25% of the eligible capital of the Bank; if the customer is a body, or if within the group of related customers there is a body, the limit is increased to Euro 150 million if the value calculated at 25% is less than the above-mentioned amount.

The term exposure includes both on- and off-balance sheet loans and receivables; in any case, the aggregate amounts include exposures to Central European Governments, for debt securities, in particular.

As at 31 December 2014, “Large exposures” include:
- no. 3 exposures to customers for a nominal amount of Euro 156,205 thousand and a weighted amount of Euro 88,589 thousand,
- no. 1 exposure to a financial intermediary for a nominal amount of Euro 40,551 thousand and a weighted amount of Euro 40,112 thousand,
- the exposure to Italian government (Ministry of the Treasury) of Euro 1,067,769 thousand, weighted Euro 51,645 thousand; this item includes, in addition to the exposure for debt securities, credit for tax assets,
- the exposure to the Republic of Portugal, nominal Euro 56,324 thousand, no weighting (debt securities),
- the exposure to NewMic, body qualified as Cassa di Compensazione e Garanzia (central counterpart) totalling a nominal amount of Euro 129.9 million, 100% weighted, exposure (consisting of Euro 120 million of loans with maximum maturity 07/01/15 and Euro 9.9 million of guarantee deposits (default fund)) for which the obligation envisaged in Article 396 of the CRR Regulation was notified.

In total, “Large exposures” include 7 exposures for a total nominal value of Euro 1,450,784 thousand and a weighted amount of Euro 310,280 thousand.

C. Securitisations and transfer of assets

C.1 Securitisation transactions

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.
As at 31 December 2014, the Bank had a self-securitisation transaction on performing mortgages loans to private individuals known as “Valsabbina SPV 1”, concluded in 2012 with the intention of putting in place funding transactions with the Central European Bank.
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 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: 12/12/2011
- 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 2014, the residual capital to accrue amounted to Euro 206,931 thousand, with accruals for Euro 117 thousand.
As part of the above-mentioned transaction, the ABS securities indicated below were issued, all subscribed by the *originator:*
• *senior tranche* of 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* of Euro 100,100 thousand (fully subscribed by the Bank) without any rating.

As at 31 December 2014, the situation of the securities issued in correspondence with the securitisation transaction was as follows:
• *residual senior tranche* of Euro 108,114 thousand;
• *junior tranche* of nominal Euro 100,100 thousand.

In January 2015, the size increase of the previous securitisation was concluded, with an additional sale of residential mortgage loans of Euro 150,869 thousand and a cash integration of Euro 5.1 million; in connection with this sale, the amount of the senior security recorded an increase of Euro 156,701 thousand, whereas the value assigned to the junior security remained unchanged.
As a result of the restructuring of the transaction, the rating was revised by the agencies; DBRS confirmed its rating at "AAA", while Moody's upgraded the rating level to "AA2".

The Bank, as originator, signed at the time of issue all the liabilities issued (self-securitisation); therefore, the following parts of this section are not drawn up.

D. Information on structured entities not consolidated for accounting purposes (other than special purpose vehicles for securitisation)

Qualitative information
Quantitative information

The section is not drawn up because the Bank does not use structured entities not consolidated for accounting purposes other than special purpose vehicles for securitisation.

E. Transfers of assets

Qualitative information
Quantitative information

The section is not drawn up because both as at 31 December 2014 and at the end of the previous financial year there were no transfers (for example Repurchase agreements) other than the securitisation described in a previous section.

F. Credit risk measurement models

The models and the procedures aimed at classifying the customers in risk classes are used, 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 risk
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 transactions that during the year affected the trading book were marginal.

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 process and measurement methods for the interest rate risk and the price risk

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).

In consideration of the non-significance of the trading book, the measurement of interest rate risk and price risk was carried out solely on the banking book.

