# The right direction.

# Financial Statements

# 2013

Iccrea Banca

*Annual report and financial statements 2013*
*Iccrea Banca S.p.A.*

**Iccrea Banca S.p.A.**
Registered office: Via Lucrezia Romana 41/47 - 00178 Rome
Company Register and Tax ID no. 04774801007 - R.E.A. of Rome no. 801787
Share capital: € 216,913,200 fully paid up
Member of the Iccrea Banking Group
Entered in the register of banking groups at no. 20016
Subject to management and control of Iccrea Holding S.p.A.

*Design & Print:* GRAFOSTAMPA - *www.grafostampa.it*

Iccrea Banca

## Corporate bodies
2013 - 2015

### Board of Directors

| | |
|---|---|
| CARRI Francesco | Chairman |
| COLOMBO Annibale | Deputy Chairman |
| FIORELLI Bruno | Deputy Chairman |
| BONACINA Gianfranco * | |
| BUDA Pierino | |
| CAPOGROSSI Maurizio | |
| MAZZOTTI Roberto | |
| MICHIELIN Gianpiero | |
| MOTTA Flavio *since 16/04/2014 | |
| PALDINO Nicola | |
| RAVAGLIOLI Domenico | |
| SAPORITO Salvatore | |

### Board of Auditors

| | |
|---|---|
| GASPARI Luigi | Chairman |
| CATAROZZO Camillo | Auditor |
| NAPPINI Eros | Auditor |
| DE ROSI Antonio * | Sindaco supplente |
| GIUDICI Massimo *since 23/04/2013 | Sindaco supplente |
| MASCARELLO Santiago | Alternate |

### General manager

RUBATTU Leonardo

# CONTENTS

# Overview of 2013

## OVERVIEW OF 2013

Despite increased optimism around the world and improvements in liquidity and the perception of Italy's creditworthiness, 2013 was another year of significant uncertainty and volatility in both the return on lending and the cost of funding, as well as important changes in the European legislative and competitive landscape. Although Iccrea Banca focuses on the domestic local banking market, the bank operates in segments and markets that feature a high degree of diversity and complexity as well as intense competition and which are affected by European developments (e.g. payment systems and electronic money) and, often, global dynamics (e.g. corporate finance and securities services). Within this context, Iccrea Banca has further strengthened its role as the finance hub for the Group and for the mutual banking system, continuing to support both the mutual banks and the companies of the Iccrea Banking Group with a series of initiatives on the domestic and international money, financial and collateralized markets aimed both at ensuring optimal levels of liquidity and optimizing the return on assets.

The significant decline in yields on government securities was offset through dynamic portfolio management, which made it possible to achieve sufficient profit margins to support the returns offered to the mutual banks on the various forms of short and long-term lending, despite the high levels of uncertainty and volatility in market parameters.

As concerns the management of liquidity for the mutual banking system, mutual banks have increased their use of collateralized funding, both through operations with the ECB and with market counterparties, while the improved outlook for Italian sovereign risk has made it possible to carry out fully funded collateralized transactions with maturities of up to 30 months. On the whole, collateralized financing issued by the mutual banks using collateral pool mechanisms went from €16.3 billion at the end of 2012 to €18.5 billion in at the end of December 2013.

The improvement in the Group's liquidity and the encouraging market conditions also made it possible in the early part of the year for Iccrea Banca to repay €2.2 billion of the money borrowed in long-term refinancing operations (LTROs). The remaining involvement in the two three-year operations amounted to €10.4 billion at year end.

With regard to our range of investment instrument, we have maintained the extensive offering of term deposits, investment accounts and bonds, the latter to be held both by the banks themselves and by their customers.

Again in 2013, we maintained a floor on the EONIA rate of 0.25% for liquidity being employed by the mutual banks for short-term lending on the daily settlement account, with an average balance of about €4 billion. Other treasury instruments, which posted volumes of about €3 billion, offered a spread of up to 50 basis points over investments in government securities of similar maturity.

In 2013, 16 bond issues were placed through the mutual banking network for a total of over €960 million. Placement fees paid totaled about €4.1 million. The bonds offered to the mutual banks also met the refinancing requirements of the ECB so that they can be included among the liquidity reserves required by supervisory regulations and company policy. In November 2013, a €500 million, three-year public issue was carried out on the international markets within the framework of the EMTN program and was subscribed to by mutual banks in the amount of €175 million.

Within the scope of structured financing activities to support the mutual banks, two securitization transactions were executed, one of residential loans ("CF12") and the other of commercial loans for a total nominal value of €1.3 billion ("CF14").

At the end of 2013, we also began structuring activities for a transaction with underlying commercial loans, "Credico Finance 15", with 17 mutual banks expressing an interest in an estimated total of €600 million. The transaction calls for issuing two categories of senior notes. One, which will be backed by a guarantee from the European Investment Fund, will be placed with institutional investors, while the other will be subscribed by the European Investment Bank (EIB).

In order to continue improving the services provided to the mutual banks, we have launched a number of initiatives, including an initiative related to the ABACO project, which will make it possible to use bank loans in operations with the ECB. We have also begun implementing a new front-office system for more advanced risk management given the high volumes of operations that we have now reached. The creation of an integrated treasury dashboard in order to manage both liquidity and collateral more efficiently has been included in the planning activities for 2013 in coordination with the T2S project.

As concerns intermediation in government securities, 2013 was marked another significant increase in volumes handled by the mutual banks, reaching a total of about €145 billion in both direct trading and order collection, thereby keeping Iccrea Banca among the leading players in the industry.

With regard to the trading of liquid and illiquid securities, over 2,000 bond issues were traded, providing the mutual banks with timely, efficient order execution. We also placed some 100 issues on the primary bond market (Eurobond) and repurchased securities that we issued in the total amount of €116 million.

With regard to order collection, we completed the installation of the new trading platform in the first half of 2013. This platform will ensure even greater efficiency in accessing financial markets and achieving dynamic best execution. At the same time, we issued the new, advanced trading module, "FT Console".

Currency operations were carried out within the scope of ordinary activities for the mutual banks and for customers through the webfin trading portal, with saw the following activity:

- 98,000 FX-spot contracts for a total of about €2.2 billion;
- 4,700 FX-outright contracts for a total of about €0.8 billion;
- 1,500 FX-swap transactions for a total of about €5.5 billion, in particular for the Group's asset management firm.

In terms of lending in 2013, Iccrea Banca continued its support of the mutual banks by offering a range of financing solutions aimed at meeting the various ordinary and extraordinary operating needs of their customers.

These initiatives included the process of counterparty credit rating with the goal of providing full and timely support to the mutual banks through lines of credit tailored to their capabilities that meets their funding and liquidity needs, as well as providing credit facilities appropriate to operations in the Bank's various lines of business.

In 2013, Iccrea Banca provided the mutual banks with financial support through 695 financing transactions in the form of loans and operational credit ceilings. Lending continued to rise, reaching €19,008 million by the end of 2013 (of which €18,671 million to mutual banks and €337 million to other banks), thereby confirming Iccrea Banca's preeminent role as the intermediary of the Italian mutual banking movement.

More specifically, of the total financing authorized, 241 concerned lines of credit granted to the mutual banks and other banks served indirectly, 121 of which related to new or increased financing under the "collateral pool" instrument.

Uses of lines of credit largely concerned treasury lines backed by these collateral pools (€18,503 million). The remainder was in bonds subscribed by the Bank in order to support the medium and long-term funding of the mutual banks (€505 million).

Several targeted actions were also taken to support mutual banks facing particular difficulties, sometimes in collaboration with other central institutions of the mutual banking industry. In 2013, these efforts included the authorization to disburse various forms of financing in the total amount of €168 million to these troubled mutual banks. In certain cases, they also included issuing sureties to the Bank by the mutual bank deposit guarantee fund.

Work also continued on the development of international operations in close coordination with Iccrea BancaImpresa in order to support the mutual banks' import/export customers. In particular, credit lines for documentary credit were authorized for banks in Turkey, Morocco, China, Saudi Arabia and Qatar for a total of €53 million.

We completed the first letter of credit refinancing transaction secured by a guarantee from the European Bank for Reconstruction and Development (EBRD) within the scope of the Trade Facilitation Program signed in November 2012. Support was also provided for the international operations of Iccrea BancaImpresa through the direct confirmation of letters of credit and the assessment of the creditworthiness of foreign banks for the granting of silent confirmation and non-recourse discounting for a total of €6 million. Finally, an account in Chinese Yuan (CNY) was opened with a leading counterparty in order to support businesses working with China.

Efforts to support the mutual banks also continued in the area of collections and payments through initiatives aimed at reducing costs and improving service quality. The main activities in this regard concerned the completion of the SEPA credit transfer, direct debit and cash products in order to ensure the full compliance of in-house procedures with national and international market standards by 2014, while also maintaining the costs of these domestic intermediation products despite the significant investment that these new procedures required.

Although there were a number of start-up issues, Iccrea Banca ensured that mutual banks were able to migrate to the SEPA SDD and SCT procedures. As such, the banks served have been able to operate in accordance with the end date required beginning on February 1, 2014. The work done sought to enable the mutual banks served to transmit payments and settle collections with banks both within Europe and around the world and to minimize the costs that each mutual bank would have to incur to implement these procedures both in operations (e.g. connection, IT infrastructures, procedures) and in regulatory compliance (e.g. participation in working groups with the ABI, the Bank of Italy, CIPA and Target).

The pricing policy has also been revised in order to:

- reduce costs for the banks served and allow for effective commercial efforts with customers involving products with a lower cost-to-income ratio;
- minimize costs (increasing the efficiency) of the operations of both the mutual banks and Iccrea Banca in order to make the fees charged to customers more competitive. As such, we focused on greater integration with information systems and have continued to increase compliance with international regulations such as the Payment Services Directive (PSD) and SEPA (for direct debits, credit transfers and cash). With SEPA in particular, it is now possible to send low-cost same-day commercial payments using the SEPA Credit Transfer (SCT) procedure in place of the traditional large value transfer system;
- leverage the role and nature of the mutual banking circuit where allowed by domestic regulations, both in terms of fees and commissions (e.g. no fees charged on these transactions) and with the goal of making transfers and settlements even faster.

Work also continued in the various areas of payment systems aimed at adapting to the new system rules and developing new products. This includes electronic invoicing and dematerialization in order to provide mutual bank customers with a tool that reduce the costs related to handling hard-copy invoices, sending them to their clients (by various means such as corporate interbank banking, the postal system and certified e-mail), and reconciling payments.

Other efforts concerned the simplification and integration of the value chain and the various related procedures. Of particular importance in terms of developing business for the mutual banks are: the management of outgoing transfers using the Carta BCC portal and the Carta IBAN; the creation of the MQs interface between Iccrea Banca and Phoenix in order to send contracts related to OTC derivatives transactions between the Bank and the mutual banks (a prerequisite of the new EMIR rules); the implementation of the procedures for the interbank procedure records for the management of the new SEDA tables; and the implementation of the transfer process to standardize the placement of investment funds and SICAVs.

In the payment card area, growth continued in both card issuing, with 3.0 million active cards and some €14.6 billion in transactions, and in POS and ATM acquiring, with over 115,000 PagoBANCOMAT POS terminals, 4,380 active ATMs, and some €16.7 billion in transactions.

Within the scope of the project to make payment cards the ‘hub’ of the customer relationship, thereby transforming payment cards from a mere transaction tool to a driver of business for both retailers and cardholders by taking advantage of the wealth of information available through transaction data, work has continued in the direction of internalizing the IT/operations area. In particular:

- in terms of card issuing, preparations continued for the migration of all cards to the new IT/operations infrastructure, with cost savings expected to reach €5.1 billion over three years;
- in terms of ATM/POS acquiring, about 80% of the retailers currently served have been migrated to the new infrastructure. Once the migration is complete and the new in-house platform is fully operational, cost savings over the next three years will total around €4.8 million.

Beginning in June 2013, all new POS terminals issued followed the new acquiring process, which has brought significant improvements in terms of:

- strengthening controls in the process of verifying customers (customer due diligence;
- simplifying contracts and unifying PagoBANCOMAT components with those of international circuits;
- greater flexibility for mutual banks in setting prices for retailers thanks to a broader range of manageable parameters.

During the year, a number of projects were begun to develop new products, including:

- the new Carta IBAN, CartaBCC TascaConto, a contactless prepaid card that combines the main functions of a bank account into one card;
- the ACS Project to enhance fraud protection regarding the online use of pre-paid and credit cards. Given the diminishing effectiveness of the security provided by current “static-password” systems (e.g. SecureCode and Verified-by-Visa), Iccrea Banca has decided to implement a “dynamic-password” security system that will ensure greater security against fraud. Implementation of this new system is expected to bring a significant reduction in losses due to fraud;
- the BySmart project for remote payments via mobile phone, which is being developed in collaboration with the Movincom Consortium. This project will enable CartaBCC cardholders to purchase services directly with their mobile device. In 2013, beta testing involving 250 mutual bank customers in Emilia Ro-

magna was successfully completed. The service is expected to be launched in the second quarter of 2014 for mutual banks in the region of Emilia Romagna;

- the project *ScontiRiservati.it*, which involves the creation of a virtual marketplace "reserved" for the mutual banking system.

The strategy of Iccrea Banca in this area has been organized into two distinct phases:

- in an initial stage, the project will seek to offer all holders of CartaBCC credit cards and pre-paid cards an attractive range of e-commerce goods and services, thereby increasing awareness of this new channel for making purchases;
- in a subsequent stage, Iccrea Banca will be involving the individual mutual banks in the search for and selection of examples of "regional excellence", i.e. customer firms that stand out for the excellence of their products and to whom the mutual banks concerned will be able to offer greater visibility via this new marketplace.

Assistance continued to be provided to the mutual banks through the "Corner in Branch" project, involving 26 mutual banks and 152 branches throughout 2013, enabling a large increase in the number of cards issued. Numerous promotions and product launches were also completed, including:

- Iccrea Banca's first online campaign for the launch of the TascaConto card. The campaign lasted one month and sought to increase brand awareness and the number of cards sold. The communication channels included a product site to present the characteristics of the card and to provide information to users through a multi-channel (chat, call-me-back and VOIP) contact center and a geolocator in order to find the closest mutual bank branch;
- the launch of a partnership between CartaBCC and the Italian Athletics Federation (FIDAL), which calls for visibility sharing and the creation of a co-branded TascaConto card for federation members in 2014;
- a B2B pilot loyalty program with the e-money contest *Insieme per il Salto Finale*, the twofold objective of which is to increase product knowledge among mutual bank employees and to motivate sales.

Finally, we have taken steps to promote the activation of dormant credit cards (i.e. those that have been issued in the last three months but not yet activated by the customer), and an outbound customer-service campaign has been launched, with the individual cardholders being contacted to remind them of the value-added services that each product features.

With regard to institutional services, the Iccrea Banca product range continues to offer an efficient, financially advantageous opportunity for mutual banks compared with in-house process management and direct involvement in central guarantee and settlement systems, particularly within the scope of the evolving external landscape of ongoing, rapid change in laws and regulations and the increasing complexity of operations and infrastructures needed to comply with the related obligations.

The solutions provided by Iccrea Banca enable the mutual banks to enjoy a single partner and to benefit from significant synergies and economies of scale, thereby saving on market access, technology investments, application management, maintenance and development, operations and processing.

In 2013, the activities performed were completely reorganized, including the streamlining of its organization and the redistribution of responsibilities in order to optimize controls, the allocation of resources, and the costs of producing services. This initiative is a part of efforts to optimize the cost-to-delivery of the services provided and increase quality by focusing on achieving excellence throughout the area. In order to increase the efficiency of operating processes, the Lean Six Sigma process of continuous improvement was launched within the Securities Services area, with the first positive effects already achieved during the year. Further benefits are expected to be generated with the implementation of the action plans developed.

The most important projects concerned the European Market Infrastructure Regulation (EMIR) governing derivatives, the ECB's introduction of the new European system of securities settlement (Target2 Securities), and the Group project to rationalize our custodian bank activities.

With regard to the EMIR specifically, we have developed a portal through which mutual banks can access all of the services provided by Iccrea Banca concerning EMIR compliance connected with derivative contracts.

As concerns the Target2 Securities project, which is scheduled to begin in 2015, preparatory work has begun to determine the methods for Iccrea Banca's participation in the new settlement system, having opted to be a direct participant in the same manner as the leading international players in securities settlement and custody. The purpose of this decision, which places the Bank among the top 30 banks in Europe and among the top 5 in Italy, is to strengthen the Bank's central role in the markets and in the mutual bank network and to mitigate the impact, in terms of organization and costs, on the mutual banking system as a whole. The total investment is expected to reach over €3.5 million.

As to the securities database, the process of enhancing the efficiency and rationalizing information providers was begun in an effort to improve and strengthen the quality of data produced and to optimize the associated costs. There are now over 100,000 financial instruments in the database, some 18,000 of which have balances. We have also implemented record layouts for the distribution of new data related to tax management and to provide the mutual banks with high-level consulting services for their customers. Finally, depositaries were rationalized during the year by concentrating positions into a smaller number of entities in order to simplify operations and achieve cost savings in custodian operations.

As regards the support provided to mutual banks in the distribution of collective investment undertakings, the Fund Operations unit took an active part in the ABI's group pilot program on standardizing messaging, thereby beginning implementation of the procedures to be adopted and the new system standards.

The Bank has also continued providing its asset custody, administration and control services for mutual funds and pension funds, and we continued to support the development of the range of mutual bank savings and pension products with the launch of six new coupon funds.

With regard to financial information services, we continued the daily publication of the Market Trends investment report in 2013, the goal of which is to support the mutual banks' investment and consulting activities. Quarterly presentations have been given together with BCC Risparmio e Previdenza at the Federazione Lombarda regarding global financial market trends and the outlook for the near future. Finally, we have provided training on technical analysis of the financial markets and on strategic and tactical asset allocation for the mutual banks that requested it.

In 2013, we also continued work to develop the ALM and consulting service, with many mutual banks signing up for the services. There are currently 164 mutual banks that take advantage of the ALM service, while 89 mutual banks make use of the consulting service thanks, in part, to specific agreements signed with the six federations that have enabled all of the federations' member banks to take advantage of the service.

In order to further increase the level of service provided to the mutual banks, we have also enhanced our market and customer analysis services so as to provide a more complete overview of the main financial and performance aggregates for each mutual bank and their relations with Iccrea Banca in terms of the products and services used. At the same time, we have further developed our product range in order to make Iccrea Banca's products and services (e.g. FT Console—the new trading system—and the EMIR multi-service pack— a set of services for derivatives transactions) more complete and easier to access.

In 2013, we also implemented a number of other initiatives aimed at increasing the level of services provided to mutual banks. More specifically, in the first half of the year, we launched a customer-satisfaction survey in order to determine how satisfied the mutual banks are with Iccrea Banca. Involving the general managers of 250 mutual banks during the year, the survey pointed to high levels of overall satisfaction with Iccrea Banca and will be repeated each year in order to organize actions based on the survey findings.

We also established a unit dedicated to coordinating communication efforts for the Bank by using both traditional methods and channels and more innovative, multi-channel approaches. Of particular interest in this regard has been the development of the Polaris extranet in order to consolidate its primary role as a single, "virtual" point of contact between Iccrea Banca and the mutual banks. The Polaris newsletter is currently sent to some 2,250 e-mail addresses and has an average open rate of 25%. It is organized into two parts: one with news and information about Iccrea Banca and a second section containing original articles and a selection of market news.

An industrial-scale web TV service has also been created on Polaris to provide an environment dedicated to podcasts and video-streaming initiatives. In 2013, a total of 21 videos were produced, and a number of video formats have been selected in order to describe and promote initiatives. In this initial, broad-scope stage of the project, which is to be defined in early 2014, we will seek to promote the dissemination of more relevant information through more direct, more engaging means of communication compared with traditional, text-based approaches.

In terms of internal Iccrea Banca organization, we have continued the reorganization and change management efforts that had begun over the course of the last three years. Much emphasis has been placed on management training and development programs, in support of those whose positions involve coordinating resources, in order to imbue current and future middle managers with a set of skills and values shared throughout the Group.

The same level of attention has been given to the issue of teamwork through specific efforts to actively engage employees at all levels, so as to cultivate a predisposition towards team building and go beyond a sense of belonging to just one specific area of the organization. Over 45,000 hours (or 5,650 days) of training were provided, for an average of about 60 hours per employee, with all employees being targeted by these training efforts.

The Bank also continues to make major investments in excellence, including:

- improvements in operations aimed at optimizing process efficiency;
- innovation, with the constant development of methodologies and the development and improvement of the products and services provided;
- development of distinctive capabilities and the sharing of know-how, both of which determine how Iccrea Banca is positioned as partner with the mutual banking system.

These efforts also included the continuation of the Lean Six Sigma continuous-improvement program, the experimental stage of which began at the end of 2011 and which became more pervasive throughout 2013. As a part of this program, 23 projects were completed within the Payment & Collections and Institutional Services areas, which directly involved 116 people. A total of 12 received "Green Belt" training, 8 of whom earned international-level certification, while 113 participated in "Yellow Belt" training.

Out of these projects, 215 actions for improvement were identified, which will increase the efficiency of individual processes by 40% and achieve direct savings of about €790,000 per year. These efforts have also helped to promote a culture of ongoing improvement and enhance the importance of focusing attention on organization and performance measurement, as well as to reduce process times and improve the monitoring of certain operational and reputational risks.

In addition, we further enhanced the governance, monitoring and optimization of the flexible personnel cost base through specific interventions aimed at carefully managing costs related to overtime, to the planning and use of vacation time, and to business travel. This enabled us to boost the positive trend in reducing these costs begun the previous year. In 2013 in particular, we reduced overtime by 24% compared with 2012, while reducing the amount of unused vacation time from prior years by 29% and the costs of business and other travel by 21%. These monitoring efforts are to continue throughout 2014.

On the business continuity front, we performed ongoing maintenance for the HRRP business continuity system, including keeping the list of contacts up to date in response to changes in the workforce of the units involved. In order to monitor the capabilities of the employees who work with critical processes, two tests were given to about 10 employees. Furthermore, in order to protect process execution, company data and the related human resources, lowering the threshold of risk by, in part, keeping the employees physically distant from one another, the personnel of number of units were transferred to the secondary site during normal business hours. In 2014, another analysis will be conducted with the heads of these units in order to increase the number of employees who will work, cyclically, at the secondary premises.

Other organizational changes have included:

- revising the Information Technology unit, particularly as concerns the second-line units responsible for demand management operations, in order to improve both the understanding of business needs and the response to such needs;
- revision of the Institutional Services unit in line with efforts to increase efficiency and enhance the services of Iccrea Banca related to the world of finance;
- revision of the Administration and Tax areas in response to implementation of the Group's new governance model. This called for a hierarchical and/or functional repositioning of the Accounting & Financial Reporting, Taxes, and Statistical Reporting units, as well as the introduction of specific functional reporting streams to the sister units of the parent company;
- revision of the Safety & Logistics area as part of efforts to adapt the occupational health and safety management system to UNI-INAIL guidelines.

Finally, numerous projects concerning the company's information systems were completed in 2013, a number of which were particularly important in terms of joint planning with the mutual banks as they focused on commercial analysis and geomarketing issues that could be handled together with the mutual banks themselves (e.g. the DWH project to gather all management-control, ALM and CRM data into a single database).

Other initiatives included the launch of the SAP ERP platform based on a group-level architecture for supply-chain management modules (an ERP system that automates these processes within the Group's new organizational framework with the creation of the central purchasing unit) and product cost management (or "PCM", a cost allocation system that uses drivers to allocate costs to final products and services).

Work in the area of payment cards was particularly intensive, including the launch of new multi-channel systems of direct acquiring for the management of ATMs, Carta IBAN, and interfacing with automated billing systems (e.g. television license fees, car registration fees, etc.). Work also continued in the area of retail payments on all projects aimed at implementing SEPA standards (i.e. SCT, SDD and SEDA), as well as in financial services for activation of the new securities order-collection/execution platform, updating to the EMIR standards, and the adoption of the new treasury front office.

On the compliance front, efforts focused primarily on improving the management of money-laundering and terrorism risks, as well as improving the speed and effectiveness of handling requests for information from law enforcement.

With regard to technology, work continued on updating and adapting infrastructures based on organizational needs, both in terms of capacity and regulatory compliance, the latter of which is of particular importance in the electronic money segment. The upcoming insourcing of international issuing and acquiring efforts in this area have required a particularly complex and expensive upgrade to the rules of the Visa-MasterCard (PCI-DSS) circuits. However, this will also help achieve a broader reinforcement of company security levels (Iccrea Banca has already obtained ISO 27001 certification of its information security management system).
The business continuity management system has also been upgraded to the specifications of the new ISO 22301 standard, and compliance has been certified.

# *Report on operations*

## For the year

## January 1 - December 31, 2013

# CONTENTS
## Report on operations

## *About us*

Iccrea Banca is the central institute for the mutual banking system. Our mission, as established in our bylaws, is to make the work of mutual banks more complete, intensive and effective by supporting and strengthening their efforts.

Iccrea Holding, the parent company of the Iccrea Banking Group, holds 99.998% of the capital of Iccrea Banca.

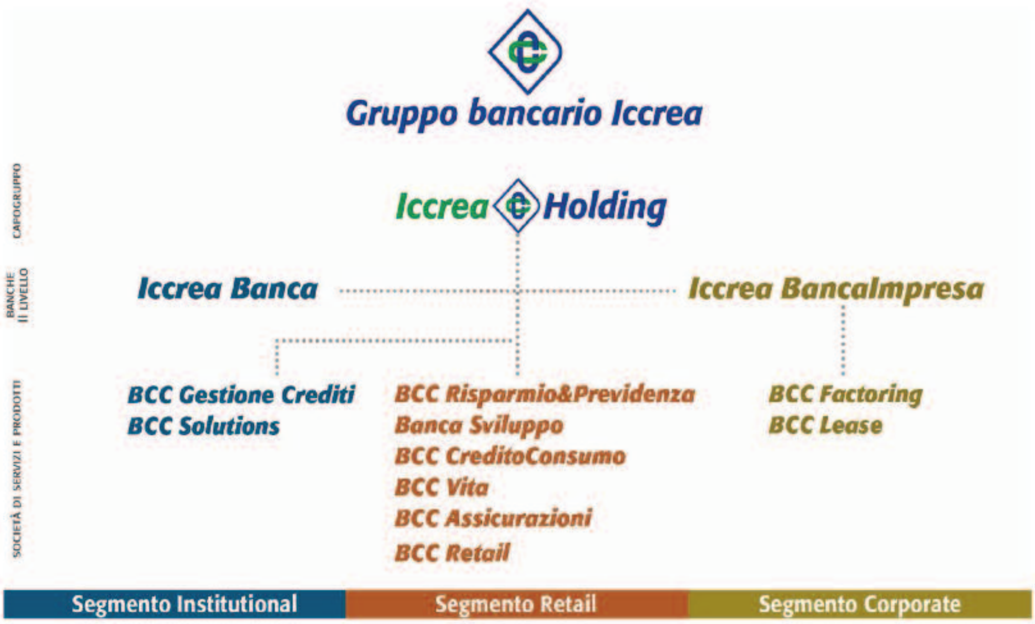
Iccrea Banca is a solid organization, providing services in the areas of finance, electronic money and payment systems, while also providing lending services to support the needs of the mutual banking system.

Iccrea Banca manages the technology infrastructure to support, monitor and provide the services supporting the business processes of the Iccrea Banking Group.

Iccrea Banca is the finance hub for the Iccrea Banking Group, as well as the direct acquirer and issuer for the Ottomila circuit, which serves the full line of Italian and international credit, debit and pre-paid payment cards.

## *The Iccrea Banking Group*

The Iccrea Banking Group is a group of companies that share a primary objective: to support the operations of mutual banks and meeting the needs of their local customers, both corporate (small and medium-sized enterprises) and retail (households). The services and products that the Group offers through its two banks (Iccrea Banca and Iccrea BancaImpresa) and the other subsidiaries of the parent company, Iccrea Holding, as well as major partnerships with outside providers, range from insurance (both life and non-life) to finance and investment, and include business-strategy consulting and training. Thus, the companies of the Iccrea Banking Group do not work directly with the market, but rather offer an integrated system of solutions for all mutual banks in their local markets, enabling them to be local actors in economic and social development.



# 1. Main results of the bank

| Reclassified Balance Sheet | Assets | Dec-13 | Dec-12 * | % chg |
|---|---|---|---|---|
| Financial assets held for trading | 20. Financial assets held for trading | 440,380 | 732,669 | -39.89% |
| Financial assets designated as at fair value through profit or loss | 30. Financial assets designated as at fair value through profit or loss | 321,150 | 322,076 | -0.29% |
| Financial assets available for sale | 40. Financial assets available for sale | 3,449,428 | 3,009,412 | 14.62% |
| Financial assets held to maturity | 50. Financial assets held to maturity | 3,755,290 | 3,017,529 | 24.45% |
| Due from banks | 60. Due from banks | 32,827,713 | 27,022,845 | 21.48% |
| Loans to customers | 70. Loans to customers | 1,768,381 | 1,664,961 | 6.21% |
| Equity investments | 100. Equity investments | 63,564 | 51,263 | 24.00% |
| Property and equipment and intangible assets | | 15,558 | 25,776 | -39.64% |
| | 110. Property and equipment | 8,320 | 20,019 | -58.44% |
| | 120. Intangible assets | 7,238 | 5,756 | 25.74% |
| Tax assets | 130. Tax assets | 17,014 | 20,076 | -15.25% |
| Other assets | | 335,840 | 255,571 | 31.41% |
| | 10. Cash and cash equivalents | 82,637 | 110,654 | -25.32% |
| | 80. Hedging derivatives | 5,562 | 14,148 | -60.69% |
| | 90. Value adjustments of macro-hedged financial assets (+/-) | (53) | - | - |
| | 140. Non-current assets and disposal groups held for sale | 30,313 | - | - |
| | 150. Other assets | 217,381 | 130,769 | 66.23% |
| | **Total assets** | **42,994,317** | **36,122,179** | **19.02%** |

* Figures restated on a uniform basis to take account of amendments to IAS 19 and the provisions of IAS 12 concerning the offsetting of deferred tax assets and liabilities in the financial statements.

| Reclassified Balance Sheet | Liabilities and shareholders' equity | Dec-13 | Dec-12 * | % chg |
|---|---|---|---|---|
| Due to banks | 10. Due to banks | 21,391,952 | 21,196,601 | 0.92% |
| Due to customers | 20. Due to customers | 15,259,974 | 9,270,697 | 64.60% |
| Securities issued | 30. Securities issued | 4,287,398 | 3,386,758 | 26.59% |
| Financial liabilities held for trading | 40. Financial liabilities held for trading | 391,236 | 640,452 | -38.91% |
| Financial liabilities designated as at fair value through profit or loss | 50. Financial liabilities designated as at fair value through profit or loss | 763,418 | 745,365 | 2.42% |
| Other liabilities | | 349,737 | 359,718 | -2.77% |
| | 80. Tax liabilities | 34,462 | 16,807 | 105.05% |
| | 60. Hedging derivatives | 75,167 | 115,043 | -34.66% |
| | 90. Liabilities associated with assets held for sale | 32,905 | - | - |
| | 100. Other liabilities | 207,203 | 227,869 | -9.07% |
| Provisions | | 19,927 | 20,699 | -3.73% |
| | 110. Employee termination benefits | 13,348 | 13,633 | -2.08% |
| | 120. Provisions for risks and charges | 6,579 | 7,066 | -6.89% |
| Reserves | | 273,733 | 236,598 | 15.70% |
| | 130. Valuation reserves | 92,042 | 68,069 | 35.22% |
| | 160. Reserves | 181,691 | 168,530 | 7.81% |
| Capital | 180. Capital | 216,913 | 216,913 | 0.00% |
| Net profit/(loss) for the period | 220. Net profit/(loss) for the period (+/-) | 40,028 | 48,376 | -17.26% |
| | **Total liabilities and shareholders' equity** | **42,994,317** | **36,122,179** | **19.02%** |

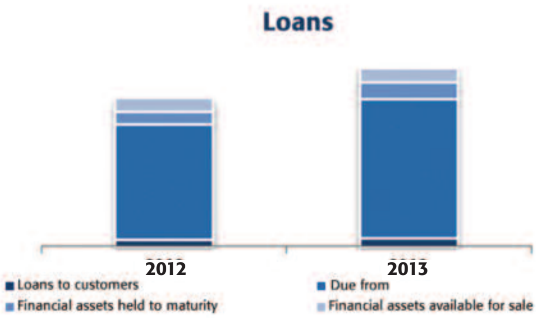
* Figures restated on a uniform basis to take account of amendments to IAS 19 and the provisions of IAS 12 concerning the offsetting of deferred tax assets and liabilities in the financial statements.

| Reclassified income statement (thousands of euro) | | | | |
|---|---|---|---|---|
| | Dec-13 | Dec-12 | % chg | Items pursuant to format in Bank of Italy Circular 262 of 22/12/2005 |
| **Net interest income** | **71,045** | **83,772** | **-15.2%** | **10-20** |
| Net income (loss) on financial transactions | 26,509 | 17,264 | 53.5% | 80-90-100-110 |
| Dividends | 160 | 3,267 | -95.1% | 70 |
| **Net fee and commission income** | **120,115** | **115,462** | **4.0%** | **40-50** |
| Other operating expenses/income | 20,925 | 22,514 | -7.1% | 190 |
| **Total revenues** | **238,754** | **242,279** | **-1.5%** | |
| Personnel expenses | -63,458 | -59,186 | 7.2% | 150a |
| Other administrative expenses | -103,428 | -94,312 | 9.7% | 150b |
| Net adjustments of property and equipment and intangible assets | -7,603 | -6,373 | 19.3% | 170-180 |
| **Total operating expenses** | **-174,489** | **-159,871** | **9.1%** | |
| **Gross operating profit** | **64,265** | **82,408** | **-22.0%** | |
| Net provisions for risks and charges | -1 | -657 | -99.8% | 160 |
| Net losses/recoveries for impairment | 12,929 | -4,109 | -414.7% | 130 |
| **Total provisions and adjustments** | **12,928** | **-4,766** | **-371.3%** | |
| **Net operating profit** | **77,193** | **77,642** | **-0.6%** | |
| **Profit/(loss) before tax** | **77,193** | **77,642** | **-0.6%** | |
| Income tax expense from continuing operations | -37,142 | -29,266 | 26.9% | 260 |
| Profit/(loss) after tax from non-current assets held for sale | 40,051 | 48,376 | -17.2% | 280 |
| Profit/(loss) after tax from disposal groups held for sale | -23 | | | 280 |
| **Net profit/(loss) for the period** | **40,028** | **48,376** | **-17.3%** | |

## Performance indicators

### *Loans*

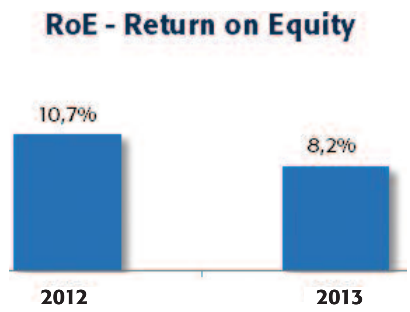
At the end of 2013, lending to banks and to customers totaled 79% and 4% of total lending, respectively, an aggregate that is made up of loans to customers, loans to banks, financial assets held to maturity, and financial assets available for sale, equal to 9% of the total.




### *Return on Equity (RoE)*

Return on equity for 2013 came to 8.2%, down from the 10.7% of 2012 due, essentially, to the increase in valuation reserves and the net gain (loss) on assets and liabilities at fair value through profit or loss.

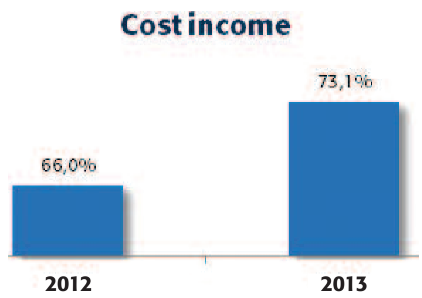
ROE is calculated as the ratio of net profit for the year to equity at the end of the year.




### *Cost income*

The cost income ratio for 2013 came to 73.1%, an increase on the ratio for 2012 due to an increase in costs and a decline in revenues.

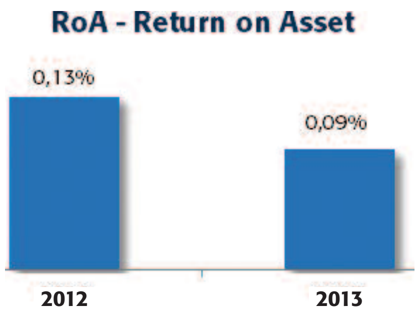
This ratio is calculated as the ratio of operating costs (administrative expenses and depreciation and amortization) to total revenues and is an indicator of productivity expressed as the percentage of revenues absorbed by operating costs.



### *RETURN ON ASSETS (ROA)*

Return on assets for 2013 came to 0.09%, down from 2012 due to an increase in assets and a decrease in net profit.

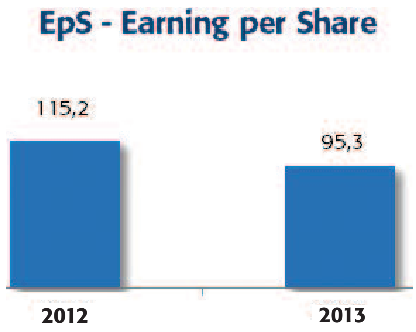
ROA is calculated as the ratio of net profit to total assets and is an indicator of the return on total capital employed.




### *EARNING PER SHARE (EPS)*

Earnings per share for 2013 came to 95.3, compared with 115.2 for 2012, and reflects the decline in net profit.

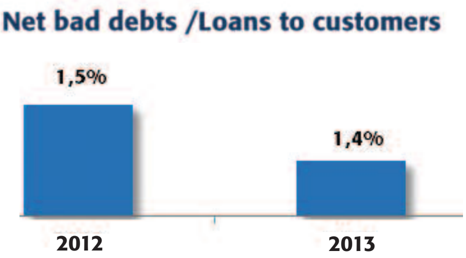
EPS is calculated as net profit divided by the number of shares that make up share capital.




### *NET BAD DEBTS OUT OF TOTAL LOANS TO CUSTOMERS*

The ratio of net bad debts to total loans to customers for 2013 came to 1.4%, compared with 1.5% for 2012.

This indicator shows the level of risk of the loan portfolio.



## 2. OPERATING CONDITIONS

#### *The macroeconomic environment and the international banking system*

Beginning in the second half of 2013, the global economy began showing some signs of recovery, although with significant differences from one country to another.

In the United States, real GDP growth in the third quarter came to 4.1% according to the latest estimates. The performance was mainly attributable to the rebuilding of inventories and employment gains (with the unemployment rate falling from 7.9% to 6.7%), which led to an increase in consumption.

In the euro area, GDP posted a slight increase for the third quarter. The recovery continued into the fourth quarter as well, although it remained quite modest.

In the United Kingdom, strong growth was driven by domestic demand, with credit conditions improving for both households and large businesses, with the consequent stabilization of the labor market and the Purchasing Managers Index (PMI).

For the BRIC nations, the recovery was again inconsistent from one country to another, with stronger growth in China (up 7.8% year on year), moderate growth in India (4.8%), slowing in Brazil (2.2%), and stagnation in Russia.

Globally, a modest recovery could also be seen in international trade, with growth reaching 3% for the year, while inflation remains under control. In November, the consumer price index rose by 1.2% in the US and by 2.1% in the UK. Inflation remains highest in Brazil, Russia and India.

The outlook for the global economy remains subject to risk. Although the decision of the Federal Reserve to moderately taper the pace of its purchases of securities has not produced an increase in volatility on the financial and foreign exchange markets, there remains the risk that a faster-than-expected contraction in the monetary stimulus could lead to a deterioration in global monetary and financial conditions.

#### *The euro area*

In the third quarter of 2013, GDP for the euro area increased by 0.1% from the previous quarter, buoyed by an increase in consumption (0.1%), an expansion of inventories and an increase in gross fixed capital formation (0.5%). The continued strong performance of imports (1.2%) was accompanies by a slowing of exports (0.3%).

Production remains weak, essentially stagnating in October and November. The PMI rose in December, remaining above the threshold compatible with economic expansion for the sixth straight month.

The recovery in domestic demand remains uncertain. Although there have been some signs of improvement, as shown in surveys coordinated by the European Commission, which point to an increase in consumer confidence, consumer demand is struggling to regain strength. The performance of exports is also encouraging, confirming the expansion of external demand with growth of 0.6%.

Inflation declined in through the autumn months and fell by a further 0.8% in December (year on year). The growth in the money supply slowed by 1.5% for the twelve months ended in November, attributable to a shift in the portfolio towards financial instruments not included in the monetary aggregate, which feature higher yields, and inflows of capital from abroad into financial assets issued within the euro area.

Given the outlook for a period of low levels of inflation, weaker growth in the money supply and lending, and weakness in economic activity, the ECB's Governing Council, at its meeting in early November, lowered its rates (by 25 basis points) on main refinancing operations (0.25%) and on the marginal lending facility (0.75%), while maintaining the Eurosystem rate on the deposit facility unchanged (0.0%).

Also in November, the ECB and national supervisory authorities began a comprehensive assessment of the financial statements and risk profiles of the banks that will be supervised directly by the ECB. In particular, this will involve a risk assessment, an asset quality review, and a stress test coordinated with the European Banking Authority (EBA). Another step towards banking union is the mechanism for resolving bank crises. The Council of Economic and Finance Ministers reached an agreement that calls for the creation of a single resolution fund (of €55 billion), which is currently awaiting approval by the Member States by May.

#### *Macroeconomic conditions in Italy*

The decline in Italy's GDP that began in the summer of 2011 finally came to an end in the third quarter of 2013 at just under 2% (1.8%). In recent months, there have been signs of modest economic growth, but the recovery is expected to be slow and held back by the resolution of structural problems in the Italian economy.

Consumer spending continued to slip, contracting by 2.4%. This was joined by a contraction in spending on capital goods(-4.2%) and construction (-7.1%), while exports remained stable (0.4%) and imports improved (from -7.5% in 2012 to -3.7% in 2013).

Domestic demand has improved, but continues to reflect labor market weakness (with unemployment at 12.2%) and the poor performance of disposable income (-1.5%), although this was countered by an improvement in the industrial production (from -6.3% in 2012 to -3.5% in 2013). Business confidence rose slightly in December, as did the PMI for the manufacturing segment.

#### *The Italian banking system*

Retail funding remained strong for the Italian banking system, with encouraging signs coming in a return of international investor confidence in Italian banks.

Between August and November, resident deposits increased by about €7 billion, for a twelve-month growth rate of 5%. During the same period, deposits of non-residents also slowed their decline (from -5.3% in August to -3.8%). Over the next few years, deposits are expected to continue making a positive contribution to funding, with forecasts of 2.3% growth for 2014 and 2% growth on average for 2015-2016. Fixed-term deposits in particular are expected to grow faster than in 2013 and continue accelerating through the three years of the forecast period, as this is the most stable form of funding and meets the needs of compliance with the Basel 3 requirements.

Bond funding in 2013 dropped significantly due to a decline in the need to finance lending and to maturing bond issues. Over the next few years, bonds will continue to be held back by the lack of demand among retail customers, whereas growth is expected in covered bonds as a means of contributing to the refinancing of LTRO funds. As such, bonds will continue declining into 2014 and 2015 before returning to limited growth of 1.3% in 2016. International funding is expected to post modest growth over the next three years (2014-2016), expanding by just over 1% on average.

Credit is continuing to contract as the extended weakness of the economy is doing nothing to halt the rise of the various risk indices.

Lending to the non-financial private sector continued to fall (-5.2% annualized for the quarter ended in November), while declines were also posted in lending to businesses (-8.4%) and to households (-1.1%). In 2014, bank lending excluding the component attributable to Cassa Depositi e Prestiti should remain essentially stable, with growth of 4% year on year, compared with the contraction of 4% posted at the end of 2013. For 2015-2015, bank lending is expected to grow at an average of 2.3%, in line with GDP growth.

In 2014, the looser conditions on the sovereign debt markets compared with 2013, along with record low market rates, should lead to a slight reduction in the rate on bank deposits. The average yield on bonds will not be affected and will remain essentially stable for bonds issued during the period of highest rates. The average cost of funding for the year is expected to settle at around 2%, a decline of 10 basis points compared with 2013. For 2015-2016, the gradual increase in the yield on 10-year Italian treasury bonds and the increase in policy rates are expected to push the average cost of funding up 13 bp compared with 2014 (2.1%). Fixed-term deposits and the bond component will drive the growth.

Due to the riskiness of borrowers and the slow transmission of new pricing policies onto overall lending, unit margins remain high. Rates should decline in 2015 in response to the reduction in funding costs in 2014 and low policy rates. Interest rates on the stock of loans are expected to increase, rising to 3.8% in 2014, 3.9% in 2015, and 4% in 2016. The cost of credit in Italy remains higher than the average for the euro area, although there has been a narrowing of the spread between the rate on new loans to businesses and households in Italy and the corresponding rate for the euro area (declining by 20 bp for both customer segments).

The margin on customer lending fell significantly (-12%), resulting in a further decline in net interest income (-5.5%) despite the positive contribution of securities. The margin on customer lending should return to growth beginning in 2014 thanks to a widening of the banking spread (up 13 bp from 2013 to reach 1.9% in 2014), as well as for 2015-2016 thanks mainly to the contribution of lending volumes.

After being held back by the non-recurring component for 2013, gross income should return to growth in 2015 (+2.6% annually on average for 2015-2016) to exceed €76 billion in 2016.

Asset derisking efforts and the use of internal models by Italian banks have enabled these banks to maintain adequate levels of capital. This overall capital adequacy goes hand in hand with capital needs, which banks are meeting in part through the capitalization efforts announced in recent months. However, further strengthening efforts in response to the asset quality review and stress testing by the ECB and EBA are not to be ruled out.

The rationalization of operating costs is expected to continue in response to pressures on revenues and the effects of credit risk on profitability. As such, these costs have declined for 2013 and are projected to continue falling over the next three years. For 2013, the decrease in operating costs came to 3.8%, but they are expected to continue declining at a more modest pace (-1.3% annually on average). The drivers of increased efficiency continue to be the optimization of branch networks, workforce restructuring, and changes in outsourcing and insourcing strategies.

The deterioration in credit quality will require high levels of provisions, which will erode operating profits by 76% in 2013 and by 48% in 2016. The revaluation of shares in the Bank of Italy will generate a gain of just over €2 billion for the industry. Despite the scenario described above, it will still be possible to post greater profits in 2014, but net profit for the industry over the three-year forecasting period will be less than €21 billion.

*Source: Previsione dei bilanci bancari, Prometeia, October 2013, update of February 2014*

### *Mutual banks*

The conditions analyzed above underscore the challenges that have been impacting banking in the medium term.

Lending by mutual banks in 2013 declined compared with 2012. Gross lending to mutual bank customers totaled €136.2 billion at September 2013, for market share of 7.2%. Growth was posted in central Italy (+0.9%), whereas declines were registered in the northwest (-1.0%), northeast (-1.7%) and south (-0.8%).

Lending to enterprises came to €88.9 billion (-1.4% compared with -4.5% for the banking system as a whole), for a market share of 9.7%.

With regard to the breakdown of lending by segment, mutual banks posted declines in lending to resident borrowers across all target markets: -0.1% for consumer households; -0.8% for producer households; and -1.6% for non-financial companies.

Mutual banks posted growth in lending to non-financial companies (+11.5%) and to non-profit institutions (+2.5%), but this accounts for an insignificant portion of total lending.

The mutual banks' share of the lending market came to 17.6% for producer households, 8.7% for non-financial companies, and 8.6% for consumer households. Market share in the non-profit segment was also quite high at 12.5%. By geographic area, growth was posted in lending to resident consumer households both in the Italian northwest (+0.8%) and in central Italy (+0.9%). Significant growth (+3%) was posted in the south in lending to producer households.

An analysis of lending to businesses confirms an emphasis on construction and real estate activities, which is greater for mutual banks (35.7%) than for the system average (30.7%), and a significant share of agricultural lending (9% for mutual banks vs. 4.8% for the banking system as a whole).