Quantitative information

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

Type/Residual duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Beyond 10 years	Unspecified maturity
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**7,971**	**6,265**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	7,971	6,265	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	7,971	6,265	-	-	-	-	-
+ long positions	-	5,342	3,135	-	-	-	-	-
+ short positions	-	2,629	3,130	-	-	-	-	-

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

Type/Residual duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Beyond 10 years	Unspecified maturity
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**8,788**	**6,425**	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	8,788	6,425	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	8,788	6,425	-	-	-	-	-
+ long positions	-	3,018	3,212	-	-	-	-	-
+ short positions	-	5,770	3,213	-	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity securities and share indices for the main countries in the listing market

TYPE OF TRANSACTIONS/PRICE INDEX	LISTED		UNLISTED
	ITALY	OTHER	
A. Equity securities	**2**	**-**	**-**
long positions	2	-	-
short positions	-	-	-
B. Unsettled transactions involving equity securities	**-**	**-**	**-**
long positions	-	-	-
short positions	-	-	-
C. Other derivatives on equity securities	**-**	**-**	**-**
long positions	-	-	-
short positions	-	-	-

D. Derivatives on share indices	-	-	-
long positions	-	-	-
short positions	-	-	-

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

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 procedures and methods of measuring interest rate risk and price risk

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 management of the bank assets and liabilities and is aimed at stabilising the net interest income and safeguarding the economic value of the bank book.
In particular, the management of the bond portfolio is based primarily on maintaining the liquidity reserves of the Bank.
The measurement of the interest rate risk is carried out by the Risk Management, Planning and Control Service. The assessment takes place on a monthly basis; in particular, 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 equity and income statement effects, induced by hypothetic shocks of the market rates. Said shocks are processed as part 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 that unexpected changes in the external market conditions have on the Bank's profitability, also offering the possibility of estimating the change in the expected net interest income and the business value of assets, based on the monthly balance sheet data.
For the purpose of measuring the variability of the net interest income, 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 that 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 measurement of the sensitivity of the economic value of assets and liabilities of the Bank to changes in interest rates is carried out through the "Duration Gap" and "Sensitivity Analysis".

The source of the price risk, given the marginal nature of the regulatory trading book, is mainly represented by debt securities, equities and UCIT units 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 on the Value at Risk (VaR) concept, in order to express, synthetically and in monetary terms, the maximum probable loss incurred by a static portfolio with reference to a specific time horizon and a specific level of confidence in normal market conditions. For the calculation of the VaR, the Risk Management, Planning and Control Service uses the ERMAS application, provided by Prometeia. The financial information necessary for the determination of VaR (volatility, correlations, forward structure of the interest rates, exchange rates, stock and benchmark indices) is provided by the Risk Size product. The VaR model adopted is parametric and it prudentially uses a confidence interval of 99% and a time period of 10 days. The measurement of the VAR takes place by taking into consideration the link (known as beta ratio) that exists between the individual instrument and the related risk factor.
The Risk Management, Planning and Control Service calculates the V.a.R. separately on a daily basis for the securities portfolio managed internally by the Financial Sector of the Bank and for the portfolio, mainly consisting of UCIT units, assigned under management to two external operators.
Backtesting analysis has also been prepared (or rather an 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).
According to the “backtesting” analysis carried out in 2014, VaR was exceeded in only 2 cases, calculated for the securities portfolio managed internally, whereas with reference to portfolios under management to external operators, there were no cases of overrunning.

With regard to the quantification of the price risk with reference to equity securities, the stock market listing (for listed securities), the measurements of shareholders' equity (for securities with a particular strategic valence), the prices of any transactions that 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). During 2014, the bank formalised in the document called “fair value policy” the policies concerning the methods of measurement of the financial instruments in the portfolio.
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).

The duration of the Bank’s securities portfolio as at 31 December 2014 was equal to 655 days decreasing considerably compared with 31 December 2013 of 1,424 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 hedges

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

C. Cash flow hedges.

The Bank has not carried out any cash flow hedge.

D. Hedging of investments in foreign operations.

As at 31 December 2014, the Bank held in its portfolio Government securities of other countries of the Eurozone totalling Euro 55 million, for which there were no transactions hedging the country risk.

Quantitative information

1. Banking book: distribution by residual maturity (by re-pricing date) of financial assets and liabilities

Type/Residual duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Beyond 10 years	Unspecified maturity
1. On-balance sheet assets	**1,898,468**	**963,874**	**373,242**	**87,210**	**620,320**	**127,879**	**24,793**	-
1.1 Debt securities	10,055	132,597	334,347	49,855	457,849	87,890	7,736	-
- with early repayment option	-	-	-	-	98	-	-	-
- other	10,055	132,597	334,347	49,855	457,751	87,890	7,736	-
1.2 Loans and receivables with banks	6,896	53,788	-	-	-	-	-	-
1.3 Loans and receivables with customers	1,881,517	777,489	38,895	37,355	162,471	39,989	17,057	-
- Current account	591,066	3	12	4,632	26,783	9,312	22	-
- other loans	1,290,451	777,486	38,883	32,723	135,688	30,677	17,035	-
- with early repayment option	1,177,552	629,630	37,296	18,707	40,770	14,977	16,719	-
- other	112,899	147,856	1,587	14,016	94,918	15,700	316	-
2. On-balance sheet liabilities	**2,137,762**	**515,969**	**132,256**	**244,916**	**802,030**	**61,238**	-	-
2.1 Due to customers	1,713,614	165,464	68,484	46,910	25,636	-	-	-
- Current account	1,674,060	105,461	68,484	46,910	25,636	-	-	-
- other payables	39,554	60,003	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	39,554	60,003		-	-	-	-	-
2.2 Due to banks	422,253	230,007	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	422,253	230,007	-	-	-	-	-	-
2.3 Debt securities	1,139	120,498	63,772	198,006	776,394	61,238	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	1,139	120,498	63,772	198,006	776,394	61,238	-	-
2.4 Other liabilities	756	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	756	-	-	-	-	-	-	-
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	**56,689**	-	-	-	-	-	-	-
+ long positions	28,345	-	-	-	-	-	-	-
+ short positions	28,344	-	-	-	-	-	-	-

1. Banking book: distribution by residual maturity (by re-pricing date) of financial assets and liabilities - Currency: OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Beyond 10 years	Unspecified maturity
1. On-balance sheet assets	**4,574**	**10,095**	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans and receivables with banks	1,548	8,245	-	-	-	-	-	-
1.3 Loans and receivables with customers	3,026	1,850	-	-	-	-	-	-
- current account	674	-	-	-	-	-	-	-
- other loans	2,352	1,850	-	-	-	-	-	-
- with early repayment option	2,352	1,850	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**12,655**	-	-	-	-	-	-	-
2.1 Due to customers	12,655	-	-	-	-	-	-	-
- current account	12,655	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- Current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment 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 transactions	-	**50**	-	-	-	-	-	-
+ long positions	-	25	-	-	-	-	-	-
+ short positions	-	25	-	-	-	-	-	-

2. Banking book: internal models and other sensitivity analysis methods

The measurement of the interest rate risk according to the second pillar is first of all carried out on the basis of the standard algorithm envisaged by Circular No. 285 of 2013, by means of the creation of a summary index which expresses the ratio between the change in the net value of the banking book against an interest rate shock (+/- 200 base points) and "own funds”. The Bank has always maintained the risk index at a level lower than the warning threshold established by the regulations (20%). The change in the economic value of the bank book is also calculated in the presence of a negative and positive interest rate shocks which represent the 1st percentile and the 99th percentile of the changes in the market rates recorded over the last 6 years.
The measurement of the interest rate risk occurs also for internal management purposes by using the ERMAS procedure that allows to quantify the effects, both on the net value of the banking book and on the expected net interest income, resulting from hypothetical shocks in market rates (for example assuming changes in the interest-rate curve and by applying different scenarios). The use of the ERMAS procedure also allows 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 measurement methods for exchange-rate risk

The Bank is exposed to the exchange-rate risk to a marginal extent, since it is always focused on the daily break-even of the currency 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, offset the specific request of the customer and without taking any risk positions.
The exchange-rate risk is managed by means of operating limits, intraday and day end; furthermore, the internal Regulations establish stop loss operating limits both on single positions and on the overall position assumed by the Bank.
With regard to the securities portfolio contracted out to external operators, the "management mandate" envisages investment restrictions in currencies other than the euro.

B. Exchange-rate risk hedging

The primary objective of the Bank is to prudently manage the exchange-rate risk; therefore, transactions involving the taking of this risk are managed through appropriate hedging strategies.