Within a context of overall reduction in lending to enterprises, growth was still posted in the "professional, scientific and technical" segment (+2.5% compared with -10% for the system average). Growth in lending was also seen in the "hotels and restaurants" segment (+0.8% vs. -3.7%), whereas the agricultural segment remained unchanged.

Lending to the manufacturing sector declined for the year, although to a lesser extent than for the banking system as a whole (-2.2% vs. -4.9%), as did lending to the retail and wholesale trade segment (-0.6% vs. -3% for the banking system) and construction and real estate (-2.2% vs. -2.7%). Market share remained high in lending to agriculture (18.3%), ho.re.ca (17.8%), construction and real estate (11.2%), and trade (10.7%).

Mutual banks' total funding from banks and customers exceeded €190 billion in 2013, up 5.3% compared with 2012. This strong growth was due to interbank funding, which increased by 13.5% for the year, and the strengthening of customer funding to €137 billion, up 3.8%. Growth was greatest in central Italy (+6.8%) and in the south (+4.1%), driven by fixed-term deposits and certificates of deposit, which featured significant yields.

Bonds issued by mutual banks declined throughout Italy, in line with the average for the banking system as a whole.

Of total funding by mutual banks, 82.9% is accounted for by customers and bonds and 1.7% by interbank funding.

The capital and reserves of mutual banks posted an increase of 2.2% for the year to total €20 billion. The tier-one and capital ratios also rose slightly, to 14.3% and 15.2%, respectively.

At the end of the third quarter, mutual banks were present in 101 Italian provinces and 2,711 municipalities, with an emphasis on small and mid-sized towns. There are a total of 388 mutual banks (52% of all banks operating in Italy) with 4,455 branches (19% of the banking system total). Over the last 12 months, the number of branches grew by 0.3%.

The workforce (including all companies of the mutual banking system) totaled approximately 37,000 employees.

The number of shareholders totaled 1,161,346, an increase of 3.2% for the year. With the economy improving but still facing adverse conditions, mutual banks continue to support their shareholders and customers in line with the values of mutual banking that have always distinguished this segment of the banking industry.

## 3. Developments in operations and the main items of the balance sheet and income statement

The financial statements of Iccrea Banca S.p.A. for the year ended December 31, 2013, have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as well as with related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission in accordance with the procedures established under Article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002, and the provisions of Circular no. 262 of the Bank of Italy of December 22, 2005, regarding the preparation of bank financial statements, as further updated on January 21, 2014.

It should be further specified that the aggregates and related performance indicators shown below are intended to meet the requirements specified under Article 2428, first paragraph, of the Italian Civil Code, that they facilitate understanding of company performance and financial position, and the source of risks. Accordingly, in order for these aggregates and indicators to be clearly interpretable and enhance the information provided in this report, the procedures followed in reclassifying the financial statements, the calculation procedures, and the meanings of the various aggregates and indicators are described below.

### *The balance sheet*

To enable a more immediate reading of the asset and liability items, a condensed balance sheet has been prepared.

At December 31, 2013, total assets and liabilities stood at €42,994 million, compared with €36,122 million at December 31, 2012, an increase of 19.0%. On the asset side, growth was concentrated mainly in lending to banks, with an increase of €5,805 million (+21.5), and in assets held to maturity, up €738 million (+24.4%). On the liability side, the increase is attributable to amounts due to customers, up €5,989 million (+64.6%), and to securities and financial liabilities, up €669.5 million (+14%).

| BALANCE SHEET DATA (millions of euro) | | | | |
|---|---|---|---|---|
| **AGGREGATES** | **Dec-13** | **Dec-12 *** | **Chg** | **% Chg** |
| Due from banks | 32,827.7 | 27,022.8 | 5,804.9 | 21.5% |
| Loans to customers | 1,768.4 | 1,665.0 | 103.4 | 6.2% |
| Financial assets held for trading | 440.4 | 732.7 | -292.3 | -39.9% |
| Financial assets at fair value through profit or loss | 321.2 | 322.1 | -0.9 | -0.3% |
| Financial assets available for sale | 3,449.4 | 3,009.4 | 440.0 | 14.6% |
| Financial assets held to maturity | 3,755.3 | 3,017.5 | 737.8 | 24.4% |
| Other assets | 217.4 | 130.8 | 86.6 | 66.2% |
| **Total interest-bearing assets** | **42,779.7** | **35,900.3** | **6,879.5** | **19.2%** |
| Other non-interest-bearing assets | 214.6 | 221.9 | -7.3 | -3.3% |
| **TOTAL ASSETS** | **42,994.3** | **36,122.2** | **6,872.1** | **19.0%** |

| BALANCE SHEET DATA (millions of euro) | | | | |
|---|---|---|---|---|
| **AGGREGATES** | **Dec-13** | **Dec-12 *** | **Chg** | **% Chg** |
| Due to banks | 21,392.0 | 21,196.6 | 195.4 | 0.9% |
| Due to customers | 15,260.0 | 9,270.7 | 5,989.3 | 64.6% |
| Securities and financial liabilities | 5,442.1 | 4,772.6 | 669.5 | 14.0% |
| Liabilities associated with assets held for sale | 32.9 | - | 32.9 | - |
| Other liabilities | 207.2 | 227.9 | -20.7 | -9.1% |
| **Total interest-bearing liabilities** | **42,334.1** | **35,467.7** | **6,866.3** | **19.4%** |
| Other non-interest-bearing liabilities | 123.0 | 145.5 | -22.5 | -15.5% |
| Shareholders' equity and provisions | 497.2 | 460.6 | 36.6 | 8.0% |
| Net profit for the period | 40.0 | 48.4 | -8.3 | -17.3% |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **42,994.3** | **36,122.2** | **6,872.1** | **19.0%** |

Changes in the main asset and liability aggregates are discussed below.

### *Assets*

Total interest-bearing assets increased from €35,900 million in 2012 to €42,780 million in 2013 (+19.2%). The increase comprised amounts due from banks in the amount of €5,805 million (+21.5%). Mutual bank operations with Iccrea Banca is mainly in the form of financing backed by pool collateral (refinanceable securities). The total as at December 31, 2013, came to €18,040 million. The collateral securities assigned by the mutual banks totaled €23,076 million net of the haircut applied to the various types of securities.

As the manager of the Group's financial resources, the Bank handles the funding and lending for all of the companies of the Group. In particular, the aggregate "Due from banks – Debt securities" includes securities issued by Iccrea BancaImpresa in the total amount of €3,680.6 million. Within the aggregate of amounts due from banks, amounts due from mutual banks increased by 10.5% (from €17,338.9 million to €19,167.8 million), while amounts due from other banks increased from €9,683.9 million to €13,659.9 million (+41.1%).

| AMOUNTS DUE FROM BANKS (€'000) | Dec-13 | Dec-12 | Chg | % Chg |
|---|---|---|---|---|
| Mutual banks | 19,167,820 | 17,338,901 | 1,828,919 | 10.5% |
| Other credit institutions | 13,659,893 | 9,683,944 | 3,975,949 | 41.1% |
| **Total** | **32,827,713** | **27,022,845** | **5,804,868** | **21.5%** |

| BREAKDOWN OF AMTS DUE FROM BANKS (€'000) | Dec-13 | Dec-12 | Chg | % Chg |
|---|---|---|---|---|
| **Claims on central banks** | **467,426** | **96,111** | **371,315** | **386.3%** |
| Reserve requirement | 467,426 | 96,111 | 371,315 | 386.3% |
| **Due from banks** | **28,089,261** | **26,926,734** | **1,162,527** | **4.3%** |
| Current accounts and demand deposits | 526,695 | 1,139,427 | -612,732 | -53.8% |
| Fixed-term deposits | 1,152,394 | 347,291 | 805,103 | 231.8% |
| Other | 26,410,172 | 21,481,615 | 4,928,557 | 22.9% |
| Debt securities | 4,271,026 | 3,958,401 | 312,625 | 7.9% |
| **Total due from banks** | **32,827,713** | **27,022,845** | **5,804,868** | **21.5%** |

Loans to non-bank customers grew by 6.2% from €1,665.0 million to €1,768.4 million, attributable mainly to "other transactions" in the amount of €1,397.4 million. Impaired assets, equal to €29.9 million, declined by 2.9% compared with 2012 (€30.8 million).

| BREAKDOWN LOANS TO CUSTOMERS (€'000) | Dec-13 | Dec-12 | Chg | % Chg |
|---|---|---|---|---|
| Current accounts | 153,036 | 437,081 | -284,045 | -65.0% |
| Medium/long-term loans | 151,923 | 157,592 | -5,669 | -3.6% |
| Repurchase agreements | 19,160 | 19,048 | 112 | |
| Other transactions | 1,397,430 | 950,177 | 447,253 | 47.1% |
| Debt securities | 16,883 | 70,222 | -53,339 | -76.0% |
| Impaired assets | 29,949 | 30,841 | -892 | -2.9% |
| **Total loans to customers** | **1,768,381** | **1,664,961** | **103,420** | **6.2%** |

The portfolio of financial assets held for trading posted a decline of €292 million (from €732.7 million to €440.4 million), a decrease of 39.9% from the previous year.

| BREAKDOWN OF FINANCIAL ASSETS HELD FOR TRADING (€'000) | Dec-13 | Dec-12 | Chg | % Chg |
|---|---|---|---|---|
| Debt securities | 5,526 | 17,937 | -12,411 | -69.2% |
| Equity securities | 489 | 403 | 86 | 21.3% |
| Units in collective investment undertakings | 904 | 1,975 | -1,071 | -54.2% |
| **Total on-balance-sheet assets** | **6,919** | **20,315** | **-13,396** | **-65.9%** |
| Derivative instruments | 433,461 | 712,354 | -278,893 | -39.2% |
| **Total derivative instruments** | **433,461** | **712,354** | **-278,893** | **-39.2%** |
| **Total financial assets** | **440,380** | **732,669** | **-292,289** | **-39.9%** |

At the end of December 2013, the portfolio of financial assets available for sale amounted to €3,449.4 million, compared with the €3,009.4 million posted at December 31, 2012.

For further details, please see Part B, sections 2 to 4, of the notes to the financial statements.

### *Liabilities*

Interest-bearing funding totaled €42,334.1 million, an increase of 19.4% year on year (up €6,886.3 million).

Interbank deposits came to €21,392.0 million, in line with 2012.

| DUE TO BANKS (€'000) | Dec-13 | Dec-12 | Chg | % Chg |
|---|---|---|---|---|
| Mutual banks | 6,220,169 | 7,144,769 | -924,600 | -12.9% |
| Other credit institutions | 15,171,783 | 14,051,832 | 1,119,951 | 8.0% |
| **Total** | **21,391,952** | **21,196,601** | **195,351** | **0.9%** |

Within this aggregate, funding from mutual banks declined by 12.9% (from €7,144.8 million to €6,220.2 million), while amounts due to other credit institutions increased by 8% (from €14,051.8 million to €15,171.8 million). Amounts due to central banks (€14,045.0 million) represents funds received from the ECB for advances on collateral securities for both the Bank and the mutual banks. Fixed-term deposits are also included in deposits received from other banks in the amount of €738 million and concern the indirect discharge of reserve requirements.

| BREAKDOWN OF AMOUNTS DUE TO BANKS (€'000) | dic -13 | dic-12 | Chg | % Chg |
|---|---|---|---|---|
| Due to central banks | 14,044,974 | 12,706,391 | 1,338,583 | 10.5% |
| Current accounts and demand deposits | 4,516,451 | 4,956,987 | -440,536 | -8.9% |
| Fixed-term deposits | 2,762,112 | 3,459,949 | -697,837 | -20.2% |
| Loans | 66,633 | 72,317 | -5,684 | -7.9% |
| Other payables | 1,782 | 957 | 825 | 86.2% |
| **Total amounts due to banks** | **21,391,952** | **21,196,601** | **195,351** | **0.9%** |

| BREAKDOWN OF AMOUNTS DUE TO CUSTOMERS (€'000) | Dec-13 | Dec-12 | Chg | % Chg |
|---|---|---|---|---|
| Current accounts and demand deposits | 705,522 | 656,291 | 49,231 | 7.5% |
| Fixed-term deposits | 26,014 | 12,429 | 13,585 | 109.3% |
| Loans | 14,133,497 | 8,221,709 | 5,911,788 | 71.9% |
| Other payables | 394,941 | 380,268 | 14,673 | 3.9% |
| **Total amounts due to customers** | **15,259,974** | **9,270,697** | **5,989,277** | **64.6%** |

Funding from non-bank customers increased from 2012, going from €9,270.7 million at December 2012 to €15,260 million at December 2013 due mainly to repurchase agreements with Cassa di Compensazione e Garanzia.

### *Securities issued*

Securities funding increased significantly during the year (from €3,386.7 million at December 31, 2012 to €4,287.4 million at December 31, 2013). This funding came both through issues in Italy intended for retail and institutional investors and through one issue under the EMTN program on international markets. It includes bonds issued by the Bank that are hedged for interest rate risk by derivatives, the fair value of which is adjusted for changes in the hedged risk as at the balance sheet date. The aggregate also contains unhedged bonds, which are recognized at amortized cost.

### *Shareholders' equity*

At December 31, 2013, the strength of the Bank's financials can be seen, in particular, in the level of equity, which totals €490.6 million not including net profit for the year.

Share capital, which is made up of 420,000 ordinary shares with a par value of €516.46 each, was unchanged at €216.9 million. Reserves total €181.7 million, up 7.8% from the previous €168.5 million.

Valuation reserves came to €92 million, an increase of €24 million.

## The income statement

In order to facilitate a more immediate understanding of performance for the period, a condensed reclassified income statement has been prepared. The figures for the two periods are comparable and not affected by changes in scope.

| Reclassified income statement | Income Statement | Dec-13 | Dec-12 | % chg |
|---|---|---|---|---|
| Net interest income | | 71,045 | 83,772 | -15.19% |
| | 10. Interest income and similar revenues | 467,003 | 443,366 | 5.33% |
| | 20. Interest expense and similar charges | -395,958 | -359,594 | 10.11% |
| Net fee and commission income | | 120,115 | 115,462 | 4.03% |
| | 40. Fee and commission income | 348,628 | 338,695 | 2.93% |
| | 50. Fee and commission expense | -228,514 | -223,233 | 2.37% |
| Dividends | 70. Dividends | 160 | 3,267 | -95.09% |
| Gains/losses on financial transactions | | 26,509 | 17,264 | 53.55% |
| | 80. Net gain (loss) on trading activities | 20,475 | 17,886 | 14.48% |
| | 90. Net gain (loss) on hedging activities | -4,234 | 428 | |
| | 100. Net gain (loss) on disposal or repurchase | 28,063 | 7,140 | 293.06% |
| | 110. Net gain (loss) on financial assets and liabilities at fair value through profit or loss | -17,796 | -8,190 | 117.29% |
| Other operating expenses/income | 190. Other operating expenses/income | 20,925 | 22,514 | -7.06% |
| | **Total revenues** | **238,754** | **242,279** | **-1.46%** |
| Administrative expenses | 150. Administrative expenses | -166,885 | -153,498 | 8.72% |
| Depreciation and amortization | | -7,603 | -6,373 | 19.30% |
| | 170. Net adjustments of property and equipment | -3,027 | -2,765 | 9.50% |
| | 180. Net adjustments of intangible assets | -4,576 | -3,609 | 26.81% |
| | **Gross operating profit** | **64,265** | **82,408** | **-22.02%** |
| Net provisions | 160. Net provisions for risks and charges | -1 | -657 | -99.84% |
| Net losses/recoveries on impairment | 130. Net losses/recoveries on impairment | 12,929 | -4,109 | -414.69% |
| Income taxes | 260. Income tax expense from continuing operations | -37,142 | -29,266 | 26.91% |
| Profit (loss) from non-current assets held for sale | 270. Profit (loss) from non-current assets held for sale | 40,051 | 48,376 | -17.21% |
| | 280. Profit (loss) from disposal groups held for sale | -23 | - | |
| | **Net profit (loss) for the period** | **40,028** | **48,376** | **-17.26%** |

#### *Net interest income*

Net interest income for 2013 came to €71 million, a decline of 15.2 percent compared with 2012 (€83.8 million) due to rate effects attributable to the following developments:

- renewal of maturing Italian treasury bonds at a rate of 2.97%, which is lower than the rate at which they were purchased (about 4.10%). between December 2012 and December 2013, the interest rate on this product fell from 3.46% to 2.80%;
- a significant reduction in the rate paid on collateral deposits, the average rate for which went from 0.90% in December 2012 to 0.54% in December 2013, despite an increase in average balances handled from €13.8 billion to €17.9 billion.

Net interest income as a proportion of total revenues went from 34.6% in 2012 to 29.8% in 2013.

#### *Fees and commissions*

In 2013, net fees and commissions from services amounted to €120.1 million, an increase of €4.7 million from 2012 (+4%).

#### *Gains/losses on financial transactions*

In 2013, gains on financial transactions, which includes the net result on trading activities (€20.5 million), the net result on hedging activities (-€4.2 million), the net result on disposal and repurchase (€28.1 million), and the net result on financial assets/liabilities at fair value through profit or loss (-€17.8 million), came to €26.5 million, an increase of €9.2 million (+53.6%) compared with 2012 (€17.3 million). The change is due mainly to the gains on the disposal of financial assets available for sale.

#### *Total revenues*

The Bank posted total revenues of €238.7 million in 2013, a slight decline (about 1.5%) compared with 2012 (€242.3 million).

#### *Operating expenses*

Operating expenses incurred in 2013 totaled €174.4 million (€158.9 million in 2012) and include personnel expenses, other administrative expenses, indirect taxes and duties, and net adjustments of property and equipment and intangible assets.

Compared with the previous year, total administrative expenses increased by €13.3 million related to an increase in personnel expenses of €4.2 million and in other administrative expenses in the amount of €9.1 million.

#### *Personnel expenses*

Personnel expenses for the Bank came to €63.5 million in 2013, compared with €59.2 million in 2012, a rise of €4.3 million (+7.2%).

#### *Other administrative expenses*

Other administrative expenses totaled €103.4 million in 2013, up 9.7% compared with the previous year (€94.3 million). For further details, see the notes to the financial statements (Section 9 – Administrative expenses – Item 150, table 9.5).

#### *Net adjustments of property and equipment and intangible assets*

Adjustments totaled about €7.6 million at December 31, 2013, of which €3 million for depreciation and €4.6 million for amortization.

#### *Gross operating profit*

As a result of the foregoing, the gross profit from ordinary operations came to €64.3 million, down 22% from 2012 (€82.4 million).

#### *Net profit for the period*

Net profit, consisting of profit from continuing and discontinued operations, net of the change in direct taxes for the period, amounted to €40 million, compared with €48.4 million in 2012, a decrease of 17.3%.

The cost-to-income ratio went from 66.0% in 2012 to 73.1% in 2013.

## 4. BANK OPERATIONS

The following section contains information on the primary activities carried out in 2013 by the various company structures.

#### *FINANCE*

In 2013, Iccrea Banca, in its role as the Group finance hub, provided support to the mutual banks and to the Group companies through a series of initiatives in domestic and foreign monetary and financial markets, as well as in collateralized markets.
In a year marked by a considerable decline in yields on

the bond markets, the dynamic management of the proprietary portfolio generated significant profit margins, which helped support the levels of returns offered to the mutual banks through our various forms of lending, at both short and long term.

With regard to the management of the mutual banking system's liquidity, in 2013 the mutual banks made more extensive use of collateralized funding activities, both through transactions with the ECB and with market counterparties. The improvement in the perception of Italian sovereign risk by intermediaries made it possible to undertake collateralized transactions with maturities of up to 30 months, thereby allowing the financing until maturity of additional investments.

The improvement in the Group's liquidity position and favorable market conditions made it possible, in the first few months of the year, for Iccrea Banca to repay €2.2 billion in financing received in the three-year LTRO auctions. The remaining total involvement in the two three-year auctions came to €10.4 billion at the end of the year. The total amount of collateralized loans to the mutual banks from Iccrea Banca using the collateral pool mechanism rose from €16.3 billion at the end of 2012 to €18.5 billion at the end of December 2013.

In the area of structured finance operations to support the mutual banks, two securitization transactions were carried out: one involving residential loans (CF12) and another for commercial loans (CF14).

With regard to the supply of investment instruments, the Company continued to offer a system centered on fixed-term deposits, investment accounts and bonds, both to be held by the banks and to be distributed to their customers.

The bonds offered to the mutual banks can be refinanced with the ECB, in part to permit their inclusion in the calculation of the liquidity reserves required by the supervisory regulations and company policy.

In 2013, the Company carried out a three-year €500 million public bond issue under the EMTN program in the international markets.

Other initiatives include the issue of a five-year €500 million bond through third-party networks.

Around €1.7 billion in bonds were placed through the mutual bank network.

With reference to the intermediation of government securities, there was a further significant increase in the volumes traded, which reached around €145 billion, again placing Iccrea among the principal operators in the sector.

With respect to order collection, in the second half of 2013, the project to install the new trading platform was completed, ensuring more efficient standards for accessing financial markets and guaranteeing the dynamic best execution of orders. At the same time, the new advanced trading module, called the "FT Console", was released.

With regard to Iccrea Banca's growing role in the money and financial markets, the Company's increased its involvement in the working groups formed by ABI, Assiom-Forex, the Bank of Italy and UNICO.

### *Proprietary Finance and Trading*

The Proprietary Finance and Trading unit is organized into four units, which are involved in:

- market making on the Hi-MTF and EuroTLX multilateral trading systems;
- trading government securities on regulated markets, multilateral trading systems and/or off-market transactions;
- activities to identify the finance needs of the Bank and the other companies of the Iccrea Banking Group and to formulate investment proposals for the proprietary portfolio and to manage interest rate, exchange rate and liquidity risks;
- managing the Bank's portfolio, including using unlisted financial derivatives;
- funding through the issue of bonds on domestic and international markets.

About 550 Eurobonds and 53 Italian government securities are listed on the Hi-Mtf market, while 212 Eurobonds and 45 Italian government securities are listed on the EuroTLX.

Around €2 billion in corporate securities were traded, up 30% over 2012. The volume of Italian government securities traded amounted to €8 billion, an increase of 11.25%. This activity helped the Bank achieve significant market visibility: Iccrea Banca was involved in a monthly average of 16% of the trades on the EuroTLX, with over 80,000 transactions carried out during the year.

With regard to the trading of liquid and illiquid securities, over 2,000 bond issues were traded, ensuring the mutual banks rapid, efficient execution of orders.

Around 100 issues were placed on the primary bond market (Eurobond) and €116 million in securities issued by the Bank were repurchased.

Italian government securities amounting to around €105 million were traded on the MTS and BondVision platforms, an increase of 44% over the previous year.

This activity generated a profit of €10.8 million. On MTS's ranking of the various classes of listed and traded government bonds, the Bank was one of the leaders compared with all its major domestic and international competitors. More specifically, Iccrea ranked 6th out of 41 in the CCT (Treasury credit certificates) segment and 19th out of 52 in the BTP (Italian treasury bonds) segment.

The volumes traded raised the visibility of the mutual banks within the financial community. As a result of this role, a direct channel was established with the Ministry of the Treasury in order to establish a systematic dialogue and a structural analysis of investment flows in the Italian system.

As to transactions in derivatives, in 2013 volumes traded had a nominal value of about €3 billion, down 14% from the previous year.

More specifically, the mutual bank system experienced a strong contraction in volumes, a trend that began to appear in the latter part of 2011.

Indeed, in 2013 the mutual banks negotiated derivative contracts with a total nominal value of around €324 million, down €479 million from 2012.

The business of the mutual banks focused on plain vanilla swap products (around 78%), aimed mainly at hedging the interest rate risk on their bond issues.

The developments in volumes are mainly attributable to the particularly low level of interest rates, a consequence of extraordinary monetary policy interventions (LTRO) and gradual reduction of interest rates by the ECB, with the main policy rate currently at 0.25%, carried out in response to the difficult macroeconomic situation, in an environment where considerable deflationary risks remain.

As regards operations in derivatives on the Iccrea Banca banking book, BTP Inflation asset swap transactions were carried out in the nominal amount of €300 million.

On the funding front, 18 bond issues were carried out for a total of €1.97 billion, with an annual residual maturity at issue of 3.8 years. The nominal value of the overall stock at December 31, 2013 amounted to €4.28 billion. Funding activity involved both the retail and the institutional segments, focusing especially on diversification of sources.

Mutual bank shareholders subscribed 33% of the total nominal amount issued, retail customers 50% and institutional customers 17%. A benchmark issue under the EMTN Program was placed using this channel in international markets in November 2013. It was well received by the market compared with other comparable issuers.

The contribution of the banking book to net interest income rose in line with the rise in volumes invested from €7.1 billion in 2012 to €12.2 billion in 2013. More specifically:

- the Italian government securities component rose from a nominal €5.9 billion in December 2012 to €7.03 billion in December 2013, an increase of 19.2%. The volatility of the market during the year made it possible, during both the rollover of existing positions and in new acquisitions, to achieve excellent results in terms of earnings and seizing market opportunities with attractive returns;
- the total nominal value of intercompany medium/long-term assets (net of maturing positions) rose by €1.245 billion to €4.55 billion at year-end.

***Treasury and Foreign Exchange***

The Treasury and Foreign Exchange unit is divided into two units involved in providing the mutual banks, the Group companies and other customers:

- access to foreign exchange and precious metals markets, handling operations and management of exchange rate risks;
- money market operations (cash and secured), meeting funding/short-term investment requirements and the management of liquidity and short-term interest rate risks.

In 2013 given the strong liquidity position of the Bank, the banking group and the mutual banks as a whole, the Bank expanded its operations in collateralized markets, which offered, especially at the start of the year, lower funding rates than the ECB.

This opportunity was used in a variety of ways to improve the profitability of the sector:

- a portion of the 3-year LTRO was reimbursed (€2.2 billion), replaced by funding as needed with transactions on the intra-day market (On, TN) taking advantage of market opportunities that even offered negative interest rates.
- maturing, fixed-rate investments in Italian government securities, with maturities of between 18 and 30 months, were refinanced.

The primary initiatives undertaken to improve the structure's potential and the services offered to the banks involved:

- the launch of the ABACO project for using bank loans in transactions with the ECB;
- the selection of a new front office system in order to ensure more advanced management of risks, partly owing to the high volume of operations achieved;
- as part of the T2S project, a feasibility study was conducted for the development of an integrated treasury dashboard for more efficient management of liquidity and collateral.

All of these initiatives will contribute to the launch of new operational support systems in 2014.

The foreign exchange sector operations centered on providing services to the mutual banks and to customers through the Webfin trading portal.

Foreign exchange operations generated a total gain of €2.2 million in 2013, including derivative transactions.

Around €0.6 million of this was generated by trading in the markets, reinforced by organizational interventions. This made it possible to significantly reposition the Bank on the foreign exchange spot market. According to the statistics released by one of the most important providers, Iccrea Banca ranks 7th in Italy, 190th in Europe and 470th in the world in terms of volumes traded.

The Bank continued to provide its ordinary services to the mutual banks and customers through the trading portal, where it executed:

- around 98,000 FX-spot contracts for a total of around €2.2 billion;
- about 4,700 FX-outright contracts for a total of around €0.8 billion;
- around 1,500 FX-swap transactions worth approximately €5.5 billion, especially to support the operations of the Group's asset management company.

In the precious metals segment, the start of new relationships with other counterparties led to the achievement of the dual goals of reducing provisioning costs and diversifying the product range.

The new conditions received made it possible to reduce the spread for the mutual banks on purchase transactions, both new and those associated with the discharge of loans.

Repo funding operations at December 31, 2013 amounted to €14.1 billion, broken down as follows:

- €5.4 billion for the operations of the Iccrea Banking Group;
- €3.5 billion for the financing to maturity of securities in the portfolio of Iccrea Banca;
- €5.2 billion to meet the requirements of operations requested by the mutual banks.

Funding from the ECB at December 31, 2013 amounted to €13.9 billion, as in addition to the residual amount of €10.4 billion for the 3-year LTRO, €3.5 billion was raised in ordinary auctions. The return to operations with the ECB came primarily in December since, with the date of the close of the financial year approaching, the market was demanding higher interest rates than the ECB (which had lowered its main refinancing rate to 0.25%).

### *Institutional Sales*

In 2013, the Institutional Sales unit continued to develop its model of investment services based on the continuous evolution in the needs of the mutual banks and their customers, with the goal of laying the groundwork for a new technological architecture that integrates operations, an indispensable condition for the creation of strategies for expanding indirect funding for the mutual bank system.

The first goal of the resulting project is the installation of the new trading platform, which guarantees more efficient standards for access to financial markets and ensuring dynamic best execution. It was launched in the early part of the year with the selection of the technology partner and culminated with the selection of the supplier of the new solution.

The migration to the new platform, which was successfully completed by the deadline set by the project team, was carried out in December, making it possible to release the new advanced trading product called "FT Console" at the same time. It was developed on the basis of the common needs of the finance staff of Iccrea Banca and the mutual banks.

The concept of maximum integration of operations was applied by simultaneously making the product multi-functional (advanced trading, comprehensive monitoring of trading flows, online control of best execution) and achieving synergies with the securities procedures of the mutual banks, directly involving the technical outsourcers in development, with the shared goal of satisfying the needs of the mutual banks for more efficient operational processes.

The initial fruit of this close collaboration can be seen in the creation of the automatic download of executed transactions made available to the mutual banks by ISIDE.

The entire initiative was the subject of a special communication campaign using various channels simultaneously (video circulars, brochures, dedicated section of the Polaris site, video tutorials, etc.).

#### ORDER COLLECTION

There was a sharp increase in volumes handled by the mutual banks through the Bank during the year just ended in an environment of high volatility in prices.

More specifically, the strong recovery in the prices of shares listed on the Italian market prompted a significant increase in volumes of orders collected, rising from €3.2 billion in 2012 to €5 billion in 2013, a result not seen in at least 3 years.

The Borsa Italiana FTSE MIB index, which saw a modest recovery in 2012 from the lows reported during the crisis, experienced a sound recovery, particularly in the second half of 2013, returning to 19,000 points, up 11% for the year, following the major international markets, which in certain cases reported record highs.

Even more impressive results were reported in the fixed income segment, thanks to the strong recovery in the prices of Italian government securities, particularly in the second half of the year.

The volumes traded by the mutual banks in bonds listed on Borsa Italiana, HI-MTF and EuroTLX hit a record of €43.6

billion, comfortably exceeding the €35.5 billion posted for 2012.

PRIMARY MARKET

With regard to the primary market, there was a considerable expansion in volumes handled compared with 2012, going from €3 billion to more than €5.5 billion, thanks in part to three BTP Italia bond transactions, accounting for total orders of over €4 billion.

In 2013, placements of Iccrea bonds totaled around €1.5 billion, indicating the strong interest that the mutual banks have in Iccrea Banca issues for both direct investment and on behalf of their customers.

BCC VITA PRODUCTS

In 2013, the management of the assets underlying BCC Vita's products focused closely on managing new flows and strategically reallocating portfolios.

More specifically:

- the "Cap Più" account was adjusted to make the profile of assets more liquid and reduce the amount of non-current securities in view of the substantial lack of new flows for this account, as no additional contributions to the policies have been made for some time;
- there was a significant turnover of the "Garantita" account due to sale of almost all the of the CCTs, which were replaced with fixed-rate instruments and Italian government securities (BTP) linked to European and Italian inflation. Efforts were also made to continually improve the profitability profile of the assets on the basis of market opportunities and the profile of liabilities and to invest the new liquidity from new subscriptions;
- the assets of the "Garantita FPN" account were virtually divided into two portfolios in order to allocate a portion to short-term needs, linked to the reimbursement of a portion of the portfolio maturing in January 2014 to the Fund, thereby reducing the Company's market risk exposure to a minimum. The remaining portion was reallocated with a target duration adjusted to the new maturity date in an effort to maximize the return for the insured.

OTC DERIVATIVES

In 2013, activity involving OTC derivatives reached very low levels, in line with the previous year, essentially due to:

- exceptionally low interest rates;
- the contraction in direct funding by way of the issue of medium-term bonds through the retail channel, an activity which, in the past, had generated the largest portion of the volumes of hedging through OTC derivatives:
- the decline in lending.

During the year, the unit participated in the EMIR working group, aimed at identifying solutions for mutual banks to meet the main requirements under the regulation.

***Securitisations***

The Securitisations unit develops, in cooperation with the Bank's other operating units, securitization initiatives for the mutual banks and the Group companies, performing the related upfront and ongoing activities.
The main activities carried out in 2013 were as follows:

- structuring of a new securitization involving residential loans, in which 35 mutual banks participated in a total amount of about €1 billion, denominated "Credico Finance 12";
- structuring of a new securitization involving secured and unsecured commercial loans, in which 10 mutual banks participated in an amount of around €304 million, denominated "Credico Finance 14";
- implementation of activities for the production of the "Loan by Loan" reports required by the ECB in respect of the following operations: Credico Finance 8, Credico Finance 9, Credico Finance 10 and Credico Finance 11, Credico Finance 12 and Credico Finance 14;
- closure of the Credico Funding 3 operation and placement of the special-purpose vehicle in liquidation;
- closure of the BCC Securis operation and placement of the special-purpose vehicle in liquidation;
- closure of the Credico Finance 3 operation;
- start, with the mutual banks, of the structuring of a single-assignor operation with residential mortgage loans as the underlying;
- initiation of the structuring of the Credico Finance 15 transaction, with trade receivables as the underlying, involving 18 participating mutual banks for a total of around €600 million. The operation will be completed with the subscription of the senior notes by the EIB and institutional investors, backed by the EIF.

### *Finance and Middle Office Technical Secretariat*

The Finance and Middle Office Technical Secretariat oversaw and handled the development of the Finance business, while also providing middle-office services.
In providing support to the Finance units and, more specifically, with respect to the funding requirements of the Iccrea Banking Group, the unit was involved in:

- the adoption of an Italian issue program amounting to

a total of €1,500 million, structured around 6 issue programs for which Iccrea Banca may carry out bond issues in euro and other currencies at fixed rates, fixed rates with step-ups, variable rates with floors and ceilings as appropriate, mixed-rates, including bonds indexed to the performance of a financial asset or a financial index. The issue program involved the preparation of the Basic Prospectus, submitted to CONSOB for approval, under which it was possible to issue senior bonds targeted at the retail customers of mutual banks, institutional customers and the retail customers of intermediaries other than the mutual banks;
- the adoption of a English-law issue program for the equivalent of €3,000 million (Euro Medium Term Notes – EMTN) for the issue of senior bonds on capital markets. These notes – which have been assigned ratings by Standard & Poor's and Fitch, and are listed on the Luxembourg exchange – meet the eligibility requirements for refinancing operations with the ECB.

As part of its collateral management activities, the Finance and Middle Office Technical Secretariat implemented a project to optimize risk weighted assets (RWA). For operations involving unlisted financial derivatives, the project involved the adoption of risk mitigation techniques, specifically set-off arrangements in transactions with the mutual banks, which led to an 80% reduction in the associated capital requirement.

In light of the new rules introduced with the EMIR, an agreement was signed with a leading market intermediary for the intermediation of OTC financial derivative transactions through the central counterparty (CCP) in accordance with the first of the three pillars of the regulation. As regards the second pillar, i.e. risk mitigation techniques, appropriate techniques were adopted with a project that also sought to lay the groundwork for the mutual banks to adopt them as well. In order to support the mutual banks more effectively, including with regard to regulatory and capital matters, a special portal (*Portale Derivati*) was developed, with around 200 participating banks. Users can access the various areas of the portal to comply with the reconciliation and margining requirements.

At December 31, Iccrea Banca acquired security of around €90 million and granted security of about €130 million under margining contracts entered into with international counterparties within the framework of the ISDA Master Agreement and, for bilateral collateralization operations, the General Master Repurchase Agreement (GMRA).

### *LOANS AND RECEIVABLES*

In the current economic and financial environment, ICCREA Banca has expanded its range of action and has taken a growing role as a partner to the mutual banks, as a bank capable of assisting its customers in managing their operations and anticipating their needs.

In 2013, the Bank demonstrated its capacity to support the mutual banks through its Lending area, offering a range of credit solutions to respond to various operational needs – ordinary and extraordinary – that have arisen in the mutual banks' markets.

Part of this effort is the process of assessing creditworthiness, which enables the Bank to respond to the mutual banks in a timely and comprehensive manner with lines of credit scaled to their capacity and designed to satisfy their financial and liquidity needs, as well as facilities for operations with the Bank's various lines of business.

In 2013 Iccrea Banca thereby provided financial support to the mutual banks through 695 financing operations in the form of operating loans and facilities. The trend in lending continued, with the total amount lent at the end of the year reaching €19,008 million (of which €18,671 million to the mutual banks and €337 million to ordinary banks), confirming that Iccrea Banca's new role has been fully recognised.

More specifically, of the total number of financing transactions authorized, 241 were lines of credit granted to mutual banks and "intermediated" banks, of which 121 were increases in or grants of loans for "collateral pool" transactions.

Uses of loans mainly regarded lines of credit for treasury operations secured by collateral pools (€18,503 million). The remaining portion was represented by bonds subscribed by the Bank to support the medium/long-term funding of the mutual banks (€505 million) and the use of lines of credit for treasury operations (equal to €0.4 million).

The role performed by Iccrea Banca is also distinguished by the support it provides to the mutual banks in particularly problematic situations, with the implementation of support interventions, sometimes in partnership with other central institutions of the mutual bank industry. In 2013, these actions took the form of authorizing the disbursement, through various types of financing, of a total of €168 million to mutual banks facing crisis situations or in difficulty. In these cases, the operations also involved the intervention of the mutual bank deposit guarantee fund, which issued sureties in favor of the Bank in the amount of €74 million (at December 31, 2013, €49 million of these had matured and €25 million had not yet been disbursed).

During the year, €1.6 million in sureties were issued on behalf of banks, bringing the total at December 31, 2013 to €4.1 million, of which €3.7 million granted to mutual banks and €0.4 million to the ordinary banks.

As regards the bankers' draft service performed for the mutual banks and the banks that use our Bank as an "intermediary bank", the facility limits authorized during the year for loans and investments amounted to €450 million, with 31 positions authorized. As at December 31, 2013, 286 counterparties had taken advantage of this service for a total stock of €5,207 million.

In the foreign segment, the Bank focused on confirmations of documentary credit fully counter-guaranteed by Iccrea BancaImpresa, refinancing of letters of credit and syndicated loans (operations in which Iccrea Banca assumes the risk). More specifically, in 2013, facilities were authorized for documentary loan confirmations to banks in Saudi Arabia, Morocco, Qatar, Turkey and Russia and renewed for banks in India, for a total of €41.5 million.

Iccrea Banca was recently designated by the Parent Company as the Group's leader for assessing the creditworthiness of bank counterparties and financial intermediaries. Work is under way to offer the new service to the Group companies.

#### *Correspondent Banking*

In 2013, the Bank continued to network with foreign banks (over 55 correspondents), focusing on: a) strengthening relationships established over the last two years in countries of greatest interest to mutual bank customers (Turkey, India, Russia, the Gulf States, Morocco); b) selective establishment of new relationships in those countries; c) rationalization and deepening of long-term relationships. The Bank found participating in the European Bank for Reconstruction and Development (EBRD) Annual Meeting and Business Forum in London and Sibos in Dubai to be particularly useful in pursuing these goals.

Within the context of this networking activity, the process of assessing the appropriateness of the conditions applied to our accounts, as well as agreements for channeling payments continued.

In the field of international payments, an account was opened in Chinese currency (CNY), enabling the mutual banks to support their importer and exporter customers by enabling them to send and receive payments in that currency.

As regards support for trade-related activities, the Bank strengthened its collaboration with the competent Iccrea BancaImpresa structure and has continued the process of establishing the facility for such activity with selected foreign counterparties in countries that are particularly attractive for Italian exports (China, Morocco, Saudi Arabia, Qatar), as well as existing ones for Turkey, India and Russia.

The Correspondent Banking unit has acquired considerable experience in providing direct assistance to the mutual banks in finding solutions to problems arising with foreign banks and in setting up transactions with their customers. This has reinforced Iccrea Banca's role as a partner to the mutual banks in this sector.

The Bank continued to seek out high-profile counterparties capable of providing risk mitigation tools in the context of trade-related activity. After signing the agreement with the EBRD, in December the Bank also signed one with the International Finance Corporation (IFC), an agency of the World Bank, which covers 95 countries and 270 banks worldwide.

Thanks to Iccrea Banca's higher visibility in new emerging markets, it continued to provide origination activities for trade operations proposed directly by foreign banks. Its networking activities have enabled an ever-growing number of foreign counterparties to accept the Bank as the direct counterparty in trade operations, resulting in considerable savings and improvements in service quality for the customers of the mutual banks.

### *PAYMENT SYSTEMS*

#### *Collections and payments*

The Collections and Payments unit is responsible for managing products and services offered by the Bank to intermediary banks through the domestic and international payments systems, with the exception of documentary transactions relating to the import/export of goods.

In 2013, the Bank continued work on completing the SEPA Credit Transfer, Direct Debit and Cash products to ensure the full compliance of internal procedures with developments in national and international standards by 2014. Although there were some start-up problems, Iccrea has ensured that the migration to the SEPA SDD and SCT systems will be completed so that the participating banks will meet the 1 February 2014 end date established in the regulations. Although the end date will remain 1 February 2014, the competent authorities recommended in January 2014 that, due to issues that could arise during migration, banks maintain a dual system until 1 August 2014.

The procedures for major customers enabled a major customer (Eni), to settle its SDD standard SEPA cash flows, ensuring a smooth migration.

All this activity is aimed at achieving the following objectives on behalf of the mutual banks:

- to implement the exchange and settlement of collections/payments from/to EU and non-EU banks;
- to minimize the costs that the individual mutual banks would incur to conduct these transactions at the operational level (connections, technological infrastructure, procedures, etc.), and at the level of regulatory compliance (participation in working groups sponsored by ABI, Bank of Italy CIPA, Target, etc.).

The pricing policy was reviewed with a view to:

- reducing the costs for the participating banks and enabling them to effectively market products with a low cost/income ratio to their customers;
- minimizing the costs (efficiency enhancement) of the activities of the mutual banks and of Iccrea Banca. In order to make the prices charged to customers more competitive the focus has been on integration with IT systems, continuing compliance efforts with international PSD (Payment Services Directive) and SEPA (direct debit, credit transfer, cash) regulations, in order to minimize the impact of these regulations on the mutual banks, making the necessary changes for the exchange of data. Specifically, under SEPA it is now possible to send intraday commercial payments inexpensively using the SCT in place of the traditional BIR;
- optimizing the nature and the role of the mutual bank industry circuit, both in terms of fees (no fees applied for these transactions), to further accelerate transactions and the related settlement.

In this evolving environment, actions were undertaken in the various payment system sectors to comply with the new system rules and to develop new products. These initiatives included:

- electronic invoicing and dematerialization in order to enable the customers of the mutual banks to reduce the costs connected with the handling/storing of hardcopy invoices, sending them to recipients (by various means such as corporate interbank banking, the postal system and certified e-mail) and reconciling payments. The project is ready from an operational standpoint. The activity has been rolled out and the mutual banks are implementing this fundamental service, which is also crucial in dealings with government entities;
- a project to enable agreements with major customers for collections on secured transactions in respect of customers of the mutual banks, implementing an internal value-added circuit within the mutual bank industry that will lead to the Group being viewed as a single entity. The required agreements with the partners are in the process of being finalized and the application is currently undergoing testing;
- in the traditional payments sector, the actions of the Collections and Payments unit have been aimed at improving the quality of the services offered to the mutual banks, with the intention of satisfying their needs and helping them achieve greater market penetration. Work is being completed on the specifications to be provided to the system for full check truncation, with the transmission of images in place of physical documents.

### *CAIS Applications*

The Standardized Interbank Application Center unit is responsible for promoting and developing activities associated with interbank application center operations and ACH SEPA compliance activities.

The activities carried out during the year included:

- management of the exchange of SEPA flows utilizing the label records of the industry FT system;
- management of outgoing transfers from the CartaBCC portal generated with the use of the Carta IBAN;
- creation of the MQs interface between ICCREA and Phoenix for sending closed OTC derivatives contracts between the Bank and the mutual banks; the project was a prerequisite for the new EMIR;
- the implementation of the procedures for the interbank procedure records for the management of the new SEDA tables (SED000 and CRI000);
- handling of messages in XML format from/to the SWIFT network using the Anè application;
- installation of the new release of the SAA product aligned with the new SWIFT standards;
- the implementation of the transfer process to standardize the placement of investment funds and SICAVs.

Of particularly importance for the development of the mutual banks' business are: management of outgoing transfers from the CartaBCC portal generated with the use of the Carta IBAN, creation of the MQs interface between ICCREA and Phoenix for sending closed OTC derivatives contracts between the Bank and the mutual banks (the project was a prerequisite for the new EMIR), the implementation of the procedures for the interbank procedure records for the management of the new SEDA tables (SED000 and CRI000) and the implementation of the transfer process to standardize the placement of investment funds and SICAVs.

Because of important structural changes in the competitive environment in Italy in the context of services for the control and transmission of information regarding payment systems, the applications center and ACH functions are gradually converging towards functions with a European scope, which require closer standardization with a volume-based business philosophy while the functions of a payments system provider require ever-greater customization to satisfy the customer target.

In this context, an especially important activity among all those related to the transmission and control of payment orders was careful, close control of functions for the banking business.

With this in mind, the Bank is assessing projects for re-internalizing the SWIFT Alliance Gateway (SAG), the Standardized Inter-bank Application Center and the Access Point Manager for corporate interbank banking, the CBILL project for internet banking for payment of utility bills and other amounts owed to local and central government entities, which may also accomplished through the connection with the Agency for a Digital Italy.

The number of participating banks has continued to decline due to acquisitions and mergers in the mutual bank system.

### *E-Bank*

In 2013, growth continued on both the issuing side, with 3.0 million cards in operation and approximately €14.6 billion in transaction value and on the POS and ATM acquiring side, with more than 115,000 PagoBancomat POSs, 4,380 active ATMs and about €16.7 billion in transaction value.
Regarding the issuing sector, all three segments (debit, prepaid, and credit) recorded substantial increases that can be summarized at the end of 2013 as follows:

- operational debit cards equipped with chip technology reached 1.9 million compared with 1.8 million in 2012, an increase of 6.3%;
- the stock of operational credit cards increased by 6.1%, going from 645,000 cards at the end of 2012 to 684,000 cards at the end of December 2013;
- active prepaid cards went from 278,000 at the end of 2012 to 345,000 at the end of 2013, an increase of 24.1%.

Similarly, significant volume growth was posted in the acquiring segment, reaching €16.7 billion in total transaction value in 2013 (of which €12.5 billion on the PagoBANCOMAT/BANCOMAT circuit and €4.2 billion on international circuits), compared with €16.2 billion in 2012, an increase of 3.1%.
Various projects were begun during the year to develop new products that have already been launched, or will be launched, in early 2014:

- the new Carta IBAN CartaBCC Tasca Conto card, that combines all the main functions of a bank account in one prepaid card;
- the ACS Project to enhance fraud protection regarding the online use of pre-paid and credit cards. Given the diminishing effectiveness of the security provided by current “static-password” systems (e.g. SecureCode and Verified-by-Visa), Iccrea Banca has decided to implement a “dynamic-password” security system that will ensure greater security against fraud. Implementation of this new system is expected to bring a significant reduction in losses due to fraud;
- the BySmart project for remote payments via mobile phone, which is being developed in collaboration with the Movincom Consortium. This project will enable CartaBCC cardholders to purchase services directly with their mobile device. In 2013, beta testing involving 250 mutual bank customers in Emilia Romagna was successfully completed. The service is expected to be launched in the second quarter of 2014 for mutual banks in the region of Emilia Romagna;
- the project *ScontiRiservati.it*, which involves the creation of a virtual marketplace “reserved” for the mutual banking system.

The strategy of Iccrea Banca in this area has been organized into two distinct phases:

- in an initial stage, the project will seek to offer all holders of CartaBCC credit cards and pre-paid cards an attractive range of e-commerce goods and services, thereby increasing awareness of this new channel for making purchases;
- in a subsequent stage, Iccrea Banca will be involving the individual mutual banks in the search for and selection of examples of “regional excellence”, i.e. customer firms that stand out for the excellence of their products and to whom the mutual banks concerned will be able to offer greater visibility via this new marketplace.

Assistance continued to be provided to the mutual banks through the “Corner in Branch” project, involving 26 mutual banks and 152 branches throughout 2013, enabling a large increase in the number of cards issued.

### *INSTITUTIONAL SERVICES*

In 2013, the activities of the Institutional Services unit underwent a comprehensive reorganization resulting in the streamlining of the organizational structure and the redistribution of responsibilities in order to optimize the allocation of resources and the costs of producing the services. This initiative involved the reorganization of the unit, structuring it into the Back Office & Custody, Ancillary Services and Finance Database Management, and Custodian Bank areas, as well as a Staff function for developing project initiatives. With this initiative, the Bank seeks to optimize the cost-to-delivery of services, raising quality levels and expanding the range of products, which would also increase the number of external customers thereby providing diversification from the mutual bank network.

More specifically, Iccrea Banca’s Securities Services product is focused on offering customers, on the one hand, a single custodian, as a partner capable of delivering the entire value chain of securities administrative and settlement services; and on the other, on providing a high degree of flexibility in service delivery so that it can also handle non-standardized models, customizing products and services based upon customer needs.

In order to increase the efficiency of operating processes and achieve excellence, the first projects in the Lean Six Sigma process were launched within the Securities Services area, with the first positive effects already achieved during the year. Further benefits are expected to be generated with the implementation of the action plans developed.

Iccrea's activity in the Securities Services area remains an affordable and efficient opportunity for the mutual banks and other customers compared with in-house process management and direct involvement in central guarantee and settlement systems, particularly within the scope of the evolving external landscape of ongoing, rapid change in laws and regulations and the increasing complexity of operations and infrastructures needed to comply with the related obligations. The solutions provided by Iccrea Banca enable the mutual banks to enjoy a single partner and to benefit from significant synergies and economies of scale, thereby saving on market access, technology investments, application management, maintenance and development, operations and processing.

The most important projects concerned the European Market Infrastructure Regulation (EMIR) governing derivatives, the ECB's introduction of the new European system of securities settlement (Target2 Securities), and the Group project to rationalize our custodian bank activities.

Specifically with respect to the European Market Infrastructure Regulation (EMIR), an internal working group studied the impact of the introduction of the EMIR on the mutual banks and Iccrea Banca, identifying and implementing operational solutions to meet the requirements within the timeframe called for under the regulation. During the year a special operational portal was developed, through which the mutual banks can access all of the services offered by Iccrea Banca concerning EMIR compliance connected with derivatives contracts, such as confirmation of operations, reconciliation of portfolios, valuation of derivatives contracts, reporting to Trade Repositories and measurement of capital requirements. Information and training were also provided to the mutual banks through special presentations held nationally and regionally in conjunction with Federcasse and the local industry federations. A multimedia area containing updated information on all EMIR issues has been created in a special section of the Polaris intranet site.

With regard to the Target2 Securities project, the new infrastructure for the settlement of securities transactions currently being launched by the ECB along with the European System of Central Banks will be rolled out in 2015. Studies were also conducted in preparation for the definition, over the coming months, of the procedures to be followed by Iccrea Banca in participating in the new settlement system, having opted to be a direct participant in the same manner as the leading international players in securities settlement and custody. The purpose of this decision, which places the Bank among the top 30 banks in Europe and among the top 5 in Italy, is to strengthen the Bank's central role in the markets and in the mutual bank network and to mitigate the impact, in terms of organization and costs, on the mutual banking system as a whole.

As part of the Group project to rationalize the organizational structure of custodian bank operations and ancillary services, joint initiatives were undertaken with BCC Risparmio & Previdenza to concentrate within Iccrea Banca those activities that more closely involve administration and control functions relating to asset management. Therefore, the asset management company has begun transferring the following activities to the Bank:

a) calculation of the value of the units of the open-end securities investment funds and pension funds;

b) customer back office functions.

The custodian bank unit was therefore engaged in analyzing and preparing the documentation required to initiate the procedure with the Bank of Italy for authorization to calculate the NAV. With a measure dated November 19, 2013, the Bank of Italy issued the authorization. Therefore, the custodian bank unit began the acquisition process in preparation for the definitive start of operations scheduled for early 2014. Under the strategic policies established by the Parent Company, preparations have also begun for a possible transfer of all custodian bank activities to third parties to allow the banking group to focus on its core businesses with critical masses sufficient to generate the necessary economies of scale.

As to the securities database, the process of enhancing the efficiency and rationalizing information providers was begun in an effort to improve and strengthen the quality of data produced and to optimize the associated costs.

The process of enhancing the dialogue between Iccrea Banca and the mutual banks continued with the implementation of the WebAmmTit platform. This will improve the acquisition and processing of information, resulting in more streamlined operations and greater containment of operational risks with a view to continually upgrading the level of service offered by the Bank.

As regards the support provided to mutual banks in the distribution of collective investment undertakings, the Fund Operation unit took an active part in ABI's group pilot program on standardizing messaging, beginning to implement the procedures for adopting the new system standards in 2014.

#### *Ancillary services and finance database management*

The Ancillary Services and Finance Database Management unit provides support for the mutual banks' activities with the following services:

- the financial instruments database service (A.T.C.I.) for the accurate recordation of new issues and continuous updating of variable data;
- the management of administrative activities relating to securities held in custody;
- administrative support for activities connected with the management of the "collateral pool" mechanism, which, by facilitating access to collateralized financing operations, in particular with the European Central Bank through the treasury desk, generated a significant increase in the financial instruments held in custody. This activity allowed the mutual bank system to activate all the emergency measures put in place by government to counter the financial and economic crisis, making a significant contribution to securing the mutual bank system;
- the listing service for mutual bank issues in the "order driven" segment of the HI-MTF market aimed at giving them the liquidity conditions provided for under Consob regulations. At the end of the year, there with 82 mutual banks in the HI-MTF market, with more than 1,450 issues listed;
- the issuers service, which offers administrative support for mutual bank issues. At the end of the year, there were 125 issuers participating in the service, of which 119 mutual banks, 2 banks of the Iccrea Banking Group and 4 other banks;
- There are now over 100,000 financial instruments in the securities database, some 18,000 of which have balances. We have also implemented record layouts for the distribution of new data related to tax management and to provide the mutual banks with high-level consulting services for their customers. Finally, depositaries were rationalized during the year by concentrating positions into a smaller number of entities in order to simplify operations and achieve cost savings in custodian operations;
- the management of activities connected with the distribution of investment funds, particularly regarding the activities of the payment entity and the Italian offering entity (Bank of Italy regulation of May 8, 2012, the Issuers Regulation, and the Intermediaries Regulation) for foreign funds, the implementation and the management of the FINV platform to support the distribution of units in collective investment undertakings, covered by the BCC Risparmio & Previdenza offering system, the operations of agent banks (S.T. circular 59/2011) and clearing, order routing and custody activities relating to the foreign fund operations of institutional customers. The results achieved in 2013 confirmed the positive trend seen in recent years, with the number of affiliated companies rising to 14, for a 70% increase in volumes, with assets under administration of €1,000,000,000 for retail customers, plus another €500,000,000 for institutional customers;
- the particular appreciation demonstrated not just by the partner banks, but also by other important players in the mutual banking field (STD, local industry federations) represents the proper understanding of the role assumed by the Bank in this activity;
- the management of the pricing service for financial instruments, with focus on issues by the mutual banks, which is continuously updated using parametric mechanisms that enable customized solutions for a variety of specific needs based on the policies adopted. At December 31, 2013, 178 mutual banks had signed up for the service;
- the services concerning compliance with transparency and the monitoring of possible market abuse for which, at December 31, 2013, 165 mutual banks had subscribed to the Transaction Reporting service and 136 mutual banks to the MAD service.

#### *Custodian Bank*

In performing its institutional role of enhancing the value of cooperative credit, the Bank served as a custodian bank for asset management operations, for both the banking group companies and for other asset management companies, safeguarding the interests of investment fund subscribers and pension fund participants. The Bank provided asset custody, administration and control services in accordance with the law, regulations and instructions of the supervisory bodies of the managed funds, respectively from:

- in the securities investment funds segment: BCC Risparmio & Previdenza and Intermonte BCC Private Equity;
- in the pensions segment: the national pension fund of the mutual banks, BCC Risparmio & Previdenza, and Bancassurance Popolari;
- in the real estate investment segment: Beni Stabili Gestioni, Investire Immobiliare SGR, Numeria SGR and

Polis Fondi SGR.

The Bank began to provide support for the development of BCC Risparmio & Previdenza's product line, with the introduction of 6 new funds that pay an annual coupon. From a performance standpoint, this led to the consolidation of fee and commission income, an important signal that the trend has been reversed. Thanks to the quality of the real estate held the portfolio, even the real estate funds were essentially stable, despite the continuing real estate crisis.

#### *Finance Back Office*

The Bank's Post Trading service was designed to be a complete, integrated solution for satisfying the entire range of needs for administrative and securities settlement services, meeting the needs of the mutual banks.

During the year the Back Office and Custody unit began implementing projects to achieve compliance with the EMIR rules for OTC derivatives and launched Target2 Securities, which is being introduced by the European Central Bank. In developing these important projects, we intend to pursue solutions that can consolidate and strengthen the role of Iccrea Banca as hub for services between the market and the mutual banks, allowing the mutual banks to guarantee business continuity while at the same time limiting the organizational and financial impact of compliance.

At December 31, 2013, €115 billion worth of securities were held in custody and administration.

### *CENTRAL SERVICES*

#### *Human Resources and Organization*

The year 2013 involved a major change management effort by the Human Resources and Organization area, with the implementation of a broad spectrum of programs and actions, all aimed at enabling the transformation that the Bank has undertaken in the last three years. Such actions have not only continued the work begun in previous years, but have grown in scale, integrating closely with the overall management of change at the Group level. Many of the initiatives have been carried out for the benefit of the entire Banca Iccrea Group.

Much emphasis has been placed on management training and development programs, in support of those whose positions involve coordinating resources, in order to imbue current and future middle managers with a set of skills and values shared throughout the Group.

Work on bring this set of skills and values to key management personnel has also begun, with the establishment of a Group community at which specific development and mutual integration initiatives have been targeted.

The same level of attention has been given to the issue of teamwork through specific efforts to actively engage employees at all levels, so as to cultivate a predisposition towards team building and go beyond a sense of belonging to just one specific area of the organization.

Alongside managerial and behavioral support actions, a major technical and specialized training program was conducted in line with the evolution of company and Group strategic policies and with need to constantly update technical skills.

Over 45,000 hours (or 5,650 days) of training were provided, for an average of about 60 hours per employee, with all employees being targeted by these training efforts.

Agreements were reached with the trade unions to finance the training required for 2013 by drawing on funding from the Solidarity Fund and Foncoop. Under these agreements, two requests for grants totaling almost €900,000 were submitted, although they have yet to be processed by these organizations.

In 2013, the Individual Management Interviews, begun in March 2012 continued. The interviews offer a specific way for the Company and its employees to communicate with the aim of gaining a better understanding of staff, supporting their professional development, supporting their performance and encouraging their involvement, as well as improving the quality and effectiveness of internal communication. The first round of interviews was completed in 2013, with all of the employees having been interviewed. The second round was launched, with 280 staff members having been interviewed for a second time by the end of the year.

Use of internal mobility remained high, supported by classroom and on-the-job training, to meet the need for new skilled employees in many business areas, confirming the desire of the Bank and the Group to develop internal human capital. Internal job rotation affected 46 employees, while another 8 were re-assigned as a result of changes in the organizational structure.

As regards developments in the workforce, at year-end there were 737 employees, broken down by category as follows:

2.2% Executives;
15.2% Senior Managers;
29.0% Junior Managers;
35.0% Senior Professionals;
18.6% Junior Professionals.

In 2013, in order to complete the implementation of the Bank's Service Model, 3 employees were assigned to serve as Institutional Relations Manager Coordinators (GRIC), 3 as Institutional Relations Managers(GRI) and 1 as a Major Customer and Non-Profits Manager.

In 2013, the Bank continued to make major investments in excellence, including: improvements in operations aimed at optimizing process efficiency; innovation, with the constant development of methodologies and the development and improvement of the products and services provided; development of distinctive capabilities and the sharing of know-how, both of which determine how Iccrea Banca is positioned as partner with the mutual banking system.

These efforts also included the continuation of the Lean Six Sigma continuous-improvement program, the experimental stage of which began at the end of 2011 and which became more pervasive throughout 2013. As a part of this program, 23 projects were completed within the Payment & Collections and Institutional Services areas, which directly involved 116 people. A total of 12 received "Green Belt" training, 8 of whom earned international-level certification, while 113 participated in "Yellow Belt" training. Out of these projects, 215 actions for improvement were identified, which will increase the efficiency of individual processes by 40% and achieve direct savings of about €790,000 per year. These efforts have also helped to promote a culture of ongoing improvement and enhance the importance of focusing attention on organization and performance measurement, as well as to reduce process times and improve the monitoring of certain operational and reputational risks.

A new organizational unit, denominated the "Continuous Improvement for Excellence" unit was established within the Human Resources and Organization area to provide a structured approach to these initiatives. The establishment of this new organizational unit is intended to give the Bank and the Group a true center of excellence to introduce and disseminate methodologies inspired by the culture of continuous improvement throughout the Banca Iccrea Group and simultaneously promote the associated improvement and change measures.

On the cost front, we further enhanced the governance, monitoring and optimization of the flexible personnel cost base through specific interventions aimed at carefully managing costs related to overtime, to the planning and use of vacation time, and to business travel. This enabled us to boost the positive trend in reducing these costs begun the previous year. In 2013 in particular, we reduced overtime by 24% compared with 2012, while reducing the amount of unused vacation time from prior years by 29% and the costs of business and other travel by 21%. These monitoring efforts are to continue throughout 2014.

With regard to the provisions of Legislative Decree 81/08, multimedia and classroom training was provided to new employees and around 107 medical check-ups were arranged for employees subject to health screening since their jobs involve the use of video terminals.

On the business continuity front, we performed ongoing maintenance for the HRRP business continuity system, including keeping the list of contacts up to date in response to changes in the workforce of the units involved. In order to monitor the capabilities of the employees who work with critical processes, two tests were given to about 10 employees. Furthermore, in order to protect process execution, company data and the related human resources, lowering the threshold of risk by, in part, keeping the employees physically distant from one another, the personnel of number of units were transferred to the secondary site during normal business hours. In 2014, another analysis will be conducted with the heads of these units in order to increase the number of employees who will work, cyclically, at the secondary premises.

As regards organization, 2013 was characterized by the continuation of organizational reforms prompted by the service model adopted by the Bank that seek to enhance efficiency and rationalize the main operational and control areas.

More specifically, the following measures involving the organizational structure were carried out:

- revision of the Information Technology unit, particularly as concerns the second-line units responsible for demand management operations, in order to improve both the understanding of business needs and the response to such needs (internal and external). The positions of "Needs Manager" and "Initiatives Manager" were introduced for this purpose;
- revision of the Institutional Services unit in line with efforts to increase efficiency and enhance the services of Iccrea Banca related to the world of finance. This work began the previous year with the aim of dividing the activities of the unit between those that primarily relate to the investment and ancillary services provided by the Bank (pursuant to the provisions of the Consolidate Law on Financial Intermediation) and those for other ancillary services targeted at "internal customers" and "external customers". In addition the structure of the Custodian Bank unit was also altered to give it the necessary organizational and control structures for internalizing the calculation of the value of units in open-end investment funds and pension funds and customer back-office activities;
- revision of the Administration and Tax areas in response to implementation of the Group's new governance model. This called for a hierarchical and/or functional repositioning of the Accounting & Financial Reporting, Taxes, and Statistical Reporting units, as well

as the introduction of specific functional reporting streams to the sister units of the parent company;

- revision of the Safety & Logistics area as part of efforts to adapt the occupational health and safety management system to UNI-INAIL guidelines, with the introduction of the position of Occupational Health and Safety Management System Officer, and the redefinition of the responsibilities of the Occupational and Operational Area Safety Unit, with the aim of assisting Head Office, in performing the functions of the Employer's Delegate and the Head of the Occupational Health and Safety Management System, to continually monitor the safety and security of the workplace and to constantly monitor activities relevant to occupational health legislation.

Processes were also upgraded to ensure the continuous improvement of their efficiency and to maintain consistency with the organizational changes that occurred following the introduction of the new service model relating, in particular, to the following Areas: Collections & Payments, Finance, IT, E-money, Communication, Risk Monitoring and Management and Corporate.

### *BUSINESS INTELLIGENCE*

Business Intelligence is responsible for the integrated analysis of qualitative and quantitative information on customers and for proposing financial actions and solutions to optimize the management of risk-return profiles. It monitors the markets and the competition, handling the development and/or updating of products and services to enhance the product line. It also develops innovative financial instruments, in line with the needs of the mutual banks.

The unit is responsible for marketing the products/services offered by the Bank in order to create value for Iccrea Banca, constantly improving its capacity to serve its customers by anticipating their needs and strengthening its market efforts.

It provides advice to the mutual banks and other banks on advanced financial management issues, including the theoretical estimation of the economic value of ordinary and complex financial instruments, in addition to the associated risk profiles, and offers consulting on investments.

The Business Intelligence area is composed of the following units: ALM and Consulting, Financial Information, Marketing and Financial Solutions.

#### *ALM and Consulting unit*

The ALM and Consulting unit is responsible for supporting Business Intelligence in analyzing the operational balance of the mutual banks and in identifying their needs for financial solutions and products.

In providing the ALM service, Iccrea Banca assists the mutual banks (both directly and through the local federations) in the current and prospective analysis of the stability of their performance, financial position and risk exposures.

Through the financial consulting service, it provides tailored advice on the risks and benefits of specific financial operations in relation to the investment objectives determined with the mutual banks, using a specific questionnaire.

It manages the partnership with ISIDE for the ALM application and collaborates with the other technical outsourcers on the use of the operational data of the mutual banks.

In 2013, activity mainly focused on:

- strengthening the partnership with ISIDE with regard to the ALM application;
- developing and consolidating relationships with Cedecra and IBT;
- sharing the analysis of the financial situation of the mutual banks with the following units: Lending, Commercial Planning, Marketing and Financial Solutions;
- proving training courses on ALM issues for various regions and local federations;
- holding specific meetings with the mutual banks on ALM and consulting issues;
- developing ALM and MRGFI applications so that they can be effectively used in supporting the mutual banks.

During 2013, the ALM and Consulting service expanded considerably, with many mutual banks signing up for the service. Specifically, 164 mutual banks now take advantage of the ALM service and 89 the consulting service thanks to special agreements signed with 6 Federations that allow all member mutual banks to use the service.

#### *Financial Information Unit*

The primary added value generated by the Financial Information unit for the mutual banks is its daily "Market Trends" publication of research on investments, which can be accessed via the Infofin intranet portal. It is directed at finance managers to support their decision making in the Bank's investment activities and at the consultants of the mutual banks to help them in providing advice on building investment portfolios that reflect the risk profile and objectives of their customers.

It analyses the indices representing the various asset classes that can be used to build the investment portfolios, such as government and European and international corporate bonds, global stocks (Euro area, USA, Asia and emerging markets), REITs, which offer indirect exposure to the global real estate market, general commodities indices and the leading precious metal indices. A key characteristic of all the indices monitored is that they can be directly replicated by investing in full replication ETFs listed on the Milan exchange. The data is subjected to prior quality control and the indices denominated in foreign currencies are converted into euro before the analysis is performed in order to ensure consistency with the point of view of Italian investors. Total return indices are used since, unlike the more common indices solely on price, they make it possible to compare the various asset classes directly.

Each index is accompanied by a description and chart for the last two years based on daily data, complete with a number of technical analysis indicators (moving averages of 50 and 200 days, and rates of change at 65 and 260 days), and by multi-timeframe risk-return analysis with the feature that, in addition to showing classic information based on the use of the standard deviation as a risk metric, historical drawdowns are also presented, which give a much more realistic view of the level of risk and provide a guide to a more conservative asset allocation strategy.

The Financial Information unit is also responsible for supporting the GRIs/GRICs and the other Business Intelligence and Finance Units in studying global financial market trends, as well as helping the mutual banks by providing operational guidance upon request.

Every quarter, joint presentations are held with BCC Risparmio e Previdenza at the offices of the Federazione Lombarda concerning trends in the global financial markets and the outlook for the immediate future. The head of the Financial Information unit, a member of AIAF and SIAT, also conducts lectures on issues involving the technical analysis of financial instruments and strategic and tactical asset allocation as part of the professional training courses arranged by Accademia BCC and the individual mutual banks.

#### ***Marketing Unit***

The Marketing unit is responsible for enhancing the line of products that Iccrea Banca offers its customers by analyzing and anticipating their needs and by constantly monitoring the market through Business Intelligence activity. The Marketing unit supports other Iccrea Banca units in developing and/or upgrading products and services by conducting market analysis and preparing all the related marketing and communications.

In 2013 the Marketing unit was designated as a partner of the different units of Iccrea Banca not only in determining product and service support and promotional activities, but also in the planning process.

During the year, the unit's Market Analysis activity was enhanced through the adoption of a data organization model using historic/forecasting banking and macroeconomic information for both the national and regional levels. By integrating this database with the information on the mutual banking system, a reporting system was created that illustrates the main macroeconomic and financial variables to assist management and the various organizational units.

An analysis of Iccrea Banca's customers was also undertaken to develop a comprehensive picture of the *primary financial and performance aggregates* of each mutual bank and *the products and services of Iccrea Banca that they use*.

Alongside these market and customer analysis activities, the unit also developed its Product Offering activity with the goal of making the contents of Iccrea Banca's product and service range comprehensive and easy to use.

After surveying all the existing product and services, Iccrea Banca's *Product Catalogue* was reorganized, setting out the distinctive features of each product/service that best meet customers' needs, in addition to the technical characteristics.

The usability of content for both the Commercial unit and for the mutual banks was achieved by providing the Product Catalogue to the sales force and creating printed and digital informative material (e.g. brochures, special web pages and video tutorials on the Polaris portal).

For new products, the Marketing unit worked on the *product concept* along with the unit involved, especially with regard to:

- FT Console, the new trading module for the mutual banks, segmenting the mutual banks based on their operations, identifying their customer target and defining the pricing and promotional tools to maximize customer satisfaction;
- EMIR Multi-Service Pack, a set of services for derivatives transactions, for which the offering, pricing and supporting communication activity was developed.

In the first quarter of 2013, a strategic Customer Satisfaction survey was initiated with the aim of assessing the overall satisfaction of the mutual banks with Iccrea Banca, brand awareness, the use of the products and the effectiveness of communications and initiatives targeted at the mutual banks. The survey involved the general managers of 250 mutual banks and pointed to high levels of overall satisfaction with Iccrea Banca.

The strategic Customer Satisfaction survey will be repeated each year (second half) in order to structure and plan actions based on the survey findings.

The Marketing unit is particularly engaged in promotions, organizing the launch of new products, sponsorships, themed events and loyalty programs:

- Iccrea Banca's first web campaign for the launch of Carta TascaConto, which lasted 1 month. The web channel was chosen to target products at the youth market and at a lower cost than traditional channels. A real band was the testimonial for the campaign, filming a viral promotional video. The objective of the campaign was to stimulate card sales and raise brand awareness. The communication channels were a product site for illustrating the card, offering assistance to users through a multichannel (info chat, call-me-back, VOIP) contact center and a geolocator for locating the nearest participating mutual bank branch. The call center was enhanced with the addition of an interactive voice response (IVR) dedicated to the launch. Il video, uploaded to the site, was also the subject of a YouTube campaign, inserted as "streaming" and "search" terms, and distributed on the specially created CartaBCC YouTube channel. In addition the "pay-per-click" campaign on Google helped us reach our sponsored ad view target through the daily purchase of key words associated with the product. We maintained a social media presence through a Facebook page in the name of the band;
- the beginning of the partnership between CartaBCC and the Italian Athletics Federation (FIDAL) that envisage the exchange of visibility and the creation in 2014 of a co-branded TascaConto card targeted at Federation members. Through the agreement, the CartaBCC brand was gained widespread visibility during important sports events, with our brand appearing in the various materials prepared for mass distribution;
- organization of a number of events for the mutual banks (e.g., "TOUR FINANZA") to provide comprehensive information on hot issues and to share and plan activities for 2014;
- in the context of loyalty programs, the B2B pilot program was launched under the aegis of the *Insieme per il Salto Finale* contest in the e-money segment. The two-fold objective was to improve the training of mutual bank employees in the products and to motivate sales. The Marketing unit was responsible for analysis and administrative aspects, the naming, the communication material and coordination of the development of the dedicated web platform. The program, in which 248 mutual banks participated and 276 people registered, prompted significant increases in cards issued as compared with the same period of the previous year.

In 2013, the Marketing unit worked to encourage the activation of dormant credit cards (i.e., issued within the last three months but not yet activated by customers). It launched an outbound customer service campaign, contacting individual cardholders and reminding them about the value-added services that distinguish each product.

A major effort was undertaken to strengthen external awareness of Iccrea Banca through its participation in the 2013 edition of the Green Globe Banking Conference & Award, during which ICCREA Bank received a "certificate of distinction" for disseminating the culture of sustainability through the presentation of the "Electronic Invoicing and Dematerialization" project in conjunction with Legambiente's "from paper to trees" initiative. The Marketing unit created and presented the project with the aim of communicating Iccrea Banca's commitment to social responsibility by demonstrating sensitivity to environmental issues.

### *Financial Solutions Unit*

For the Financial Solutions unit, 2013 was dedicated to consolidating of its scope of operations in the development of specialized analyses - mainly quantitative - in order to plan and implement financial solutions to:

- meet the business and service needs of the mutual banks and the Bank's owners;
- optimize the management of the financial, credit, interest rate and liquidity risk profiles of the mutual banks.

The Financial Solutions unit defined its scope of intervention with respect to the following main activities:

- development of methodological analysis of counterparty risk mitigation to support the mutual banks in preparing to implement processes and procedures that are compliant with the new supervisory requirements under EMIR and CRR-CRD4 (Basel 3);
- development of quantitative analysis for the implementation of the new assessment framework for measuring collateralized derivative instruments;
- implementation of an advanced instrument for monitoring and managing the financial risks of the mutual banks' portfolios;
- assessment upon the request of the mutual banks and the Bank's owners of ordinary and complex financial instruments, providing analysis of the related risk profiles;

- development of quantitative analyses supporting the mutual banks on fair funding conditions associated with the issue of subordinated bonds classified as so-called Tier 2 capital;
- providing assistance upon the request of the mutual banks with regard to capital requirement solutions;
- supporting the IT functions of the Bank in implementing the new assessment processes for the mutual banks and the Iccrea Banking Group, as well as the methodologies aimed at meeting the mutual bank's risk measurement and management needs.

***Commercial Unit***

In 2013, the Bank continued to implement measures to improve and complete the organization/structure of the Commercial unit.

In regard to this, in July, a number of e-money staff were transferred to the Unit, making it possible to subsequently complete the staffing requirements of a number of local offices.

However, two local offices are still understaffed. The first is Piedmont, Valle d'Aosta and Liguria, which should have an Institutional Relations Manager (GRI) but the position is currently covered by the staff of the Lombardy office. The second is Trentino Alto Adige, where two are envisaged but the positions are currently served by the staff of the Veneto-FVG office. Both situations will be resolved in the first quarter of 2014.

In order to improve dialogue between the central office and the branch network in order to achieve more effective local action, a Customer Relationship Management (CRM) tool was implemented as planned.

Action at the local level was expanded, including increased support for other units of the Bank in accessing/completing contract documentation governing services.

***Strategic Planning***

The Management Control and Planning unit is responsible for supporting top management and the Bank's decision-making bodies in performing their duties with a view to maximizing stakeholder value (shareholders, customers, employees).

In the course of 2013 the creation of a centralized management database, scalable at the Group level, into which information is entered in a standardized manner into the management control system, the ALM and the CRM, was completed. The system centralizes management, commercial and risk information, with a special emphasis on the management of counterparty data, which can also be used for geomarketing analysis.

All the information has also been made accessible (including in mobile format) through the business intelligence platform used by the Iccrea Banking Group, offering considerable potential for possible uses in joint planning with the mutual banks.

***Information Systems***

During the year, the Bank's information system was developed in order to support the growth of business of the Bank and the Group.

In order to foster the rationalization or reduction of IT costs, the IT function is expanding the role of the Technology Officer (the "TO") to cover all Group companies, not just Iccrea Banca.

Prompted by its positive experience so far, the Bank has launched a similar initiative for the mutual banks to rationalize their IT infrastructures with the aim of achieving initial, but real, results starting next year.

The Company's IT architecture has gradually been aligned with the standards established at the Group level for analysis and reporting systems through a variety of major projects, including those relating to:

- the "management data warehouse", which gathers all the information generated by the various sections (operational and otherwise) into a single database, ensuring high levels of data quality and usability, enabling more effective analysis by management control, ALM/RM and CRM;
- "SAP supply chain"; an ERP system that automates budgeting, fund management, ordering, goods/services receipt, invoicing and periodic reporting within the new central purchasing system established by the Group;
- "Cost allocation", a system that uses drivers to allocate company costs to final products and services with objectivity and traceability.

On the applications front, Work in the area of payment cards was particularly intensive, including the launch of new multi-channel systems of direct acquiring for the management of ATMs, Carta IBAN, and interfacing with automated billing systems (e.g. television license fees, car registration fees, etc.).

Important work also continued in the area of retail payments on all projects aimed at implementing SEPA standards (i.e. SCT, SDD and SEDA), as well as in financial services for activation of the new securities order-collection/execution platform, updating to the EMIR standards, and the adoption of the new treasury front office.

On the compliance front, efforts focused primarily on improving the management of money-laundering and terrorism risks, as well as improving the speed and effectiveness of handling requests for information from law enforcement.

With regard to technologies, work continued on updating and adapting infrastructures based on organizational needs, both in terms of capacity and regulatory compliance, the latter of which is of particular importance in the electronic money segment. The upcoming insourcing of international issuing and acquiring efforts in this area have required a particularly complex and expensive upgrade to the rules of the Visa-MasterCard (PCI-DSS) circuits. However, this will also help achieve a broader reinforcement of company security levels (Iccrea Banca has already obtained ISO 27001 certification of its information security management system).

The business continuity management system has also been upgraded to the specifications of the new ISO 22301 standard, and compliance has been certified.

#### *Audit Department*

During 2013, the Bank continued to implement the system of internal controls to ensure, with increasing effectiveness, the existence of a system of adequate, reliable, complete and functional controls.
Internal Auditing activities were conducted by both Internal Audit units and the Inspection units. The following were of particular importance:

- the former performed anti-money laundering checks for the electronic money segment, including an analysis of the process of placing payment cards directly through the mutual banks, as well as checks of the process of planning and managing the Bank's product range;
- the latter inspected the payments hub in response to the system-level issues that emerged in November 2013.

The department also performed an important advisory and support role, including action concerning:

- "retail payment systems", for which a special assessment was conducted in order to assess the state of progress of initiatives relating to "clearing systems operator" activities in order to spur, where appropriate, the formation of special working groups;
- EMIR: survey of measures to govern potential conflicts of interest in operations involving unlisted instruments;
- advisory and participation in special company working groups, for example on the renewal of placement agreements in the electronic money area.

With regard to the Finance Area, the department performed a special review of the processes for providing pricing services for securities and derivatives to the mutual banks, especially in light of the introduction of EMIR, indicating possible areas for the improvement and development of IT support tools and associated organizational measures.

Specific remotely-monitored control indicators were also introduced for the Payment Systems and Finance areas. In addition, the department continued to provide structured oversight of relationships with the outsourcers handling fiduciary deposits, which are responsible for managing the cash, consistent with the evolving regulatory framework. This was also carried out for the federations and mutual banks.

The primary initiatives for remedying all audited processes that still have outstanding issues will continued to be pursued, with reporting to Board of Directors, including through the Internal Control Committee.

#### *Compliance*

The Operational Risk, Compliance and Anti-Money Laundering unit (hereinafter the "Compliance unit") is responsible, in accordance with guidelines established by the corresponding unit of the Parent Company, for identifying, assessing and monitoring the risk to the Bank associated with non-compliance, money laundering and terrorist financing,  and for identifying the operational risks of the Bank, with a view to ensuring compliance with the law and the fair conduct of banking activities, which by their very nature are grounded in a relationship of trust.

In 2013, the Compliance unit's main actions, which reflected planned control activities and the significant legal changes introduced by the Italian legislature, took the form of providing advice and support to the business units, as well as the head office, regarding new commercial initiatives, the implementation of company information systems, developments in Bank operations and in industry regulation.

More specifically, activity during the period focused on areas deemed of greatest importance based upon experience gained in previous years, particularly in the following areas:

- the organizational structure adopted for the provision of investment services;
- transparency requirements, with a particular focus on the e-money segment;
- compliance the regard to market abuse requirements;
- management of conflicts of interest;
- prevention of usury;
- anti-money laundering and the fight against terrorism;
- monitoring transactions with related parties;
- providing support to Legal Affairs in preparing/updating

contracts for services provided to the mutual banks/other banks;
- providing support to the Organization unit in rationalizing and optimizing business processes in line with the service model adopted by the Bank.

With regard to these issues, the following activities were particularly significant:

- providing support for activities related to replacement of the financial instruments trading platform, specifically for defining the execution strategy parameters and the order control filters, for profiling system users and for preparing contracts;
- tracking the development of projects in the electronic money segment, for both issuing and acquiring;
- continuation of activities for updating company rules concerning the requirements of Legislative Decree 231/01 regarding the administrative liability of companies;
- updating of the anti-money laundering and fight against terrorism rules, pursuant to Legislative Decree 231/07, as amended. In this area, the Anti-Money Laundering function, under the Compliance unit, has focused on strengthening first-level controls, particularly the system for detecting unexpected operations in the electronic money segment and the intermediation of order messages transmitted by the banks. In the second half of the year it participated in updating the rules of the Anti-Money Laundering function and the related secondary regulations;
- continuation of activity aimed at strengthening measures to protect against market abuse.

The Compliance unit was also involved in:

- refining the control methodology for exposure to compliance risk, with the roll-out of a dedicated application for identifying such risks by assessing existing systems for the delivery of investment and banking services;
- analyzing, handling and recording customer complaints;
- supporting the Human Resources and Organization unit in determining training strategies, mainly focusing on classroom training rather than e-learning, and in planning and structuring training courses for employees on compliance issues, especially as regards emphasizing certain content and trainer selection.

Finally, the Compliance unit, in line with the guidelines established by top management, carried out the above initiatives while being aware of the central role that the Bank plays in relation to the services that the mutual banks/ordinary banks deliver to their customers. This can be seen, in particular, in the determination of:

- the procedures for performing the services provided by the various segments, such as the Finance segment with regard to the impact of the EMIR;
- the service levels to be guaranteed for the services provided;
- the pricing mechanisms for these services;
- control policies regarding, for example, monitoring the flow of information from the mutual banks intermediated by the Bank in the anti-money laundering and terrorism area and handling the complaints of mutual bank customers (for the electronic money segment), which envisages the involvement of the mutual banks in evaluating the complaint owing to the closer relationship that these banks have with their customers compared with Iccrea Banca.

***Risk Management***

In 2013, the Bank continued to adapt its methods and tools for managing credit, market and operational risks, both in response to developments in external regulations and in internal management and monitoring needs. The governance and organizational model for Risk Management activities, introduced in 2012, was strengthened in order to improve the effectiveness of risk management, increase the efficiency of the internal control system as a whole and respond to regulatory changes and developments in the market and in the Group's organizational, operational and corporate structures. Under the model, functional responsibility rests with the Parent Company, exercised by the Chief Risk Officer (CRO), who reports on risk management issues to top management and the Board of Directors. To manage the most significant types of financial risks, including in the Bank's capacity as the Group Finance specialist, the Financial Risks unit, which reports to the CRO, is responsible for measuring and controlling financial risks. The unit is organized into three substructures.

The Bank Counterparties Risk unit oversees and monitors credit risk. In 2013 it continued to analyze and report monthly on the performance of the portfolio with regard to the two main types of counterparties: banks and ordinary customers. The daily monitoring of bank counterparties continued with the production of early warning indicators and the updating of internal ratings for the banks with which the Bank does business (mutual banks and ordinary banks) were updated. Finally, the estimation of the risk parameters used for determining collective impairment was updated, reporting the results to the Board of Auditors and the Board of Directors. In 2013, the Bank Counterparties project continued with the chief aims of:

- strengthening the regulatory framework for managing credit risk adopted by Iccrea Banca with the establishment of a Credit Policy and the revision of secondary regulations for the entire lending process;
- strengthening the creditworthiness assessment process, incorporating the best practices adopted by the major rating agencies, introducing forward-looking measures in the assessment process and expanding the use of electronic loan application processing (ELAP);
- establishing a process for monitoring the creditworthiness of bank counterparties consisted with the new assessment framework;
- implementing RiskSuite as the application platform to support the measurement and monitoring system.

The Market Risks unit is responsible for managing and monitoring market risks. In 2013 it continued to strengthen the support tools for these duties. Ongoing maintenance of the application procedure (RiskSuite) used to measure risk and produce monitoring reports the risk position was a key activity during the year. It enabled the Bank to accurately monitor the trading portfolio and the operation of the Bank on a daily basis. In addition, the Summit Risk Management project for the creation of a risk system that can consolidate trading book positions on a daily basis in an independent calculation environment continued in an effort to further improve risk analysis. In 2013, the revamping of methodological arrangements (EONIA discounting) was initiated with the aim of incorporating additional risk components, such as credit, funding cost and, more generally, collateral management issues within the context of the Bank's financial management. With regard to the measurement of financial instruments, the fair value policy was supplemented with the valuation models used and the main market data and the input parameters of the models.

Within the context of ALM and liquidity risk activities, management and monitoring is performed by the ALM and Liquidity Risk unit, which in 2013 continued to monitor the equilibrium of the Bank's asset and liability structure.

With regard to liquidity risk, the unit performed daily monitoring of the "1-day" and "up to 1 month" liquidity positions at the individual and consolidated levels and all the risk indicators provided for in the system of delegated powers.

In order to comply with regulatory requirements and operational requirements, two Group policies were established, setting out the guidelines and principles for prudent management, the roles and responsibilities of company bodies and operational structures and the control processes for both the interest rate risk on the banking book and liquidity risk.

The growing financial complexity managed by the Iccrea Banking Group, particularly by Iccrea Banca in its capacity as the Group Finance specialist, has required significant development of the technical and methodological infrastructure for financial risk management and ALM, which provides essential support for decision-making processes and risk monitoring and control.

In 2013, the first phase of the project to launch the new platform (LIRICO) and configure it in a manner consistent with the technical and functional requirements of Iccrea Banca was completed. It will replace the old ALM system.

The robustness of the new solution and its scalability will enable us to develop our analysis capabilities and the methodologies supported by the system. These are necessary to meet the growing need to refine and develop our financial analysis models and to ensure the ongoing revision of the scope of analysis in response to changes in the scope of operations and our business.

The creation of LIRICO has laid the foundations for subsequent development of the financial planning process on the same ALM platform, integrating the results of the Management Control project, which is nearing completion (the Management DWH).

The activities required to prepare the disclosures on the various types of risk to be provided to the ratings agencies for the annual review of the Bank's rating were carried out, as were those associated with preparing the reports to the supervisory authorities for the purposes of Pillar II and Pillar III compliance at the consolidated level.

#### *Accounting and Financial Reporting*

In addition to providing support and administrative cooperation (accounting, notification and tax) to the mutual banks, the federations and the Group companies, the Accounting and Financial Reporting unit was heavily involved during 2013 in the pursuit of various projects and activities, which are briefly discussed below:

- The "Fast Closing" project of the Parent Company: during the year, work on adjustment entries for the closing of the quarterly accounts was carried out;
- supply chain: in 2013, in line with the objective to migrate to a Group legacy system, the SAP implementation project, coordinated by the Parent Company, for integrated management of all phases of the supply chain process was begun. The system was rolled out at the start of 2014;
- new financial reporting procedure: in order to centralize the supervisory reports of the Banca Iccrea Group

on the HP/ISIDE platform, the Unit performed functional analyses, testing and inspections to validate the new financial reporting procedure. This new procedure was used with the 2013 individual Annual Report;
- computerized accounting records: as part of the dematerialization process, during the year functional analyses with the structures responsible for transferring information contained in the daily ledger, the inventory ledger and the daily sectional ledgers into digital format were carried out;
- federcasse industry project - Amendments to IAS/IFRS: the Unit provided support to the project, which involves  the amendments to IFRS 13, IFRS 9, IFRS 10, IFRS 11, IFRS 12 and IAS 19;
- EMIR Project: the Unit continued as a consultant to the technical outsourcers and the mutual banks. It also initiated the exchange of collateral with the mutual banks;
- effectiveness Test Service: tests are performed for the banking group companies as well as 95 mutual banks, with approximately 1,650 tests carried out;
- ongoing support to the mutual banks in testing liquidity positions, monitoring transactions reported in the Daily Settlement Account on a daily basis;
- new application for supervisory reporting: the migration of the Bank's reporting process to the new Minerva HP application was completed;
- centralized reporting for the Iccrea Banking Group: laid the groundwork for the centralization of the reporting of all the Group companies;
- ongoing support in the reporting area for all the Group companies and the mutual banks.

***Security and Logistics***

The Occupational Safety function and the Operational Areas mainly perform the following activities:
- providing support to the Occupational Health and Safety Management System Officer (OHSMSO) in monitoring relevant activities pursuant to Decree 81 /2008 (occupational health and safety). The General Manager has been assigned this role;
- for logistics, working with the Information Systems unit and the Business Operating Cycle Coordination unit in developing project guidelines that take account of context, specifically for technological support systems for Business Continuity hardware structures;
- defining physical security policies with the Chief Information Security Officer (CISO);
- preparing, updating documentation and conducting testing of the Business Continuity Plan (BCP) for the Office Recovery Plan function (ORP), in collaboration with the Business Continuity Support Manager (BCSM);
- drafting and updating documentation for which it is responsible as part of the process of obtaining of ISO 27000, ISO 22301 and PCI-DSS (electronic money) certification;
- coordinating managers pursuant to Legislative Decree 81/2008, particularly those responsible for local offices;
- storing and managing digital media containing copies of telephone calls recorded in the Finance sector and video images, in collaboration with the Compliance Unit.

The following operational results achieved in 2013 deserve mention:
- 100% production site availability thanks to the absence of power failures or logistical breakdowns;
- contribution to successfully passing tests to receive ISO 22301, ISO 27001 and PCI-DSS (electronic money) Business Continuity certification;
- providing technical support to the Information Systems unit in preparing the systems required to host the ISIDE hardware at the primary and secondary sites;
- with regard to the activities relating to Legislative Decree 81/2008, in agreement with the various units involved and BCC Solutions: formalization of the duties of the new Prevention and Protection Services Manager and the Company Physician; Initiation of operational relations with the new consulting firm (IGEAM); preparing new sub-delegation of powers for Marco Vernieri; formalization of the risk assessment report (DUVRI) to be attached to supply contracts; formalization of supplier qualification and creation of the Qualified Suppliers List (QSL); initiation of training of designated managers on using the Security Portal to submit the reports for which they are responsible; management of the Summary Safety Guides for guests and external engineers who enter the Iccrea Banca premises; management of employee injuries.

## 5. TRANSACTIONS WITH RELATED PARTIES

Iccrea Banca has long conducted its operations in compliance with the principles of transparency and of substantive and procedural propriety in its transactions with related parties as defined by CONSOB (on the basis of IAS 24), in line with applicable legislative and regulatory provisions.
Accordingly, in 2013, transactions with related parties were conducted using procedures and criteria in line

with those applied in normal banking transactions with bank and corporate customers. Such transactions were undertaken on the basis of their specific financial benefit.
More specifically, the Bank did not engage in any atypical or unusual transactions during the period whose significance or scale might have raised concerns about the integrity of the company's financial position.

In the section "Transactions with related parties" of the explanatory notes, a summary table reports related party transactions. During the year, there were no positions or transactions resulting from atypical or unusual transactions. Pursuant to CONSOB communications DAC/98015375 of February 27, 1998 and DEM/1025564 of April 6, 2001, the term "atypical or unusual" refers to transactions whose scale, counterparties, purpose, method of determining the transfer price or timing might raise concern about the accuracy and completeness of the disclosures in the financial statements, conflicts of interest, preservation of the integrity of the company's financial position and protection of shareholders.

Part H – Transactions with related parties in the notes also reports the fees paid to directors, members of the Board of Auditors, the General Manager and key management personnel and any loans or guarantees granted to them, in accordance with Art. 136 of Legislative Decree 385 of September 1, 1993.

In application of Art. 79 of CONSOB Resolution no. 11971 of May 14, 1999, as amended, a specific schedule reports equity interests held in the Bank and its subsidiaries by directors, members of the Board of Auditors, the General Manager and key management personnel, either directly or through subsidiaries, trustee companies or other proxies, including those held by spouses who are not legally separated and minor children.

In addition, in 2013, the Bank engaged in intercompany transactions that were deemed mutually financially beneficial and determined the applicable terms and conditions in accordance with the principles of substantive fairness inherent in the common goal of creating value for the entire Group.

## 6. OTHER OPERATIONAL INFORMATION

*(Chap. 2, Paragraph 7, Bank of Italy Circular no. 262 of 22/12/2005)*

*Dear Shareholders,*

Pursuant to the Bank of Italy's Instructions on the Financial Statements of Credit Institutions (circular no. 262/95, as amended, Chapter 2, paragraph 7), we inform you that:

- the Bank does not devote resources to research and development activities in the strict sense;
- the Bank does not hold, and has not directly or indirectly, through trusts or proxies, bought or sold any of its own or the Parent Company's shares;
- full information is given, in the specific sections of the explanatory notes to the Bank's financial statements, regarding:
  - the targets and policies for the assumption, management and hedging of financial risks (Part E "Risks and risk management policies");
  - remuneration paid to directors and key management personnel (Part H – Section 1);
  - transactions with related parties (the persons indicated in IAS 24), intercompany transactions, separately indicating subsidiaries, parent companies, other companies subject to the control of the latter, and companies subject to the considerable influence of the same (Part H – Section 2). These transactions were any case carried out as part of normal operations and were entered into for their mutual economic benefit. The administrative bodies have adopted rules of conduct that ensure transparency and substantive and procedural fairness in transactions with related parties.

In October 2013, the Board of Directors of the Parent Company approved a project to centralize real estate holdings within a single operating company. At its meetings of 6 November and 18 December, the Board of Directors of Iccrea Banca acknowledged and approved the proposed project to transfer of properties owned by Iccrea to Immicra S.r.l. in exchange for subscribing the capital increase resolved by Immicra. The transfer was carried out on 20 December 2013 on the basis of the estimated economic value of Immicra used to determine the exchange ratio for the purposes of the capital increase reserved to Iccrea Banca. This was based on an expert appraisal made pursuant to Art. 2465 of the Italian Civil Code of the value of the property to be transferred. Based on the appraisal contained in the above expert report, the transaction was completed, specifically:

**Immicra s.r.l.:** the value of the adjusted shareholders' equity at June 30, 2013 was set at €12.780 million;
**Iccrea Banca S.p.A.:** the market value of the property to be transferred was set at €11.600 million.

Immicra increased its share capital from €6.630 million to €12.649 million by issuing an equity stake with a nominal value of €6.019 million, with a premium of €5.581 million, subscribed by Iccrea Banca through the contribu-

tion in kind of its entire real estate holdings. As a result, Iccrea Banca acquired a stake in Immicra s.r.l. of €11.600 million, equal to 47.6% of the company's share capital and the value of property transferred.
In 2013, the following changes are reported with regard to relations with the rating agencies:

- on February 4, Fitch Ratings confirmed its medium/long term debt rating of "BBB+", with a "Negative" outlook;
- Standard & Poor's, following the review begun on July 12, downgraded the rating on medium/long term debt from "BBB-" to "BB+" on 24 July, maintaining the outlook at "Negative".

Lastly, on February 3, 2014 Fitch Ratings downgraded the rating on medium/long term debt to "BBB" while maintaining the outlook at "Negative".

## 7. REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE.

*MAIN CHARACTERISTICS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS WITH REGARD TO THE FINANCIAL REPORTING PROCESS (ART. 123 – BIS PARAGRAPH 2, LETTER B) OF THE CONSOLIDATED LAW ON FINANCIAL INTERMEDIATION).*

The control activities and processes relating to the generation of the information required for the preparation of the financial reports (annual and interim financial statements) are an integral part of the Bank's general control system for managing risks.