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	US dollars	Yen	Swiss francs	Sterling	Icelandic krona	Other currencies
A. Financial assets	**17,951**	**1,614**	**730**	**208**	**192**	**194**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	6,222	-	-	-	-	-
A.3 Loans and receivables with banks	9,013	102	84	206	192	194
A.4 Loans and receivables with customers	2,716	1,512	646	2	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**140**	**7**	**101**	**62**	**-**	**99**
C. Financial liabilities	**11,933**	**-**	**316**	**11**	**187**	**207**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	11,933	-	316	11	187	207
C.3. Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**12,360**	**2,065**	**499**	**257**	**-**	**31**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	12,360	2,065	499	257	-	31
+ long positions	6,215	-	-	-	-	16
+ short positions	6,145	2,065	499	257	-	15
Total assets	**24,306**	**1,621**	**831**	**270**	**192**	**309**
Total liabilities	**18,078**	**2,065**	**815**	**268**	**187**	**222**
Difference (+/-)	**6,228**	**(444)**	**16**	**2**	**5**	**87**

2. Internal models and other sensitivity analysis methods

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

2.4 Derivative instruments

A. Financial derivatives

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

Underlying assets/Types of derivatives	Total 31/12/2014		Total 31/12/2013	
	Over the counter	Central counterparts	Over the counter	Central counterparts
1. Debt securities and interest rates	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	**14,610**	**-**	**42,039**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	14,610	-	42,039	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**14,610**	**-**	**42,039**	**-**
Average amounts	**-**	**-**	**-**	**-**

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

Underlying assets/Types of derivatives	Positive fair value			
	Total 31/12/2014		Total 31/12/2013	
	Over the counter	Central counterparts	Over the counter	Central counterparts
A. Regulatory trading book	**179**	**-**	**195**	
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	179	-	195	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book- other derivatives	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	**179**	**-**	**195**	**-**

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

Portfolios/Types of derivatives	Negative fair value			
	Total 31/12/2014		Total 31/12/2013	
	Over the counter	Central counterparts	Over the counter	Central counterparts
A. Regulatory trading book	**215**	**-**	**400**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
d) Forward	215	-	400	-
e) Futures	-	-	-	-
f) Others	-	-	-	-
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
d) Forward	-	-	-	-
e) Futures	-	-	-	-
f) Others	-	-	-	-
C. Banking book- other derivatives	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Futures	-	-	-	-
f) Others	-	-	-	-
Total	**215**	**-**	**400**	**-**

A.5 OTC financial derivatives - regulatory trading book: notional amounts, positive and negative gross fair value by counterpart - contracts not included in netting agreements

Contracts not included in 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 amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Equity securities and share indices	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold	**-**	**-**	**9,038**	**-**	**-**	**6,112**	**-**
- notional amount	-	-	8,721	-	-	5,889	-
- positive fair value	-	-	130	-	-	49	-
- negative fair value	-	-	100	-	-	115	-
- future exposure	-	-	87	-	-	59	-
4) Other values	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.9 Residual maturity of OTC financial derivatives: notional amounts

Underlying/Residual life	Up to 1 year	From 1 year to 5 years	Beyond 5 years	Total
A. Regulatory trading book	**14,610**	-	-	**14,610**
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	14,610	-	-	14,610
A.4 Financial derivatives on other values	-	-	-	-
B. Banking book	-	-	-	-
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
B.2 Financial derivatives on equity securities and share indices	-	-	-	-
B.3 Financial derivatives on currencies and gold	-	-	-	-
B.4 Financial derivatives on other values	-	-	-	-
Total 31/12/2014	**14,610**	-	-	**14,610**
Total 31/12/2013	**42,039**	-	-	**42,039**

A.10 Financial derivatives OTC: counterparty 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 directly subscribed in 2014.
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 measurement methods for 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 efficiently meet 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 market rates.