While noting that no internal control system can entirely eliminate the risks of error or fraud, but can only measure those risks and lessen the likelihood of occurrence and mitigate the effects, these features seek to provide a reasonable guarantee of the veracity, accuracy, reliability and timeliness of financial reporting.

The control system is based upon two primary guidelines:

- information is entered into the accounting system automatically, semi-automatically and manually by a large number of units within the bank, whose transactions are handled by different subsystems. The line control processes are therefore incorporated either into IT and management procedures for transactions or assigned to specially-formed units. Organizational procedures assign the duties of verifying the accounting records to the heads of the organizational units. Second-level controls are performed by the organizational unit responsible for managing the general accounts and preparing the annual and interim reports. Controls are performed daily, weekly or monthly depending upon the type of data processed and the frequency of transactions;
- the valuation components that have the greatest impact on the financial statements are delegated to specialized structures. The data relating to the fair value of balance sheet items, in addition to those for hedging relationships and the related effectiveness tests, are supplied by specialized structures equipped with appropriate calculation tools. The data are then re-examined by the Risk Management unit and Administration unit of the Bank. Data concerning the classification and measurement of non-performing loans are provided by highly specialized, appropriately separated structures that operate on the basis of detailed procedures approved by the Board of Directors.

The annual and interim financial statements are reviewed by Reconta Ernst & Young, which also conducts the audit pursuant to Art. 14 of Legislative Decree 39/2010.

Regarding the "Transparency Directive", the Bank has chosen Luxembourg as its home Member State, since most of its securities have been issued on that country's exchange. For this reason, given that the relevant legislation does not require it, no Financial Reporting Officer (as provided for in the Consolidated Law on Financial Intermediation) has been appointed.

## 8. OUTLOOK

### *SUBSEQUENT EVENTS*

Within the context of the process of rationalizing the Group structure, the Parent Company has decided to concentrate branch services for retail customers within a single Group bank. It chose Banca Sviluppo as that bank. All the service activities provided to retail customers for managing current accounts and lending, referring to employees and similar customers, carried out by Iccrea Banca and, partly, by Iccrea BancaImpresa will be transferred to Banca Sviluppo.

The rationalization process involves transferring the Iccrea Bank business unit, the key figures of which at December 31, 2013 were:

- government securities: €29,897 thousand;
- 172 current accounts with debit balances of €412 thousand;
- 1,082 current accounts with credit balances of €32,764 thousand;
- 3 employees currently assigned to managing the service.

The value of the business unit will be determined based upon balance sheet values, more specifically by calculating 1% of the funding transferred. This valuation takes account of the specific characteristics of the customer base, the limited number of services currently available and the annual costs of the resources transferred.

The transfer agreement was signed on February 26, 2014, with accounting effect as from April 5, 2014. Subsequently, for the purposes of any adjustment, an assessment will be conducted on the basis of the accounting figures reported at the date of transfer (April 5, 2014).

Also as part of the rationalization of the Group's business, in accordance with the strategic guidelines established by the Parent Company, at its meetings on December 3, 2013 and January 22, 2014 the Board of Directors resolved to pursue initiatives to determine the value of the hypothetical transfer of the Custodian Bank business to Istituto Centrale delle Banche Popolari Italiane S.p.A. on the basis of the expressions of interest from the same.

The non-binding offer of ICBPI provides for:

- the acquisition of the business unit consisting of the custodian bank activity currently carried out by Iccrea Banca and the NAV calculation business, including the 4 employees who calculate NAV and the related supply contracts for the software used;
- the payment of a cash purchase price of €20.1 million by ICBPI, with the amount subject to a maximum adjustment (up or down) of €900 thousand if, at the time the transaction closes, changes in actual fees and commissions are greater or smaller than 5% of the reference value at September 30, 2013;
- completion of the offer is subject to agreement upon a Framework Agreement to be signed by March 31, 2014, with the hope that the transfer can close by July 31, 2014, subject to the authorization of the competent supervisory authorities.

Negotiations are currently under way with ICBPI to define the terms of the Framework Agreement.

In consideration of the new legislation approved by the European Parliament and the European Council in March 2013 that introduces substantial changes in the regulations regarding the capital requirements for credit institutions and investment firms, on October 24, 2013 the Board of Directors of the Parent Company decided to launch a series of initiatives regarding the capitalization of the subsidiaries, and thus the banking group as a whole. Specifically, Iccrea Banca will issue a Lower Tier II subordinated bond in an amount of up to €200 million. The issue will have an impact on both the capital of the individual company and the Group. The program of capital-related initiatives approved by the Parent Company also provides for an indivisible capital increase for consideration at Iccrea BancaImpresa in an amount of up to €200 million, which will be carried out through Iccrea Banca with a specific waiver by Iccrea Holding.

At its meeting of November 7, 2013, the Board of Directors of Iccrea Banca, in response to the decisions of the Parent Company, voted to initiate preparations with Consob to receive approval for a basic prospectus for the issue by Iccrea Banca of fixed-rate, step-up rate and variable-rate Lower Tier II subordinated bonds in an amount not to exceed €500 million to be placed with institutional and retail customers, with a first issue of up to €200 million.

Following Consob's approval of the basic prospects on January 23, 2014, the first tranche of the €200 million subordinated bond was issued. It has the following characteristics:

- issue of a Tier II subordinated bond, with coupon rights from March 14, 2014 to March 14, 2021 (maturity of 7 years);
- straight-line amortization starting from the third year;
- listing on the Hi-Mtf market;
- fixed rate of 4.75% gross per year in arrears;
- placement period from February 10, 2014 to March 14, 2014 unless extended.

The placement of the bonds mentioned above is under way.

### *OUTLOOK FOR OPERATIONS*

In order to assess the outlook for the operations of Iccrea Banca, reference should be made to the strategic guidelines issued by the Parent Company.

Under the strategic guidelines, the objectives of the Iccrea Banking Group for the period 2014-2016 has been established in order to support the mutual banks through the delivery of:

- specific products and services for the bank (payment systems, payment cards, finance, securities intermediation, etc.);
- specialized loan products (leasing, corporate finance products, international services, factoring, rental, debt collection);
- support financing products (ordinary credit, consumer credit, residential mortgages);
- financial and insurance products;
- administrative services.

The Plan's key objectives envisage:

- focus on the mission of supporting the mutual banks in developing their markets by confirming the "reference" market represented by the mutual banks and by

their "elective" customers both current and potential (expansion of the customer base in their own territories) and the search for greater penetration with existing customers;
- full application of the new service model (from supplier to partner) through the Iccrea Banking Group's ability to make its products/services/expertise available to help the mutual bank branches (integration of the Iccrea Banking Group in the distribution chain of the mutual banks) and the search for greater penetration of the Iccrea Banking Group's offering with customers (cross-selling between Iccrea Banking Group companies);
- capital adequacy, monitoring of liquidity in line with the service role played by the Iccrea Banking Group, and joint management of risks;
- containment of costs by seeking out economies of scale, rationalization and simplification of the organizational and corporate structure;
- forging of alliances.

In addition, the Parent Company has prioritized the rapid completion of the actions undertaken by:

- closing/consolidating projects under way;
- focusing on a "restricted" list of new projects selected from a Group perspective.

***Joint document by the Bank of Italy / Consob / Isvap no. 2 of february 6, 2009 and no. 4 of March 3, 2010***

These financial statements have been prepared in accordance with the general principles established by IAS 1 "Presentation of financial statements". They therefore provide information on the assumption that the company is a going concern, allocating costs and revenues on an accruals basis, avoiding the offsetting of assets and liabilities and costs and revenues.

IAS 1, paragraph 24 requires that all factors and circumstances be considered that may be important in assessing compliance with going concern requirements. Certain indicators may be particularly significant in the current economic context.

To this end, we have considered the indicators in relation to the Bank and set out in section 8 of Document 570 "Going concern" issued by the Italian accounting profession, listed below:

Financial indicators:

- the entity is not insolvent or have negative net working capital;
- the entity does not have any fixed-term loans close to maturity with no likelihood of renewal or repayment;
- the entity is not excessively dependent on short-term loans to finance long-term activities;
- there are no indications of termination of financial support from lenders and other creditors;
- the entity has no historical or prospective financial statements showing negative cash flows;
- the main economic-financial indicators are not negative;
- there are no substantial operating losses or significant impairment of assets that generate cash flow;
- there has been no lack or interruption of dividends;
- the entity has the ability to repay debt at maturity;
- the entity has the ability to comply with the contractual clauses of loans;
- the entity has experienced a change in the form of payment demanded by suppliers from "on credit" to "payment on delivery";
- the entity has the ability to obtain financing to develop new products or make any further investments it requires.

Management indicators:

- the entity has not lost directors or key managers who cannot be replaced;
- the entity has not lost any fundamental markets, distribution contracts, concessions or key suppliers;
- the entity has not had any difficulties in maintaining staff levels or in obtaining a normal flow of supplies from important suppliers.

Other indicators

- the entity has not experienced a reduction in equity to below legal limits or non-compliance with other provisions of law;
- the entity has no legal and tax disputes under way which, if lost, could give rise to obligations to pay indemnities that the entity would be unable to discharge;
- there have not been any changes in legislation or government policy that could have an adverse impact on the entity.

The Bank therefore feels that it can reasonably expect to continue operating in the future. The directors have carefully assessed this aspect and therefore believe that they can confirm that the Bank is a going concern on the basis of the reasons given in the report on operations – the targets and policies for the assumption, management and hedging of risks.

## 9. MAIN RISKS AND UNCERTAINTIES

The risks and uncertainties to which the Bank is exposed are discussed in detail in the report on operations and in the explanatory notes.

More specifically, risks associated with developments in the world economy, the financial markets and the choices that supranational bodies and governments may take to counter the crisis are discussed in the introduction to the Report on Operations: the section on macroeconomic conditions and in the section on the outlook lay out the assumptions on which the assessments and the forecasts are based.

The risks associated with capital stability and business continuity are addressed in the introduction to the report on operations, while a more extensive discussion is found in Part F of the explanatory notes.

Disclosures on financial and operational risks are presented in detail in Part E of the notes.

## PROPOSED ALLOCATION OF NET PROFIT

*(Chap. 2, Paragraph 7, letter e), Bank of Italy Circular no. 262 of December 22, 2005)*

*Dear Shareholders,*

We invite you to approve the financial statements for the year ended December 31, 2013, accompanied by the report on operations, as audited by Reconta Ernst & Young S.p.A..

Before moving onto the proposed allocation, we would like to specify that, in relation to the restricted reserve pursuant to Art. 6 of Legislative Decree 38/2005 at December 31, 2013, the amount of €10,549,556 was made available following a decrease or realisation of gains on financial assets designated as at fair value through profit or loss reserved in 2009/2010/2011 as unrealized capital gains. We therefore propose allocating the released restricted reserve to the extraordinary reserve.

With reference to the aforementioned proposal, we wish to inform you that the restricted reserve pursuant to Legislative Decree 38 of February 28, 2005 of €2,854,916 is equal to the amount of the unrealized capital gains recognized through profit or loss up to 31 December 2013, net of the associated tax charge, resulting from the application of fair value measurement to financial instruments (structured securities) not hedged by derivative contracts and those on financial instruments hedged for the part that exceeds the related capital losses.

We propose the following distribution of net profit for the period, which totals €40,027,802:

- €5,000,000 to the extraordinary reserve;
- €34,986,000 as dividends in the amount of €83.30 per share;
- €41,802 available to the Board of Directors.

Rome, March 6, 2014

THE BOARD OF DIRECTORS

# *Board of Auditors' Report*

**Financial year**

**1 January - 31 December 2013**

*Dear Shareholders,*

During the year, the Board of Auditors monitored compliance with the law, the articles of association and the principles of sound administration.

The Board of Auditors attended all of the meetings of the Board of Directors, which were carried out in compliance with the provisions of law, the articles of association and all other regulations that govern its operation. On the basis of the information obtained, the resolutions and the transactions consequently implemented were compliant with the law and the company's articles of association and did not give rise to any potential conflicts of interest with the Company. They were not clearly imprudent or reckless, or in conflict with the resolutions taken by the Shareholders' Meeting or such as to jeopardize the financial integrity of the company.

In 2013, the Board of Auditors monitored the suitability of the Company's organizational structure. Direct checks were carried out for this purpose, and information was collected from the heads of the various company departments. With regards to the accounting and administrative system and its suitability to provide an accurate representation of operational events, the Board of Auditors collected the necessary information not only from company units but also from the audit firm, and thereby obtained confirmation of the overall adequacy of the systems in place, bearing in mind that the systems are undergoing constant improvement due to the growing disclosure needs.

More specifically, under the directives of the Parent Company, in pursuing the objective of integrating and standardizing the administrative and accounting information systems of the companies of the Iccrea Banking Group to the greatest extent possible, broad and challenging initiatives are under way to develop those systems. The effectiveness of the solutions being implemented requires the achievement of a high level of integration among Group structures and adequate resources devoted to the projects.

The Board monitored the activities of Internal Audit, implemented by the Group Controls Department. Numerous initiatives were carried out, as summarized in the Report on Operations, in application of annual plans coordinated with the Compliance Department. They appear focused on a careful assessment of the risks underlying the various business areas. The plans developed by the units involved to remedy the issues identified and implement the improvements indicated by the department are being pursued systematically, and any delays or postponements are reported to senior management and the Board of Directors, which are following the work of the Controls Department through a specially formed committee.

The Compliance Department is coordinated by an analogous unit established at the Parent Company in order to ensure uniform policy setting at the various companies of the Group. The broad scope of the regulatory framework and the diversity of the activities of the Group makes the work of this department especially demanding. The reports provided by the Iccrea Banca Compliance Department on the basis of the activity carried out in 2013 underscore the significance and the incisiveness of the activities carried out during the year. The areas for improvement are being addressed by the units involved in the agreed programs.

Risk Management activities are coordinated by the Chief Risk Officer, who heads Group Risk Management and reports to the Board of Directors and the senior management of the Group companies on risk management issues. The reporting on credit, market and liquidity risks, while provided in in a context of continuous reassessment and refinement of control models, appears adequate.

Considering the special features of the activity performed by Iccrea Banca, we would like to draw attention to the advisability of reviewing and enhancing the formalization of procedures for identifying, assessing and managing exposures to operational risks, including with a view to improving reporting.

In 2013, Iccrea Banca further increased the volume of its business in fulfilling its mission to support the mutual banks and the entire Iccrea Banking Group. The Report on Operations discusses the various areas of activity and developments in operations.

The funding necessary for the entire Group is now raised entirely by Iccrea Banca, acting on the basis of the directives and roles assigned by the Parent Company. In compliance with Group planning, Iccrea Banca is assigned qualitative and quantitative funding objectives that can support its sister companies in the pursuit of their lending targets. Intercompany interest rates are set and monitored by technical form through central offices coordinated by the Parent Company.

Iccrea Banca is also responsible for delivering information technology services, with centralized management and development of all Group IT infrastructures. These arrangements require the systematic evolution of controls and the planning and management control tools at the individual and Group levels.

Since May 2013, the Board of Auditors has also acted as the Supervisory Body pursuant to Legislative Decree 231/2001. Our examination of the work of the previous body and the activity subsequently undertaken allowed us to confirm the overall appropriateness of the compliance model in handling the tasks assigned to it under the special rules governing administrative liability, the updating of the system to ensure compliance with legislative developments during the year and the adequacy of training activities.

The Board of Auditors received the draft financial statements for the year ended December 31, 2013 and the accompanying Report on Operations from the directors on March 6, 2014, the day of their approval by the Board of Directors,.

As the Board of Auditors is not responsible for the analysis of the details and substance of the financial statements, we examined, together with the Administration Department and the independent audit firm, their general layout and the compliance of their preparation and structure with the law and, in particular, with the instructions of the Bank of Italy.

The Board of Auditors verified that the financial statements correspond to the facts and information that we obtained during the execution of our duties, as provided by the Board of Directors and the Company departments involved.

The Report on Operations, prepared by the Board of Directors, discusses the Bank's situation and developments in operations in 2013, the main results and activities of the various company units and the outlook for operations following the end of the year.

Intercompany transactions and related party transactions appear to have been carried out in the interests of the Bank within the scope of the role it plays within the Iccrea Group. The directors provided explanations and clarifications of the accounting details of those transactions.

The Board of Auditors has monitored the statutory auditing of the accounts through regular meetings with the managers of the firm engaged for this purpose, Reconta Ernst & Young S.p.A., who discussed the checks performed and the related findings, the audit strategy and the main issues that emerged as result of their activities.

The independent audit firm provided the Board of Auditors with the report envisaged under Article 19 of Legislative Decree 39/2010. This report does not indicate any significant deficiencies in the internal control system in relation to the financial reporting process.

The audit firm also issued the report referred to in Articles 14 and 16 of Legislative Decree 39 of January 27, 2010 for the separate financial statements at December 31, 2013. That report, which is unqualified, indicates that the separate financial statements of Iccrea Banca S.p.A. were prepared clearly and provide a true and fair representation of performance, the financial position, changes in shareholders' equity and cash flows for the year ended on December 31, 2013. The report also states that the Report on Operations is consistent with the financial statements at December 31, 2013.

Reconta Ernst & Young has also issued the certification required by Article 17 of Legislative Decree 39/2010 on the independence of the audit firm.

In view of the foregoing and the results of the checks performed, the Board of Auditors recommends approval of the financial statements at December 31, 2013, acknowledging that the Board of Directors' proposal for the allocation of net profit does not violate the provisions of law or the Bank's articles of association.

Rome, April 1, 2014
THE BOARD OF STATUTORY AUDITORS

# *Financial statements*

## BALANCE SHEET

| ASSETS | 31/12/2013 | | 31/12/2012* | |
|---|---|---|---|---|
| 10.Cash and cash equivalents | | 82,636,981 | | 110,654,336 |
| 20.Financial assets held for trading | | 440,380,268 | | 732,669,227 |
| 30.Financial assets at fair value through profit or loss | | 321,150,028 | | 322,075,890 |
| 40.Financial assets available for sale | | 3,449,427,737 | | 3,009,411,696 |
| 50.Financial assets held to maturity | | 3,755,290,236 | | 3,017,529,491 |
| 60.Due from banks | | 32,827,713,231 | | 27,022,845,050 |
| 70.Loans to customers | | 1,768,380,623 | | 1,664,961,402 |
| 80.Hedging derivatives | | 5,561,718 | | 14,148,147 |
| 90.Value adjustments of financial assets hedged generically (+/-) | | (52,526) | | - |
| 100.Equity investments | | 63,563,625 | | 51,262,750 |
| 110.Property and equipment | | 8,319,752 | | 20,019,339 |
| 120.Intangible assets | | 7,238,083 | | 5,756,191 |
| 130.Tax assets | | 17,014,075 | | 20,076,238 |
| a) current | 8,785,205 | | 7,743,173 | |
| b) deferred | 8,228,870 | | 12,333,065 | |
| 140.Non-current assets and disposal groups held for sale | | 30,312,528 | | - |
| 150.Other assets | | 217,380,807 | | 130,768,867 |
| **TOTAL ASSETS** | | **42,994,317,166** | | **36,122,178,624** |

| LIABILITIES AND SHAREHOLDERS' EQUITY | 31/12/2013 | | 31/12/2012* | |
|---|---|---|---|---|
| 10.Due to banks | | 21,391,951,590 | | 21,196,600,807 |
| 20.Due to customers | | 15,259,973,629 | | 9,270,697,190 |
| 30.Securities issued | | 4,287,398,324 | | 3,386,758,419 |
| 40.Financial liabilities held for trading | | 391,236,397 | | 640,452,044 |
| 50.Financial liabilities at fair value through profit or loss | | 763,418,207 | | 745,365,388 |
| 60.Hedging derivatives | | 75,166,938 | | 115,042,518 |
| 80.Tax liabilities | | 34,461,943 | | 16,806,700 |
| a) current | 14,078,768 | | 7,549,747 | |
| b) deferred | 20,383,175 | | 9,256,953 | |
| 90.Liabilities associated with assets held for sale | | 32,905,226 | | - |
| 100.Other liabilities | | 207,203,150 | | 227,868,973 |
| 110.Employee termination benefits | | 13,348,350 | | 13,632,524 |
| 120.Provisions for risks and charges: | | 6,579,065 | | 7,066,080 |
| b) other provisions | 6,579,065 | | 7,066,080 | |
| 130.Valuation reserves | | 92,041,880 | | 68,068,673 |
| of which: in respect of assets held for sale | (8,293) | | - | |
| 160.Reserves | | 181,691,465 | | 168,529,768 |
| 180.Share capital | | 216,913,200 | | 216,913,200 |
| 200.Net profit (loss) for the period (+/-) | | 40,027,802 | | 48,376,340 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **42,994,317,166** | | **36,122,178,624** |

* Figures restated on a uniform basis to take account of amendments of IAS 19.

## INCOME STATEMENT

| | 31/12/2013 | | 31/12/2012 | |
|---|---|---|---|---|
| 10.Interest and similar income | | 467,003,273 | | 443,365,843 |
| 20.Interest and similar expense | | (395,958,448) | | (359,593,980) |
| **30.Net interest income** | | **71,044,825** | | **83,771,863** |
| 40.Fee and commission income | | 348,628,332 | | 338,695,098 |
| 50.Fee and commission expense | | (228,513,795) | | (223,233,285) |
| **60.Net fee and commission income (expense)** | | **120,114,537** | | **115,461,813** |
| 70.Dividends and similar income | | 160,335 | | 3,266,950 |
| 80.Net gain (loss) on trading activities | | 20,475,432 | | 17,885,978 |
| 90.Net gain (loss) on hedging activities | | (4,233,580) | | 428,367 |
| 100.Net gain (loss) on the disposal or repurchase of: | | 28,063,258 | | 7,139,758 |
| a) loans | (148,988) | | 1,722 | |
| b) financial assets available for sale | 31,124,451 | | 6,573,479 | |
| d) financial liabilities | (2,912,205) | | 564,557 | |
| 110.Net gain (loss) on financial assets and liabilities designated as at fair value | | (17,796,152) | | (8,190,032) |
| **120.Gross income** | | **217,828,655** | | **219,764,697** |
| 130.Net losses/recoveries on impairment: | | 12,929,166 | | (4,108,536) |
| a) loans | 12,929,166 | | (4,108,536) | |
| **140.Net income (loss) from financial operations** | | **230,757,821** | | **215,656,161** |
| 150.Administrative expenses: | | (166,885,436) | | (153,498,273) |
| a) personnel expenses | (63,457,516) | | (59,186,489) | |
| b) other administrative expenses | (103,427,920) | | (94,311,784) | |
| 160.Net provisions for risks and charges | | (1,049) | | (657,132) |
| 170.Net adjustments of property and equipment | | (3,027,287) | | (2,764,581) |
| 180.Net adjustments of intangible assets | | (4,575,931) | | (3,608,560) |
| 190.Other operating expenses/income | | 20,925,152 | | 22,514,455 |
| **200. Operating expenses** | | **(153,564,551)** | | **(138,014,091)** |
| **250. Profit (loss) before tax on continuing operations** | | **77,193,270** | | **77,642,070** |
| 260.Income tax expense from continuing operations | | (37,142,420) | | (29,265,730) |
| **270. Profit (loss) after tax on continuing operations** | | **40,050,850** | | **48,376,340** |
| 280.Profit (loss) after tax of non-current assets held for sale | | (23,048) | | - |
| **290. Net profit (loss) for the period** | | **40,027,802** | | **48,376,340** |

## STATEMENT OF COMPREHENSIVE INCOME

| | 31/12/2013 | 31/12/2012* |
|---|---|---|
| **10.Net profit (loss) for the period** | **40,027,802** | **48,376,340** |
| **Other comprehensive income net of taxes not recyclable to income statement** | | |
| 40.Defined-benefit plans | (148,560) | (303,411) |
| **Other comprehensive income net of taxes recyclable to income statement** | | |
| 90.Cash flow hedges | 513,282 | (566,860) |
| 100.Financial assets available for sale | 23,608,485 | 77,128,273 |
| **130.Total other comprehensive income net of taxes** | **23,973,207** | **76,258,002** |
| **140.Comprehensive income (Item 10+130)** | **64,001,009** | **124,634,342** |

* Figures restated on a uniform basis to take account of amendments of IAS 19.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2013

| | AS AT 31/12/2012 | CHANGE IN OPENING BALANCE | AS AT 1/1/2013 | ALLOCATION OF NET PROFIT OF PREVIOUS PERIOD | |
|---|---|---|---|---|---|
| | | | | RESERVES | DIVIDENDS AND OTHER ALLOCATIONS |
| Share capital: | | | | | |
| a) ordinary shares | 216,913,200 | | 216,913,200 | - | |
| b) other shares | - | | - | - | |
| Share premium reserve | - | | - | - | |
| Reserves: | | | | | |
| a) earnings | 86,922,929 | - | 86,922,929 | 13,000,000 | |
| b) other | 81,606,839 | - | 81,606,839 | - | |
| Valuation reserves | 68,068,673 | - | 68,068,673 | | |
| Equity instruments | - | | - | | |
| Treasury shares | - | | - | | |
| **Net profit (loss) for the year** | **48,376,340** | **-** | **48,376,340** | **(13,000,000)** | **(35,376,340)** |
| **Total shareholders' equity** | **501,887,981** | **-** | **501,887,981** | | **(35,376,340)** |

"Reserves: other" reports the goodwill in the transfer of the Corporate business area (2007), the payment made on capital account by the Parent Company, Iccrea Holding, the merger of BCC Multimedia and the transfer of properties to Immicra s.r.l..
The amount reported under "change in opening balance" represents the impact of the application of the new IAS 19 endorsed with Regulation no. 475/2012.

| | **Changes in the period** | | | | | | | | **Shareholders' equity as at 31/12/2013** |
|---|---|---|---|---|---|---|---|---|---|
| | | **Equity transactions** | | | | | | **Comprehensive income for 2013** | |
| | **Change in reserves** | **Issue of new shares** | **Purchase of treasury shares** | **Extraordinary dividens** | **Change in equity in-struments** | **Derivatives on treasury shares** | **Stock options** | | |
| | | | | | | | | | |
| | | - | - | | | | | | 216,913,200 |
| | | - | - | | | | | | - |
| | | - | | | | | | | - |
| | | | | | | | | | |
| | - | - | - | - | | | | | 99,922,929 |
| | 161,697 | - | | - | | - | - | | 81,768,536 |
| | - | | | | | | | 23,973,207 | 92,041,880 |
| | | | | | - | | | | - |
| | | - | - | | | | | | - |
| | | | | | | | | **40,027,802** | **40,027,802** |
| | **161,697** | **-** | **-** | **-** | **-** | **-** | **-** | **64,001,009** | **530,674,347** |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2012

| | AS AT 31/12/2011 | CHANGE IN OPENING BALANCE | AS AT 1/1/2012 | ALLOCATION OF NET PROFIT OF PREVIOUS PERIOD | |
|---|---|---|---|---|---|
| | | | | RESERVES | DIVIDENDS AND OTHER ALLOCATIONS |
| Share capital: | | | | | |
| a) ordinary shares | 216,913,200 | | 216,913,200 | - | |
| b) other shares | - | | - | - | |
| Share premium reserve | - | | - | - | |
| Reserves: | | | | | |
| a) earnings | 70,087,623 | - | 70,087,623 | 16,835,306 | |
| b) other | 81,843,000 | - | 81,843,000 | - | |
| Valuation reserves | (7,505,231) | (684,098) | (8,189,329) | | |
| Equity instruments | - | | - | | |
| Treasury shares | - | | - | | |
| **Net profit (loss) for the year** | **43,888,543** | **-** | **43,888,543** | **(16,835,306)** | **(27,053,237)** |
| **Total shareholders' equity** | **405,227,133** | **(684,098)** | **404,543,037** | | **(27,053,237)** |

"Reserves: other" reports the goodwill in the transfer of the Corporate business area (2007), the payment made on capital account by the Parent Company, Iccrea Holding, and the merger of BCC Multimedia.

The amount reported under "change in opening balance" represents the impact of the application of the new IAS 19 endorsed with Regulation no. 475/2012.

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| | CHANGES IN THE PERIOD | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | EQUITY TRANSACTIONS | | | | | | | |
| | CHANGE IN RESERVES | ISSUE OF NEW SHARES | PURCHASE OF TREASURY SHARES | EXTRAORDINARY DIVIDENDS | CHANGE IN EQUITY INSTRUMENTS | DERIVATIVES ON TREASURYSHARES | STOCK OPTIONS | COMPREHENSIVE INCOME FOR 2012 | SHAREHOLDERS' EQUITY AS AT 31/12/2012 |
| | | | | | | | | | |
| | | - | - | | | | | | 216,913,200 |
| | | - | - | | | | | | - |
| | | - | | | | | | | - |
| | | | | | | | | | |
| | - | - | - | - | | | | | 86,922,929 |
| | (236,161) | - | | - | | - | - | | 81,606,839 |
| | - | | | | | | | 76,258,002 | 68,068,673 |
| | | | | | - | | | | - |
| | | - | - | | | | | | - |
| | | | | | | | | **48,376,340** | **48,376,340** |
| | **(236,161)** | **-** | **-** | **-** | **-** | **-** | **-** | **124,634,342** | **501,887,981** |

## STATEMENT OF CASH FLOWS (INDIRECT METHOD)

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **A. OPERATING ACTIVITIES** | | |
| **1. Operations** | **178,294,986** | **173,422,631** |
| - net profit (loss) for the period (+/-) | 40,027,802 | 48,376,340 |
| - gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+) | 24,980,259 | 4,041,372 |
| - gains (losses) on hedging activities (-/+) | 4,233,580 | (428,367) |
| - net losses/recoveries on impairment (+/-) | 1,125,273 | 3,364,757 |
| - net adjustments of property and equipment and intangible assets(+/-) | 7,453,809 | 6,373,141 |
| - net provisions for risks and charges and other costs/revenues | 730,806 | 1,280,281 |
| - taxes and duties to be settled | (659,769) | 26,877,898 |
| - net adjustments of disposal groups held for sale net of tax effects | - | - |
| - other adjustments | 100,403,226 | 83,537,209 |
| **2. Net cash flows from/used in financial assets** | **(6,132,686,027)** | **(12,359,279,483)** |
| - financial assets held for trading | 285,286,044 | (93,772,205) |
| - financial assets at fair value through profit or loss | 4,518,196 | 10,720,116 |
| - financial assets available for sale | (460,196,070) | (707,322,769) |
| - due from banks: repayable on demand | 241,416,867 | 331,564,709 |
| - due from banks: other | (6,032,207,143) | (11,368,869,111) |
| - loans to customers | (105,239,312) | (535,848,414) |
| - other assets | (66,264,609) | 4,248,191 |
| **3. Net cash flows from/used in financial liabilities** | **6,748,837,675** | **14,936,996,845** |
| - due to banks: repayable on demand | (4,743,905,716) | 1,724,819,982 |
| - due to banks: other | 4,919,950,590 | 3,891,252,431 |
| - due to customers | 5,997,953,925 | 7,527,152,426 |
| - securities issued | 925,696,522 | 1,672,482,732 |
| - financial liabilities held for trading | (249,211,099) | 114,835,928 |
| - financial liabilities at fair value through profit or loss | (4,660,142) | (4,689,808) |
| - other liabilities | (96,986,405) | 11,143,154 |
| **Net cash flows from/used in operating activities (A)** | **794,446,634** | **2,751,139,994** |

| B. INVESTING ACTIVITIES | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **1. Cash flow from** | **1,165,324,493** | **325,404,469** |
| - sales of equity investments | - | 1,969,399 |
| - dividends on equity investments | - | 181,673 |
| - sales of financial assets held to maturity | 1,153,819,400 | 323,248,950 |
| - sales of property and equipment | 11,505,093 | 4,126 |
| - sales of intangible assets | - | 321 |
| - sales of subsidiaries and business units | - | - |
| **2. Cash flow used in** | **(1,952,573,838)** | **(3,017,960,913)** |
| - purchases of equity investments | (12,300,875) | (2,219,399) |
| - purchases of financial assets held to maturity | (1,931,531,756) | (3,007,587,216) |
| - purchases of property and equipment | (2,683,384) | (2,877,340) |
| - purchases of intangible assets | (6,057,823) | (5,276,957) |
| - purchases of subsidiaries and business units | - | - |
| **Net cash flow from/used in investing activities (B)** | **(787,249,345)** | **(2,692,556,443)** |
| **C. FINANCING ACTIVITIES** | | |
| - issues/purchases of own shares | - | - |
| - issues/purchases of equity instruments | 161,697 | (236,161) |
| - dividend distribution and other | (35,376,340) | (27,053,237) |
| **Net cash flow from/used in financing activities C(+/-)** | **(35,214,643)** | **(27,289,398)** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C** | **(28,017,354)** | **31,294,152** |

## RECONCILIATION

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Cash and cash equivalents at beginning of period (E) | 110,654,336 | 79,360,184 |
| Net increase/decrease in cash and cash equivalents (D) | (28,017,354) | 31,294,152 |
| Cash and cash equivalents: net foreign exchange difference (F) | - | - |
| Cash and cash equivalents at end of period (G)=E+/-D+/-F | 82,636,982 | 110,654,336 |

# *Notes to the financial statements*

# CONTENTS

# Part - A

# Accounting policies

# Part A – ACCOUNTING POLICIES

## A.1 – GENERAL INFORMATION

This section sets out the accounting policies adopted in preparing the financial statements at December 31, 2013. The presentation of the accounting policies – which are agreed at the Group level - is broken down into the stages of classification, recognition, measurement and derecognition for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

### Section 1: Declaration of conformity with the International Accounting Standards (IAS/IFRS)

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the financial statements of Iccrea Banca have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended.

The financial statements at December 31, 2013 have been prepared using the main tables set out in Circular no. 262 of December 22, 2005 on the format and rules for preparation of bank financial statements – 2nd update of January 21, 2014 – issued by the Bank of Italy in the exercise of the powers established by Article 9 of Legislative Decree 38/2005.

These instructions contain binding formats for the financial statements and the procedures for completing the schedules, as well as the content of the notes to the financial statements.

The IASs/IFRSs applied in preparing the financial statements were those in force at December 31, 2013 as endorsed by the European Commission (including the interpretations issued by the SIC and the IFRIC).

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect as from January 1, 2013:

| ENDORSEMENT REGULATION | IAS/IFRS AND SHORT DESCRIPTION |
|---|---|
| 475/2012 | **IAS 1 – Presentation of financial statements** – Presentation of items of other comprehensive income: calls for the separate presentation of items of other comprehensive income (OCI) that can be recycled to profit or loss and those that will never be recycled (annual reporting periods beginning on or after July 1, 2012) |
| 475/2012 | **IAS 19 – Employee benefits** - Among other things, the numerous amendments of IAS 19 provide for the elimination of the corridor approach, with the recognition of actuarial gains and losses only under other comprehensive income, the improvement of disclosures concerning risks associated with defined benefit plans, the introduction of a specific time period (12 months) in the definition of short-term benefits and a number of clarifications concerning termination benefits |
| 183/2013 | **IFRS 1 –First-time adoption of International Financial Reporting Standards**– Government loans: the amendment introduces an exception to the retrospective application of the IFRS for first time adopters: IFRS 9 "Financial instruments" and IAS 20 "Accounting for government grants and disclosure of government assistance" shall be applied prospectively to government loans that have already been entered into as of the date of transition to the IFRS. Retrospective application is permitted only where the information necessary for such application was obtained at the time of initially accounting for that loan. |
| 1255/2012 | **IFRS 13 – Fair value measurement** - The standard establishes a new definition of fair value, providing criteria for the measurement of the fair value of financial and non-financial instruments where called for in another accounting standard.<br>**IFRS 7 - Financial instruments: Disclosure** - Amendments of IFRS 7 - Offsetting financial assets and financial liabilities: they require more extensive disclosures on the effect of offsetting of financial instruments if the netting arrangement meets the requirements established by IAS 32 |
| 1256/2012<br>301/2013 | In May 2012, the IASB approved a series of amendments grouped together as **Annual improvements (2009- 2011)** to the IAS/IFRS following the consultation involving the Exposure Draft published I June 2011.<br>In short:<br>**IFRS 1 First-time adoption of International Financial Reporting Standards** – the amendments of IFRS 1 clarify issues associated with the possibility of an entity reapplying the IFRS if it had previously ceased to do so;<br>**IAS 1 Presentation of financial statements**– the amendments clarify issues associated with voluntary additional comparative disclosures and minimum comparative disclosures;<br>**IAS 16 Property, plant and equipment** - the amendments clarify issues associated with the classification of spare parts and servicing equipment;<br>**IAS 32 Financial instruments: Presentation** – the amendments specify that the effects of income taxes relating to distributions to equity holders shall be accounted for in accordance with IAS 12;<br>**IAS 34 Interim financial reporting** – the amendments of IAS 34 establish segment reporting requirements for total assets and total liabilities in interim financial reports. |

The new version of IAS 19 was applied for the first in these financial statements. The revised standard was endorsed by the European Commission on June 5, 2012 with Regulation no. 475/2012. The effects of such application, in accordance with the provisions of the Regulation and IAS 8, have been reported in the notes to the financial statements.

On January 1, 2013, following endorsement by the European Commission with Regulation no. 1255/2012 on December 11, 2012, the new IFRS 13 entered force. It provides clear guidelines for measuring fair value. Application of the new standard required additional disclosures concerning financial instruments, which are provided in the notes to the financial statements, but did not have an impact on the performance or financial position of the Bank.

The following table reports new international accounting standards and amendments to existing standards issued by the IASB that have not yet entered force:

| ENDORSEMENT REGULATION | IAS/IFRS | AND SHORT DESCRIPTION | ENTRY INTO FORCE |
|---|---|---|---|
| 1254/2012 | IFRS 10 Consolidated financial statements | The new standard establishes the criteria for the preparation and presentation of the consolidated financial statements. It defines new concepts of control, replacing those set out in IAS 27 and SIC 12 | Annual reporting periods beginning on or after January 1, 2014 |
| 1254/2012 | IFRS 11 Joint arrangements | Establishes principles for the accounting treatment of joint arrangements, replacing IAS 31 and SIC 13 | Annual reporting periods beginning on or after January 1, 2014 |
| 1254/2012 | IFRS 12 Disclosure of interests in other entities | The standard establishes the disclosures that must be provided concerning equity investments and, among others, SPVs ("structured entities"). The objective is to provide disclosures on the nature of the risks associated with interests in other entities and the impact on the financial position, performance and cash flows | Annual reporting periods beginning on or after January 1, 2014 |
| 1254/2012 | IAS 27 Separate financial statements | As a consequence of the introduction of IFRS 10 and IFRS 12, the standard limits its scope to defining criteria for the treatment in the separate financial statements of subsidiaries, associates and joint ventures | Annual reporting periods beginning on or after January 1, 2014 |
| 1254/2012 | IAS 28 Investments in associates and joint ventures | As a consequence of the introduction of IFRS 11 and IFRS 12 the standard was renamed "Investments in associates and joint ventures", setting out the accounting treatment of such entities | Annual reporting periods beginning on or after January 1, 2014 |
| 1256/2012 | IAS 32 Financial instruments: Presentation | Amendments of IAS 32 - Offsetting financial assets and financial liabilities: they establish procedures and criteria for offsetting financial assets and liabilities and their presentation in the financial statements | Annual reporting periods beginning on or after January 1, 2014 |
| 313/2013 | IFRS 10 Consolidated financial statements<br>IFRS 11 Joint arrangements<br>IFRS 12 Disclosures of interests in other entities | On June 28, 2012, the IASB published amendments to these standards on the basis of the proposals set out in Exposure Draft 2011/7 - Transition Guidance of December 2011. The objective is to clarify the transitional provisions governing the application of IFRS 10 and to limit the requirement for comparative disclosures under IFRS 10, IFRS 11 and IFRS 12 to only the previous comparative year | Annual reporting periods beginning on or after January 1, 2014 |
| 1174/2013 | IFRS 10 Consolidated financial statements | In October 2012, the IASB approved a number of amendments of IFRS 10, IFRS 12 and IAS 27. For IFRS 10 in particular, the amendments regarded the establishment of a requirement for investment entities to measure subsidiaries at fair value through profit or loss rather than consolidating them, with a view to better reflecting their business model, the introduction of a definition of "investment entity" through the specification of their typical features, their commercial purpose and the determination of the fair value of nearly all investments. | Annual reporting periods beginning on or after January 1, 2014 |
| 1174/2013 | IFRS 12 Disclosure of interests in other entities. | The amendments regard the obligation to disclose specific information on the subsidiaries of the investment entities referred to above. | Annual reporting periods beginning on or after January 1, 2014 |
| 1174/2013 | IAS 27 Separate financial statements | The amendments regard the elimination of the option for investment entities to choose between measurement of investments in certain subsidiaries at cost or at fair value in their separate financial statements. | Annual reporting periods beginning on or after January 1, 2014 |

| ENDORSEMENT REGULATION | IAS/IFRS | AND SHORT DESCRIPTION | ENTRY INTO FORCE |
|---|---|---|---|
| 1374/2013 | IAS 36<br>Impairment of assets | The amendments seek to clarify that the disclosures to be provided concerning the recoverable value of assets when that value is based on fair value less costs of disposal only regard assets whose value is impaired.. | Annual reporting periods beginning on or after January 1, 2014 |
| 1375/2013 | IAS 39<br>Financial instruments: recognition and measurement | The amendments are intended to govern situations in which a derivative designated as a hedging instrument is involved in novation with a central counterparty as a result of the introduction of a new law or regulation. Hedge accounting may continue despite the novation, a treatment that would not have been permitted without the amendment. | Annual reporting periods beginning on or after January 1, 2014 |
| To be determined | IFRS 9<br>Financial instruments | The standard establishes criteria for the classification and measurement of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The project has been structured into three phases: Classification and measurement, Impairment methodology and Hedge accounting. The first phase, Classification and Measurement, saw the publication of the first version of IFRS 9 in November 2009, the issue of a second version in October 2010 and the completion, on March 28, 2013, of the consultation on Exposure Draft 2012/4 - Limited Amendments to IFRS 9. For the second phase, Impairment Methodology, the Exposure Draft 2013/3 - Expected Credit Losses was published in March 2013, and the associated consultation will end on July 5, 2013.<br>The third phase, Hedge Accounting, has in turn been divided into General Hedge Accounting, the definitive publication of which is expected shortly, and Accounting for Macro Hedging, for which the publication of a Discussion Paper is still pending. | To be determined |

## Section 2: General preparation principles

The financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and the explanatory notes to the financial statements, along with the report on operations and the performance and financial position of Iccrea Banca. In compliance with Article 5 of Legislative Decree 38/2005, the financial statements use the euro as the reporting currency.

The financial statements are expressed in Euro units, while unless otherwise specified the figures in the notes to the financial statements and the report on operations are expressed in thousands of euro.

The financial statements were prepared by applying the general principles set out in IAS 1 and the specific accounting policies endorsed by the European Commission and described in Part A.2 of the notes to the financial statements, as well as the general Framework for the Preparation and Presentation of Financial Statements issued by the IASB. No exceptions have been made in applying the IASs/IFRSs.

The financial statements and the accompanying notes set out the figures for the present period as well as comparative figures at December 31, 2012.

Following the amendments of IAS 19 noted earlier, in 2013 we restated the comparative figures for the items involved (termination benefits, valuation reserve and tax assets). Some figures for the previous year were restated in order to ensure uniformity with those for 2013.

Work has begun on analyzing the impact of the application of IFRS 10 and IFRS 9, but at the moment their financial effects cannot be quantified.

*RISKS AND UNCERTAINTIES ASSOCIATED WITH THE USE OF ESTIMATES*

In conformity with the IFRS, management is requires to formulate assessments, estimates and assumptions that impact the application of accounting standards and the values of the assets, liabilities, costs and revenues recognized in the financial statements. The estimates and the associated assumptions are based on prior experience and other factors considered reasonable in the circumstances. They have been adopted in order to estimate the carrying amount of assets and liabilities whose value cannot easily be determined on the basis of other information.

Estimation processes were used to support the value of some of the largest items recognized in the financial statements at December 31, 2013, as provided for by the accounting standards and applicable legislation referred to earlier.

These processes are largely based on the estimation of the future recoverability of the carrying amounts in accordance with the rules established by applicable regulations. They were performed on the basis of consideration of the Bank as a going concern, i.e. excluding the possibility of the forced liquidation of the items being measured.

The estimation process supported the carrying amounts recognized at December 31, 2013. The valuation exercise proved to be especially complex in view of the persistent adverse macroeconomic and market conditions, characterized by volatility in key financial parameters used in the valuation and by the deterioration of credit quality.

The parameters and the other information used in verifying the carrying amounts were therefore substantially impacted by those factors, which could undergo rapid changes that cannot currently been foreseen, making it impossible to rule out consequent effects of the future values of those items.

The estimates and assumptions are reviewed regularly. Any changes made as a result of such reviews are recognized in the period in which the review was conducted where such review involved only that period. Where the review affects both current and future periods, any changes are recognized in the period in which the review was conducted and in the related future periods.

### *CONTENT OF THE FINANCIAL STATEMENTS*

*BALANCE SHEET AND INCOME STATEMENT*

The balance sheet and the income statement contain items, sub-items and further information (the "of which" for items and sub-items). In accordance with Bank of Italy Circular no. 262 of 22 December 2005 – 2nd update of January 21, 2014 - items without values for the reference period and the previous period are not included. In the income statement and in the relevant sections of the notes to the financial statements, revenues are shown without indicating their sign, while cost figures are shown within parentheses.

*STATEMENT OF COMPREHENSIVE INCOME*

The statement of comprehensive income is presented in accordance with the format prescribed by Bank of Italy Circular no. 262/2005 – 2nd update of January 21, 2014. In the items of other comprehensive income, the statement reports changes in the value of assets recognized in the valuation reserves. Items which have zero balances for the year and for the previous year are not reported. Negative amounts are presented between parentheses..

*STATEMENT OF CHANGES IN EQUITY*

The statement of changes in equity is presented in accordance with the format prescribed by Bank of Italy Circular no. 262/2005 – 2nd update of January 21, 2014. The statement of changes in equity shows the composition and movements of equity accounts during the reference period and the previous period, broken down by share capital (ordinary and other shares), capital reserves, earning reserves, valuation reserves for assets or liabilities and the net profit (loss) for the period.

*STATEMENT OF CASH FLOWS*

The statements of cash flows for the present and the previous period were prepared using the indirect method, under which cash flows from operating activities are represented by the profit (loss) for the period, adjusted for the impact of non-monetary transactions. Cash flows are broken down into cash flows from/used in operating activities, investing activities and financing activities. Cash flows generated during the period are shown without a sign, while those used are shown within parentheses.

*NOTES TO THE FINANCIAL STATEMENTS*

The notes to the financial statements, include the information required by Bank of Italy Circular no. 262/2005 – 2nd update of January 21, 2014 - and other information required by international accounting standards. To provide as accurate a picture as possible, the titles of sections pertaining to items for which no figures have been reported for either the present period or the previous period are also included.

## Section 3: Events subsequent to the reporting date

As required under IAS 10, we report that no event occurred subsequent to the reporting date that would have materially altered the figures reported in the financial statements.

For information on events that occurred subsequent to the end of the period, please see the report on operations.

## Section 4: Other information

*CONSOLIDATED TAX MECHANISM OPTION*

Starting in 2004, Iccrea Holding and all the Group companies adopted the "consolidated tax mechanism", governed by Articles 117-129 of the Uniform Income Tax Code ("TUIR"), introduced with Legislative Decree 344/2003. It consists of an optional tax regime under which total net income or the tax losses of each subsidiary taking part in the tax consolidation –along with withholdings, deductions and tax credits – are transferred to the parent company. Only one taxable income or tax loss that can be carried forward (the algebraic sum of the parent company's and its participating subsidiaries' income/losses resulting in a single tax payable/receivable) is calculated and attributed to the parent company.

Under this option, the Group companies that participate in the consolidated tax mechanism calculate their tax liabilities and the corresponding taxable income, which is transferred to the parent company. If one or more subsidiaries reports negative taxable income, the tax losses are transferred to the parent company when there is consolidated income for the period or a high probability of future taxable income.

*OTHER ISSUES*

The financial statements have undergone a limited review by Reconta Ernst & Young S.p.A., which was engaged to perform statutory audit functions for the 2010-2018 period in implementation of the resolution of the Shareholders' Meeting of April 22, 2010.

## A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section sets out the accounting policies adopted in preparing the financial statements. The presentation of these accounting policies is broken down into stages – classification, recognition, measurement and derecognition - for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

During 2008, as envisaged under Regulation (EC) no. 1004/2008 approved by the European Commission on October 15, 2008 containing amendments to IAS 39 and IFRS 7 on the reclassification of financial assets, Iccrea Banca availed itself of the option to reclassify to the "available-for-sale" category financial instruments initially recognized among "financial assets held for trading". The impact on performance and the financial position for the current period of that previous reclassification are reported in the individual sections of the explanatory notes.

In addition, as required under the amendments of IFRS 7 issued by IASB in March 2009, endorsed by the European Commission with Regulation (EC) no. 1165/2009 on November 27, 2009 and incorporated by the Bank of Italy in Circular no. 262/2005 with the 1st update of November 18, 2009, to ensure proper disclosure Iccrea Banca reports the quality of the inputs used to determine the fair value of financial instruments (the "fair value hierarchy"). The procedures for determining fair value and assigning instruments to the levels in the fair value hierarchy are discussed in section 17 "Other information" below.

## 1 – Financial assets held for trading

*Classification*

This category includes financial assets, regardless of their technical form, held for short-term trading purposes. It includes derivatives with a positive value, including those resulting from the separation of embedded derivatives, that are not deemed to be effective for hedging purposes.

Reclassification to other categories of financial asset is not permitted except in the event of unusual circumstances that are unlikely to recur in the short term.

In these cases, debt and equity securities no longer held for trading may be reclassified to other categories envisaged by IAS 39 where the requirements for such recognition have been met (financial assets held to maturity, financial assets available for sale, loans and receivables). The transfer value is given by the fair value at the time of the reclassification. The presence of any embedded derivatives to be separated is assessed at the time of the reclassification.

*Recognition*

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the trading date. Financial assets held for trading are initially recognized at fair value, which is usually the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss.

Derivative contracts embedded in other financial instruments or contracts that have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified independently as derivative contracts are recognized separately among financial assets held for trading, except in cases where the compound host instrument is measured at fair value through profit or loss. After separating the embedded derivative, the host contract is then treated in accordance with the accounting rules for its category.

*Measurement*

Financial assets held for trading are measured at fair value following initial recognition. The effects of the application of this treatment are recognized through profit or loss. For financial instruments listed on active markets, the fair value of financial assets or liabilities is determined on the basis of the official prices observed at the balance sheet date. For financial instruments, including equity securities, that are not listed on active markets, fair value is determined using valuation techniques and market information, such as the price of listed instruments with similar features, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions.

For equity securities, units in collective investment undertakings and derivative instruments with equities as underlyings not listed on an active market, if the fair value obtained using such valuation techniques cannot be reliably determined, the financial instruments are measured at cost.

*Derecognition*

Financial assets held for trading are derecognized when the contractual rights to the cash flows expire, or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to third parties.

*Recognition of income components*

The results of the measurement of financial assets held for trading are recognized through profit or loss. Dividends from equity instruments held for trading are recognized in the income statement when the right to receive payment accrues.

## 2 – Financial assets available for sale

*Classification*

This category includes financial assets, other than derivatives, that are not classified in the balance sheet as "financial assets held for trading", "financial assets at fair value through profit or loss", "financial assets held to maturity", "due from banks" or "loans to customers".

Specifically, the item includes: shareholdings not held for trading and not qualifying as a subsidiary, associate or joint venture, units in investment funds that are unlisted or listed but traded infrequently, specific bonds, identified on a case-by-case basis with respect to the purpose for which they are purchased/held.

In cases permitted by the applicable accounting standards, financial assets available for sale may only be reclassified to "financial assets held to maturity" except in the event of unusual circumstances that are unlikely to recur in the short term. Debt securities may be reclassified to other categories envisaged by IAS 39 (financial assets held to maturity, loans and receivables) where the requirements for such recognition have been met.

The transfer value is given by the fair value at the time of the reclassification.

*Recognition*

Available-for-sale financial assets are initially recognized at the settlement date. Financial assets are initially recognized at fair value, which is generally the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss. The initial recognition value includes direct transaction costs or revenues determinable at the recognition date, even if settled at a later time.

Where, in the cases permitted by the applicable accounting standards, the assets are recognized following reclassification from financial assets held to maturity or, in the event of unusual circumstances, from financial assets held for trading, the value at which they are recognized shall be their fair value at the time of the transfer.

*Measurement*

Following initial recognition, financial assets available for sale are measured at fair value. Fair value is determined using the criteria adopted for financial assets held for trading. Equity instruments for which the fair value cannot be reliably determined using valuation techniques are carried at cost and adjusted for any impairment losses.

*Derecognition*

Available-for-sale financial assets are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows. Financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

*Recognition of income components*

Gains and losses from changes in the fair value are recognized in a special equity reserve until the asset is derecognized. The value corresponding to the amortized cost of available-for-sale financial assets is recognized through profit or loss.

Available-for-sale financial assets are subject to impairment testing to determine whether there is objective evidence of impairment. Where impairment is found, the cumulative loss directly recognized in equity is reversed to the income statement. The amount of this loss is measured as the difference between the purchase cost (net of any amortization and repayments of principal) and the fair value, less any impairment loss previously recognized in the income statement. Where the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, writebacks are recognized in the income statement for loans or debt securities and in an equity reserve in the case of equity instruments. The value of the asset after the writeback shall not in any event exceed the amortized cost that the instrument would have had in the absence of the prior writedown.

In addition to the recognition of impairment losses, the cumulative gains or losses in the equity reserve are, as mentioned above, recognized in the income statement (under item 100 "Net gain (loss) on the disposal or repurchase of financial assets available for sale") at the time of the sale of the asset. Dividends in respect of equity instruments available for sale are recognized through profit or loss when the right to receive payment accrues.

## 3 – Financial assets held to maturity

*Classification*

This category comprises listed debt instruments with fixed or determinable payments and a fixed maturity for which the Bank has the positive intention and ability to hold until maturity.

In the circumstances permitted by the applicable accounting standards, such assets may only be reclassified as financial assets available for sale. If more than an insignificant amount of such instruments should be sold or reclassified during the year before their maturity, the remaining financial assets held to maturity would be reclassified as financial assets available for sale and it would not be permitted to classify instruments in this category for the subsequent two years, unless the sales or reclassifications:

– are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

– occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

– are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

*Recognition*

Financial assets held to maturity are recognized at the settlement date.

Such financial assets are initially recognized at fair value, including any directly attributable costs and income.

If the financial assets are recognized in this category as a result of reclassification from financial assets available for sale or, in the case of unusual events, from financial assets held for trading, the fair value of the assets at the reclassification date is deemed to be the new amortized cost of the assets.

*Measurement*

Subsequent to initial recognition, financial assets held to maturity are measured at amortized cost, using the effective interest rate method.

Assets held to maturity are evaluated for objective evidence of impairment.

If such evidence is found, the amount of the loss is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss is recognized in profit or loss.

If the reasons for the impairment loss should no longer obtain following an event occurring after the impairment was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount that exceeds what the amortized cost would have been in the absence of the previously recognized impairment losses.

*Derecognition*

The financial assets are derecognized only when a disposal transfers substantially all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the assets continue to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

*Recognition of income components*

Gains or losses in respect of assets held to maturity are recognized through profit or loss at the time the assets are derecognized or they incur an impairment loss, as well as through the process of amortization of the difference between the carrying amount and the amount repayable at maturity.

## 4 – Loans and receivables

*Classification*

Amounts "due from banks" and "loans to customers" include loans, whether disbursed directly or acquired from third parties, with fixed or determinable payments, that are not listed on an active market and that are not classified as: "Financial assets held for trading"; "Financial assets at fair value through profit or loss"; or "Financial assets available for sale". This category includes any securities with characteristics similar to loans and receivables. It also includes operating loans and repurchase transactions. Reclassification to the other categories of financial assets envisaged by IAS 39 is not permitted.

*Recognition*

Loans and receivables are initially recognized in the balance sheet at the disbursement date or, in the case of debt securities, at the settlement date. The initial amount recognized is equal to the amount disbursed or subscription price, including costs and revenues directly attributable to the transaction and determinable from the inception of the transaction, even if settled at a later time. The initially recognized amount does not include costs to be reimbursed by the debtor or that can be characterized as normal administrative overhead costs. The initial recognition amount of loans disbursed at non-market conditions is equal to the fair value of the loans, determined using valuation techniques. The difference between the fair value and the amount disbursed or the subscription price is recognized through profit or loss.

Securities repurchase transactions are recognized as funding or lending transactions. Transactions involving a spot sale and a forward repurchase are recognized as payables in the amount received spot, while those involving a spot purchase and a forward sale are recognized as receivables in the amount paid spot. Transactions with banks through correspondent accounts are recognized at the time of settlement and, therefore, these accounts are adjusted for all non-liquid items regarding bills and documents received or sent registered as 'subject to collection' or after actual collection.

Where, in the event of unusual circumstances, the assets are recognized in this category following reclassification form financial assets available for sale or from financial assets held for trading, the fair value of the assets at the date of reclassification shall be deemed to be the new amortized cost of the assets.

*Measurement*

Following initial recognition, loans are measured at amortized cost. The amortized cost equals the amount at which a financial asset is measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, minus any reduction (directly or through the use of a provision) due to impairment or non-recoverability.

Amortized cost is not used for very-short-term loans, loans without a specified maturity or revocable loans, for which the impact of this method can be considered not material. These positions are measured at cost.

The loan portfolio undergoes testing for impairment periodically and in any event at the close of each reporting period. Impaired positions include bad debts, substandard loans, restructured loans or loans past due or overlimit, in accordance with the Bank of Italy's current rules, in line with the provisions of the IAS/IFRS. Impairment loss is recognized only when, subsequent to initial recognition, events have occurred that give rise to objective evidence of impairment such as to cause a change in the reliably estimated cash flows.

Loans for which there is objective evidence of impairment are measured individually. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows, calculated by applying the original effective interest rate.

Measurement takes account of the "maximum recoverable" amount, which corresponds to the greatest estimate of expected future cash flows in respect of principal and interest payments. Also taken into consideration is the realizable value of any guarantees excluding recovery costs, recovery times estimated based on contractual maturities, if any, and on reasonable estimates in the absence of contractual provisions, and the discount rate, which is the original effective interest rate. For impaired positions at the transition date, where determining this figure would be excessively burdensome, the Bank has adopted reasonable estimates, such as the average rate of loans for the year in which the loan was first classified as a bad debt, or the restructuring rate.

In measuring loans individually, cash flows from loans for which short-term recovery is expected are not discounted. The original effective interest rate of each loan remains unchanged unless the position undergoes a restructuring that involves a change in the contractual interest rate, including when it becomes an interest-free loan.

Loans for which no objective evidence of impairment has been found undergo collective impairment testing, with the creation of groups of positions with uniform credit risk profiles. The writedown is determined based on historic loss rates for each group. In determining the time series, individually measured positions are removed from the group of loans being measured. Writedowns determined collectively are taken to the income statement. Guarantees also undergo impairment testing in a manner analogous to individual impairment testing. Any writedowns are recognized through profit or loss.

*Derecognition*

Loans are derecognized when they fall due or are transferred. Loans transferred are derecognized only when substantially all the risks and rewards of ownership of the loans are transferred. If a significant portion of the risks and rewards of ownership of a transferred loan has been retained, the loan continues to be recognized even though legal title to the loan has been transferred.

Where it is not possible to determine whether substantially all the risks and rewards have been transferred, the loan is derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the loan continues to be recognized to the extent of the continuing involvement in the asset, measured by the exposure to changes in value of the transferred loans and changes in their cash flows. Transferred loans are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

IFRS 1 established a specific exemption to the application of derecognition rules for transfers of financial assets, including securitization operations, occurring prior to January 1, 2004. By virtue of this exemption, for securitizations carried out before that date, the company may elect to continue to apply the previous accounting rules or to adopt the provisions of IAS 39 retrospectively, starting from a date selected by the entity, provided that the information required to apply IAS 39 to assets previously derecognized was available at the time of initial recognition of the these operations. Therefore, the Bank, in compliance with the accounting policies of the Group, has decided to apply the current accounting rules for securitization operations carried out before January 1, 2004.

*Recognition of income components*

Following initial recognition, loans are measured at amortized cost, which equals the amount at which the assets are measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount (usually attributable to costs and revenues directly attributable to the individual position) and plus or minus any writedowns/writebacks. The effective interest rate is the rate that exactly discounts the estimated future cash flows generated by the loan in respect of principal and interest to the amount disbursed including costs and revenues attributable to the loan. This accounting treatment makes it possible to distribute the economic impact of costs and revenues over the expected remaining life of the loan.

The amortized cost method is not used for short-term loans where the impact of discounting can be considered negligible. Short-term loans are valued at cost. The same approach is adopted for loans without a specified maturity or those subject to revocation.

Impairment losses, as defined in the preceding subsection on measuring loans, are recognized in the income statement. If the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, a writeback is taken to the income statement. The value of the asset after the writeback shall not in any event exceed the amortized cost that the instrument would have had in the absence of the prior writedown. Writebacks connected with the passage of time, corresponding to interest accrued during the period based on the original effective interest rate previously used to calculate impairment losses, are recognized among writebacks for impairment.

## 5 – Financial assets at fair value through profit or loss

*Classification*

The item "Financial assets at fair value through profit or loss" includes financial assets that have been designated as at fair value through profit or loss as from their initial recognition, in accordance with the requirements for the classification of that item, regardless of their technical form. No reclassifications to other categories of financial assets are permitted.

*Recognition*

Financial assets at fair value through profit or loss are initially recognized at the settlement date for debt and equity instruments. Initial recognition of financial assets is at fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

*Measurement*

After initial recognition, financial assets reported under this item are measured at fair value through profit or loss. In order to determine fair value, the criteria previously noted in the section on financial assets held for trading are applied. For equity securities and associated derivatives, if valuation techniques cannot be used to reliably determine the fair value of the financial instruments, they shall be measured at cost and adjusted for any impairment.

*Derecognition*

Financial assets at fair value are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows. Financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

*Recognition of income components*

The result of the measurement is recognized in the income statement. On the basis of the provisions of Article 6 of Legislative Decree 38 of February 28, 2005, the part of the profit for the period, corresponding to the capital gains recognized in the income statement, net of the associated tax expense, originated by the application of the fair value criterion, is allocated to an unavailable reserve that is reduced by an amount corresponding to the capital gains realized. The amount allocated to the unavailable reserve refers to capital gains relating to financial instruments among assets and liabilities not operationally hedged by derivative instruments, and to those on operationally hedged financial instruments for the part exceeding the associated capital losses.

## 6 – Hedging

*Classification*

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types hedges used are as follows:

- fair value hedges, which are intended to hedge the exposure to changes in the fair value (due to the various types of risk) of assets and liabilities or portions of assets and liabilities, groups of assets and liabilities, irrevocable commitments and portfolios of financial assets and liabilities as permitted under IAS 39 as endorsed by the European Commission;
- cash flow hedges are intended to hedge the exposure to changes in the future cash flows attributable to specific risks associated with items. This type of hedge is essentially used to stabilize interest flows on variable-rate funding to the degree that the latter finances fixed-rate lending. In some circumstances, analogous transactions are carried out for certain types of variable-rate lending.

Only instruments that involve a non-Group counterparty can be designated as hedging instruments.

The items “hedging derivatives” among assets and liabilities include the positive and negative values of derivatives that are part of effective hedging relationships.

*Recognition*

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules. Where there is formal documentation of the relationship between the hedged item and the hedging instrument, a hedge is considered effective if, at inception and throughout its life, the changes in the fair value of the hedged item or the related expected cash flows are almost entirely offset by those of the hedging instrument.

*Measurement and recognition of income components*

Hedging derivatives are measured at fair value.

More specifically:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset with the change in the fair value of the hedging instrument: this offsetting is effected by recognizing the changes in value through profit or loss, both for the hedged item (as regards changes produced by the underlying risk factor) and for the hedging instrument; any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

The derivative is designated as a hedging instrument where there is formal documentation of the relationship between the hedged item and the hedging instrument and if it the hedge is effective at the moment of inception and throughout its life.

The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged item or the associated cash flows are offset by those of the hedging instrument. Accordingly, effectiveness is determined taking account of those changes, taking account of the intentions of the entity at the time the hedge is established.

A hedge is deemed effective when the changes in fair value (or in cash flows) of the hedging instrument nearly entirely offset (i.e. within a range of 80-125%) changes in the hedged instrument for the risk factor being hedged.

Effectiveness is measured at every reporting date through:

- prospective tests, which justify the use of hedging accounting, as they demonstrate the hedge’s expected effectiveness;
- retrospective tests, which indicate the level of effectiveness of the hedge achieved in the period under re-

view, measuring the difference between actual results and theoretical results (perfect hedges).

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category.

*Derecognition*

If the tests carried out do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the criteria set out in this section, the accounting policies envisaged for the category to which the derivative belongs are applied, and the derivative is reclassified as a trading instrument. Subsequent changes in fair value are recognized in the income statement. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed to the income statement.

## 7 – Equity investments

*Classification*

The item includes equity investments in subsidiaries, associates and joint ventures. Subsidiaries are companies in which the Bank holds, either directly or indirectly, more than half of the voting rights unless it can be shown that possessing these rights does not constitute control. Control also exists where the Bank exercises the power to determine financial and operating policies. The consolidated financial statements are prepared by the parent company.

Joint ventures are companies in which control is shared with other parties by contract. Associates are companies in which the Bank holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Bank exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control. Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IAS 39, as provided for financial instruments.

Only factors that exist at the level of the separate financial statements (percentage of ownership, effective and potential voting rights, de facto situations of significant influence) are used in determining whether a holding is classified as an equity investment. Subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

*Recognition*

Equity investments are initially recognized at cost at the settlement date including costs and revenues that are directly attributable to the transaction.

*Measurement*

Investments in subsidiaries, associates and joint ventures are measured at cost. Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized in the income statement as an impairment loss..

*Derecognition*

Equity investments are derecognized when the contractual rights to the cash flows from the assets expire or when substantially all the risks and rewards connected with ownership of the equity investment are transferred.

*Recognition of income components*

Dividends received from equity investments measured at cost are recognized in the income statement when the right to receive the payment accrues. Impairment losses on subsidiaries, associates and joint ventures valued at cost are recognized in the income statement. If the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, a writeback is taken to the income statement.

## 8 – Property and equipment

The item reports property and equipment used in operations and that held for investment purposes.

### *PROPERTY AND EQUIPMENT USED IN OPERATIONS*

*Classification*

Property and equipment includes land, buildings used in operations, technical plant, furniture and equipment of all types. This item includes assets that are used in providing goods and services or used for administrative purposes for a period of more than one year.

*RECOGNITION*

Property and equipment is recognized at cost, which in addition to the purchase price includes incidental expenses and all costs directly attributable to placing the asset in service. Extraordinary maintenance expenses that increase the future economic benefits of such assets are allocated as an increase in the value of the assets, while ordinary maintenance costs are recognized in the income statement.

*MEASUREMENT*

Property and equipment, including investment property, is measured at cost less depreciation and impairment. Depreciation is determined systematically over the remaining useful life of the asset. The depreciable value is represented by the cost of the assets since the residual value at the end of the depreciation process is considered negligible. Depreciation rates are determined on the basis of the residual useful life of the assets in an amount considered to appropriately represent the deterioration and consumption of assets over time. Buildings are depreciated at a rate of 3% per year.

The useful life of property and equipment is reviewed at the end of every reporting period, and if it differs from previous estimates, the depreciation rate is adjusted for the current and subsequent financial periods. Land, whether purchased individually or incorporated into the value of a building, is not depreciated.

*DERECOGNITION*

Property and equipment is derecognized when disposed of or when no future benefits are expected from its use or disposal.

*RECOGNITION OF INCOME COMPONENTS*

Depreciation is recognized through profit or loss. If there is evidence of possible impairment of the asset, the asset's carrying amount is compared against its recoverable value, which is equal to the greater of the value in use of the asset, meaning the present value of future cash flows originated by the asset and its fair value, net of any disposal costs. Any negative difference between the carrying amount and the recoverable value is recognized in the income statement. If the reasons for the impairment should cease to obtain, a writeback is recognized in the income statement. The carrying amount following the writeback shall not exceed the value that the asset would have had, net of depreciation, in the absence of the prior writedowns.

### *INVESTMENT PROPERTY*

Investment property is real estate owned for the purposes of receiving rental income and/or for the appreciation of the invested capital. The same criteria for initial recognition, measurement, and derecognition used for buildings held for operating purposes are applied to investment property.

## 9 – Intangible assets

*CLASSIFICATION*

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

*RECOGNITION*

Intangible assets are recognized at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognized in the income statement in the period in which it is incurred.

Intangible assets may be recognized in respect of goodwill arising from business combinations (purchases of business units). The goodwill recognized in business combinations that have occurred subsequent to January 1, 2004, is recognized in an amount equal to the positive difference between the fair value of the assets and liabilities acquired and the purchase price of the business combination, including ancillary costs, if that positive difference represents future economic benefits. The difference between the purchase price of the business combination and the fair value of the assets and liabilities acquired is recognized through profit or loss if it is negative or if it does not represent future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

*MEASUREMENT*

Intangible assets recognized at cost are amortized on a straight-line basis over the estimated remaining useful life of the asset, which for applications software does not exceed 5 years. Goodwill is not amortized and is tested for impairment at the balance-sheet date.

*Derecognition*

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

*Recognition of income components*

Amortization is recognized through profit or loss. Where there is evidence of possible impairment of the asset, an impairment test is conducted. Any difference between its carrying amount and recoverable value is recognized in the income statement. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in the income statement. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

## 10 – Non-current assets and liabilities and disposal groups held for sale

*Recognition and classification*

This item includes non-current assets held for sale, and the assets and liabilities associated with disposal groups for which sale is expected within twelve months from the classification date, such as any equity investments in subsidiaries, associates, or jointly-controlled companies, and property and equipment or intangible assets or assets and liabilities associated with business units held for sale.

*Measurement and recognition of income components*

The assets and liabilities included in this item are carried at the lower of the carrying amount and the fair value net of costs to sell. The related income and expenses are shown in the income statement under a separate item, net of any tax effect.

## 11 – Current and deferred taxation

*Classification*

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenues that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the Group companies in respect of Italian and foreign tax authorities. More specifically, they report the net balance between current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax liability for the period, as determined on the basis of applicable tax law, and current tax assets represented by payments on account and other tax receivables for withholding tax incurred or other tax credits for previous years which the Group companies opted to offset against taxes for subsequent years.

Current tax assets also report tax receivables for which the Group companies have requested reimbursement from the competent tax authorities.

Taking account of the adoption of the national consolidated taxation mechanism by the Group, the tax positions of Iccrea Holding SpA and those of other Group companies are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, "taxable temporary differences" are those that in future periods will give rise to taxable amounts and "deductible temporary differences" are those that in future periods will give rise to deductible amounts.

Deferred tax is calculated by applying the tax rates established in applicable tax law to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test). Deferred tax assets and liabilities in respect of the same tax and reversing in the same period are offset.

*Recognition and measurement*

Where the deferred tax assets and liabilities regard items that impact profit or loss, that effect is recognized under income taxes.

In cases where the deferred tax assets and liabilities regard transactions that directly impact equity with no effect on profit or loss (such as adjustments on first-time adoption of the IAS/IFRS, measurement of financial instruments available for sale or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

The potential taxation in respect of items on which taxation has been suspended that will be "taxed in the event of any use" is recognized as a reduction in equity. Deferred taxes in respect of revaluations prompted by conversion of amounts to the euro that were directly allocated to a specific reserve under Article 21 of Legislative Decree 213/98 on a tax-suspended basis are recognized as a reduction of that reserve. The potential taxation in respect of items that will be taxed "only in the event of distribution" is not recognized as the amount of available reserves that have already been taxes is sufficient to conclude that no transactions will be carried out that would involve their taxation.

Deferred taxation in respect of companies participating in the consolidated taxation mechanism is recognized in their financial statements on an accruals basis in view of the fact that the consolidated taxation mechanism is limited to settlement of current tax positions.

The potential taxation of components of the equity of the consolidated companies is not recognized where the circumstances that would give rise to their taxation are not considered likely to arise, taking due consideration of the lasting nature of the investment.

The value of deferred tax assets and liabilities is reviewed periodically to take account of any changes in legislation or in tax rates.

*RECOGNITION OF INCOME COMPONENTS*

Income taxes are recognized in the income statement with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period. Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes.

## 12 – Provisions for risks and charges

### OTHER PROVISIONS FOR RISKS AND CHARGES

*RECOGNITION AND CLASSIFICATION*

Provisions for risks and charges are recognized in the income statement and reported under liabilities on the balance sheet in relation to a present legal or constructive obligation resulting from a past event for which performance of the obligation is likely to be onerous and the loss associated with the liability can be reliably estimated. The amount recognized is the best estimate of the amount required to discharge the obligation or to transfer it to third parties as of the close of the period.

When the financial impact of the passage of time is significant and the dates of payment of the obligation can be estimated reliably, the provision is discounted at market rates as of the reporting date.

*MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS*

The amounts recognized are reviewed at every balance sheet date and are adjusted to reflect the best estimate of the expense required to fulfill the obligations existing at the close of the period. The impact of the passage of time and that of changes in interest rates are reported in the income statement under net provisions for the period.

*DERECOGNITION*

Provisions are only used when the charges for which they were originally established are incurred. When the use of resources to fulfill the obligation is no longer deemed to be probable, the provision is reversed through profit or loss.

## 13 – Debt and securities issued

*CLASSIFICATION*

Debt and securities issued includes financial liabilities not held for trading in the short term, comprising all technical forms of interbank and customer funding and funding through certificates of deposit and outstanding bond issues, excluding any amounts repurchased.

*RECOGNITION*

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenues directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded. Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

*MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS*

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. Refer to the section on loans and receivables for information on the criteria for determining amortized cost.

*DERECOGNITION*

In addition to cases of extinguishment and expiration, financial liabilities are derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

## 14 – Financial liabilities held for trading

*Classification*

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of derivatives embedded in compound contracts. Liabilities deriving from short positions in by securities trading activities are recognized under "Financial liabilities held for trading".

*Recognition*

Debt and equity securities representing financial liabilities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed. The financial liabilities are initially recognized at fair value, which generally equals the amount received. In cases in which the amount paid differs from the fair value, the financial liability is recognized at fair value, and the difference between the amount paid and the fair value is recognized through profit or loss.

Derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, are recognized separately among financial liabilities held for trading if their value is negative. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.

*Measurement*

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the section on measuring financial assets held for trading for information on determining the fair value.

*Derecognition*

Financial liabilities held for trading are eliminated upon being extinguished or upon maturity.

*Recognition of income components*

Gains and losses from the measurement of financial liabilities held for trading are recognized through the income statement.

## 15 – Financial liabilities designated as at fair value

*Classification*

The item "Financial liabilities at fair value through profit or loss" includes financial liabilities that have been designated as at fair value through profit or loss as from their initial recognition as long as they meet the requirements for classification in that item, regardless of their technical form.

*Recognition*

Financial liabilities at fair value through profit or loss are initially recognized at the settlement date for debt and equity instruments. Initial recognition of financial liabilities is at fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

*Measurement*

After initial recognition, financial liabilities reported under this item are measured at fair value through profit or loss. In order to determine fair value, the criteria previously noted in the section on financial liabilities held for trading are applied. For equity securities and associated derivatives, if valuation techniques cannot be used to reliably determine the fair value of the financial instruments, they shall be measured at cost and adjusted for any impairment.

*Derecognition*

Financial liabilities at fair value are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party.

*Recognition of income components*

The result of the measurement is recognized in the income statement.

## 16 – Foreign currency transactions

*Recognition*

Transactions in a foreign currency are initially recognized in the functional currency by translating the amount in the foreign currency into the functional currency at the exchange rate prevailing on the date of the transaction.

*MEASUREMENT*

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date; non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

*RECOGNIZING GAINS OR LOSSES*

Exchange differences relating to monetary and non-monetary items designated as at fair value through profit or loss are recognized in the income statement under item 80 ("Net gain (loss) on trading activities"). If the asset is classified as available for sale, exchange differences are allocated to the valuation reserves.

## 17 – Other information

### *EMPLOYEE TERMINATION BENEFITS*

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code. The change with respect to the situation prior to December 31, 2006 relates to the actuarial assumptions of the model, which must incorporate the rate of salary increases provided for by Article 2120 of the Civil Code (application of a rate equal to 1.5% plus 75% of the change in the ISTAT inflation index) and not that estimated by the company. As a result, the termination benefit provision at December 31, 2006 was measured using the new model, which no longer takes account of a number of variables such as the average annual rate of salary increases, pay grades based on seniority, and the percentage increase in salary due to promotion.

The portion of termination benefits accrued from January 1, 2007 allocated to a supplementary pension scheme or to the treasury fund managed by INPS (Italy's National Social Security Institute) are treated as a defined-contribution plan since the company's obligation towards the employee ceases upon transfer of the portions accrued to the fund.

Therefore, starting January 1, 2007, the Bank:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans. It shall measure the obligation for benefits accrued by employees using actuarial techniques and shall calculate the total amount of actuarial gains and losses and the portion of these to be recognized in accordance with IAS 19 Revised;
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

### *RECOGNITION OF REVENUES*

Revenues are recognized when realized or, in the case of the sale of goods or products, when it is probable that future benefits will be received and these future benefits can be reliably determined, and in the case of services, when the services are performed. Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized in the income statement only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenues from services are recognized in the period in which the service is rendered;
- revenues from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenues from the sale of non-financial assets are recognized upon completion of the sale, unless the Bank has retained most of the risks and rewards connected with the asset.

## ACCRUALS AND DEFERRALS

Accruals and deferrals in respect of expense and income accruing in the period on assets and liabilities are recognized in the financial statements as an adjustment of the assets and liabilities to which they refer.

## COSTS FOR LEASEHOLD IMPROVEMENTS

The costs of renovating leased buildings lacking autonomous function or use are conventionally classified among other assets, as provided by Bank of Italy Circular no. 262 – 2nd update of January 21, 2014. The related depreciation, taken for a period not to exceed the duration of the lease, is reported under other operating expense.

## DETERMINATION OF FAIR VALUE

Fair value is the amount for which an asset (or liability) could be exchanged between knowledgeable, willing parties in an arm's length transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

### *Financial instruments*

The fair value of financial instruments is determined on the basis of prices on financial markets in the case of instruments quoted on active markets and through the use of internal valuation techniques for other financial instruments. A financial instrument is considered to be quoted on an active market if the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, authorized agency, regulatory authority or multilateral trading facility (MTF) and those prices represent actual and regularly occurring market transactions over a normal reference period. The most appropriate fair value for an asset held or a liability to be issued is the current price offered by the purchaser (bid), while for an asset to be purchased or a liability held it is the current price requested by the seller (ask). In the absence of a quoted price on an active market or a regularly functioning market, i.e. when the market does not have a sufficient and continuous number of transactions, bid-ask spreads and volatility are not sufficiently low, the fair value of financial instruments is mainly determined using valuation techniques that seek to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Valuation techniques consider:

- prices in recent market transactions in similar instruments, if available, corrected appropriately to reflect changes in market conditions and technical differences between the instrument being valued and the similar instrument (the 'comparable approach');
- valuation models commonly used by market participants that have been demonstrated to provide reliable estimates over time of prices obtained in current market conditions.

Financial instruments are assigned to one of three levels that reflect the characteristics and significance of the inputs used in determining fair value:

- o **Level 1**: when the financial assets and liabilities have unadjusted quoted prices on an active market;
- o **Level 2**: when quoted prices on an active market for similar assets and liabilities are available or prices are derived from valuation techniques whose inputs are directly or indirectly observable market parameters;
- o **Level 3**: when prices are calculated using valuation techniques whose significant inputs are not observable on the market.

The choice between these methods is not discretionary and the valuation techniques used must maximize the use of observable market parameters, employing subjective parameters as little as possible.

In the absence of active markets (effective market quotes – Level 1), financial assets and liabilities are measured with valuation techniques using inputs that are directly or indirectly observable on the market other than the prices of financial instruments (comparable approach – Level 2) or, in the absence of such inputs or in the presence of inputs that are only partially based on parameters observable on the market, fair value is calculated on the basis of valuation techniques commonly used by market participants and, therefore, are more discretionary in nature (mark-to-model approach – Level 3).

The following are considered to be quoted on an active market **(Level 1):**

- listed shares;
- government securities quoted on a regulated market;
- bonds with significant contributed prices;
- listed funds or funds whose net asset value is calculated on a daily basis;
- derivatives contracts for which prices on an active market are available (listed derivatives).

The price used for financial instruments quoted on active markets is the current price offered for financial assets (bid) and the current price requested (ask) for financial liabilities, on the main trading market, at the close of the reporting period. In the case of financial instruments for which the bid-ask spread is not significant or for financial assets and liabilities whose characteristics give rise to offsetting positions in market risk, a mid-market price is used (once again as at the last day of the reporting period) rather than the bid or ask price.

In the absence of prices observable on active markets, the fair value of financial instruments is determined through two approaches:

- the comparable approach (Level 2), which assumes the presence of quoted market prices on inactive markets for identical or similar instruments in terms of risk-return, maturity and other trading conditions. In particular, when the current market prices of other highly comparable instruments (on the basis of the country or sector to which they belong, the rating, the maturity or the seniority of the securities) are available, the Level 2 value of the instrument corresponds to the quoted price of the similar instrument, adjusted if necessary for factors observable on the market;
- the model valuation approach (Level 2 or Level 3) is based on the use of valuation models that maximize the use of observable market variables.

The most common valuation techniques used are:

- discounted cash flow models
- option pricing models.

For derivatives, in view of their variety and complexity, a systematic reference framework has been developed that represents the common elements (calculation algorithms, valuation models, market data used, underlying assumptions of the model) on which the valuation of each category of derivative is based.

Derivatives on interest rates, exchange rates, equities, inflation and commodities not traded on regulated markets are over-the-counter instruments. In other words, they are negotiated bilaterally with market counterparties and their fair value is determined with specific pricing models that use inputs (such as yield curves, exchange rates and volatility) observed on the market.

For structured credit products and ABSs, if reliable prices are not available, valuation techniques using market-derived parameters are employed.

To determine the fair value of certain types of financial instrument, it is necessary to use valuation techniques that employ inputs that are not directly observable in the market and therefore require estimates and assumptions on the part of the person measuring the instrument **(Level 3)**. More specifically, the mark-to-model approach is applied to all financial instruments not quoted on an active market when:

- even if observable inputs are available, it is necessary to make significant adjustments to such inputs that are based on unobservable inputs;
- the estimation is based on assumptions specific to the Bank concerning future cash flows and the adjustment for the discount rate risk.

In any event, the goal is to obtain a value for the instrument that is consistent with the assumptions that market participants would use in forming a price. Such assumptions also regard the risk associated with a given valuation technique and/or the inputs employed. Nevertheless, IFRS 13 requires the Bank to adopt reasonable assumptions without having to undertake exhaustive searches to find such information.

The valuation technique used for a financial instrument is adopted consistently over time and is modified only in response to material changes in market conditions or the condition of the issuer of the financial instrument.

For the purpose of reporting for financial instruments at fair value, the above hierarchy adopted in determining fair value is used consistently for the allocation of the portfolio to the fair value input levels (see section A.3 of Part A).

Additional information on the modeling used by the Bank in determining fair value is provided in section E of these notes.

The entire system of rules and responsibilities for the valuation of the Bank's financial instruments is set out in the Fair Value Policy, which specifies the main components of the entire methodological framework in terms of:

- definition of the roles and responsibilities of the company bodies and functions involved;
- classification of the financial instruments;
- the rules for classification of financial instruments within the fair value hierarchy provided for under IFRS 7 and IFRS 13;
- the valuation techniques and methods used for financial instruments;
- processes for the management and control of the valuation of financial instruments;
  the hedging policy for financial instruments;
- reporting flows.

*Non-financial instruments*

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

## DETERMINATION OF IMPAIRMENT

*Financial assets*

At each reporting date, the Bank determines whether there is objective evidence that a financial asset or group of financial assets has incurred a "prolonged" reduction in value.

In particular, a financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Impairment is assessed on an individual basis for financial assets that show specific evidence of having incurred an impairment loss and collectively for financial assets for which individual valuation is not required or for which individual valuation did not give rise to recognition of impairment. The collective valuation is based on the specification of uniform risk classes for the financial assets, taking account of the characteristics of the debtor/issuer, the economic sector involved, the geographical area, the presence of any guarantees and other relevant factors.

Accordingly, in the case of a prolonged reduction in value, the following procedures are adopted:

- for financial assets carried at amortized cost (loans & receivables and held-to-maturity investments), if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss;
- when a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset has incurred a "significant or prolonged" loss of value, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the financial asset has not been derecognized.

  Any writebacks are recognized as follows:

- for financial assets classified as held to maturity investments and loans & receivables, in profit or loss;
- for financial assets classified as available for sale, in equity for equity instruments and in profit or loss for debt instruments.

The price of impaired financial instruments is determined as follows:

- for financial assets classified as held to maturity investments and loans & receivables, it is the present value of the expected cash flows (not considering future losses that have not yet occurred) discounted at the original internal rate of return of the instrument;
- for financial assets classified as available for sale, it is the fair value of the instrument.

Financial assets subject to impairment testing are debt securities and equity securities classified in the following IAS categories:

- held to maturity (HTM);
- loans and receivables (L&R);
- available for sale (AFS).

For the purposes of individual impairment testing, it is necessary to take account of the following factors:

- general market conditions;
- the correlation between the impairment loss on the individual financial instrument and a general decline in market indices (comparable analysis);

as well as the following indicators, which can be broken down into two categories:

- indicators drawn from internal, qualitative information concerning the company being valued, such as posting a loss or in any event diverging significantly from budget targets or objectives set out in long-term business plans announced to investors, the announcement or start of bankruptcy proceedings or reorganization plans, a re-

duction in the rating assigned by a specialized rating company of more than two steps;
- indicators drawn from external quantitative information (for equity securities) on the company, such as a "significant or prolonged" reduction in the fair value below its value at initial recognition.

***Debt securities***

For debt securities, it is essential to assess the relevance of a deterioration in the conditions of the issuer on the basis of a careful and prompt evaluation of market information.

To this end, it is appropriate to consider specialized sources of information (such as, for example, investment advice from specialized financial institutions, rating reports, etc.) or from information providers (Bloomberg, Reuters, etc.).

In order to identify objective evidence of impairment giving rise to an impairment loss on the financial instrument, it is necessary to monitor developments. Indicators of possible impairment include, for example:

- default of the financial asset;
- significant financial difficulty of the issuer;
- default or delinquency in interest or principal payments;
- the possibility that borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for the asset.

***Equity securities***

IAS 39 calls for impairment testing in the event of the joint presence of two circumstances:

- the occurrence of one or more adverse events after initial recognition of the financial asset;
- the fact that such event has an adverse impact on expected future cash flows.

In addition to these circumstances, objective evidence of impairment of equity securities classified as available for sale includes a "significant" or "prolonged" reduction in fair value below its cost, determined as follows: a decrease of more than 30% in the fair value of equity securities below their carrying amount or a continuous decrease for a period of over 18 months.

The amount of the impairment loss is determined with reference to the fair value of the financial asset.

For more on the methods used to determine fair value, please see the discussion in the associated section of the notes.

*Other non-financial assets*

Property and equipment and intangible assets with a finite useful life undergo impairment testing if there is evidence that the carrying amount of the asset cannot be recovered. The recoverable value is determined on the basis of the fair value of the item of property and equipment or the intangible asset net of costs of disposal or the value in use, if that can be determined and it is greater than the fair value.

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent external expert.

For other property and equipment and intangible assets (other than those recognized following a business combination) it is assumed that the carrying amount normally corresponds to the value in use, as determined by a normal process of depreciation or amortization estimated on the basis of the actual contribution of the asset to the production process and having determined that the determination of fair value would be highly uncertain. The two values differ, giving rise to an impairment loss, in the case of damage, exit from the production process or other similar non-recurring circumstances.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each balance-sheet date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and the recoverable value of the unit, represented by the greater of its fair value, net of costs of disposal, and its value in use.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable value. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable value of the CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used for the recoverable value and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs of Iccrea can be determined in terms of their contribution to consolidated shareholders' equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles. In addition, in view of the different risks in each CGU's area of operations, different betas are also adopted.

## FINANCIAL GUARANTEES

As part of its ordinary banking operations, the Bank grants financial guarantees in the form of letters of credit, acceptances and other guarantees. The value of guarantees at the time of initial recognition is equal to the commission received. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under "Fee and commission income", taking account of the term and residual value of the guarantees.

Following initial recognition, the liability in respect of each guarantee is measured as the greater of the initial recognition amount less cumulative amortization recognized in profit or loss and the best estimate of the expense required to settle the financial obligation that arose following the granting of the guarantee.

Any losses and value adjustments on such guarantees are reported under "value adjustments". Writedowns for impairment of guarantees are reported under "Other liabilities".

Guarantees are off-balance-sheet transactions and are reported under "Other information" in Part B of the notes to the financial statements.

## A.3 – DISCLOSURES ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

IFRS 13 has introduced clear guidelines for the measurement of fair value in all circumstances. The new standard does not change the cases in which fair value must be used but rather provides guidance on how to measure the fair value of financial instruments and non-financial assets and liabilities whenever the application of fair value is required or permitted by other international accounting standards.

More specifically, the standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price").

### A.3.1 Reclassified financial assets: carrying amount, fair value and impact on comprehensive income

| TYPE OF FINANCIAL INSTRUMENT | ORIGINAL CLASSIFICATION | NEW CLASSIFICATION | CARRYING AMOUNT AT 31/12/2013 | *FAIR VALUE AT 31/12/2013* | INCOME COMPONENTS WITHOUT TRANSFER (PRE TAX) | | INCOME COMPONENTS RECOGNIZED IN THE PERIOD (PRE TAX) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | VALUATION | OTHER | VALUATION | OTHER |
| Debt securities | Assets held for trading | Assets available for sale | 80,114 | 80,114 | 988 | 1,160 | 801 | 1,346 |

### A.3.2 Reclassified financial assets: impact on comprehensive income before transfer

The table has not been completed because there were no such positions as of the balance sheet date as no transfers of financial assets were carried out.

### A.3.3 Transfers of financial assets held for trading

The table has not been completed because there were no such positions as of the end of the reporting period as no transfers were carried out.

### A.3.4 Effective interest rate and expected cash flows of reclassified assets

| ISIN | DESCRIPTION OF SECURITY | INTERNAL RATE OF RETURN AT 31/12/2013 | EXPECTED CASH FLOWS AT 31/12/2013 |
|---|---|---|---|
| IT0004224041 | CCT 1.3.2014 | 1.2334 | 6-month BOT + 0.15 |
| XS0247770224 | ITALY 22.3.2018 | 1.3833 | Lower of (2.25 * European inflation rate) and (6-month Euribor + 0.60) |

## A.4 – FAIR VALUE DISCLOSURES

Qualitative disclosures

This section provides the disclosures on the fair value of financial instruments as requested under the new IFRS 13, in particular paragraphs 91 and 92.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price") on the principal (or most advantageous) market, regardless of whether that price is directly observable or is estimated using a valuation technique.

Prices on an active market are the best indication of the fair value of financial instruments (Level 1 in the fair value hierarchy). In the absence of an active market or where prices are affected by forced transactions, fair value is determined on the basis of the prices of financial instruments with similar characteristics (Level 2 inputs – the comparable approach) or, in the absence of such prices as well, with the use of valuation techniques that use market inputs to the greatest extent possible (Level 2 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model).

For financial instruments measured at fair value, the Iccrea Banking Group has adopted a Group "Fair Value Policy" that assigns maximum priority to prices quoted on active markets and lower priority to the use of unobservable inputs, as the latter are more discretionary, in line with the fair value hierarchy noted above and discussed in greater detail in section A.4.3 below. The policy establishes the order of priority, the criteria and general conditions used to determine the choice of one of the following valuation techniques:

- mark to market: a valuation approach using inputs classified as Level 1 in the fair value hierarchy;
- the comparable approach: a valuation approach based on the use of the prices of instruments similar to the one undergoing valuation, which are classified as Level 2 in the fair value hierarchy;
- mark to model: a valuation approach based on the use of pricing models whose inputs are classified as Level 2 (in the case of the exclusive use of market observable inputs) or Level 3 (in the case of the use of at least one significant unobservable input) in the fair value hierarchy.

<u>Mark to market approach</u>

Classification in Level 1 of the fair value hierarchy represents the mark-to-market approach. For an instrument to be classified in Level 1 of the fair value hierarchy, its value must be based solely on quoted prices in an active market to which the Bank has access at the time of valuation (Level 1 inputs).

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value.

The concept of active market is a key concept in allocating a financial instrument to Level 1. An active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Thus, the definition implies that the concept of active market is associated with the individual financial instrument and not the market itself, and it is therefore necessary to conduct materiality tests. The Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

<u>Comparable approach</u>

In the case of the comparable approach, measurement is based on the prices of substantively comparable instruments in terms of risk-return, maturity and other trading conditions. The following Level 2 inputs are necessary for use of the comparable approach:

- quoted prices on active markets for similar assets or liabilities;
- quoted prices for the instrument involved or for similar instruments on inactive markets, i.e. markets in which transactions are infrequent, prices are not current, change significantly over time or among the various market makers or on which little information is made public.

If there are quoted instruments that meet all of the comparability criteria indicated here, the value of the Level 2 instrument is considered to correspond to the quoted price of the comparable instrument, adjusted if necessary for factors observable on the market.

However, if the conditions for using the comparable approach directly do not apply, the approach may still be used as an input in Level 2 mark-to-model valuations.

<u>Mark to model approach</u>

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.) and only in their absence or where they are insufficient to determine the fair value of an instrument may inputs that are not observable on the market be used (discretionary estimates and assumptions). The technique does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

## A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

The Bank uses mark-to-model approaches in line with methods that are generally accepted and used in the industry. The valuation models comprise techniques based on the discounting of future cash flows and the estimation of volatility. They are reviewed both during their development and periodically thereafter in order to ensure their full consistency with the valuation objectives.

More specifically, in the absence of quoted prices on active markets, financial instruments are measured as follows:

- bonds are values using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- plain vanilla interest-rate derivatives are mainly valued using a discounted cash flow model. Interest-rate options and financial instruments with convexity adjustments are valued using a Log-normal Forward Model, while exotic options are values using the One Factor Trinomial Hull-White approach. The inputs used are yield curves and credit spreads, and volatility and correlation surfaces;
- plain vanilla inflation derivatives are valued using the CPI Swap valuation model, while structured options use the Inflation Market Model. The inputs used are inflation swap curves and premiums on plain-vanilla options;
- Equity and CIU derivatives are value using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;
- equity securities are valued on the basis of direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date, the market multiples approach for comparable companies and, subordinately, financial and income valuation techniques;
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds.

The Fair Value Policy also provides for the possibility of applying valuation adjustments to the prices of financial instruments when the valuation technique used does not capture factors that market participants would use in estimating fair value.

Valuation adjustments are intended to:

- ensure that the fair value reflects the value of a transaction that could actually be carried out in a market;
- incorporate the future expected costs directly connected with the transaction;
- reduce the risk of distorting fair values, with consequent errors in profit or loss.

The factors impacting the need for an adjustment are:

- the complexity of the financial instrument;
- the credit standing of the counterparty;
- any collateral agreements;
- market liquidity.

The Bank has developed a method for calculating the CVA/DVA (Credit Value Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk).

For transactions in derivatives, the Bank has also continued to develop its use of Credit Support Annexes (CSA) to mitigate risks.

Significant unobservable inputs used in valuing instruments in Level 3 mainly include:

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs. No quantitative analysis of the sensitivity of the fair value of those investments to changes in unobservable inputs has been performed. The fair value was taken from third-party sources with no adjustments;

- Probability of Default: the parameter is extrapolated either from multi-period transition matrices or from single-name or sector credit curves. The figure is used to value financial instruments for disclosure purposes only;
- Credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only;
- LGD: the figure is derived from a historical analysis of movements in the portfolio. The figure is used to value financial instruments for disclosure purposes only.