The overall model adopted by the bank for managing and monitoring the liquidity risk is divided up into three distinct areas according to the reference scope, time horizon 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 the Bank takes part in;
- the management of the operating liquidity, or rather the management of the most volatile events that 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 costs; in this context, the recognition of imbalances between incoming and outgoing sources as well as the related system of supervisory limits, focus in particular on the maturities up to six 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 that has the aim of reporting the effects of the investment/financing transactions by means of the distribution by maturity of the transactions. Operations are measured by using the Asset and Liability Management (A.L.M) method, via the Prometeia ERMAS application, which makes it possible to measure and manage both any liquidity requirement/surplus of the Bank generated by the imbalance between 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 its various time brackets, for the purpose of calculating the cumulative GAP for each maturity bracket.
As part 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 that can be reimbursed, sold or used in refinancing transactions with the interbank system and that 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. The document indicates, in detail, the individuals and the structures responsible for the implementation of the extraordinary funding policies in the event of need, as well as the actions to be adopted to remedy them, in accordance with the regulatory requirements envisaged by the new prudent supervisory regulations.
As part 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 2014, the Bank implemented the measurement of the “Liquidity Coverage Ratio” (LCR) and “Net Stable Funding Ratio” (NSFR) indicators envisaged by the Basel III Framework. In particular, the calculation of the LCR indicator was further implemented on the basis of the Delegated Regulation of 10 October 2014 supplementing EU Regulation No. 575 of 26 June 2013 of the European Parliament (CRR Regulations), while the NSFR indicator was defined on the basis of the document of the Basel Committee of January 2014.

For an improved management of the liquidity, 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).

The Bank, in order to increase its self-financing capacity at the interbanking system, restructured in January 2015 the securitisation completed in 2012 with the transfer of the Special purpose vehicle Valsabbina SPV 1 of a new residential mortgage loan portfolio. The transfer of the new portfolio allowed the special-purpose vehicle company to issue a new tranche of the senior security of Euro 156.7 million, fully subscribed by the Bank. The transaction allowed to improve the liquidity profile of the Bank by increasing the “collateral” that can be used in refinancing transactions with the ECB of approximately Euro 133 million.

Quantitative information

1. Distribution of financial assets and liabilities by residual contractual maturity
- Currency: EURO

Items/Time periods	on demand	from 1 to 7 days	from 7 to 15 days	from 15 days to 1 month	from 1 to 3 months	from 3 months to 6 months	from 6 months to 1 year	from 1 year to 5 years	Beyond 5 years	Unspecified
On-balance sheet assets	**752,256**	**166,137**	**6,090**	**67,144**	**237,287**	**89,921**	**297,960**	**1,663,189**	**993,944**	**13,788**
A.1 Government securities	30	-	19	-	2,698	6,262	126,215	705,000	170,000	-
A.2 Other debt securities	-	-	-	-	2,739	330	928	33,331	3,230	-
A.3 UCIT units	120,652	-	-	-	-	-	-	-	-	-
A.4 Loans	631,574	166,137	6,071	67,144	231,850	83,329	170,817	924,858	820,714	13,788
- banks	6,896	40,000	-	-	-	-	-	-	-	13,788
- customers	624,678	126,137	6,071	67,144	231,850	83,329	170,817	924,858	820,714	-
On-balance sheet liabilities	**1,719,490**	**264,725**	**9,766**	**33,803**	**456,383**	**100,371**	**298,573**	**976,543**	**60,432**	-
B.1 Deposits and current accounts	1,713,786	5,941	7,325	32,472	60,355	69,153	47,661	25,355	-	-
- banks	-	-	-	-	-	-	-	-	-	-
- customers	1,713,786	5,941	7,325	32,472	60,355	69,153	47,661	25,355	-	-
B.2 Debt securities	4,837	98,779	2,441	1,331	10,195	31,218	250,912	781,188	60,432	-
B.3 Other liabilities	867	160,005	-	-	385,833	-	-	170,000	-	-
Off-balance sheet transactions	**32,921**	**311**	**4,191**	**919**	**4,093**	**6,975**	**2,207**	**14,072**	**5,236**	-
C.1 Financial derivatives with exchange of principal	-	311	4,191	369	3,100	6,265	-	-	-	-
- long positions	-	271	3,231	289	1,551	3,134	-	-	-	-
- short positions	-	40	960	80	1,549	3,131	-	-	-	-
C.2 Financial derivatives w/o exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	32,921	-	-	550	993	710	2,207	14,072	5,236	-
- long positions	4,576	-	-	550	993	710	2,207	14,072	5,236	-
- short positions	28,345	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-