## A.4.2 Processes and sensitivity of the valuations

The sensitivity analysis of unobservable inputs is conducted through a stress test of all significant unobservable inputs for the different types of financial instrument. The tests are used to determine the potential changes in the fair value by category of instrument caused by realistic variations in the unobservable inputs (taking account of correlations between inputs).

The Bank conducted an assessment of the potential sensitivity of the valuations of instruments classified in Level 3 and measured at fair value on a recurring basis to changes in the unobservable market parameters. The assessment found that the effects were not material.

## A.4.3 Fair value hierarchy

Under the provisions of IFRS 13, all fair value valuations must be classified within the three levels that delineate the valuation process on the basis of the characteristics and significance of the inputs used:

Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets;

Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics (the comparable approach); or b) that use observable inputs;

Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs.

In general, transfers of financial instruments between Level 1 and Level 2 in the fair value hierarchy only occur in the event of changes in the market in the period considered. For example, if a market previously considered active no longer meets the minimum requirements for being considered active, the instrument will be reclassified to a lower level; in the opposite case, it will be raised to a higher level.

As required under paragraph 97 of IFRS 13 and, previously, under IFRS 7, certain fair value disclosures are required for financial instruments measured at fair value for disclosure purposes only (instruments which are measured at amortized cost in the balance sheet). The Group has specified the following approaches for measuring fair value in these cases:

- cash and cash equivalents: book value approximates fair value;
- loans with a contractually specified maturity (classified under L3): the discounted cash flow model with adjustments reflecting the cost of credit risk, the cost of funding, the cost of capital and any operating costs;
- intercompany loans (classified under L2): the discounted cash flow model;
- bad debts and substandard loans values on an individual basis: book value approximates fair value;
- securities issued:
  - classified L1: price in relevant market;
  - classified L2: mark-to-model valuation discounting cash flows using a set of yield curves distinguished by level of seniority, type of customer and currency of issue;
- financial liabilities discounted cash flow model with adjustment based on the issuer risk of the Iccrea Group.

## A.4.4 OTHER INFORMATION

The circumstances referred to in paragraphs 51, 93 letter (i) and 96 of IFRS 13 do not apply to the Bank's financial statements.

**Quantitative disclosures**

## A.4.5 *FAIR VALUE* HIERARCHY

### A.4.5.1 *FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON* A RECURRING BASIS: BREAKDOWN *BY FAIR VALUE INPUT LEVEL*

| | 31/12/2013 | | | 31/12/2012 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets held for trading | 6,467 | 433,559 | 354 | 19,745 | 712,622 | 302 |
| 2. Financial assets designated as at fair value | - | 312,665 | 8,485 | - | 314,003 | 8,073 |
| 3. Financial assets available for sale | 3,352,594 | 93,206 | 482 | 2,922,387 | 83,382 | 497 |
| 4. Hedging derivatives | - | 5,562 | - | - | 14,148 | - |
| 5. Property and equipment | - | - | - | - | - | - |
| 6. Intangible assets | - | - | - | - | - | - |
| **TOTAL** | **3,359,061** | **844,992** | **9,321** | **2,942,132** | **1,124,155** | **8,872** |
| 1. Financial liabilities held for trading | 319 | 390,917 | - | 423 | 640,029 | - |
| 2. Financial liabilities designated as at fair value | 757,425 | 5,993 | - | 739,162 | 6,203 | - |
| 3. Hedging derivatives | - | 75,167 | - | - | 115,042 | - |
| **TOTAL** | **757,744** | **472,077** | **-** | **739,585** | **761,274** | **-** |

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

## A. 4.5.2 Change for the period in financial assets designated as at fair value on a recurring basis (level 3)

| | Financial assets | | | Hedging derivatives | Property and equipment | Intangible assets |
|---|---|---|---|---|---|---|
| | Assets held for trading | Designated as at fair value | Available for sale | | | |
| **1. Opening balance** | **302** | **8,073** | **3,643** | **-** | **-** | **-** |
| **2. Increases** | **5,336** | **414** | **-** | **-** | **-** | **-** |
| 2.1 Purchases | 5,274 | - | - | - | - | - |
| 2.2 Profits recognized in: | 59 | 414 | - | - | - | - |
| 2.2.1 Income statement | 59 | 414 | - | - | - | - |
| - of which: capital gains | 56 | 414 | - | - | - | - |
| 2.2.2 Shareholders' equity | X | X | - | - | - | - |
| 2.3 Transfers from other levels | - | - | - | - | - | - |
| 2.4 Other increases | 3 | - | - | - | - | - |
| **3. Decreases** | **5,284** | **2** | **15** | **-** | **-** | **-** |
| 3.1 Sales | 5,278 | - | - | - | - | - |
| 3.2 Redemptions | - | - | - | - | - | - |
| 3.3 Losses recognized in: | 6 | - | 15 | - | - | - |
| 3.3.1 Income statement | 6 | - | - | - | - | - |
| - of which: capital losses | - | - | - | - | - | - |
| 3.3.2 Shareholders' equity | X | X | 15 | - | - | - |
| 3.4 Transfers to other levels | - | - | - | - | - | - |
| 3.5 Other decreases | - | 2 | - | - | - | - |
| **4. Closing balance** | **354** | **8,485** | **3,628** | **-** | **-** | **-** |

## A.4.5.3 Change for the period in financial liabilities designated as at fair value on a recurring basis (Level 3)

The table has not been completed because there were no such positions as of the balance sheet date.

### A.4.5.4 Financial assets and liabilities not measured at fair value or measured at fair value a non-recurring basis: breakdown by fair value input level.

| | 31/12/2013 | | | | 31/12/2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | L1 | L2 | L3 | CA | L1 | L2 | L3 |
| 1. Financial assets held to maturity | 3,755,290 | 3,796,096 | - | - | 3,017,529 | 3,048,579 | - | - |
| 2. Due from banks | 32,827,713 | - | 12,604,806 | 20,166,449 | 27,022,845 | - | 9,100,381 | 18,231,052 |
| 3. Loans to customers | 1,768,381 | - | 920,064 | 897,928 | 1,664,961 | - | 932,682 | 819,717 |
| 4. Investment property | - | - | - | - | 11,852 | - | 12,750 | - |
| 5. Non-current assets and disposal groups held for sale | 30,313 | 29,897 | - | 416 | - | - | - | - |
| **TOTAL** | **38,381,697** | **3,825,993** | **13,524,869** | **21,064,793** | **31,717,187** | **3,048,579** | **10,045,813** | **19,050,769** |
| 1. Due to banks | 21,391,952 | - | 148,922 | 21,165,195 | 21,196,601 | - | 149,909 | 20,943,058 |
| 2. Due to customers | 15,259,974 | - | 190,800 | 15,069,173 | 9,270,697 | - | 54,810 | 9,241,083 |
| 3. Securities issued | 4,287,398 | 2,610,222 | 1,770,485 | - | 3,386,758 | 1,229,310 | 2,176,923 | - |
| 4. Liabilities associated with assets held for sale | 32,905 | - | - | 32,905 | - | - | - | - |
| **TOTAL** | **40,972,229** | **2,610,222** | **2,110,207** | **36,267,273** | **33,854,056** | **1,229,310** | **2,381,642** | **30,184,141** |

Key: CA=Carrying amount L1= Level 1 L2= Level 2 L3= Level 3

## A.5 – Disclosure on “DAY ONE PROFIT/LOSS”

Pursuant to paragraph 28 of IFRS 7, during the period under review – mainly with regard to bond issues – differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IAS 39, paragraphs AG 74 - AG 79 and IFRS 7, paragraph IG 14. The net effect associated with the issue of those bonds produce a loss of €3,506 thousand recognized entirely through profit or loss. Paragraph AG 76, point a) of IAS 39 establishes that an entity shall recognize through profit or loss the difference between the fair value at the date of initial recognition (whether a quoted price in an active market - Level 1 or based on a valuation technique that uses observable data – Level 2) and the transaction price.

# Part - B

# Information on the balance sheet

# PART B – INFORMATION ON THE BALANCE SHEET

## ASSETS

## SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

This item comprises legal tender, including foreign currency notes and coin and demand deposits with the Bank of Italy.

### 1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| a) Cash | 82,637 | 110,654 |
| b) Demand deposits with central banks | - | - |
| **TOTAL** | **82,637** | **110,654** |

"Cash" includes foreign currency in the amount of € 15,507 thousand.

## SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

This item reports all financial assets (debt securities, equity securities, derivatives, etc.) classified in the trading book.

### 2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | | | TOTAL 31/12/2012 | | |
|---|---|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| **A. On-balance-sheet assets** | | | | | | |
| **1. Debt securities** | **5,105** | **214** | **207** | **17,032** | **720** | **185** |
| 1,1 structured securities | 4,485 | - | 207 | 256 | 719 | 185 |
| 1,2 other debt securities | 620 | 214 | - | 16,776 | 1 | - |
| **2. Equity securities** | **337** | **5** | **147** | **286** | **-** | **117** |
| **3. Units in collective investment undertakings** | **904** | **-** | **-** | **1,975** | **-** | **-** |
| **4. Loans** | **-** | **-** | **-** | **-** | **-** | **-** |
| 4.1 repurchase agreements | - | - | - | - | - | - |
| 4.2 other | - | - | - | - | - | - |
| **TOTAL A** | **6,346** | **219** | **354** | **19,293** | **720** | **302** |
| **B. Derivatives** | | | | | | |
| **1. Financial derivatives** | **121** | **433,340** | **-** | **452** | **711,902** | **-** |
| 1.1 trading | 121 | 410,998 | - | 452 | 678,426 | - |
| 1.2 associated with fair value option | - | 22,342 | - | - | 33,476 | - |
| 1.3 other | - | - | - | - | - | - |
| **2. Credit derivatives** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 trading | - | - | - | - | - | - |
| 2.2 associated with fair value option | - | - | - | - | - | - |
| 2.3 other | - | - | - | - | - | - |
| **TOTAL B** | **121** | **433,340** | **-** | **452** | **711,902** | **-** |
| **TOTAL (A+B)** | **6,467** | **433,559** | **354** | **19,745** | **712,622** | **302** |

The amount reported at B (1.2) regards derivatives associated with the election of the fair value option. The associated balance-sheet items are classified under financial assets and financial liabilities at fair value (for more information, please see section 3 of assets).

## 2.2 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY DEBTOR/ISSUER

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **A. On-balance-sheet assets** | | |
| **1. Debt securities** | **5,526** | **17,937** |
| a) Governments and central banks | 124 | 829 |
| b) Other government agencies | 131 | - |
| c) Banks | 4,228 | 16,042 |
| d) Other issuers | 1,043 | 1,066 |
| **2. Equity securities** | **489** | **403** |
| a) Banks | - | - |
| b) Other issuers: | 489 | 403 |
| - insurance undertakings | - | - |
| - financial companies | 16 | 10 |
| - non-financial companies | 473 | 393 |
| - other | - | - |
| **3. Units in collective investment undertakings** | **904** | **1,975** |
| **4. Loans** | **-** | **-** |
| a) Governments and central banks | - | - |
| b) Other government agencies | - | - |
| c) Banks | - | - |
| d) Other | - | - |
| **TOTAL A** | **6,919** | **20,315** |
| **B. Derivatives** | | |
| **a) Banks** | **393,102** | **679,241** |
| - fair value | 393,102 | 679,241 |
| **b) Customers** | **40,359** | **33,113** |
| - fair value | 40,359 | 33,113 |
| **TOTAL B** | **433,461** | **712,354** |
| **TOTAL (A+B)** | **440,380** | **732,669** |

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) was carried out on the basis of the classification criteria provided for by the Bank of Italy.
"Units in collective investment undertakings" at the reporting date consisted of open-end equity funds.

## 2.3 ON-BALANCE-SHEET FINANCIAL ASSETS HELD FOR TRADING: CHANGE FOR THE PERIOD

| | DEBT SECURITIES | EQUITY SECURITIES | UNITS IN COLLECTIVE INVESTMENT. UNDERTAKINGS | LOANS | TOTAL 31/12/2013 |
|---|---|---|---|---|---|
| **A. Opening balance** | **17,937** | **403** | **1,975** | **-** | **20,315** |
| **B. Increases** | **121,022,118** | **676** | **112** | **-** | **121,022,906** |
| B1. Purchases | 121,006,529 | 568 | 8 | - | 121,007,105 |
| B2. Fair value gains | 56 | 104 | 51 | - | 211 |
| B3. Other changes | 15,533 | 4 | 53 | - | 15,590 |
| **C. Decreases** | **121,034,529** | **590** | **1,183** | **-** | **121,036,302** |
| C1. Sales | 121,015,094 | 567 | 1,183 | - | 121,016,844 |
| C2. Redemption | 18,795 | - | - | - | 18,795 |
| C3. Fair value losses | 182 | 14 | - | - | 196 |
| C4. Transfers to other portfolio | - | - | - | - | - |
| C5. Other changes | 458 | 9 | - | - | 467 |
| **D. Closing balance** | **5,526** | **489** | **904** | **-** | **6,919** |

## SECTION 3 - FINANCIAL ASSETS AT FAIR VALUE – ITEM 30

This item reports financial assets designated as at fair value through profit or loss under the fair value option provided for in IAS 39. It includes debt securities with embedded derivatives.

### 3.1 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | | | TOTAL 31/12/2012 | | |
|---|---|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| **1. Debt securities** | **-** | **312,665** | **8,485** | **-** | **314,003** | **8,073** |
| 1.1 structured securities | - | - | 8,485 | - | 16,404 | 8,073 |
| 1.2 other debt securities | - | 312,665 | - | - | 297,599 | - |
| **2. Equity securities** | **-** | **-** | **-** | **-** | **-** | **-** |
| **3. Units in collective investment undertakings** | **-** | **-** | **-** | **-** | **-** | **-** |
| **4. Loans** | **-** | **-** | **-** | **-** | **-** | **-** |
| 4.1 structured | - | - | - | - | - | - |
| 4.2 other | - | - | - | - | - | - |
| **TOTAL** | **-** | **312,665** | **8,485** | **-** | **314,003** | **8,073** |
| **COST** | **-** | **296,261** | **8,071** | **-** | **304,710** | **7,367** |

The amounts reported under “cost” indicate the purchase cost of financial assets held at the reporting date.

Overall, the Bank exercised the fair value option for the following transactions:

- one structured debt security held in portfolio in order to avoid the need to unbundle the embedded derivatives (reported in the table above in point 1.1);
- two structured bonds issued by the Bank, which are operationally connected with derivatives, in order to avoid an accounting mismatch, thereby creating establishing a natural hedge (see section 5 of liabilities);
- one structured bond issued by the Bank in order to avoid the need to unbundle the embedded derivative (see section 5 of liabilities);
- a group of financial instruments in order to significantly reduce the overall mismatching in the accounts. The group consists of (see section 5 of liabilities):
  – a bond issued by the Bank containing a separable embedded derivative;
  – a debt security issued by Iccrea BancaImpresa held by the Bank (reported in the table above in point 1.2);
  – derivatives connected with the above instruments that establish a natural hedge.

## 3.2 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Debt securities** | **321,150** | **322,076** |
| a) Governments and central banks | - | - |
| b) Other government agencies | - | - |
| c) Banks | 312,665 | 314,003 |
| d) Other issuers | 8,485 | 8,073 |
| **2. Equity securities** | **-** | **-** |
| a) Banks | - | - |
| b) other issuers: | - | - |
| - insurance undertakings | - | - |
| - financial companies | - | - |
| - non-financial companies | - | - |
| - other | - | - |
| **3. Units in collective investment undertakings** | **-** | **-** |
| **4. Loans** | **-** | **-** |
| a) Governments and central banks | - | - |
| b) Other government agencies | - | - |
| c) Banks | - | - |
| d) Other | - | - |
| **TOTAL** | **321,150** | **322,076** |

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) was carried out on the basis of the classification criteria provided for by the Bank of Italy.

## 3.3 FINANCIAL ASSETS AT FAIR VALUE: CHANGE FOR THE PERIOD

| | DEBT SECURITIES | EQUITY SECURITIES | UNITS IN COLLECTIVE INVESTMENT. UNDERTAKINGS | LOANS | TOTAL 31/12/2013 |
|---|---|---|---|---|---|
| **A. Opening balance** | **322,076** | **-** | **-** | **-** | **322,076** |
| **B. Increases** | **16,269** | **-** | **-** | **-** | **16,269** |
| B1. Purchases | - | - | - | - | - |
| B2. Fair value gains | 15,450 | - | - | - | 15,450 |
| B3. Other changes | 819 | - | - | - | 819 |
| **C. Decreases** | **17,195** | **-** | **-** | **-** | **17,195** |
| C1. Sales | 16,047 | - | - | - | 16,047 |
| C2. Redemptions | - | - | - | - | - |
| C3. Fair value losses | - | - | - | - | - |
| C4. Other changes | 1,148 | - | - | - | 1,148 |
| **D. Closing balance** | **321,150** | **-** | **-** | **-** | **321,150** |

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

This item reports all financial assets (debt securities, equity securities, derivatives, etc.) classified as "available for sale". Equity securities essentially regard equity investments that no longer qualify to be classified as such in the international accounting standards.

## 4.1 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | | | TOTAL 31/12/2012 | | |
|---|---|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| **1. Debt securities** | **3,349,048** | **93,206** | **-** | **2,919,917** | **83,382** | **-** |
| 1.1 structured securities | - | 82,013 | - | 786,767 | 77,572 | - |
| 1.2 other debt securities | 3,349,048 | 11,193 | - | 2,133,150 | 5,810 | - |
| **2. Equity securities** | **3,546** | **-** | **3,146** | **2,470** | **-** | **3,146** |
| 2.1 at fair value | 3,546 | - | - | 2,470 | - | - |
| 2.2 carried at cost | - | - | 3,146 | - | - | 3,146 |
| **3. Units in collective investment undertakings** | **-** | **-** | **482** | **-** | **-** | **497** |
| **4. Loans** | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL** | **3,352,594** | **93,206** | **3,628** | **2,922,387** | **83,382** | **3,643** |

## 4.2 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY DEBTOR/ISSUER

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Debt securities** | **3,442,254** | **3,003,299** |
| a) Governments and central banks | 3,422,772 | 2,997,489 |
| b) Other government agencies | - | - |
| c) Banks | 14,307 | 5,810 |
| d) Other issuers | 5,175 | - |
| **2. Equity securities** | **6,692** | **5,616** |
| a) Banks | 1 | 1 |
| b) Other issuers: | 6,691 | 5,615 |
| - insurance undertakings | - | - |
| - financial companies | 4,144 | 3,068 |
| - non-financial companies | 2,547 | 2,547 |
| - other | - | - |
| **3. Units in collective investment undertakings** | **482** | **497** |
| **4. Loans** | **-** | **-** |
| a) Governments and central banks | - | - |
| b) Other government agencies | - | - |
| c) Banks | - | - |
| d) Other | - | - |
| **TOTAL** | **3,449,428** | **3,009,412** |

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) was carried out on the basis of the classification criteria provided for by the Bank of Italy.

## 4.3 FINANCIAL ASSETS AVAILABLE FOR SALE: ASSETS HEDGED SPECIFICALLY

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Financial assets with specific fair value hedges:** | **527,030** | **692,525** |
| a) interest rate risk | 527,030 | 692,525 |
| b) price risk | - | - |
| c) exchange rate risk | - | - |
| d) credit risk | - | - |
| e) multiple risks | - | - |
| **2. Financial assets with specific cash flow hedges:** | **84,247** | **32,710** |
| a) interest rate risk | 84,247 | 32,710 |
| b) exchange rate risk | - | |
| c) other | - | |
| **TOTAL** | **611,277** | **725,235** |

The amounts regard Italian government securities (BTPs) linked to European inflation, hedged with asset swaps in order to immunize interest rate risk (fair value hedging) and stabilize cash flows (cash flow hedging).

## 4.4 FINANCIAL ASSETS AVAILABLE FOR SALE: CHANGE FOR THE PERIOD

| | DEBT SECURITIES | EQUITY SECURITIES | UNITS IN COLLECTIVE INVESTMENT. UNDERTAKINGS | LOANS | TOTAL 31/12/2013 |
|---|---|---|---|---|---|
| **A. Opening balance** | **3,003,299** | **5,616** | **497** | **-** | **3,009,412** |
| **B. Increases** | **3,150,985** | **6,286** | **-** | **-** | **3,157,271** |
| B1. Purchases | 3,053,007 | 5,112 | - | - | 3,058,119 |
| B2. Fair value gains | 74,693 | 1,173 | - | - | 75,866 |
| B3. Writebacks | - | - | - | - | - |
| - recognized through income statement | - | X | - | - | - |
| - recognized through equity | - | - | - | - | - |
| B4. Transfers from other portfolios | - | - | - | - | - |
| B5. Other changes | 23,285 | 1 | - | - | 23,286 |
| **C. Decreases** | **2,712,030** | **5,210** | **15** | **-** | **2,717,255** |
| C1. Sales | 2,187,037 | 5,113 | - | - | 2,192,150 |
| C2. Redemptions | 478,386 | - | - | - | 478,386 |
| C3. Fair value losses | 6,657 | 97 | 15 | - | 6,769 |
| C4. Writedown for impairment | - | - | - | - | - |
| - recognized through income statement | - | - | - | - | - |
| - recognized through equity | - | - | - | - | - |
| C5. Transfers to other portfolios | - | - | - | - | - |
| C6. Other changes | 39,950 | - | - | - | 39,950 |
| **D. Closing balance** | **3,442,254** | **6,692** | **482** | **-** | **3,449,428** |

The increases and decreases in “Other changes – Debt securities” report the securities underlying funding repurchase transactions.

## SECTION 5 - FINANCIAL ASSETS HELD TO MATURITY – ITEM 50

This item comprises listed debt instruments and loans with fixed or determinable payments and a fixed maturity for which the Bank has the positive intention and ability to hold until maturity.

### 5.1 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | | | | TOTAL 31/12/2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | FV | | | CA | FV | | |
| | | LEVEL 1 | LEVEL 2 | LEVEL 3 | | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| **1. Debt securities** | **3,755,290** | **3,796,096** | **-** | **-** | **3,017,529** | **3,048,579** | **-** | **-** |
| - structured | - | - | - | - | - | - | - | - |
| - other | 3,755,290 | 3,796,096 | - | - | 3,017,529 | 3,048,579 | - | - |
| **2. Loans** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL** | **3,755,290** | **3,796,096** | **-** | **-** | **3,017,529** | **3,048,579** | **-** | **-** |

Key: FV = fair value CA = carrying amount

### 5.2 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY DEBTOR/ISSUER

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Debt securities** | **3,755,290** | **3,017,529** |
| a) Governments and central banks | 3,755,290 | 3,017,529 |
| b) Other government agencies | - | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| **2. Loans** | **-** | **-** |
| a) Governments and central banks | - | - |
| b) Other government agencies | - | - |
| c) Banks | - | - |
| d) Other | - | - |
| **TOTAL** | **3,755,290** | **3,017,529** |

### 5.3 FINANCIAL ASSETS HELD TO MATURITY: ASSETS HEDGED SPECIFICALLY

The table has not been completed because there were no such positions as of the balance sheet date.

### 5.4 FINANCIAL ASSETS HELD TO MATURITY: CHANGE FOR THE PERIOD

| | DEBT SECURITIES | LOANS | TOTAL AL 31/12/2013 |
|---|---|---|---|
| **A. Opening balance** | **3,017,529** | **-** | **3,017,529** |
| **B. Increases** | **1,959,660** | **-** | **1,959,660** |
| B. Increases | 1,902,920 | - | 1,902,920 |
| B1. Purchases | - | - | - |
| B2. Fair value gains | - | - | - |
| B3. Transfers from other portfolios | 56,740 | - | 56,740 |
| **C. Decreases** | **1,221,899** | **-** | **1,221,899** |
| C1. Sales | - | - | - |
| C2. Redemptions | 1,153,819 | - | 1,153,819 |
| C3. Writedowns for impairment | - | - | - |
| C4. Transfers to other portfolios | - | - | - |
| C5. Other changes | 68,080 | - | 68,080 |
| **D. Closing balance** | **3,755,290** | **-** | **3,755,290** |

## SECTION 6 - DUE FROM BANKS – ITEM 60

This item reports unlisted financial assets in respect of banks (current accounts, demand and fixed-term deposits, security deposits, debt securities, etc.) classified as "loans and receivables" pursuant to IAS 39.

### 6.1 DUE FROM BANKS: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | | | | TOTAL 31/12/2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | FV | | | CA | FV | | |
| | | LEVEL 1 | LEVEL 2 | LEVEL 3 | | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| **A. Claims on central banks** | **467,426** | | | | **96,111** | | | |
| 1. Fixed-term deposits | - | X | X | X | - | X | X | X |
| 2. Reserve requirement | 467,426 | X | X | X | 96,111 | X | X | X |
| 3. Repurchase agreements | - | X | X | X | - | X | X | X |
| 4. Other | - | X | X | X | - | X | X | X |
| **B. Due from banks** | **32,360,287** | | | | **26,926,734** | | | |
| 1. Financing | 28,089,261 | | | | 22,968,333 | | | |
| 1.1. Current accounts and demand deposits | 526,695 | X | X | X | 1,139,427 | X | X | X |
| 1.2. Fixed-term deposits | 1,152,394 | X | X | X | 347,291 | X | X | X |
| 1.3. Other financing: | 26,410,172 | X | X | X | 21,481,615 | X | X | X |
| - Repurchase agreements | 6,586,165 | X | X | X | 3,795,712 | X | X | X |
| - Finance leases | | X | X | X | - | X | X | X |
| - Other | 19,824,007 | X | X | X | 17,685,903 | X | X | X |
| 2. Debt securities | 4,271,026 | | | | 3,958,401 | | | |
| 2.1 Structured securities | 109,871 | X | X | X | 125,739 | X | X | X |
| 2.2 Other debt securities | 4,161,155 | X | X | X | 3,832,662 | X | X | X |
| **TOTAL** | **32,827,713** | **-** | **12,604,806** | **20,165,089** | **27,022,845** | **-** | **9,100,381** | **18,231,052** |

Key: FV = fair value CA = carrying amount

Amounts due from banks are reported net of impairment adjustments.

The fair value is obtained using discounted cash flow techniques.

The sub-item "reserve requirement" includes the requirements managed on behalf of the mutual banks, with a contra-item under item 10 of liabilities (Due to banks).

The item "Other financing – Other" includes impaired assets classified as bad debts in respect of the Icelandic bank Landsbanki Island hf. amounting to €6,053 thousand, entirely written off. During the year, receivables in respect of Landsbanki were collected in the amount of €9,481 thousand, entirely written down, and €3,039 thousand in respect of Kaupthing, written down in the amount of €2,537 thousand.

Loans granted to the mutual banks associated with operations with the European Central Bank, in particular advances received from the latter secured by securities eligible for use in refinancing transactions (pool collateral) amounted to €18,040 million and are reported under letter "B", "Other financing – Other". The securities pledged as collateral by the mutual banks amount to €23,076 million net of the haircut applied to the various types of security.

Following the introduction of the Group's new organizational model, the Bank, in its capacity as the manager of Group financial resources, is responsible for funding and financing all the companies of the Iccrea Banking Group. Specifically, the following securities issued by Iccrea BancaImpresa were subscribed and classified under "Due from banks – debt securities – Other":

| ISIN | NOMINAL VALUE | COUPON AT 31/12/2013 | ISSUE DATE | MATURITY |
|---|---|---|---|---|
| IT0004493067 | 81,000,000.00 | 3.225% | 15/05/2009 | 01/04/2014 |
| IT0004494719 | 666,000,000.00 | 0.7334% | 15/05/2009 | 01/04/2014 |
| IT0004494842 | 54,000,000.00 | 0.838% | 15/05/2009 | 01/04/2014 |
| IT0004494859 | 99,000,000.00 | 0.724% | 15/05/2009 | 01/04/2014 |
| IT0004511512 | 720,000,000.00 | 0.7357% | 01/07/2009 | 01/07/2014 |
| IT0004511561 | 180,000,000.00 | 3.402% | 01/07/2009 | 01/07/2014 |
| IT0004563372 | 400,000,000.00 | 0.7903% | 30/12/2009 | 30/12/2014 |
| IT0004628035 | 245,000,000.00 | 1.18% | 02/08/2010 | 02/08/2015 |
| IT0004675127 | 10,719,000.00 | 3.60% | 01/01/2011 | 01/05/2016 |
| IT0004813033 | 21,000,000.00 | 3.734% | 16/04/2012 | 03/04/2017 |
| IT0004813041 | 11,900,000.00 | 3.204% | 16/04/2012 | 01/04/2015 |
| IT0004816564 | 4,340,000.00 | 3.204% | 10/05/2012 | 01/04/2015 |
| IT0004816598 | 13,000,000.00 | 3.734% | 10/05/2012 | 03/04/2017 |
| IT0004840523 | 11,300,000.00 | 3.694% | 12/07/2012 | 01/07/2022 |
| IT0004840531 | 11,500,000.00 | 3.744% | 12/07/2012 | 01/07/2019 |
| IT0004840549 | 16,300,000.00 | 3.324% | 12/07/2012 | 03/07/2017 |
| IT0004840556 | 15,980,000.00 | 3.014% | 12/07/2012 | 01/07/2015 |
| IT0004865595 | 17,000,000.00 | 2.994% | 23/10/2012 | 02/10/2017 |
| IT0004865603 | 14,000,000.00 | 3.554% | 23/10/2012 | 01/10/2025 |
| IT0004865611 | 20,440,000.00 | 2.614% | 23/10/2012 | 01/10/2015 |
| IT0004870769 | 9,030,000.00 | 1.324% | 21/11/2012 | 01/10/2015 |
| IT0004870777 | 8,500,000.00 | 1.267% | 21/11/2012 | 01/07/2015 |
| IT0004870785 | 12,300,000.00 | 2.917% | 21/11/2012 | 01/07/2027 |
| IT0004870793 | 7,490,000.00 | 1.54% | 21/11/2012 | 01/10/2015 |
| IT0004894280 | 58,000,000.00 | 1.874% | 08/02/2013 | 02/01/2018 |
| IT0004894298 | 27,590,000.00 | 1.367% | 08/02/2013 | 04/01/2016 |
| IT0004894454 | 92,430,000.00 | 1.334% | 08/02/2013 | 04/01/2016 |
| IT0004894546 | 15,040,000.00 | 1.52% | 08/02/2013 | 01/01/2016 |
| IT0004894660 | 22,000,000.00 | 1.917% | 08/02/2013 | 02/01/2018 |
| IT0004920614 | 42,160,000.00 | 3.684% | 07/05/2013 | 01/04/2025 |
| IT0004920630 | 69,630,000.00 | 3.044% | 07/05/2013 | 03/04/2028 |
| IT0004921075 | 113,250,000.00 | 3.564% | 07/05/2013 | 01/07/2025 |
| IT0004929870 | 32,540,000.00 | 3.624% | 24/05/2013 | 01/10/2019 |
| IT0004936685 | 20,000,000.00 | 2.947% | 17/06/2013 | 01/07/2020 |
| IT0004936693 | 47,220,000.00 | 2.954% | 17/06/2013 | 03/07/2023 |
| IT0004942147 | 49,600,000.00 | 3.084% | 15/07/2013 | 02/01/2026 |
| IT0004942428 | 18,000,000.00 | 3.052% | 15/07/2013 | 01/07/2022 |
| IT0004942436 | 10,470,000.00 | 3.393% | 15/07/2013 | 01/01/2016 |
| IT0004955784 | 11,000,000.00 | 3.221% | 09/08/2013 | 01/07/2022 |
| IT0004955792 | 10,000,000.00 | 3.855% | 09/08/2013 | 01/04/2017 |
| IT0004955800 | 70,910,000.00 | 3.284% | 09/08/2013 | 01/10/2020 |
| IT0004960941 | 12,000,000.00 | 3.143% | 16/09/2013 | 02/01/2018 |
| IT0004960958 | 42,000,000.00 | 3.053% | 16/09/2013 | 03/01/2028 |
| IT0004966427 | 80,000,000.00 | 3.014% | 14/10/2013 | 01/04/2022 |
| IT0004975881 | 85,000,000.00 | 3.224% | 19/11/2013 | 01/07/2025 |
| IT0004982424 | 90,000,000.00 | 3.042% | 12/12/2013 | 02/01/2019 |
| IT0004982432 | 12,000,000.00 | 3.039% | 12/12/2013 | 02/01/2025 |
| **TOTAL** | **3,680,639,000** | | | |

The nominal value is reported in euro.

## 6.2 DUE FROM BANKS: ASSETS HEDGED SPECIFICALLY

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Loans with specific fair value hedges:** | **535,422** | **344,456** |
| a) interest rate risk | 535,422 | 344,456 |
| b) exchange rate risk | - | - |
| c) credit risk | - | - |
| d) multiple risks | - | - |
| **2. Loans with specific cash flow hedges:** | **-** | **626,307** |
| a) interest rate risk | - | 626,307 |
| b) exchange rate risk | - | - |
| c) other | - | - |
| **TOTAL** | **535,422** | **970,763** |

The item consists of 2 fixed-rate securities issued by Iccrea BancaImpresa, hedged with interest rate swaps (IRS), fixed-rate treasury deposits hedged with overnight indexed swaps and repurchase agreements with Banca Sviluppo (both one to one and macrohedging) also hedged with overnight indexed swaps.

## 6.3 FINANCE LEASES

The table has not been completed because there were no such positions as of the balance sheet date.

## SECTION 7 - LOANS TO CUSTOMERS – ITEM 70

This item reports unlisted financial instruments, including debt securities, in respect of customers classified pursuant to IAS 39 as “loans and receivables”.

### 7.1 LOANS TO CUSTOMERS: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | | | | | | TOTAL 31/12/2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CARRYING AMOUNT | | | *FAIR VALUE* | | | CARRYING AMOUNT | | | *FAIR VALUE* | | |
| | PERFORMING | IMPAIRED | | L1 | L2 | L3 | PERFORMING | IMPAIRED | | L1 | L2 | L3 |
| | | PURCHASED | OTHER | | | | | PURCHASED | OTHER | | | |
| **Loans** | **1,721,549** | **-** | **29,949** | | | | **1,563,898** | **-** | **30,841** | | | |
| 1. Current accounts | 153,036 | - | 3,744 | X | X | X | 437,081 | - | 3,548 | X | X | X |
| 2. Repurchase agreements | 19,160 | - | - | X | X | X | 19,048 | - | - | X | X | X |
| 3. Medium/long-term loans | 151,923 | - | 24,609 | X | X | X | 157,592 | - | 25,552 | X | X | X |
| 4. Credit cards, personal loans and loans repaid by automatic deductions from wages | - | - | - | X | X | X | - | - | - | X | X | X |
| 5. Finance leases | - | - | - | X | X | X | - | - | - | X | X | X |
| 6. Factoring | - | - | - | X | X | X | - | - | - | X | X | X |
| 7. Other | 1,397,430 | - | 1,596 | X | X | X | 950,177 | - | 1,741 | X | X | X |
| **Debt securities** | **16,883** | **-** | **-** | | | | **70,222** | **-** | **-** | | | |
| 8. Structured securities | - | - | - | X | X | X | - | - | - | X | X | X |
| 9. Other debt securities | 16,883 | - | - | X | X | X | 70,222 | - | - | X | X | X |
| **TOTAL** | **1,738,432** | **-** | **29,949** | **-** | **920,064** | **897,928** | **1,634,120** | **-** | **30,841** | **-** | **932,682** | **819,717** |

Loans to customers are reported net of impairment losses.

The fair value is obtained using discounted cash flow techniques.

Impaired assets include bad debts in the amount of €4,271 thousand in respect of the Lehman Brothers Group, entirely written off. In October the receivable in respect of the cash variation margins due from Lehman Brothers International Europe was transferred to Yorvik Partners LLP, collecting the entire receivable with a prior-year gain of about €220 thousand.

## 7.2 LOANS TO CUSTOMERS: COMPOSITION BY DEBTOR/ISSUER

| | TOTAL 31/12/2013 | | | TOTAL 31/12/2012 | | |
|---|---|---|---|---|---|---|
| | PERFORMING | IMPAIRED | | PERFORMING | IMPAIRED | |
| | | PURCHASED | OTHER | | PURCHASED | OTHER |
| **1. Debt securities:** | **16,883** | **-** | **-** | **70,222** | **-** | **-** |
| a) Governments | - | - | - | - | - | - |
| b) Other government agencies | - | - | - | - | - | - |
| c) Other issuers | 16,883 | - | - | 70,222 | - | - |
| - non-financial companies | 102 | - | - | 103 | - | - |
| - financial companies | 16,781 | - | - | 70,119 | - | - |
| - insurance undertakings | - | - | - | - | - | - |
| - other | - | - | - | - | - | - |
| **2. Loans to:** | **1,721,549** | **-** | **29,949** | **1,563,898** | **-** | **30,841** |
| a) Governments | - | - | | - | - | - |
| b) Other government agencies | 73 | - | | 86 | - | - |
| c) Other | 1,721,476 | - | 29,949 | 1,563,812 | - | 30,841 |
| - non-financial companies | 65,948 | - | 18,627 | 74,199 | - | 19,725 |
| - financial companies | 1,554,302 | - | 4,279 | 1,392,533 | - | 4,127 |
| - insurance undertakings | 2 | - | | 3 | - | - |
| - other | 101,224 | - | 7,043 | 97,077 | - | 6,989 |
| **TOTAL** | **1,738,432** | **-** | **29,949** | **1,634,120** | **-** | **30,841** |

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) was carried out on the basis of the classification criteria provided for by the Bank of Italy.

## 7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Loans with specific fair value hedges:** | **43,626** | **51,776** |
| a) interest rate risk | 43,626 | 51,776 |
| b) exchange rate risk | - | - |
| c) credit risk | - | - |
| d) multiple risks | - | - |
| **2. Loans with specific cash flow hedges:** | **-** | **-** |
| a) interest rate risk | - | - |
| b) exchange rate risk | - | - |
| c) other | - | - |
| **TOTAL** | **43,626** | **51,776** |

Loans covered by fair value micro-hedges are reported at cost adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date. The amount reported regards two fixed-rate loans – one to BCC Solutions in the amount of €24,453 thousand (outstanding debt at December 31, 2013) and the other to BCC CreditoConsumo in the amount of €14,760 thousand (outstanding debt at December 31, 2013) – hedged against interest rate risk (fair value hedge).

## 7.4 FINANCE LEASING

The table has not been completed because there were no such positions as of the balance sheet date.

## SECTION 8 - HEDGING DERIVATIVES – ITEM 80

This item reports hedging derivatives, which at the reporting date had a positive fair value.

### 8.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF CONTRACT AND LEVEL OF INPUT

| | FV AL 31/12/2013 | | | VN AL 31/12/2013 | FV AL 31/12/2012 | | | VN AL 31/12/2012 |
|---|---|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | | L1 | L2 | L3 | |
| **A) Financial derivatives** | **-** | **5,562** | **-** | **424,981** | **-** | **14,148** | **-** | **951,600** |
| 1) Fair value | - | 4,451 | - | 374,700 | - | 7,715 | - | 327,700 |
| 2) Cash flows | - | 1,111 | - | 50,281 | - | 6,433 | - | 623,900 |
| 3) Investments in foreign operations | - | - | - | - | - | - | - | - |
| **B. Credit derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1) Fair value | - | - | - | - | - | - | - | - |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| **TOTAL** | **-** | **5,562** | **-** | **424,981** | **-** | **14,148** | **-** | **951,600** |

Key: NV = notional value, L1= Level 1, L2= Level 2, L3= Level 3

This account reports financial derivatives (mainly interest rate swaps and overnight indexed swaps) designated as fair value or cash flow hedges of financial assets and financial liabilities, as detailed in the following table.

### 8.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

| | *FAIR VALUE* | | | | | | CASH FLOWS | | INVESTMENTS IN FOREIGN OPERATIONS |
|---|---|---|---|---|---|---|---|---|---|
| | SPECIFIC | | | | | | | | |
| | INTEREST RATE RISK | EXCHANGE RATE RISK | CREDIT RISK | PRICE RISK | MULTIPLE RISKS | GENERIC | SPECIFIC | GENERIC | |
| 1. Financial assets available for sale | - | - | - | - | - | X | 1,111 | X | X |
| 2. Loans | 181 | - | - | X | - | X | - | X | X |
| 3. Financial assets held to maturity | X | - | - | X | - | X | - | X | X |
| 4. Portfolio | X | X | X | X | X | - | X | - | X |
| 5. Other transactions | - | - | - | - | - | X | - | X | - |
| **TOTAL ASSETS AT 31/12/2013** | **181** | **-** | **-** | **-** | **-** | **-** | **1,111** | **-** | **-** |
| 1. Financial liabilities | 4,270 | - | - | X | - | X | - | X | X |
| 2. Portfolio | X | X | X | X | X | - | X | - | X |
| **TOTAL LIABILITIES AT 31/12/2013** | **4,270** | **-** | **-** | **X** | **-** | **-** | **-** | **-** | **-** |
| 1. Forecast transactions | X | X | X | X | X | X | - | X | X |
| 2. Portfolio of financial assets and liabilities | X | X | X | X | X | - | X | - | - |

The amount reported under point 1 "Financial assets available for sale" regards the positive fair values of the asset swap micro-hedging an Italian government inflation-linked BTP.

The item "Loans" reports the fair value of overnight indexed swaps hedging the treasury's deposits and repurchase agreements.

Point 4 "Portfolio" regards the positive fair value of overnight indexed swaps used for the macro-hedging of asset portfolios (deposits and repurchase agreements).

The item "Financial liabilities" reports the positive fair values of interest rate swaps and interest rate options hedging two fixed-rate bonds and two mixed-rate bonds issued by the Bank.

# SECTION 9 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY– ITEM 90

This item reports the positive or negative balance of changes in the value of assets macro-hedged against interest rate risk, in application of IAS 39.

## 9.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Positive adjustments** | **-** | **-** |
| 1.1 of specific portfolios: | - | - |
| a) loans | - | - |
| b) financial assets available for sale | - | - |
| 1.2 comprehensive | - | - |
| **2. Negative adjustments** | **(53)** | **-** |
| 2.1 of specific portfolios: | (53) | - |
| a) loans | (53) | - |
| b) financial assets available for sale | - | - |
| 2.2 comprehensive | - | - |
| **TOTAL** | **(53)** | **-** |

## 9.2 MACRO-HEDGED AGAINST INTEREST RATE RISK

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| 1. Loans | 190,000 | - |
| 2. Assets available for sale | - | - |
| 3. Portfolio | - | - |
| **TOTAL** | **190,000** | **-** |

The macro-hedging was conducted for portfolios of deposits and repurchase agreements, managed by the treasury unit, using overnight indexed swaps.

# SECTION 10 - EQUITY INVESTMENTS – ITEM 100

## 10.1 EQUITY INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE: INFORMATION ON INVESTMENTS

| | REGISTERED OFFICE | % HOLDING | % OF VOTES |
|---|---|---|---|
| **A. Wholly-owned subsidiaries** | | | |
| 1. BCC Securis s.r.l. in liq. | Rome | 90.00 | 90.00 |
| **B. Joint ventures** | | | |
| **C. Companies subject to significant influence** | | | |
| 1. Immicra Immobiliare s.r.l. | Milan | 47.60 | 47.60 |
| 2. M-Facility S.p.A. | Rome | 37.50 | 37.50 |
| 3. Hi-Mtf S.p.A. | Milan | 25.00 | 25.00 |
| 4. Iccrea BancaImpresa S.p.A. | Rome | 8.24 | 8.24 |

## 10.2 EQUITY INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE: ACCOUNTING DATA

| | TOTAL ASSETS | TOTAL REVENUES | NET PROFIT (LOSS) | SHAREHOLDERS' EQUITY | CARRYING AMOUNT | *FAIR VALUE* | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | L1 | L2 | L3 |
| **A. Wholly-owned subsidiaries** | | | | | | | | |
| 1. BCC Securis s.r.l. in liq. | 467 | 36 | - | 11 | 9 | X | X | X |
| **B. Joint ventures** | | | | | | X | X | X |
| **C. Companies subject to significant influence** | | | | | | | | |
| 1. Immicra Immobiliare s.r.l. | 17,716 | 417 | (25) | 17,090 | 11,600 | - | - | 11,600 |
| 2. M-Facility S.P.A. | 1,914 | - | (28) | 1,848 | 705 | - | - | 705 |
| 3. Hi-Mtf S.p.A. | 6,290 | 3,046 | 419 | 5,641 | 1,250 | - | - | 1,250 |
| 4. Iccrea BancaImpresa S.p.A. | 14,939,650 | 415,482 | 2,158 | 575,181 | 50,000 | - | - | 50,000 |
| **TOTAL** | | | | | **63,564** | **-** | **-** | **63,564** |

As regards M-Facility S.r.l., in July it was transformed into a company limited by shares (*società per azioni* or S.p.A.), with a concomitant capital increase. The share pertaining to the Bank amounted to €700,875 and was paid on July 30, 2013.

Pursuant to Legislative Decree 87/92 and electing the option envisaged under IAS 27, paragraph 10 d), the Bank does not prepare consolidated financial statements as the Parent Company Iccrea Holding prepares consolidated financial statements for public use in conformity with the International Financial Reporting Standards.

## 10.3 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **A. Opening balance** | **51,263** | **51,013** |
| **B. Increases** | **12,301** | **2,219** |
| B.1 Purchases | 12,301 | 2,219 |
| B.2 Writebacks | - | - |
| B.3 Revaluations | - | - |
| B.4 Other changes | - | - |
| **C. Decreases** | **-** | **1,969** |
| C.1 Sales | - | - |
| C.2 Writedowns | - | - |
| C.3 Other changes | - | 1,969 |
| **D. Closing balance** | **63,564** | **51,263** |
| **E. Total revaluations** | **-** | **-** |
| **F. Total writedowns** | **-** | **-** |

In October 2013, the Board of Directors of the Parent Company approved a project to centralize real estate holdings within a single operating company. At its meetings of 6 November and 18 December, the Board of Directors of Iccrea Banca acknowledged and approved the proposed project to transfer of properties owned by Iccrea to Immicra S.r.l. in exchange for subscribing the capital increase resolved by Immicra. The transfer was carried out on December 20, 2013 on the basis of the estimated economic value of Immicra used to determine the exchange ratio for the purposes of the capital increase reserved to Iccrea Banca. This was based on an expert appraisal made pursuant to Art. 2465 of the Italian Civil Code of the value of the property to be transferred. Based on the appraisal contained in the above expert report, the transaction was completed, specifically:

- **Immicra s.r.l.** the value of the adjusted shareholders' equity at June 30, 2013 was set at €12.780 million;
- **Iccrea Banca S.p.A.** the market value of the property to be transferred was set at €11.600 million.

Immicra increased its share capital from €6.630 million to €12.649 million by issuing an equity stake with a nominal value of €6.019 million, with a premium of €5.581 million, subscribed by Iccrea Banca through the contribution in kind of its entire real estate holdings. As a result, Iccrea Banca acquired a stake in Immicra s.r.l. of €11.600 million, equal to 47.6% of the company's share capital and the value of property transferred.

## 10.4 COMMITMENTS IN RESPECT OF SUBSIDIARIES

The table has not been completed because there were no such positions as of the balance sheet date.

## 10.5 COMMITMENTS IN RESPECT OF JOINT VENTURES

The table has not been completed because there were no such positions as of the balance sheet date.

## 10.6 COMMITMENTS IN RESPECT OF COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

The table has not been completed because there were no such positions as of the balance sheet date.

## SECTION 11 - PROPERTY AND EQUIPMENT – ITEM 110

This item reports tangible assets (property, movables, plant, machinery, etc.) used in operations governed by IAS 16 and investment property governed by Ias 40.

### 11.1 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Owned assets** | **8,320** | **8,167** |
| a) land | - | - |
| b) buildings | - | - |
| c) movables | 322 | 342 |
| d) electrical plants | 7,305 | 7,084 |
| e) other | 693 | 741 |
| **2 Assets acquired under financial leases** | **-** | **-** |
| a) land | - | - |
| b) buildings | - | - |
| c) movables | - | - |
| d) electrical plants | - | - |
| e) other | - | - |
| **TOTAL** | **8,320** | **8,167** |

### 11.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

| | TOTAL 31/12/2013 | | | | TOTAL 31/12/2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | CARRYING AMOUNT | *FAIR VALUE* | | | CARRYING AMOUNT | *FAIR VALUE* | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Owned assets** | **-** | **-** | **-** | **-** | **11,852** | **-** | **12,750** | **-** |
| a) land | - | - | - | - | - | - | - | - |
| b) buildings | - | - | - | - | 11,852 | - | 12,750 | - |
| **2 Assets acquired under financial leases** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) land | - | - | - | - | - | - | - | - |
| b) buildings | - | - | - | - | - | - | - | - |
| **TOTAL** | **-** | **-** | **-** | **-** | **11,852** | **-** | **12,750** | **-** |

For information on the buildings, please see Section 10 – Equity investments – Item 100.

### 11.3 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

The table has not been completed because there were no such positions as of the balance sheet date.

### 11.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS AT FAIR VALUE

The table has not been completed because there were no such positions as of the balance sheet date.

## 11.5 OPERATING PROPERTY AND EQUIPMENT: CHANGE FOR THE PERIOD

| | LAND | BUILDINGS | MOVABLES | ELECTRICAL PLANT | OTHER | TOTAL 31/12/2013 |
|---|---|---|---|---|---|---|
| **A. Opening gross balance** | **-** | **-** | **2,786** | **26,865** | **7,122** | **36,773** |
| A.1 Total net writedown | - | - | 2,444 | 19,781 | 6,380 | 28,605 |
| **A.2 Opening net balance** | **-** | **-** | **343** | **7,084** | **742** | **8,169** |
| **B. Increases:** | **-** | **-** | **161** | **8,481** | **1,939** | **10,581** |
| B.1 Purchases | - | - | 39 | 2,454 | 193 | 2,686 |
| B.2 Capitalized improvement costs | - | - | - | - | - | - |
| B.3 Writebacks | - | - | - | - | - | - |
| B.4 Fair value gains recognized in recognized in | - | - | - | - | - | - |
| a) equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| B.5 Positive exchange rate differences | - | - | - | - | - | - |
| B.6 Transfers from investment property | - | - | - | - | - | - |
| B.7 Other changes | - | - | 122 | 6,027 | 1,746 | 7,895 |
| **C. Decreases:** | **-** | **-** | **182** | **8,261** | **1,987** | **10,430** |
| C.1 Sales | - | - | 123 | 6,159 | 1,768 | 8,050 |
| C.2 Depreciation | - | - | 58 | 2,102 | 219 | 2,379 |
| C.3 Writedowns for impairment recognized in | - | - | - | | | - |
| a) equity | - | - | | | | - |
| b) income statement | - | - | - | - | - | - |
| C.4 Fair value losses recognized in | - | - | - | - | - | - |
| a) equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.5 Negative exchange rate differences | - | - | - | - | - | - |
| C.6 Transfers to: | - | - | - | - | - | - |
| a) investment property | - | - | - | - | - | - |
| b) discontinuing operations | - | - | - | - | - | - |
| C.7 Other changes | - | - | 1 | - | - | 1 |
| **D. Closing net balance** | **-** | **-** | **322** | **7,304** | **694** | **8,320** |
| D.1 Total net writedowns | - | - | 2,332 | 15,627 | 4,809 | 22,768 |
| D.2 Closing gross balance | - | - | 2,654 | 22,931 | 5,503 | 31,088 |
| **E. Measurement at cost** | **-** | **-** | **2,654** | **22,931** | **5,503** | **31,088** |

## 11.6 INVESTMENT PROPERTY: CHANGE FOR THE PERIOD

| | TOTAL 31/12/2013 | |
|---|---|---|
| | LAND | BUILDINGS |
| **A. Opening balance** | **-** | **11,852** |
| **B. Increases** | **-** | **248** |
| B.1 Purchases | - | - |
| B.2 Capitalized improvement costs | - | - |
| B.3 Fair value gains | - | - |
| B.4 Writebacks | - | - |
| B.5 Fair value gains | - | - |
| B.6 Transfers from operating property and equipment | - | - |
| B.7 Other changes | - | 248 |
| **C. Decreases** | **-** | **12,100** |
| C.1 Sales | - | 11,600 |
| C.2 Depreciation | - | 500 |
| C.3 Fair value losses | - | - |
| C.4 Impairment writedowns | - | - |
| C.5 Negative exchange rate differences | - | - |
| C.6 Transfers to other portfolios | - | - |
| a) operating property and equipment | - | - |
| b) non-current assets held for sale | - | - |
| C.7 Other changes | - | - |
| **D. Closing balance** | **-** | **-** |
| **E. Measurement at fair value** | **-** | **-** |

For information on the buildings, please see Section 10 – Equity investments – Item 100.

## 11.7 COMMITMENTS TO ACQUIRE PROPERTY AND EQUIPMENT (IAS 16/74.C)

The table has not been completed because there were no such positions as of the balance sheet date.

# SECTION 12 - INTANGIBLE ASSETS – ITEM 120

This item reports intangible assets governed by IAS 38, all of which are measured at cost.

## 12.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

| | TOTAL 31/12/2013 | | TOTAL 31/12/2012 | |
|---|---|---|---|---|
| | FINITE LIFE | INDEFINITE LIFE | FINITE LIFE | INDEFINITE LIFE |
| **A.1 Goodwill** | **X** | **-** | **X** | **-** |
| **A.2 Other intangible assets** | **7,238** | **-** | **5,756** | **-** |
| A.2.1 Assets carried at cost: | 7,238 | - | 5,756 | - |
| a) internally generated intangible assets | - | - | - | - |
| b) other assets | 7,238 | - | 5,756 | - |
| A.2.2 Assets designated at fair value: | - | - | - | - |
| a) internally generated intangible assets | - | - | - | - |
| b) other assets | - | - | - | - |
| **TOTAL** | **7,238** | **-** | **5,756** | **-** |

Under the provisions of IAS 38, all software has been classified under intangible assets with a finite life. The assets are amortized over three years on a straight-line basis.

## 12.2 INTANGIBLE ASSETS: CHANGE FOR THE PERIOD

| | GOODWILL | OTHER INTANGIBLE ASSETS: INTERNALLY GENERATED | | OTHER INTANGIBLE ASSETS: OTHER | | TOTAL 31/12/2013 |
|---|---|---|---|---|---|---|
| | | FINITE LIFE | INDEFINITE LIFE | FINITE LIFE | INDEFINITE LIFE | |
| **A. Opening balance** | **-** | **-** | **-** | **5,756** | **-** | **5,756** |
| A.1 Total net writedown | - | - | - | - | - | - |
| **A.2 Opening net balance** | **-** | **-** | **-** | **5,756** | **-** | **5,756** |
| **B. Increases** | **-** | **-** | **-** | **6,058** | **-** | **6,058** |
| B.1 Purchases | - | - | - | 6,058 | - | 6,058 |
| - business combinations | - | - | - | - | - | - |
| B.2 Increases in internally generated intangible assets | X | - | - | - | - | - |
| B.3 Writebacks | X | - | - | - | - | - |
| B.4 Fair value gains recognized in | | - | - | - | - | - |
| - equity | X | - | - | - | - | - |
| - income statement | X | - | - | - | - | - |
| B.5 Positive exchange rate differences | - | - | - | - | - | - |
| B.6 Other changes | - | - | - | - | - | - |
| **C. Decreases** | **-** | **-** | **-** | **4,576** | **-** | **4,576** |
| C.1 Sales | - | - | - | - | - | - |
| C.2 Writedowns | - | - | - | 4,576 | - | 4,576 |
| - Amortization | X | - | - | 4,576 | - | 4,576 |
| - Impairment | - | - | - | - | - | - |
| + equity | X | - | - | - | - | - |
| + income statement | - | - | - | - | - | - |
| C.3 Fair value losses recognized in | | - | - | - | - | - |
| - equity | X | - | - | - | - | - |
| - income statement | X | - | - | - | - | - |
| C.4 Transfers to non-current assets held for sale | - | - | - | - | - | - |
| C.5 Negative exchange rate differences | - | - | - | - | - | - |
| C.6 Other changes | - | - | - | - | - | - |
| **D. Closing net balance** | **-** | **-** | **-** | **7,238** | **-** | **7,238** |
| D.1 Total net writedown | - | - | - | - | - | - |
| **E. Closing gross balance** | **-** | **-** | **-** | **7,238** | **-** | **7,238** |
| **F. Measurement at cost** | **-** | **-** | **-** | **7,238** | **-** | **7,238** |

## 12.3 OTHER INFORMATION

Under the provisions of Ias 38, paragraphs 122 and 124, we report:

- there are no revalued intangible assets; consequently, there are no impediments to the distribution to shareholders of gains on revalued intangible assets (Ias 38, paragraph 124, letter b);
- there are no intangible assets acquired with government grants (Ias 38, paragraph 122, letter c);
- there are no intangible assets pledged as security for liabilities (Ias 38, paragraph 122, letter d);
- there are no intangible assets involved in lease transactions.

# SECTION 13 – TAX ASSETS AND LIABILITIES – ITEM 130 OF ASSETS AND ITEM 80 OF LIABILITIES

This item reports tax assets (current and deferred) and tax liabilities (current and deferred), which are recognized under item 130 of assets and 80 of liabilities, respectively.

## 13.1 DEFERRED TAX ASSETS: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **A. Gross deferred tax assets** | **10,018** | **18,613** |
| A1. Loans (including securitizations) | 6,083 | 9,871 |
| A2. Other financial instruments | 1,357 | 6,280 |
| A3. Goodwill | - | - |
| A4. Deferred charges | - | - |
| A5 Property and equipment | - | 106 |
| A6. Provisions for risks and charges | 1,589 | 1,698 |
| A7. Entertainment expenses | - | - |
| A8. Personnel costs | 989 | 658 |
| A9. Tax losses | - | - |
| A10. Unused tax credits to deduct | - | - |
| A11. Other | - | - |
| **B. Offsetting with deferred tax liabilities** | **1,789** | **6,280** |
| **C. NET DEFERRED TAX ASSETS (A-B)** | **8,229** | **12,333** |

## 13.2 DEFERRED TAX LIABILITIES: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **A. Gross deferred tax liabilities** | **22,172** | **15,537** |
| A1. Capital gains tax in installments | 55 | - |
| A2. Goodwill | - | - |
| A3. Property and equipment | - | - |
| A4. Financial instruments | 22,117 | 15,537 |
| A5. Personnel costs | - | - |
| A6. Other | - | - |
| **B. Offsetting with deferred tax assets** | **1,789** | **6,280** |
| **C. NET DEFERRED TAX LIABILITIES (A-B)** | **20,383** | **9,257** |

Current tax assets and liabilities in respect of corporate income tax (IRES) included in the consolidated tax mechanism have been reclassified from "other assets" and "other liabilities" to the sub-item "Receivables/payables in respect of Parent Company for consolidated tax mechanism". Deferred tax assets and liabilities were offset in compliance with the provisions of IAS 12, paragraph 74.

*DEFERRED TAXES NOT RECOGNIZED*

The amount and changes in taxable timing differences (and related components) that do not meet requirements for recognition as deferred tax liabilities as it is unlikely that they will have to be paid include:

- deferred tax liabilities in respect of the revaluation reserve established in 2003 pursuant to Law 342 of 22/11/2000 net of the special capital gains tax already paid (€11,227 thousand). As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €8.3 million.

## 13.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN INCOME STATEMENT)

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Opening balance** | **12,333** | **14,346** |
| **2. Increases** | **586** | **649** |
| 2.1 Deferred tax assets recognized during the period | 586 | 274 |
| a) in respect of previous period | - | - |
| b) due to change in accounting policies | - | - |
| c) writebacks | - | - |
| d) other | 586 | 274 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | - | 375 |
| **3. Decreases** | **4,690** | **2,662** |
| 3.1 Deferred tax assets derecognized during the period | 4,315 | 2,662 |
| a) reversals | 4,315 | 2,662 |
| non-recoverability | - | - |
| c) due to changes in accounting policies | - | - |
| d) other | - | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases: | 375 | - |
| a) transformation into tax credits pursuant to Law 214/2011 | - | - |
| b) other | 375 | - |
| **4. Closing balance** | **8,229** | **12,333** |

## 13.3.1 CHANGES IN DEFERRED TAX ASSETS UNDER LAW 214/2011 (RECOGNIZED IN INCOME STATEMENT)

The table has not been completed because there were no such positions as of the balance sheet date.

## 13.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

The table has not been completed because there were no such positions as of the balance sheet date.

## 13.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Opening balance** | **6,280** | **29,715** |
| **2. Increases** | **432** | **175** |
| 2.1 Deferred tax assets recognized during the period | 432 | 175 |
| a) in respect of previous periods | - | - |
| b) due to change in accounting policies | - | - |
| c) other | 432 | 175 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | - | - |
| **3. Decreases** | **4,923** | **23,610** |
| 3.1 Deferred tax assets derecognized during the period | 4,923 | 23,610 |
| a) reversals | 4,923 | 23,610 |
| b) writedowns for supervening non-recoverability | - | - |
| c) due to changes in<br>d) other | - | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **1,789** | **6,280** |

## 13.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Opening balance** | **15,537** | **1,442** |
| **2. Increases** | **6,635** | **15,290** |
| 2.1 Deferred tax liabilities recognized during the period | 6,635 | 15,290 |
| a) in respect of previous periods | - | - |
| b) due to change in accounting policies | - | - |
| c) other | 6,635 | 15,290 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | - | - |
| **3. Decreases** | **-** | **1,195** |
| 3.1 Deferred tax liabilities derecognized during the period | - | 1,195 |
| a) reversals | - | 1,195 |
| b) due to change in accounting policies | - | - |
| c) other | - | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **22,172** | **15,537** |

## 13.7 OTHER INFORMATION

As regards its tax position, the Bank reports:

- for the financial years 2009, 2010, 2011 and 2012 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- the Bank received a notice of liquidation for registration fees on the sale of the "Corporate" business unit to Iccrea BancaImpresa. The payment was made and at the same time an appeal was lodged with the Provincial Tax Commission of Rome as the claims of the tax authorities appear groundless both in law and in administrative practice. On December 15, 2011, with ruling 499/26/11, the Provincial Tax Commission of Rome granted our appeal in full, finding that the Revenue Agency was in clear violation of a specific provision of the uniform registration fee code. As the time limit provided for under Article 38 of Legislative Decree 546/92 had expired, on January 31, 2014 the ruling was notified to the Revenue Agency in enforceable form in order to obtain restitution of the amounts paid;
- on November 14, 2012, the Bank received a notice of assessment from the Revenue Agency, Regional Directorate of Lazio - Large Taxpayer Office for the 2007 financial year with which the taxable amounts subject to VAT declared on activities performed as depository

bank were adjusted. The assessment stems from a formal notice of assessment from the audit activities performed by that Office in respect of Beni Stabili Gestione SGR. The increase in tax comes to €33,520 for VAT plus penalties of €41,900. On January 11, 2013 an appeal was filed against the above assessment in order to challenge the claims of the tax authorities;

- on December 3, 2013, the Bank received a notice of assessment no. TJB030100277 issued by the Revenue Agency – Regional Directorate of Lazio – Large Taxpayer Office, concerning VAT for 2008. More specifically, the Regional Directorate of Lazio, following up on the notice of assessment notified to the Bank in 2011 concerning VAT on fees received for custodian bank services provided to Beni Stabili in 2007, which the Bank had appealed, requested documentation (contracts and accounting records) concerning the fees received by the Bank for custodian bank services in respect of all asset management companies for 2008. Following the submission of that documentation, on October 31, 2013 the Regional Directorate of Lazio challenged the Bank's use of the VAT exemption for the fees, alleging that the control activities performed by the custodian bank gives rise to a VAT liability for those fees. The new tax treatment is the result of an interpretation issued by the Revenue Agency following a ruling of the European Court of Justice. It conflicts with the practice followed to date by all banks, which in compliance with the circulars issued in previous years by ABI and Assogestioni had always considered fees for custodian bank services to be VAT exempt. In view of the importance of the interpretation and its effects, in the spirit of collaboration and a desire to determine the scale of control activities as a proportion of overall custodian bank services, the industry associations mentioned above conducted an analysis with the Revenue Agency – Central Directorate for Assessment in 2012/2013 at three financial intermediaries in Milan. The study identified a custodian bank model in which the control component accounted for 28.3% of all custodian bank activities performed. Accordingly, the Regional Directorate of Lazio, arguing that the custodian bank operations of the Bank were compliant with the model developed by the Central Directorate for Assessment, applied that percentage to the total exempt fees received in 2008 (equal to a total of €4,585,972), giving rise to a taxable amount of €1,297,830, to which the VAT rate in force in 2008 of 20% was applied. Consequently, the VAT liability was calculated at €259,565. In addition, in consideration of the complexity and uncertainty of the case, the Regional Directorate of Lazio decided not to apply any administrative penalties, limiting its action to the application of interest in the amount (through December 31, 2013) of €42,853. In view of the standardization of the proceeding that led to the issue of the notice of assessment, it is likely that the Regional Directorate of Lazio will also issue notices of assessment for the years from 2009 to 2012, the liability for which (excluding interest) is estimated at about €900 thousand. As VAT is an indirect tax, it is levied on the customer, namely the asset management companies, which in turn must pass the cost through to the funds they manage, creating issues concerning the value of the units. In January, the assessed tax was paid, with the concomitant charging of the Vat to the asset management companies. The interest charged was paid by Iccrea Banca. For 2013, the Bank paid the VAT through the tax error settlement procedure in agreement with the asset management companies, which agreed to pay the charge, amounting to €214,874 (including interest).

## SECTION 14 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 140 OF ASSETS AND ITEM 90 OF LIABILITIES

This item reports the individual assets and groups of assets held for sale, pursuant to IFRS 5.

### 14.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **A. Individual assets** | | |
| A.1 Financial assets | - | - |
| A.2 Equity | - | - |
| A.3 Property and equipment | - | - |
| A.4 Intangible assets | - | - |
| A.5 Other non-current assets | - | - |
| **TOTAL A** | **-** | **-** |
| of which carried at cost | - | - |
| of which at fair value Level 1 | - | - |
| of which at fair value Level 2 | - | - |
| of which at fair value Level 3 | - | - |
| **B. Disposal groups (discontinued operations)** | | |
| B.1 Financial assets held for trading | - | - |
| B.2 Financial assets at fair value | - | - |
| B.3 Financial assets available for sale | 29,897 | - |
| B.4 Financial assets held to maturity | - | - |
| B.5 Due from banks | - | - |
| B.6 Loans to customers | 412 | - |
| B.7 Equity investments | - | - |
| B.8 Property and equipment | - | - |
| B.9 Intangible assets | - | - |
| B.10 Other assets | 4 | - |
| **TOTAL B** | **30,313** | **-** |
| of which carried at cost | 416 | - |
| of which at fair value Level 1 | 29,897 | - |
| of which at fair value Level 2 | - | - |
| of which at fair value Level 3 | 416 | - |
| **C. Liabilities associated with non-current assets held for sale** | | |
| C.1 Debt | - | - |
| C.2 Securities | - | - |
| C.3 Other liabilities | - | - |
| **TOTAL C** | **-** | **-** |
| of which carried at cost | - | - |
| of which at fair value Level 1 | - | - |
| of which at fair value Level 2 | - | - |
| of which at fair value Level 3 | - | - |
| **D. Liabilities associated with disposal groups held for sale** | | |
| D.1 Due to banks | - | - |
| D.2 Due to customers | 32,764 | - |
| D.3 Securities issued | - | - |
| D.4 Financial liabilities held for trading | - | - |
| D.5 Financial liabilities at fair value | - | - |
| D.6 Provisions | 108 | - |
| D.7 Other liabilities | 33 | - |
| **TOTAL D** | **32,905** | **-** |
| of which carried at cost | 32,905 | - |
| of which at fair value Level 1 | - | - |
| of which at fair value Level 2 | - | - |
| of which at fair value Level 3 | 32,905 | - |

### 14.2 OTHER INFORMATION

Within the context of the process of rationalizing the Group structure, the Parent Company has decided to concentrate branch services for retail customers within a single Group bank. It chose Banca Sviluppo as that bank. All the service activities provided to retail customers for managing current accounts and lending, referring to employees and similar customers, carried out by Iccrea Banca and, partly, by Iccrea BancaImpresa will be transferred to Banca Sviluppo.

The rationalization process involves transferring the Iccrea Bank business unit, the key figures of which at December 31, 2013 were:

- government securities: €29,897 thousand;
- 172 current accounts with debit balances of €412 thousand;
- 1,082 current accounts with credit balances of €32,764 thousand;
- 3 employees currently assigned to managing the service.

The value of the business unit will be determined based upon balance sheet values, more specifically by calculating 1% of the funding transferred. This valuation takes account of the specific characteristics of the customer base, the limited number of services currently available and the annual costs of the resources transferred.

The transfer agreement was signed on February 26, 2014, with accounting effect as from April 5, 2014. Subsequently, for the purposes of any adjustment, an assessment will be conducted on the basis of the accounting figures reported at the date of transfer (April 5, 2014) and the closing figures.

### 14.3 DISCLOSURES ON EQUITY INVESTMENTS IN COMPANIES UNDER SIGNIFICANT INFLUENCE NOT ACCOUNTED FOR AT EQUITY

The table has not been completed because there were no such positions as of the balance sheet date.

## SECTION 15 – OTHER ASSETS – ITEM 150

This item reports assets that cannot be classified under other balance sheet accounts.

### 15.1 OTHER ASSETS: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| Items being processed | 69,811 | 18,585 |
| Receivables for future premiums | 22,967 | 24,826 |
| Commissions | 52,458 | 22,481 |
| Receivables due from Parent Company | | |
| in respect of consolidated tax mechanism | 28,580 | 22,541 |
| Definitive items not allocable to other accounts | 25,392 | 26,725 |
| Tax receivables due from tax authorities and other entities | 18,173 | 15,611 |
| **TOTAL** | **217,381** | **130,769** |

The items "Items being processed" and "Definitive items not allocable to other accounts" comprise transactions that were settled in January 2014.

# LIABILITIES

## SECTION 1 – DUE TO BANKS – ITEM 10

This item reports amounts due to banks, whatever their technical form other than those reported under items 30, 40 and 50.

### 1.1 DUE TO BANKS: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Due to central banks** | **14,044,974** | **12,706,391** |
| **2. Due to banks** | **7,346,978** | **8,490,210** |
| 2.1 Current accounts and demand deposits | 4,516,451 | 4,956,987 |
| 2.2 Fixed-term deposits | 2,762,112 | 3,459,949 |
| 2.3 Loans | 66,633 | 72,317 |
| 2.3.1 Repurchase agreements | 53,672 | 48,808 |
| 2.3.2 Other | 12,961 | 23,509 |
| 2.4 Liabilities in respect of commitments to repurchase own equity instruments | - | - |
| 2.5 Other payables | 1,782 | 957 |
| **TOTAL** | **21,391,952** | **21,196,601** |
| **FAIR VALUE LEVEL 1** | **-** | **-** |
| **FAIR VALUE LEVEL 2** | **148,922** | **149,909** |
| **FAIR VALUE LEVEL 3** | **21,165,195** | **20,943,058** |
| **TOTAL FAIR VALUE** | **21,314,117** | **21,092,967** |

The item "due to central banks" represents financing from the ECB for advances secured by securities owned by the mutual banks and the Bank. The amount also includes the advance of €271,150 thousand in respect of the secured liabilities issued pursuant to Article 8 of Decree Law 201 of December 6, 2011, ratified with Law 214 of December 24, 2011, in the amount of €290,000 thousand. During the first half of the year, the ECB advances were partially repaid, in the amount of €2,200 thousand.

The sub-item "fixed-term deposits" also includes deposits received from mutual banks in the amount of about €738,000 thousand used to meet reserve requirements indirectly.

The fair value is obtained using discounted cash flow techniques.

### 1.2 BREAKDOWN OF ITEM 10 "DUE TO BANKS": SUBORDINATED LIABILITIES

The table has not been completed because there were no such positions as of the balance sheet date.

### 1.3 BREAKDOWN OF ITEM 10 "DUE TO BANKS": STRUCTURED LIABILITIES

The table has not been completed because there were no such positions as of the balance sheet date.

### 1.4 DUE TO BANKS: LIABILITIES HEDGED SPECIFICALLY

The table has not been completed because there were no such positions as of the balance sheet date.

## 1.5 IN RESPECT OF FINANCE LEASES

The table has not been completed because there were no such positions as of the balance sheet date.

# SECTION 2 – DUE TO CUSTOMERS – ITEM 20

This item reports amounts due to customers whatever their technical form (deposits, current accounts, loans) other than those reported under items 30, 40 and 50.

## 2.1 DUE TO CUSTOMERS: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| 1. Current accounts and demand deposits | 705,522 | 656,291 |
| 2. Fixed-term deposits | 26,014 | 12,429 |
| 3. Loans | 14,133,497 | 8,221,709 |
| 3.1 Repurchase agreements | 14,113,497 | 8,221,709 |
| 3.2 Other | 20,000 | - |
| 4. Liabilities in respect of commitments to repurchase own equity instruments | - | - |
| 5. Other payables | 394,941 | 380,268 |
| **TOTAL** | **15,259,974** | **9,270,697** |
| FAIR VALUE LEVEL 1 | - | - |
| FAIR VALUE LEVEL 2 | 190,800 | 54,810 |
| FAIR VALUE LEVEL 3 | 15,069,173 | 9,241,083 |
| **TOTAL FAIR VALUE** | **15,259,973** | **9,295,893** |

The sub-item “Repurchase agreements” is composed entirely by transactions with the Clearing and Guarantee Fund.

The sub-item “Other payables” essentially regards bankers’ drafts issued and not yet presented for extinguishment.

The fair value is obtained using discounted cash flow techniques.

## 2.2 BREAKDOWN OF ITEM 20 “DUE TO CUSTOMERS”: SUBORDINATED LIABILITIES

The table has not been completed because there were no such positions as of the balance sheet date.

## 2.3 BREAKDOWN OF ITEM 20 “DUE TO CUSTOMERS”: STRUCTURED LIABILITIES

The table has not been completed because there were no such positions as of the balance sheet date.

## 2.4 DUE TO CUSTOMERS: LIABILITIES HEDGED SPECIFICALLY

The table has not been completed because there were no such positions as of the balance sheet date.

## 2.5 LIABILITIES IN RESPECT OF FINANCE LEASES

The table has not been completed because there were no such positions as of the balance sheet date.

## SECTION 3 – SECURITIES ISSUED – ITEM 30

This item reports securities issued measured at amortized cost. The amount is reported net of repurchases.

### 3.1 SECURITIES ISSUED: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | | | | TOTAL 31/12/2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | CARRYING AMOUNT | *FAIR VALUE* | | | CARRYING AMOUNT | *FAIR VALUE* | | |
| | | LEVEL 1 | LEVEL 2 | LEVEL 3 | | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| **A. Securities** | | | | | | | | |
| **1. Bonds** | **4,287,398** | **2,610,222** | **1,770,485** | **-** | **3,386,758** | **1,229,310** | **2,176,923** | **-** |
| 1.1 structured | 563,572 | 598,571 | 1,247 | - | 111,239 | 97,575 | 8,100 | - |
| 1.2 other | 3,723,826 | 2,011,651 | 1,769,238 | - | 3,275,519 | 1,131,735 | 2,168,823 | - |
| **2. Other** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 structured | - | - | - | - | - | - | - | - |
| 2.2 other | - | - | - | - | - | - | - | - |
| **TOTAL** | **4,287,398** | **2,610,222** | **1,770,485** | **-** | **3,386,758** | **1,229,310** | **2,176,923** | **-** |

The item comprises bonds issued by the Bank and hedged against interest rate risk using derivatives, the amount of which is adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date (fair value hedge) as well as unhedged bonds issued measured at amortized cost. The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date.

### 3.2 BREAKDOWN OF ITEM 30 "SECURITIES ISSUED": SUBORDINATED SECURITIES

The table has not been completed because there were no such positions as of the balance sheet date.

### 3.3 SECURITIES ISSUED: SECURITIES HEDGED SPECIFICALLY

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Securities covered by specific fair value hedges** | **575,226** | **262,292** |
| a) interest rate risk | 575,226 | 262,292 |
| b) exchange rate risk | - | - |
| c) multiple risks | - | - |
| **2. Liabilities covered by specific cash flow hedges** | **-** | **591,218** |
| a) interest rate risk | - | 591,218 |
| b) exchange rate risk | - | - |
| c) other | - | - |

The amounts reported regard 5 bonds issued by the Bank and hedged for interest rate risk using interest rate derivatives.

# SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

This item reports financial derivatives held for trading.

## 4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | | | | | TOTAL 31/12/2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | VN | FV | | | FV * | VN | FV | | | FV * |
| | | L1 | L2 | L3 | | | L1 | L2 | L3 | |
| **A. On-balance-sheet liabilities** | | | | | | | | | | |
| **1. Due to banks** | - | - | - | - | - | - | - | - | - | - |
| **2. Due to customers** | 332 | 220 | - | - | 220 | - | - | - | - | - |
| **3. Debt securities** | - | - | - | - | | - | - | - | - | |
| 3.1 Bonds | - | - | - | - | | - | - | - | - | |
| 3.1.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 3.1.2 Other bonds | - | - | - | - | X | - | - | - | - | X |
| 3. Other | - | - | - | - | | - | - | - | - | |
| 3.2.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 3.2.2 Other | - | - | - | - | X | - | - | - | - | X |
| **TOTAL A** | 332 | 220 | - | - | 220 | - | - | - | - | - |
| B. Derivatives | | | | | | | | | | |
| **1. Financial derivatives** | | 99 | 390,917 | - | | | 423 | 640,029 | - | - |
| 1.1 Trading | X | 99 | 390,917 | - | X | X | 423 | 640,029 | - | X |
| 1.2 Associated with fair value option | X | - | - | - | X | X | - | - | - | X |
| 1.3 Other | X | - | - | - | X | X | - | - | - | X |
| **2. Credit derivatives** | | - | - | - | | | - | - | - | |
| 2.1 Trading | X | - | - | - | X | X | - | - | - | X |
| 2.2 Associated with fair value option | X | - | - | - | X | X | - | - | - | X |
| 2.3 Other | X | - | - | - | X | X | - | - | - | X |
| **TOTAL B** | X | 99 | 390,917 | - | X | X | 423 | 640,029 | - | X |
| **TOTAL (A+B)** | X | 319 | 390,917 | - | X | X | 423 | 640,029 | - | X |

Key: FV = fair value / FV*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date / NV = nominal or notional value / L1 = Level 1 / L2 = Level 2 / L3 = Level 3

Part A of the table reports short positions in respect of debt securities (reported under amounts due to banks or customers depending on the issuer).

## 4.2 BREAKDOWN OF ITEM 40 "FINANCIAL LIABILITIES HELD FOR TRADING": SUBORDINATED LIABILITIES

The table has not been completed because there were no such positions as of the balance sheet date.

## 4.3 BREAKDOWN OF ITEM 40 "FINANCIAL LIABILITIES HELD FOR TRADING": STRUCTURED LIABILITIES

The table has not been completed because there were no such positions as of the balance sheet date.

## 4.4 ON-BALANCE SHEET FINANCIAL LIABILITIES (EXCLUDING SHORT POSITIONS) HELD FOR TRADING: CHANGE FOR THE PERIOD

The table has not been completed because there were no such positions as of the balance sheet date.

## SECTION 5 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE – ITEM 50

This item reports financial liabilities designated as at fair value through profit or loss under the option available to reporting entities (the fair value option) under IAS 39.

### 5.1 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

| | TOTAL 31/12/2013 | | | | | TOTAL 31/12/2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | VN | FV | | | FV * | VN | FV | | | FV * |
| | | L1 | L2 | L3 | | | L1 | L2 | L3 | |
| **1. Due to banks** | **-** | **-** | **-** | **-** | | **-** | **-** | **-** | **-** | |
| 1.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 1.2 Other | - | - | - | - | X | - | - | - | - | X |
| **2. Due to customers** | **-** | **-** | **-** | **-** | | **-** | **-** | **-** | **-** | |
| 2.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 2.2 Other | - | - | - | - | X | - | - | - | - | X |
| **3. Debt securities** | **746,301** | **757,425** | **5,993** | **-** | **779,508** | **751,645** | **739,162** | **6,203** | **-** | **797,137** |
| 3.1 Structured | 746,301 | 757,425 | 5,993 | - | X | 751,645 | 739,162 | 6,203 | - | X |
| 3.2 Other | - | - | - | - | X | - | - | - | - | X |
| **TOTAL** | **746,301** | **757,425** | **5,993** | **-** | **779,508** | **751,645** | **739,162** | **6,203** | **-** | **797,137** |

Key: FV = fair value / FV*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date / NV = nominal or notional value / L1 = Level 1 / L2 = Level 2 / L3 = Level 3

"Financial liabilities at fair value" include:

- 2 structured bonds issued by the Bank that are operationally connected to derivatives used to establish a natural hedge;
- 1 bond connected with a group of financial instruments in order to reduce overall mismatching significantly (see Section 3, part B, of assets);
- 1 structured bond issued by the Bank in order to avoid the need to separate the embedded derivative.

### 5.2 BREAKDOWN OF ITEM 50 "FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE": SUBORDINATED LIABILITIES

The table has not been completed because there were no such positions as of the balance sheet date.

### 5.3 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE: CHANGE FOR THE PERIOD

| | DUE TO BANKS | DUE TO CUSTOMERS | SECURITIES ISSUED | TOTAL 31/12/2013 |
|---|---|---|---|---|
| **A. Opening balance** | **-** | **-** | **745,365** | **745,365** |
| **B. Increases** | **-** | **-** | **53,898** | **53,898** |
| B1. Issues | - | - | - | - |
| B2. Sales | - | - | 30,548 | 30,548 |
| B3. Fair value gains | - | - | 22,708 | 22,708 |
| B4. Other increases | - | - | 642 | 642 |
| **C. Decreases** | **-** | **-** | **35,845** | **35,845** |
| C1. Purchases | - | - | 35,626 | 35,626 |
| C2. Redemptions | - | - | - | - |
| C3. Fair value losses | - | - | 210 | 210 |
| C4. Other decreases | - | - | 9 | 9 |
| **D. Closing balance** | **-** | **-** | **763,418** | **763,418** |

## SECTION 6 - HEDGING DERIVATIVES – ITEM 60

This item reports financial derivatives used for hedging that had a negative fair value as at the reporting date.

### 6.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE AND LEVEL OF INPUTS

| | *FAIR VALUE* 31/12/2013 | | | NV | *FAIR VALUE* 31/12/2012 | | | NV |
|---|---|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | 31/12/2013 | L1 | L2 | L3 | 31/12/2012 |
| **A) Financial derivatives** | **-** | **75,167** | **-** | **1,711,035** | **-** | **115,043** | **-** | **1,637,762** |
| 1) Fair value | - | 72,273 | - | 1,678,665 | - | 105,427 | - | 981,693 |
| 2) Cash flows | - | 2,894 | - | 32,370 | - | 9,616 | - | 656,069 |
| 3) Investments in foreign operations | - | - | - | - | - | - | - | - |
| **B. Credit derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1) Fair value | - | - | - | - | - | - | - | - |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| **TOTAL** | **-** | **75,167** | **-** | **1,711,035** | **-** | **115,043** | **-** | **1,637,762** |

Key: NV = notional value/ L1 = Level 1 / L2 = Level 2 / L3 = Level 3

These are financial derivatives designated as hedges of the risk of changes in the fair value or cash flows of financial instruments classified as “financial assets available for sale”, “loans” and “financial liabilities”, as reported in the following table.

### 6.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

| | *FAIR VALUE* | | | | | | CASH FLOWS | | INVESTMENTS IN FOREIGN OPERATIONS |
|---|---|---|---|---|---|---|---|---|---|
| | SPECIFIC | | | | | | | | |
| | INTEREST RATE RISK | EXCHANGE RATE RISK | CREDIT RISK | PRICE RISK | MULTIPLE RISKS | GENERIC | SPECIFIC | GENERIC | |
| 1. Financial assets available for sale | 35,203 | - | - | - | - | X | 2,894 | X | X |
| 2. Loans | 10,821 | - | - | X | - | X | - | X | X |
| 3. Financial assets held to maturity | X | - | - | X | - | X | - | X | X |
| 4. Portfolio | X | X | X | X | X | 32 | X | - | X |
| 5. Other transactions | - | - | - | - | - | X | - | X | - |
| **TOTAL ASSETS AT 31/12/2013** | **46,024** | **-** | **-** | **-** | **-** | **32** | **2,894** | **-** | **-** |
| 1. Financial liabilities | 26,217 | - | - | X | - | X | - | X | X |
| 2. Portfolio | X | X | X | X | X | - | X | - | X |
| **TOTAL LIABILITIES AT 31/12/2013** | **26,217** | **-** | **-** | **X** | **-** | **-** | **-** | **-** | **-** |
| 1. Forecast transactions | X | X | X | X | X | X | - | X | X |
| 2. Portfolio of financial assets and liabilities | X | X | X | X | X | X | X | - | - |

The amounts reported in respect of “financial assets available for sale” regard hedges that the Bank has established using asset swap derivatives to sterilize the interest rate risk connected with listed debt securities, in this case BTPs linked to European inflation. This approach makes it possible to synthetically replicate a floating-rate instrument.

The amount reported for specific cash flow hedges of “financial assets available for sale” regards the negative fair value of an asset swap on a BTP linked to European inflation.

"Loans" hedged against interest rate risk refer to 2 fixed-rate loans to BCC Solutions and BCC CreditoConsumo hedged with interest rate swaps, 2 fixed-rate securities issued by Iccrea BancaImpresa hedged with interest rate swaps and 2 deposits hedged using overnight indexed swaps. The item "financial liabilities" reports the negative fair value of interest rate swaps and interest rate options hedging a mixed-rate bond issued by the Bank.

## SECTION 7 - VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES – ITEM 70

There were no such positions as of the balance sheet date.

## SECTION 8 – TAX LIABILITIES – ITEM 80

See section 13 under assets.

## SECTION 9 - LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 90

See section 14 under assets.

## SECTION 10 – OTHER LIABILITIES – ITEM 100

This item reports liabilities that cannot be classified under other balance sheet accounts.

### 10.1 OTHER LIABILITIES : COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| Amounts due to social security institutions and State | 8,739 | 10,924 |
| Amounts available to customers | 31,099 | 35,357 |
| Reserve - former Central Guarantee Fund | - | 1,356 |
| Items being processed | 31,986 | 14,071 |
| Securities to be settled | 1,167 | 32,819 |
| Definitive items not allocable to other accounts | 38,616 | 17,050 |
| Liabilities for future premiums | 14,277 | 16,753 |
| Payables due to Parent Company in respect of consolidated tax mechanism | 21,094 | 22,434 |
| Tax payables due to tax authorities | 9,681 | 8,344 |
| Payables due to employees | 4,509 | 4,731 |
| Invoices to be paid and to be received | 27,383 | 23,453 |
| Failed purchase transactions | 18,652 | 33,557 |
| Illiquid portfolio items | - | 7,020 |
| **TOTAL** | **207,203** | **227,869** |

The sub-items "securities to be settled" and "definitive items not allocable to other accounts" include transactions settled in January 2014.

On December 20, 2012, the executive committee of Federcasse voted to transfer the residual balance of the reserve held at Iccrea Banca to the Mutual Bank Deposit Guarantee Fund. Following a request from the Fund, on February 14, 2013 the amount of € 1,355,965.58 was credited to the current account held by the Fund with the Bank and the position of the Fund is now extinguished.

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **Assets** | | |
| Bank deposits | - | 1,331 |
| Loans | - | - |
| Other assets | - | 37 |
| **TOTAL ASSETS** | **-** | **1,368** |
| **Liabilities** | | |
| Due to tax authorities | - | 12 |
| Due in respect of DGF reserve | - | 1,356 |
| **TOTAL LIABILITIES** | **-** | **1,368** |

## SECTION 11 - EMPLOYEE TERMINATION BENEFITS – ITEM 110

This item reports employee termination benefits, estimating the amount due to each employee in relation to the specific time the employment relationship ceases. The amount is calculated on an actuarial basis, considering the future time at which the actual financial outlay will be incurred.

### 11.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **A. Opening balance** | **13,632** | **14,109** |
| **B. Increases** | **651** | **1,108** |
| B.1 Provisions for the period | 447 | 689 |
| B.2 Other increases | 205 | 419 |
| **C. Decreases** | **936** | **1,584** |
| C.1 Benefit payments | 827 | 929 |
| C.2 Other decreases | 108 | 655 |
| **D. Closing balance** | **13,348** | **13,632** |
| **TOTAL** | **13,348** | **13,632** |

### 11.2 OTHER INFORMATION

Employee termination benefits cover the entire entitlement accrued as at the reporting date by employees, in conformity with applicable law, the collective bargaining agreement and supplementary company-level contract. The liability calculated pursuant to Art. 2120 of the Civil Code amounted to €14,232 thousand (€14,500 thousand at December 31, 2012).

The actuarial assumptions used by an independent actuary to calculate the liability as at the reporting date are as follows:

- **demographic parameters**: drawn from ISTAT's 2004 mortality tables and the INPS disability tables. As regards the probability of leaving work for reasons other than death, the calculation used turnover rates consistent with past experience, with the annual rate of exit from work set at 2.75%;
- **financial parameters**: the calculations assumed an interest rate of 3.10%;
- **economic parameters**: the rate of inflation was assumed to be 2.00%, while the rate of increase in salaries was 2.38% for all categories of employee and used only for seniority purposes.

The independent actuary determined the discount rate using as a reference basket the Iboxx Obbligazioni Corporate AA index at December 31, 2013 for the euro area, with an average duration comparable to the group being assessed.

On January 1, 2013, a number of amendments to IAS 19 – Employee benefits – entered force, with the main change regarding the elimination of the "corridor approach", with the recognition of actuarial gains/losses in other comprehensive income. The negative amount recognized at December 31, 2013 amounted to €1,136 thousand net of taxes. As a result of the changes, the comparative figures for the previous year have also been restated.

## SECTION 12 - PROVISIONS FOR RISKS AND CHARGES – ITEM 120

This item reports existing liabilities for which a future outflow of resources is considered likely by the Bank, in accordance with Ias 37.

### 12.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1 Company pension plans** | **-** | **-** |
| **2. Other provisions for risks and charges** | **6,579** | **7,066** |
| 2.1 legal disputes | 6,014 | 6,411 |
| 2.2 personnel expenses | 565 | 655 |
| 2.3 other | - | - |
| **TOTAL** | **6,579** | **7,066** |

The sub-item “Legal disputes” includes €3,966 thousand for revocatory actions in bankruptcy and €2,048 thousand for litigation and disputes. The sub-item “personnel expenses” includes seniority bonuses for employees, for which the comparative figures for the previous year were consequently restated.

### 12.2 PROVISIONS FOR RISKS AND CHARGES: CHANGE FOR THE PERIOD

| | RETIREMENT PROVISIONS | OTHER PROVISIONS | TOTAL 31/12/2013 |
|---|---|---|---|
| **A. Opening balance** | **-** | **7,066** | **7,066** |
| **B. Increases** | **-** | **455** | **455** |
| B.1 Provisions for the year | - | 413 | 413 |
| B.2 Changes due to passage of time | - | 20 | 20 |
| B.3 Changes due to changes in the discount rate | - | - | - |
| B.4 Other increases | - | 21 | 21 |
| **C. Decreases** | **-** | **941** | **941** |
| C.1 Use during the period | - | 823 | 823 |
| C.2 Changes due changes in the discount rate | - | 23 | 23 |
| C.3 Other decreases | - | 95 | 95 |
| **D. Closing balance** | **-** | **6,579** | **6,579** |

### 12.3 DEFINED-BENEFIT COMPANY PENSION PLANS

The table has not been completed because there were no such positions as of the balance sheet date.

### 12.4 PROVISIONS – OTHER

| | OPENING BALANCE | USES | PROVISIONS | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|---|---|---|
| Revocatory actions | 4,253 | 286 | - | 3,966 | 4,253 |
| Litigation and disputes | 2,158 | 466 | 356 | 2,048 | 2,158 |
| Loyalty bonus | 655 | 168 | 78 | 565 | 655 |
| **CLOSING BALANCE** | **7,066** | **921** | **434** | **6,579** | **7,066** |

As regards the exposure for revocatory actions in respect of Giacomelli Sport, the amount currently provisioned amounts to €2,947 thousand, of which €1,859 thousand for the Iccrea pool, €802 thousand for the Efibanca pool, and €285 thousand for legal costs. As regards the position associated with the former Efibanca pool, a ruling of July 4, 2013, by the Court of Rimini upheld the defense offered by the Bank and ordered the company to pay court costs, which were settled in the amount of €23 thousand (plus VAT and social security contributions).

As regards the position in respect of the loan to the Iccrea pool, in mid July 2013, the Court of Rimini issued a judgment (at first instance) finding that the payments of €514 thousand by Giacomelli from March 17, 2003 to April 17, 2003, were unenforceable as repayment of the pool loan of which Iccrea Banca was the lead bank. The ruling ordered Iccrea Banca to repay the amounts received plus legal interest, as well as the excess interest from the difference between the legal rate of interest and the yield on government securities, for an overall total of about €612 thousand. That amount is to be divided pro rata among the participants in the pool. The part paid by the Bank amounted to €194 thousand.

## SECTION 13 - REDEEMABLE SHARES – ITEM 140

There were no such shares as of the reporting date.

## SECTION 14 - SHAREHOLDERS' EQUITY - ITEMS 130, 150, 160, 170, 180, 190 AND 200

### 14.1 "SHARE CAPITAL" AND "TREASURY SHARES": COMPOSITION

As at the reporting date, share capital was represented by 420,000 ordinary shares with a par value of €516.46 each – held by the Parent Company, Iccrea Holding S.p.A, and the Lombardy mutual bank federation – with a total value of €216,913,200 fully paid up. As at the reporting date, the Bank held no treasury shares.

### 14.2 SHARE CAPITAL– NUMBER OF SHARES: CHANGE FOR THE PERIOD

| | ORDINARY | OTHER |
|---|---|---|
| **A. Shares at the start of the year** | **420,000** | **-** |
| - fully paid | 420,000 | - |
| - partially paid | - | - |
| A.1 Treasury shares (-) | - | - |
| **A.2 Shares in circulation: opening balance** | **420,000** | **-** |
| **B. Increases** | **-** | **-** |
| B.1 new issues | - | - |
| - for consideration: | - | - |
| - business combinations | - | - |
| - conversion of bonds | - | - |
| - exercise of warrants | - | - |
| - other | - | - |
| - bonus issues: | - | - |
| - to employees | - | - |
| - to directors | - | - |
| - other | - | - |
| B.2 Sales of own shares | - | - |
| B.3 Other changes | - | - |
| **C. Decreases** | **-** | **-** |
| C.1 Cancellation | - | - |
| C.2 Purchase of own shares | - | - |
| C.3 Disposal of companies | - | - |
| C.4 Other changes | - | - |
| **D. Shares in circulation: closing balance** | **420,000** | **-** |
| D.1 Treasury shares(+) | - | - |
| D.2 Shares at the end of the year | 420,000 | - |
| - fully paid | 420,000 | - |
| - partially paid | - | - |

## 14.3 SHARE CAPITAL: OTHER INFORMATION

On December 30, 2011, the Parent Company, Iccrea Holding, made a payment of €80,000 thousand on capital account. The non-interest-bearing, non-repayable sum was classified in item 160 of liabilities under "other reserves".

## 14.4 EARNINGS RESERVES: OTHER INFORMATION

Reserves amount to € 101,691 thousand and include: the legal reserve (€48,201 thousand), the reserve established in the articles of association (€205 thousand), the extraordinary reserve (€22,734 thousand), a reserve (€ 1,843 thousand) generated following the transfer of the Corporate business unit to Iccrea BancaImpresa in 2007, a negative reserve (€236 thousand) from the merger of BCC Multimedia, a positive reserve (€ 162 thousand) generated in the year following the transfer of properties to Immicra S.r.l., a restricted reserve in respect of the unrealized gains on financial instruments measured using the fair value option (€ 13,404 thousand) in application of Art. 6 of Legislative Decree 38/2005, as well as the impact of the transition to international accounting standards (€ 15,378 thousand). Following partial realization and decreases in previous gains, the restricted reserve established pursuant Art. 6 of Legislative Decree 38/2005 declined by € 10,550 thousand in the period, which will be allocated by the Shareholders' Meeting.