- short positions	-	-	-	-	-	-	-	-	-	-

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

Items/Time periods	on demand	from 1 to 7 days	from 7 to 15 days	from 15 days to 1 month	from 1 to 3 months	from 3 months to 6 months	from 6 months to 1 year	from 1 year to 5 years	Beyond 5 years	unspecified
On-balance sheet assets	**10,812**	**227**	**330**	**8,662**	**901**	**-**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCIT units	6,222	-	-	-	-	-	-	-	-	-
A.4 Loans	4,590	227	330	8,662	901	-	-	-	-	-
- banks	1,548	-	-	8,249	-	-	-	-	-	-
- customers	3,042	227	330	413	901	-	-	-	-	-
On-balance sheet liabilities	**12,655**	**-**	-	-	-	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	12,655	-	-	-	-	**-**	-	-	-	-
- banks	-	-	-	-	-	**-**	-	-	-	-
- customers	12,655	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	-	**362**	**4,299**	**373**	**3,804**	**6,425**	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	312	4,299	373	3,804	6,425	-	-	-	-
- long positions	-	40	988	82	1,907	3,212		-	-	
- short positions	-	272	3,311	291	1,897	3,213	-	-	-	-
C.2 Financial derivatives w/o exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	-	50	-	-	-	-	-	-	-	-
- long positions	-	25	-	-	-	-	-	-	-	-
- short positions	-	25	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

2. Information on recognised tied up assets

EXPOSURE / PORTFOLIO	Tied up		Not tied up		TOTAL 31/12/2014	TOTAL 31/12/2013
	BV	FV	BV	FV		
1. Cash and cash equivalents	-	-	13,513	-	13,513	14,580
2. Debt securities	1,016,546	1,016,546	63,783	63,783	1,080,329	1,013,233
3. Equity securities	-	-	13,790	13,790	13,790	15,424
4. Loans	216,560	-	2,814,496	-	3,031,056	3,066,352
5. Other financial assets	-	-	128,428	-	128,428	15,246
6. Non-financial assets	-	-	128,075	-	128,075	114,435
Total 31/12/2014	**1,233,106**	**1,016,546**	**3,162,885**	**77,573**	**4,395,191**	**X**
Total 31/12/2013	**793,726**	**561,089**	**3,445,544**	**467,569**	**X**	**4,239,270**

Key:
BV = book value
FV = fair value

The tied-up debt securities include securities guaranteeing refinancing transactions with the ECB, while the amount of the tied-up loans relates to securitised mortgage loans.

3. Information on unrecognised tied up owned assets

EXPOSURE / PORTFOLIO	Tied up	Not tied up	TOTAL 31/12/2014	TOTAL 31/12/2013
1. Financial assets	**108,114**	**138,828**	**246,942**	**397,689**
- Securities	108,114	138,828	**246,942**	397,689
- Other	-	-	-	-
2. Non-financial assets	-	-	-	-
Total 31/12/2014	**108,114**	**138,828**	**246,942**	**X**
Total 31/12/2013	**290,736**	**106,954**	**X**	**397,689**

The amount illustrated relates to the securities received in the securitisation transaction and the securities issued by the Bank and repurchased, divided between tied up and not tied up.

Section 4 - Operational risks

Qualitative information

A. General aspects, management processes and measurement methods for operational risk

The operational risk is defined as the risk of incurring losses resulting from inadequacy or inefficiency of procedures, human resources and internal systems, or 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 management of the types of operational risk, within which it avails itself of specific functions:

- the Internal Audit, whose activities on the one hand are aimed at checking the regularity of the operations and the trend of the risks, and on the other hand at assessing the functioning of the overall internal control system;
- the Control Body pursuant to Legislative Decree No. 231/2001, whose composition and functioning are regulated by means of specific regulations, within the adopted Organisational, management and control Model;
- Risk Management, which responds to the need to report and measure the typical risks of the banking business by means of constant monitoring of those taken and those potentially generated by the investment, lending and service policies;
- Compliance, 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:

- Collection of data on the operational loss events (Loss Event Collection): this represents the collection and registration process for the operational loss data that 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 that 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 (Loss Data Collection) that generate losses used to carry out statistical processing of the losses that have occurred and the causes that have led to the same.

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

The objectives intended to be pursued by means of the aforementioned 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 that sees to the management of the report and its insertion in the procedure (Loss Data Collection). The validation and the consolidation is carried out by the Risk Management/Planning and Control 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.
Risk containment is achieved through the use of regulatory, organisational and procedural measures and training.
Any critical area, identified through joint analysis of various sources of data, is examined in further depth by department managers who, together with the Risk Management/Planning and Control Service, establish the appropriate corrective action.

As part of the Risk Assessment activities, the events indexed over the last three years, 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 prudential supervisory provisions for banks”.

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

- the Business continuity plan, aimed at protecting the Bank in the presence of critical events that 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.

The Bank adopted, for the calculation of the capital requirement in the presence of operational risk, the Basic Indicator Approach (BIA), according to which the capital covering this type of risk equates to 15% of the average of the "basic indicator" of the last three financial years, calculated pursuant to Articles 315 and 316 of the CRR Regulations.
The capital absorption for this type of risk as at 31 December 2014 came to Euro 14,817 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):

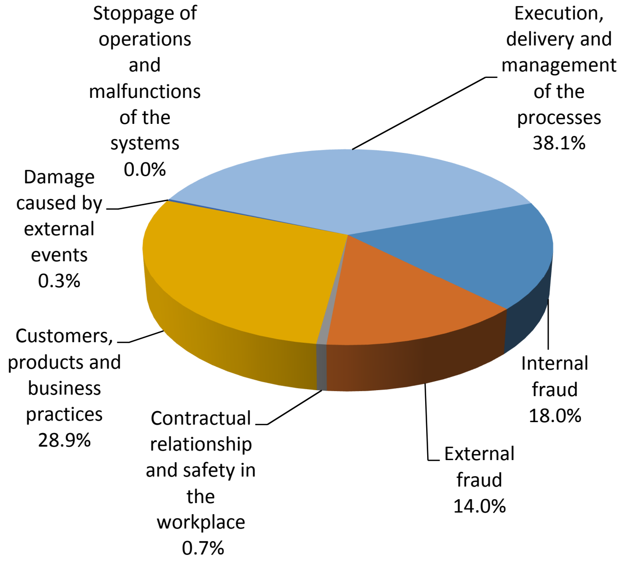
	Robberies		Claims		
	No.	**Amount Euro 000**	**No. received**	**No. accepted**	**Reimbursements Euro 000s**
2009 financial year	7	23	78	19	20
2010 financial year	3	10	74	17	28
2011 financial year	3	6	84	28	26
2012 financial year	2	10	86	29	107
2013 financial year	2	26	109	26	231
2014 financial year	2	2	153	33	38

in addition to provisions for risks and charges relating to actions against the Bank of Euro 402 thousand.

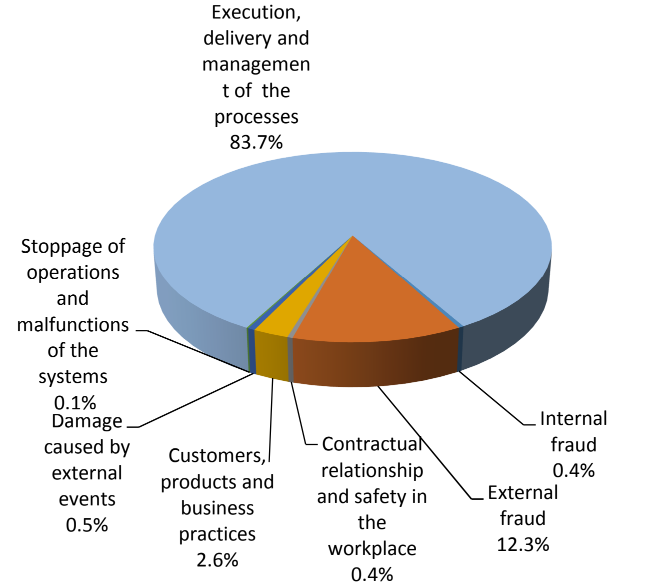
With regard to the loss data, inserted in the Bank's Loss Data Collection archive in the three-year period from 2012 to 2014, the distribution by type of loss is presented below, with indication by impact to the income statement and by number of occurrence, according to the classification of the events envisaged by the new Supervisory provisions.

Incidence of the operational losses by type of event (2012 - 2014 survey)

Breakdown by economic impact



Breakdown by number of events



Public disclosure

The information regarding capital adequacy, exposure to risks and the characteristics of the systems in charge of the identification, measurement and management of these risks envisaged by the New prudential supervisory provisions for banks (Circular No. 285 of 17 December 2013), in Section III "Public disclosure", is published on the Bank's website: www.lavalsabbina.it.