Pursuant to the articles of association, at least three-tenths of net profit for the period is allocated to the legal reserve until such reserve shall be equal to one-fifth of share capital, while the remaining seven-tenths are available for distribution to shareholders and the earmarking of a part of profit that shall be available to the Board of Directors for charity and publicity. The legal reserve has reached one-fifth of share capital.

## AVAILABILITY AND FORMATION OF EQUITY RESERVES

Pursuant to Art. 2427, nos. 4 and 7 bis of the Civil Code, the following table reports the composition of the Bank's shareholders' equity, indicating the origin, availability and possible distribution of the various components.

| | AMOUNT | POSSIBLE USES (*) | AVAILABLE AMOUNT | SUMMARY OF USES IN LAST THREE YEARS | |
|---|---|---|---|---|---|
| | | | | FOR LOSS COVERAGE | OTHER |
| Share capital | 216,913 | | | | |
| Reserves: | | | | | |
| a) legal reserves | 48,201 | B | 48,201 | | |
| b) reserve in articles of association | 205 | A – B – C | 205 | | |
| c) extraordinary reserve | 22,734 | A – B – C | 22,734 | | |
| d) other reserves | 95,173 | A – B – C | 8,871 | | |
| e) FTA reserve | 15,378 | A – B – C | 15,378 | | |
| Valuation reserves: | | | | | |
| a) financial assets available for sale | 44,672 | | – | | |
| b) cash flow hedges | 640 | | – | | |
| c) actuarial gains (losses) on defined-benefit plans | (1,136) | | | | |
| Valuation reserves: (Law 342 of 22/11/2000) | 47,866 | A – B – C (**) | 47,866 | | |
| Net profit for the period | 40,028 | | | | |
| **TOTAL** | **530,674** | | | | |

(*) A = capital increase; B = loss coverage; C = distribution to shareholders
(**) If the reserve is used to cover losses, profits may not be distributed until the reserve has been restored or reduced to a corresponding extent. Any such reduction must be approved by the Extraordinary Shareholders' Meeting without the need to comply with the provisions of paragraphs 2 and 3 of Article 2445 of the Civil Code.
If the reserve is not allocated to share capital, it may only be reduced in compliance with the provisions of paragraphs 2 and 3 of Article 2445 of the Civil Code. If it is distributed to shareholders, it shall form part of the taxable income of the company and the shareholders.

## 14.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

There were no such positions as of the balance sheet date.

# OTHER INFORMATION

## 1. GUARANTEES ISSUED AND COMMITMENTS

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1) Financial guarantees issued** | **846,277** | **869,069** |
| a) Banks | 838,411 | 859,380 |
| b) Customers | 7,866 | 9,689 |
| **2) Commercial guarantees issued** | **54,580** | **38,865** |
| a) Banks | 54,572 | 38,857 |
| b) Customers | 8 | 8 |
| **3) Irrevocable commitments to disburse funds** | **1,924,792** | **1,036,157** |
| a) Banks | 1,657,644 | 657,795 |
| i) certain use | 1,427,041 | 286,415 |
| ii) uncertain use | 230,603 | 371,380 |
| b) Customers | 267,148 | 378,362 |
| i) certain use | 67,148 | 178,362 |
| ii) uncertain use | 200,000 | 200,000 |
| **4) Commitments underlying credit derivatives: sales of protection** | **-** | **18,000** |
| **5) Assets pledged as collateral for third-party debts** | **12,067** | **1,418** |
| **6) Other commitments** | **-** | **-** |
| **TOTAL** | **2,837,716** | **1,963,509** |

The amount of “guarantees issued” by the Bank is reported at nominal value net of uses and any impairment losses. “Irrevocable commitments to disburse funds” are reported on the basis of the commitment net of amount already disbursed and any impairment losses.

“Irrevocable commitments to disburse funds” where use by the applicant is certain and specified include purchases (spot and forward) of securities not yet settled as well as deposits and loans to be disbursed at a future date.

The amount reported under “commitments underlying credit derivatives: sales of protection” refers to the notional value net of amounts disbursed and any impairment losses.

## 2. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| 1. Financial assets held for trading | - | - |
| 2. Financial assets at fair value | - | - |
| 3. Financial assets available for sale | 2,016,927 | 2,196,407 |
| 4. Financial assets held to maturity | 3,423,054 | 1,979,189 |
| 5. Due from banks | 50,144 | 50,136 |
| 6. Loans to customers | 672,161 | 435,530 |
| 7. Property and equipment | - | - |

The item includes securities deposited as collateral with the Bank of Italy in the amount of €76,538 thousand, to secure settlement of securities and derivatives in the amount of €839,592 thousand, for repurchase agreements in the amount of €5,070,206 thousand, for operations on the MIC in the amount of €125,807 thousand and for refinancing operations with the European Central Bank in the amount of €50,144 thousand.

In addition to the foregoing, the ECB was pledged government-guaranteed bonds issued by the Bank as security in the amount of €290 million pursuant to Article 8 of Decree Law 201 of December 6, 2011, ratified with Law 214 of December 22, 2011.

## 3. INFORMATION ON OPERATING LEASES

There were no such positions as of the balance sheet date.

## 4. MANAGEMENT AND INTERMEDIATION SERVICES

This section regards transactions carried out by the Bank on behalf of third parties.

| | TOTAL 31/12/2013 |
|---|---|
| **1. Order execution on behalf of customers** | **224,066,481** |
| a) Purchases | 99,037,340 |
| 1. Settled | 98,053,162 |
| 2. Not yet settled | 984,178 |
| b) Sales | 125,029,141 |
| 1. Settled | 124,680,542 |
| 2. Not yet settled | 348,599 |
| **2. Asset management** | **1,331,970** |
| a) Individual | 1,331,970 |
| b) Collective | - |
| **3. Securities custody and administration** | **347,951,887** |
| a) Third-party securities held as part of depository bank services | 1,579,312 |
| (excluding asset management) | |
| 1. Securities issued by reporting entity | - |
| 2. Other securities | 1,579,312 |
| b) Other third-party securities on deposit (excluding asset management): other | 133,469,975 |
| 1. Securities issued by reporting entity | 3,751,010 |
| 2. Other securities | 129,718,965 |
| c) Third-party securities deposited with third parties | 125,217,123 |
| d) Securities owned by bank deposited with third parties | 87,685,477 |
| **4. Other transactions** | **-** |

## 5. FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

| | GROSS AMOUNT OF FINANCIAL ASSETS (A) | FINANCIAL LIABILITIES OFFSET (B) | NET AMOUNT OF FINANCIAL ASSETS REPORTED (C=A-B) | RELATED AMOUNTS NOT OFFSET | | NET AMOUNT 31/12/2013 (F=C-D-E) | NET AMOUNT 31/12/2012 |
|---|---|---|---|---|---|---|---|
| | | | | FINANCIAL INSTRUMENTS (D) | CASH COLLATERAL RECEIVED (E) | | |
| 1. Derivatives | 275,559 | - | 275,559 | 104,671 | - | 170,888 | - |
| 2. Repurchase agreements | 5,879 | - | 5,879 | - | - | 5,879 | - |
| 3. Securities lending | - | - | - | - | - | - | - |
| 4. Other | - | - | - | - | - | - | - |
| **TOTAL 31/12/2013** | **281,438** | **-** | **281,438** | **104,671** | **-** | **176,767** | **X** |
| **TOTAL 31/12/2012** | **-** | **-** | **-** | **-** | **-** | **X** | **-** |

## 6. FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

| | GROSS AMOUNT OF FINANCIAL LIABILITIES (A) | FINANCIAL ASSETS OFFSET (B) | NET AMOUNT OF FINANCIAL LIABILITIES REPORTED (C=A-B) | RELATED AMOUNTS NOT OFFSET | | NET AMOUNT 31/12/2013 (F=C-D-E) | NET AMOUNT 31/12/2012 |
|---|---|---|---|---|---|---|---|
| | | | | FINANCIAL INSTRUMENTS (D) | CASH COLLATERAL PAID (E) | | |
| 1. Derivatives | 348,039 | - | 348,039 | 52,506 | 81,795 | 213,738 | - |
| 2. Repurchase agreements | 58,176 | - | 58,176 | 5,879 | - | 52,297 | - |
| 3. Securities lending | - | - | - | - | - | - | - |
| 4. Other | - | - | - | - | - | - | - |
| **TOTAL 31/12/2013** | **406,215** | **-** | **406,215** | **58,385** | **81,795** | **266,035** | **X** |
| **TOTAL 31/12/2012** | **-** | **-** | **-** | **-** | **-** | **X** | **-** |

# Part - C

# Information on the income statement

# PART C – INFORMATION ON THE INCOME STATEMENT

## SECTION 1 - INTEREST – ITEMS 10 AND 20

This item reports interest income and expense, similar income and expense in respect, respectively, of cash and cash equivalents, financial assets held for trading, financial assets at fair value, financial assets available for sale, financial assets held to maturity and loans (items 10, 20, 30, 40, 50, 60 and 70 of assets) and debt, securities issued, financial liabilities held for trading and financial liabilities at fair value (items 10, 20, 30, 40, and 50 of liabilities) as well as any other interest accrued during the period

Interest income and expense also include positive or negative differences and margins accrued as at the reporting date and expiring or closed as at the reporting date in respect of hedge derivatives and derivatives associated with the fair value option.

### 1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

| | DEBT SECURITIES | LOANS | OTHER TRANSACTIONS | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|---|---|---|
| 1 Financial assets held for trading | 208 | - | 12,310 | **12,518** | **8,740** |
| 2 Financial assets available for sale | 80,610 | - | - | **80,610** | **87,424** |
| 3 Financial assets held to maturity | 94,377 | - | - | **94,377** | **44,387** |
| 4 Due from banks | 71,262 | 171,023 | - | **242,285** | **263,828** |
| 5 Loans to customers | 2,510 | 26,329 | | **28,839** | **30,736** |
| 6 Financial assets at fair value | 5,620 | - | - | **5,620** | **8,251** |
| 7 Hedging derivatives | X | X | 2,753 | **2,753** | **-** |
| 8 Other assets | X | X | - | **-** | **-** |
| **TOTAL** | **254,587** | **197,352** | **15,064** | **467,003** | **443,366** |

### 1.2 INTEREST AND SIMILAR INCOME: DIFFERENCES ON HEDGING TRANSACTIONS

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| A. Positive differences on hedging transactions: | 26,752 | - |
| B. Negative differences on hedging transactions: | (23,998) | - |
| **C. Balance (A-B)** | **2,754** | **-** |

### 1.3 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

It was not felt necessary to provide other information in addition to that reported in the previous tables..

#### 1.3.1 INTEREST INCOME ON FOREIGN-CURRENCY FINANCIAL ASSETS

| VOCI | TOTAL 31/12/2012 | TOTAL 31/12/2011 |
|---|---|---|
| 1.Debt securities | - | 6 |
| 2.Due from banks | 834 | 559 |
| 3.Loans to mutual banks | 2,019 | 3,294 |
| 4.Loans to customers | 32 | 200 |
| **TOTAL** | **2,886** | **4,059** |

#### 1.3.2 INTEREST INCOME FROM FINANCE LEASES

The table has not been completed because there were no such positions as of the balance sheet date.

## 1.4 INTEREST AND SIMILAR EXPENSE: COMPOSITION

| | DEBTS | SECURITIES | OTHER TRANSACTIONS | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|---|---|---|
| 1.Due to central banks | (63,532) | X | - | **(63,532)** | **(105,777)** |
| 2.Due to banks | (93,360) | X | - | **(93,360)** | **(116,947)** |
| 3.Due to customers | (62,228) | X | - | **(62,228)** | **(29,748)** |
| 4.Securities issued | X | (151,955) | - | **(151,955)** | **(81,308)** |
| 5.Financial liabilities held for trading | (50) | - | - | **(50)** | **-** |
| 6.Financial liabilities carried at fair value | - | (24,833) | - | **(24,833)** | **(24,615)** |
| 7.Other liabilities and provisions | X | X | - | - | - |
| 8.Hedging derivatives | X | X | - | **-** | **(1,199)** |
| **TOTAL** | **(219,170)** | **(176,788)** | **-** | **(395,958)** | **(359,594)** |

## 1.5 INTEREST AND SIMILAR EXPENSE: DIFFERENCES ON HEDGING TRANSACTIONS

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| A. Positive differences on hedging transactions: | - | 28,921 |
| B. Negative differences on hedging transactions: | - | (30,120) |
| **C. Balance (A-B)** | **-** | **(1,199)** |

## 1.6 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

It was not felt necessary to provide other information in addition to that reported in the previous tables.

### 1.6.1 Interest expense on foreign-currency liabilities

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| 1.Due to banks | (1,545) | (1,526) |
| 2.Due to mutual banks | (846) | (1,180) |
| **TOTAL** | **(2,391)** | **(2,706)** |

### 1.6.2 Interest expense on liabilities in respect of finance leases

The table has not been completed because there were no such positions as of the balance sheet date.

## SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

These items report income and expense in respect of services provided and received by the Bank.

### 2.1 FEE AND COMMISSION INCOME: COMPOSITION

| TIPOLOGIA SERVIZI/VALORI | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **a) guarantees issued** | **706** | **742** |
| **b) credit derivatives** | **-** | **-** |
| **c) management, intermediation and advisory services:** | **25,439** | **22,690** |
| 1. trading in financial instruments | 8,643 | 7,076 |
| 2. foreign exchange | 185 | 214 |
| 3. asset management | - | 277 |
| 3.1. individual | - | 277 |
| 3.2. collective | - | - |
| 4. securities custody and administration | 5,894 | 6,960 |
| 5. depository services | 4,545 | 3,521 |
| 6. securities placement | 2,703 | 1,911 |
| 7. order collection and transmission | 1,538 | 1,372 |
| 8. advisory services | 1,930 | 1,359 |
| 8.1 concerning investments | - | 48 |
| 8.2 concerning financial structure | 1,930 | 1,311 |
| 9. distribution of third-party services | - | - |
| 9.1. asset management | - | - |
| 9.1.1. individual | - | - |
| 9.1.2. collective | - | - |
| 9.2. insurance products | - | - |
| 9.3. other | - | - |
| **d) collection and payment services** | **48,917** | **54,279** |
| **e) servicing activities for securitizations** | **25** | **133** |
| **f) services for factoring transactions** | **-** | **-** |
| **g) tax collection services** | **-** | **-** |
| **h) management of multilateral trading systems** | **-** | **-** |
| **i) holding and management of current accounts** | **276** | **277** |
| **j) other services** | **273,265** | **260,574** |
| **TOTAL** | **348,628** | **338,695** |

## 2.2 FEE AND COMMISSION INCOME: DISTRIBUTION CHANNELS FOR PRODUCTS AND SERVICES

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **a) own branches:** | **2,703** | **2,188** |
| 1. asset management | - | 277 |
| 2. securities placement | 2,703 | 1,911 |
| 3. third-party services and products | - | - |
| **b) off-premises distribution:** | **-** | **-** |
| 1. asset management | - | - |
| 2. securities placement | - | - |
| 3. third-party services and products | - | - |
| **c) other distribution channels:** | **-** | **-** |
| 1. asset management | - | - |
| 2. securities placement | - | - |
| 3. third-party services and products | - | - |

## 2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **a) guarantees received** | **(3,079)** | **(2,924)** |
| **b) credit derivatives** | **-** | **-** |
| **c) management and intermediation services:** | **(7,137)** | **(6,274)** |
| 1. trading in financial instruments | (1,181) | (1,072) |
| 2. foreign exchange | (95) | (55) |
| 3. asset management: | - | - |
| 3.1 own portfolio | - | - |
| 3.2 third-party portfolio | - | - |
| 4. securities custody and administration | (3,575) | (3,572) |
| 5. placement of financial instruments | (2,286) | (1,575) |
| 6. off-premises distribution of securities, products and services | - | - |
| **d) collection and payment services** | **(7,854)** | **(10,369)** |
| **e) other services** | **(210,444)** | **(203,666)** |
| **TOTAL** | **(228,514)** | **(223,233)** |

# SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

This item reports dividends on shares or units other than those accounted for using the equity method. It also includes dividends and other income on units in collective investment undertakings.

## 3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

| | TOTAL 31/12/2013 | | TOTAL 31/12/2012 | |
|---|---|---|---|---|
| | DIVIDENDS | INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS | DIVIDENDS | INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS |
| A.Financial assets held for trading | 6 | - | 6 | - |
| B.Financial assets available for sale | 154 | - | 24 | 3,055 |
| C.Financial assets at fair value | - | - | - | - |
| D.Equity investments | - | X | 182 | X |
| **TOTAL** | **160** | **-** | **212** | **3,055** |

## SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

The item reports the overall difference in respect of:

a) the balance of gains and losses on transactions classified under "financial assets held for trading" and "financial liabilities held for trading", including the outcome of the measurement of such transactions. It does not include gains and losses on derivatives associated with the fair value option, which are reported in part under interest in items 10 and 20, and in part under "net gain (loss) on financial assets and liabilities at fair value through profit or loss" (item 110 of the income statement);

b) the balance of gains and losses on financial transactions other than those designated as at fair value and hedge transactions, denominated in foreign currency, including the outcome of the measurement of such transactions.

### 4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

| | CAPITAL GAINS (A) | TRADING PROFITS (B) | CAPITAL LOSSES (C) | TRADING LOSSES (D) | NET GAIN [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | **206** | **15,198** | **(195)** | **(93)** | **15,116** |
| 1.1 Debt securities | 51 | 15,142 | (181) | (84) | 14,928 |
| 1.2 Equity securities | 104 | 3 | (14) | (9) | 84 |
| 1.3 Units in collective investment undertakings | 51 | 53 | - | - | 104 |
| 1.4 Loans | - | - | - | - | - |
| 1.5 Other | - | - | - | - | - |
| **2. Financial liabilities held for trading** | **5** | **67** | **-** | **-** | **72** |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Payables | 5 | 67 | - | - | 72 |
| 2.3 Other | - | - | - | - | - |
| **3. Financial assets and liabilities: foreign exchange differences** | **X** | **X** | **X** | **X** | **(3,765)** |
| **4. Derivatives** | **252,201** | **280,693** | **(264,978)** | **(264,860)** | **9,052** |
| 4.1 Financial derivatives: | 252,201 | 280,693 | (264,978) | (264,860) | 9,052 |
| - on debt securities and interest rates | 241,695 | 265,846 | (259,944) | (245,138) | 2,459 |
| - on equity securities and equity indices | 15 | 329 | (197) | (152) | (5) |
| - on foreign currencies and gold | X | X | X | X | 5,996 |
| - other | 10,491 | 14,518 | (4,837) | (19,570) | 602 |
| 4.2 Credit derivatives | - | - | - | - | - |
| **TOTAL** | **252,412** | **295,958** | **(265,173)** | **(264,953)** | **20,475** |

## SECTION 5 - NET GAIN (LOSS) ON HEDGING ACTIVITIES – ITEM 90

The item reports the overall difference in respect of:

a) the outcome of the measurement of fair value hedges;

b) the outcome of the measurement of the financial assets and liabilities covered by fair value hedges;

c) the positive or negative differences and margins on hedge derivatives other than those reported under interest.

### 5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

| COMPONENTI REDDITUALI/VALORI | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **A.Gain on:** | | |
| A.1 Fair value hedges | 10,405 | 2,564 |
| A.2 Hedged financial assets (fair value) | 19,913 | 84,679 |
| A.3 Hedged financial liabilities (fair value) | 24,525 | 72 |
| A.4 Cash flow hedges | 402 | - |
| A.5 Assets and liabilities in foreign currencies | - | - |
| **TOTAL INCOME ON HEDGING ACTIVITIES (A)** | **55,245** | **87,315** |
| **B.Loss on:** | | |
| B.1 Fair value hedges | (34,678) | (77,884) |
| B.2 Hedged financial assets (fair value) | (24,053) | (2,550) |
| B.3 Hedged financial liabilities (fair value) | (747) | (2,889) |
| B.4 Cash flow hedges | - | (3,564) |
| B.5 Assets and liabilities in foreign currencies | - | - |
| **TOTAL EXPENSE ON HEDGING ACTIVITIES (B)** | **(59,478)** | **(86,887)** |
| **C.NET GAIN (LOSS) ON HEDGING ACTIVITIES (A - B)** | **(4,234)** | **428** |

The amounts regard the following transactions:

- hedges of debt securities held by the Bank and issued by Iccrea BancaImpresa, obtained using interest rate swaps
- fair value hedges of Italian government BTPs linked to European inflation using asset swaps;
- cash flow hedges of Italian government BTPs linked to European inflation;
- hedges of 5 bonds issued by the Bank using interest rate swaps and interest rate options;
- hedges of loans to BCC Solutions and BCC CreditoConsumo using interest rate swaps;
- hedges of treasury deposits and repurchase agreements using overnight indexed swaps;
- macro-hedges of portfolios of deposits and repurchase agreements using overnight indexed swaps.

## SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE – ITEM 100

This reports the positive or negative balances between the gains and losses realized with the sale of financial assets or liabilities other than those held for trading or designated as at fair value.

### 6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

| | TOTAL 31/12/2013 | | | TOTAL 31/12/2012 | | |
|---|---|---|---|---|---|---|
| | GAINS | LOSSES | NET GAIN (LOSS) | GAINS | LOSSES | NET GAIN (LOSS) |
| **Financial assets** | | | | | | |
| 1. Due from banks | 2 | (151) | (149) | 2 | (1) | 1 |
| 2. Loans to customers | - | (0) | (0) | - | - | - |
| 3. Financial assets available for sale | 52,925 | (21,800) | 31,124 | 13,799 | (7,225) | 6,574 |
| 3.1 Debt securities | 52,923 | (21,800) | 31,123 | 13,794 | (7,214) | 6,580 |
| 3.2 Equity securities | 1 | - | 1 | - | (11) | (11) |
| 3.3 Units in collective investment undertakings | - | - | - | 5 | - | 5 |
| 3.4 Loans | - | - | - | - | - | - |
| 4. Financial assets held to maturity | - | - | - | - | - | - |
| **TOTAL ASSETS** | **52,926** | **(21,951)** | **30,975** | **13,801** | **(7,226)** | **6,575** |
| **Financial liabilities** | | | | | | |
| 1. Due to banks | - | - | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | - |
| 3. Securities issued | 156 | (3,068) | (2,912) | 961 | (396) | 565 |
| **TOTAL LIABILITIES** | **156** | **(3,068)** | **(2,912)** | **961** | **(396)** | **565** |

## SECTION 7 - NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE – ITEM 110

This section reports the positive or negative balance between gains and losses on financial assets/liabilities at fair value and the operationally connected instruments for which the fair value option has been exercised, including the impact of the fair value measurement of such instruments (see also sections 3 of assets and 5 of liabilities).

### 7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE: COMPOSITION

| | CAPITAL GAINS (A) | TRADING PROFITS (B) | CAPITAL LOSSES (C) | TRADING PROFITS (D)) | NET GAIN (LOSS) [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets** | **15,450** | **788** | **-** | **-** | **16,238** |
| 1.1 Debt securities | 15,450 | 788 | - | - | 16,238 |
| 1.2 Equity securities | - | - | - | - | - |
| 1.3 Units in collective investment undertakings | - | - | - | - | - |
| 1.4 Loans | - | - | - | - | - |
| **2. Financial liabilities** | **210** | **-** | **(22,708)** | **(418)** | **(22,916)** |
| 2.1 Debt securities | 210 | - | (22,708) | (418) | (22,916) |
| 2.2 Due to banks | - | - | - | - | - |
| 2.3 Due to customers | - | - | - | - | - |
| **3. Financial assets and liabilities: foreign exchange differences** | **X** | **X** | **X** | **X** | **-** |
| **4. Financial and credit derivatives** | **-** | **-** | **(11,118)** | **-** | **(11,118)** |
| **TOTAL AT 31/12/2013** | **15,660** | **788** | **(33,826)** | **(418)** | **(17,796)** |

## SECTION 8 - NET LOSSES/RECOVERIES ON IMPAIRMENT – ITEM 130

This item reports the balance of writedowns and writebacks in respect of the impairment of loans to customers and banks, financial assets available for sale, financial assets held to maturity and other financial transactions.

### 8.1 NET LOSSES/RECOVERIES ON IMPAIRMENT: COMPOSITION

| | LOSSES (1) | | | RECOVERIES (2) | | | | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|---|---|---|---|---|---|---|
| | SPECIFIC | | PORTFOLIO | SPECIFIC | | PORTFOLIO | | | |
| | WRITEOFFS | OTHER | | A | B | A | B | | |
| **A. Due from banks** | **-** | **-** | **-** | **-** | **12,017** | **-** | **-** | **12,017** | **20** |
| - Loans | - | - | - | - | 12,017 | - | - | 12,017 | 20 |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| **B. Loans to customers:** | **(12)** | **(2,597)** | **-** | **332** | **3,129** | **-** | **59** | **912** | **(4,128)** |
| Impaired receivables acquired | | | | | | | | | |
| - Loans | - | - | - | - | - | - | - | - | - |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| Other receivables | | | | | | | | | |
| - Loans | (12) | (2,597) | - | 332 | 3,129 | - | 59 | 912 | (4,128) |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| **C. TOTAL** | **(12)** | **(2,597)** | **-** | **332** | **15,147** | **-** | **59** | **12,929** | **(4,109)** |

Key: A: Recoveries from interest/ B: Other recoveries

"Recoveries from interest" report writebacks associated with the passage of time, corresponding to the interest accrued during the period at the original effective interest rate previously used to calculate the writedown.

The writebacks mainly regard receivables due from Landsbanki Island hf. in the amount of €9,481 thousand, di Kaupthing Bank hf. per 2,537 thousand and from the Lehman Brothers Group in the amount of € 1,472 thousand.

### 8.2 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

The table has not been completed because there were no such positions as of the balance sheet date.

### 8.3 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION

The table has not been completed because there were no such positions as of the balance sheet date.

### 8.4 NET LOSSES/RECOVERIES ON IMPAIRMENT OF OTHER FINANCIAL INSTRUMENTS: COMPOSITION

The table has not been completed because there were no such positions as of the balance sheet date.

## SECTION 9 - ADMINISTRATIVE EXPENSES – ITEM 150

In addition to expenses in respect of employees, personnel expenses include:

- expenses for Bank employees seconded to other companies and the related recovery of costs;
- expenses in respect of persons hired on atypical contracts;
- reimbursements of expenses for employees of other companies seconded to the Bank;
- the compensation of directors and members of the Board of Auditors.

### 9.1 PERSONNEL EXPENSES: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1) Employees** | **(61,900)** | **(57,644)** |
| a) wages and salaries | (42,332) | (39,986) |
| b) social security contributions | (11,393) | (10,405) |
| c) termination benefits | (2,948) | (2,793) |
| d) pensions | - | - |
| e) allocation to employee termination benefit provision | (264) | (682) |
| f) allocation to provision for retirement and similar liabilities | - | - |
| - defined contribution | - | - |
| - defined benefit | - | - |
| g) payments to external pension funds: | (1,813) | (1,700) |
| - defined contribution | (1,813) | (1,700) |
| - defined benefit | - | - |
| h) costs in respect of agreements to make payments in own equity instruments | - | - |
| i) other employee benefits | (3,150) | (2,079) |
| **2) Other personnel** | **(15)** | **(49)** |
| **3) Board of Directors and members of Board of Auditors** | **(707)** | **(802)** |
| **4) Retired personnel** | **-** | **-** |
| **5) Recovery of expenses for employees seconded to other companies** | **259** | **228** |
| **6) Reimbursement of expenses for third-party employees seconded to the Company** | **(1,094)** | **(920)** |
| **TOTAL** | **(63,458)** | **(59,186)** |

## 9.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **Employees:** | **720** | **685** |
| a) senior management | 16 | 13 |
| b) middle management | 325 | 308 |
| c) other employees | 379 | 364 |
| **Other personnel** | **8** | **6** |

## 9.3 DEFINED-BENEFIT COMPANY PENSION PLANS: TOTAL COSTS

The table has not been completed because there were no such positions as of the balance sheet date.

## 9.4 OTHER EMPLOYEE BENEFITS

The item "other employee benefits" mainly includes benefits such as lunch vouchers, insurance policies and training courses.

## 9.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **Information technology** | **(48,998)** | **(43,013)** |
| **Property and movables** | **(9,428)** | **(8,957)** |
| Rental and fees | (8,503) | (8,084) |
| Cleaning | (518) | (486) |
| Security | (408) | (387) |
| **Goods and services** | **(15,953)** | **(13,818)** |
| Telephone and data transmission | (4,310) | (4,391) |
| Postal | (5,552) | (4,001) |
| Asset transport and counting | (64) | (68) |
| Electricity, heating and water | (1,335) | (1,249) |
| Transportation | (753) | (685) |
| Office supplies and printed materials | (3,688) | (3,187) |
| Subscriptions, magazines and newspapers | (252) | (237) |
| **Professional services** | **(10,968)** | **(13,727)** |
| Professional fees | (4,159) | (3,329) |
| Audit fees | (235) | (285) |
| Legal and notary costs | (1,152) | (1,031) |
| Court costs, information and title searches | (51) | (71) |
| Insurance | (753) | (785) |
| Third-party services | (4,619) | (8,227) |
| **Advertising and entertainment** | **(1,171)** | **(340)** |
| **Association dues** | **(3,227)** | **(3,495)** |
| **Other** | **(1,817)** | **(1,010)** |
| **Indirect taxes and duties** | **(11,865)** | **(9,952)** |
| Stamp duty | (10,203) | (9,075) |
| Long-term loan tax - Pres. Decree 601/73 | (1,363) | (589) |
| Municipal property tax | (216) | (222) |
| Other indirect taxes and duties | (83) | (66) |
| **TOTAL** | **(103,428)** | **(94,312)** |

## SECTION 10 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 160

This item reports the positive or negative balance between accruals and any reversals to the income statement of excess provisions in respect of the provisions referred to under sub-item b) ("Other provisions") of item 120 ("Provisions for risks and charges") of liabilities.

### 10.1 NET PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **Net provisions for risks and charges** | **(1)** | **(657)** |

## SECTION 11 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT – ITEM 170

This section reports the balance of writedowns and writebacks of property and equipment.

### 11.1 NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

| | DEPRECIATION (A) | WRITEDOWNS FOR IMPAIRMENT (B) | WRITEBACKS (C) | NET ADJUSTMENT (A + B - C) |
|---|---|---|---|---|
| **A. Property and equipment** | | | | |
| A.1 owned | (2,878) | (149) | - | (3,027) |
| - operating assets | (2,378) | (149) | - | (2,527) |
| - investment property | (500) | - | - | (500) |
| A.2 acquired under finance leases | - | - | - | - |
| - operating assets | - | - | - | - |
| - investment property | - | - | - | - |
| **TOTAL** | **(2,878)** | **(149)** | **-** | **(3,027)** |

## SECTION 12 - NET ADJUSTMENTS OF INTANGIBLE ASSETS – ITEM 180

This section reports the balance of writedowns and writebacks of intangible assets.

### 12.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

| | AMORTIZATION (A) | WRITEDOWNS FOR IMPAIRMENT (B) | WRITEBACKS (C) | NET ADJUSTMENTS (A + B - C) |
|---|---|---|---|---|
| **A. Intangible assets** | | | | |
| A.1 owned | (4,576) | - | - | (4,576) |
| - generated internally by the Bank | - | - | - | - |
| - other | (4,576) | - | - | (4,576) |
| A.2 acquired under finance leases | - | - | - | - |
| **TOTAL** | **(4,576)** | **-** | **-** | **(4,576)** |

## SECTION 13 - OTHER OPERATING EXPENSES/INCOME – ITEM 190

This item reports expenses and income not allocable to other accounts.

### 13.1 OTHER OPERATING EXPENSES: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| Other charges | (521) | (705) |
| **TOTAL** | **(521)** | **(705)** |

### 13.2 OTHER OPERATING INCOME: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| Property rental income | 288 | 286 |
| Recoveries: | | |
| Stamp duty | 8,067 | 7,075 |
| Tax on loan transactions | 1,414 | 604 |
| Revenues from Milano Finanza Web services | 883 | 354 |
| Revenues for personnel administration services | 915 | 493 |
| Insourcing revenues | 6,919 | 6,413 |
| Other income | 2,961 | 3,233 |
| Other income BCC Multimedia | - | 4,760 |
| **TOTAL** | **21,446** | **23,219** |

## SECTION 14 - PROFIT (LOSS) FROM EQUITY INVESTMENTS – ITEM 210

There were no such positions as of the balance sheet date.

## SECTION 15 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS – ITEM 220

There were no such positions as of the balance sheet date.

## SECTION 16 - VALUE ADJUSTMENTS OF GOODWILL – ITEM 230

There were no such positions as of the balance sheet date.

## SECTION 17 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 240

There were no such positions as of the balance sheet date.

## SECTION 18 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 260

The item reports the tax liability – equal to the balance of current taxes and deferred taxes – in respect of income for the period.

### 18.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

| | | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|---|
| 1. | Current taxes (-) | (34,072) | (28,938) |
| 2. | Changes in current taxes from previous periods (+/-) | 660 | 2,060 |
| 3. | Reduction of current taxes for the period (+) | - | - |
| 3. bis | Reduction of current taxes for the period for tax credits under Law 214/2011 (+) | - | - |
| 4. | Change in deferred tax assets (+/-) | (3,730) | (2,388) |
| 5. | Change in deferred tax liabilities (+/-) | - | - |
| **6.** | **INCOME TAXES FOR THE PERIOD (-) (-1+/-2+3+3 bis+/-4+/-5)** | **(37,142)** | **(29,266)** |

### 18.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

| | I.R.E.S. | | I.R.A.P. | |
|---|---|---|---|---|
| | TAXABLE INCOME | TAX | TAXABLE INCOME | TAX |
| **Net profit (loss) for the period before tax** | **77,193** | | | |
| **Theoretical tax liability (27.5%)** | | **(21,228)** | | |
| **Difference between value of production and production costs** | | | **118,464** | |
| **Theoretical tax liability (5.57%)** | | | | **(6,598)** |
| Temporary differences taxable in subsequent periods | | - | - | -- |
| Temporary differences deductible in subsequent periods | 2,028 | (558) | 44 | (2) |
| Reversal of temporary differences of previous periods | | | | |
| Reversal of deductible temporary differences | (15,616) | 4,294 | (363) | 20 |
| Reversal of taxable temporary differences | | - | - | -- |
| Differences that will not reverse in subsequent years: | | | | |
| Permanent decreases in taxable income | (4,372) | 1,203 | (20,902) | 1,164 |
| Permanent increases in taxable income | 17,423 | (4,791) | 24,521 | (1,366) |
| **Taxable income** | **76,656** | | | |
| **Current income taxes** | | **(21,080)** | | |
| **Taxable income for I.R.A.P purposes** | | | **121,764** | |
| **Current I.R.A.P liability** | | | | **(6,782)** |

| **SUMMARY:** | |
|---|---|
| I.R.E.S. | (21,080) |
| I.R.A.P. | (6,782) |
| I.R.E.S. surtax 8.5% | (6,478) |
| Recovery I.R.E.S. in respect of 4% of intercompany interest expense | 268 |
| **TOTAL CURRENT TAXES** | **(34,072)** |

## SECTION 19: PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS – ITEM 280

This item reports the positive or negative balance of income (interest, fees and commissions, etc.) and charges (interest expense, etc.) in respect of groups of assets and liabilities (disposal groups)held for sale, net of current and deferred taxation.

### 19.1 PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| 1. Income | 330 | - |
| 2. Charges | (344) | - |
| 3. Net gain (loss) on valuation of the disposal group and associated liabilities | - | - |
| 4. Profit (loss) from realization | - | - |
| 5. Taxes and duties | (9) | - |
| **PROFIT (LOSS)** | **(23)** | **-** |

### 19.2 BREAKDOWN OF INCOME TAXES FOR DISPOSAL GROUPS HELD FOR SALE

| | TOTAL 1/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| 1. Current taxes (-) | (9) | (884) |
| 2. Change in deferred tax assets (+/-) | - | - |
| 3. Change in deferred tax liabilities (-/+) | - | - |
| **4. INCOME TAXES FOR THE PERIOD (-1+/-2+/-3)** | **(9)** | **(884)** |

## SECTION 20 – OTHER INFORMATION

It was not felt necessary to add further information other than that already provided in the previous tables.

## SECTION 21 – EARNINGS PER SHARE

### 21.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

The section was not completed as there were no such positions as of the balance sheet date.

### 21.2 OTHER INFORMATION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| Net profit for the year | 40,027,802 | 48,376,340 |
| Distributable income | 34,986,000 | 35,070,000 |
| Average number of ordinary shares in circulation | 420,000 | 420,000 |
| Earnings per share | 95.30 | 115.18 |
| Distributable earnings per share | 83.30 | 83.50 |

The above figures are reported in euro.

# Part - D

# Comprehensive income

# PART D – COMPREHENSIVE INCOME

## DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

| | | GROSS AMOUNT | INCOME TAXES | NET AMOUNT |
|---|---|---|---|---|
| **10.** | **Net profit (loss) for the period** | **X** | **X** | **40,027,802** |
| | **Other comprehensive income not recyclable to profit or loss** | | | |
| **20.** | **Property and equipment** | **-** | **-** | **-** |
| **30.** | **Intangible assets** | **-** | **-** | **-** |
| **40.** | **Defined-benefit plans** | **(204,911)** | **56,351** | **(148,560)** |
| **50.** | **Non-current assets held for sale** | **-** | **-** | **-** |
| **60.** | **Valuation reserves of equity investments accounted for with equity method** | **-** | **-** | **-** |
| | **Other comprehensive income recyclable to profit or loss** | | | |
| **70.** | **Hedging of investments in foreign operations:** | **-** | **-** | **-** |
| | a) fair value changes | - | - | - |
| | b) reversal to income statement | - | - | - |
| | c) other changes | - | - | - |
| **80.** | **Foreign exchange differences:** | **-** | **-** | **-** |
| | a) value changes | - | - | - |
| | b) reversal to income statement | - | - | - |
| | c) other changes | - | - | - |
| **90.** | **Cash flow hedges:** | **766,894** | **(253,612)** | **513,282** |
| | a) fair value changes | 1,169,332 | (386,698) | 782,634 |
| | b) reversal to income statement | (402,438) | 133,086 | (269,352) |
| | c) other changes | - | - | - |
| **100.** | **Financial assets available for sale:** | **34,853,381** | **(11,244,896)** | **23,608,485** |
| | a) fair value changes | 69,085,174 | (22,565,350) | 46,519,824 |
| | b) reversal to income statement | (34,231,793) | 11,320,454 | (22,911,339) |
| | - impairment adjustments | - | - | - |
| | - gain/loss on realization | (34,231,793) | 11,320,454 | (22,911,339) |
| | c) other changes | - | - | - |
| **110.** | **Non-current assets held for sale:** | **-** | **-** | **-** |
| | a) fair value changes | - | - | - |
| | b) reversal to income statement | - | - | - |
| | c) other changes | - | - | - |
| **120.** | **Valuation reserves of equity investments accounted for with equity method (pro rata):** | **-** | **-** | **-** |
| | a) fair value changes | - | - | - |
| | b) reversal to income statement | - | - | - |
| | - impairment adjustments | - | - | - |
| | - gain/loss on realization | - | - | - |
| | c) other changes | - | - | - |
| **130.** | **Total other comprehensive income** | **35,415,364** | **(11,442,157)** | **23,973,207** |
| **140** | **Comprehensive income (item 10+130)** | **35,415,364** | **(11,442,157)** | **64,001,009** |

Part - E

# Risks and risk management policies

# PART E
# RISKS AND RISK MANAGEMENT POLICIES

## INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

### ORGANISATION OF RISK MANAGEMENT

#### ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

In recent years, the Group has undertaken a gradual process to upgrade its methods and tools for managing credit, market and operational risks, bringing the system into line with external regulations and operational and internal monitoring needs.

In this context, with a view to enhancing the effectiveness of risk management and the efficiency of the overall system of internal controls while responding to developments in the regulatory environment, the market and the organizational, operational and corporate arrangements of the Group, the risk management governance and organizational system was revised in the first half of 2012, providing for the centralization of functional responsibility for risk management operations with the Parent Company and introducing the position of Chief Risk Officer (CRO), who acts as the manager responsible for Group risk management and the liaison for the boards of directors and senior management of Group companies in the field of risk management. This officer develops an integrated and composite vision of the overall set of risks assumed and managed by the companies and by the Group as a whole.

Group Risk Management is responsible for providing recommendations on risk policy, analyzing current and prospective risks, ensuring the quality and effectiveness of monitoring procedures, defining and/or validating risk measurement methods, ensuring the correct assessment of the consequences of new strategies in terms of the risk they generate.

Finally, the ongoing monitoring of risks performed by Risk Management is also intended to ensure that the management controls for each type of risk to which the Group and the individual Group companies are exposed remain effective over time. In this regard, the findings of monitoring activities are systematically reviewed within the decision-making process for identifying consequent risk mitigation and management initiatives.

The risk management organizational model is completed by the organizationally independent risk management activities at Banca Sviluppo, which the CRO coordinates and sets policy.

A decentralized governance model was developed for compliance risk, including money-laundering risk. In the system, the Parent Company unit (the Compliance unit), which is part of the Group Risk Management function, coordinates and sets policy for the independent compliance units at the subsidiaries. The subsidiaries exercise their responsibilities for managing compliance risk, money-laundering risk and operational risks through specific units established at the individual companies. The Operational Risk, Compliance and Anti-Money Laundering Intercompany Committee (the Compliance Committee) was established to support these coordination and policy activities, with the participation of the heads of all the compliance units.

#### THE GROUP RISK MANAGEMENT UNIT

In the Iccrea Banking Group, a Financial Risks unit was established within the new Group Risk Management structure. It is based at Iccrea Banca, where Group Finance operations are managed. The Financial Risks unit is composed of the following sub-units: Market Risks; ALM and Liquidity Risk; and Bank Counterparties Risk.

### THE RISK CULTURE

The ICCREA Banking Group devotes special attention to managing risk.

All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Iccrea Banking Group. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the daily/periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the companies of the Iccrea Banking Group in the long term, systematic and independent Internal Auditing units, etc.).

**STRESS TESTING**

In order to ensure the dynamic monitoring and management of risk, the Group has implemented a stress testing system. Stress testing is an integral part of the risk management system. It is used in two main areas: capital planning and regulatory capital adequacy. It is an instrument considered in the ICAAP. The methods adopted are based on the main risk factors.

Stress testing can be carried out at the level of the Group, business unit or portfolio, and the scenarios used are supervised by Group Risk Management.

Since its creation, the stress testing framework has undergone updating both of the methods deployed and its integration with operations.

# SECTION 1 – CREDIT RISK

## Qualitative disclosures

### 1. General aspects

Credit risk is the possibility that a borrower could default on its obligation. In this case, the economic loss corresponds to the difference between the value of the exposure and any amounts actually recovered.

For an intermediary, credit risk can be:

- direct, in respect of exposures to the customer;
- indirect, in respect of commitments assumed by the customer for guarantees granted to banks in favor of third parties.

In general, the credit risk associated with an exposure is expressed through the components set out in prudential regulations (Bank of Italy Circular no. 263/2006 as updated).

The strategies underpinning the lending activity of the Iccrea Group are based on the following principles:

- pursue balanced growth of loan assets that is consistency with our propensity for risk;
- contain the risk of insolvency through careful analysis of creditworthiness;
- promote the adoption of procedures for assuming, managing and controlling credit risk that are capable of ensuring effective management of those risks.

Iccrea Banca's credit activities were focused on:

- granting loans, credit facilities and operating credit to meet the mutual banks' funding requirements;
- renewing and expanding relationships in the "large corporate" segment while developing the relationship between these entities, the mutual banks and the payment and e-money services offered by the Bank;
- supporting the development of the business of the companies of the Iccrea Banking Group.

In order to increase the effectiveness of the governance of credit risk in respect of bank counterparties and other supervised entities and to strengthen the overall system of internal controls, a **Credit Policy** has been established to govern the roles and responsibilities of the main actors, define the assessment methodologies used to determine creditworthiness used both in assuming and in monitoring and managing risk and the system of limits governing operations, which has been developed in line with the risk appetite framework set out in the new regulations for the internal control system.

### 2. Credit risk management policies

#### 2.1 Organizational aspects

*Organizational units involved*

The organizational unit of Iccrea Banca SpA responsible for assuming and managing credit risk is the Loans department, which is responsible for developing – in conformity with the strategic objectives of the Bank – the operational plans for lending activities. In addition, it also manages – within the scope of its operational responsibilities - lending activities for the purpose of granting loans and operating credit in support of the operations of the various business lines as well as relations with correspondents abroad. It also plays a role, in coordination with the Financial Risks unit, in managing the risks associated with granting loans and operating credit.

Within the Loans department, the Institutional and Retail Credit unit carries out the activities associated with lending to this category of customers within the Iccrea Banking Group and monitors credit positions. It also performs activities regarding the processing of bankers' drafts issued by Iccrea Banca S.p.A. and the granting of operating credit and loans to bank counterparties, as well as managing substandard loans and registering/controlling loan positions in the information system.

In general, the Lending department ensures the regular performance of the various phases of the credit process, approving applications within the scope of its powers and ensuring the adequacy of the line controls in the operations for which it is responsible.

Within the Financial Risks unit, the Bank Counterparty Risk Unit manages exposures in respect of banks and other financial intermediaries, managing monitoring systems and models for the assessment of bank creditworthiness and develops policy recommendations with regard to the assumption and management of risk. It is also responsible for second-level control of the risks assigned to it.

More specifically, the unit is responsible for promoting the adoption of procedures for assuming, managing and controlling credit risk designed to guarantee effective management of such risk in line with the principles set out in supervisory regulations and management requirements. The unit also produces independent reporting on such risks, participating in updating and developing rules governing credit risk, with particular regard to delegated powers and operational limits.

Inspections are performed by the Controls unit.

*Segmentation of credit exposures*

In order to manage credit risk, credit exposure is segmented into portfolios on the basis of the type of loan/credit facility and type of counterparty (mutual banks, other banks, ordinary customers).

Further segmentation is carried out within each customer segment on the basis of the technical form (current account overdrafts, loans, etc.) and maturity (short, medium and long term).

*The credit process*

The credit process is organized into the following phases:

- Start of application processing: collection of data need to start the lending/loan revision process with a specific counterparty;
- Processing: assessment of the creditworthiness of the counterparty and the feasibility of the transaction;
- Decision proposal: preparation and formalization of the decision proposal to be submitted to the decision-making body;
- Authorization: approval of the decision by the decision-making body and start of authorized operations;
- Monitoring: tracking of specific performance indicators (performance controls) and structural assessment of the overall risk profile of the borrower (performance monitoring).

## 2.2 Measurement, management and control systems

*Assessment framework and monitoring*

The ***assessment framework*** is based on the best practices used by the rating agencies and is conducted on the basis of an analysis of the financial soundness of the potential borrower, taking into account quantitative data in the form of financial and operational indicators and qualitative information on management's standing, together with forecasts for medium/long-term transactions. More specifically, the assessment framework is made up of two "**modules**", called **Structural** and **Performance.** The assessment of counterparty creditworthiness begins with an analysis of the information drawn from the financial statements and explanatory notes, developed with forward-looking valuation techniques (the Structural Module). The partial assessment thus obtained is supplemented with quantitative and qualitative information from internal sources (the Performance Module).

The tools used during the loan processing stage differ according to the type of counterparty and the product/service requested, taking into consideration, in the case of existing customers, developments in past and/or present transactions.

The ***monitoring framework***, which is similar to the assessment framework to ensure the uniformity of information being provided to units and the decision-making process, consists of a structure system of **early warning signals** represented by **key risk indicators** (KRI) determined using monitoring indicators (financial indicators and internal corporate indicators) and thresholds, which are specified using statistical analyses that characterize the state of alert.

*Risk limits*

The credit risk management policy is defined through a system of risk appetite limits specified at the individual counterparty level.

A Risk Ceiling is specified for each counterparty. It represents the overall size of the exposure to that counterparty, and includes all transactions with the Bank, governed by a structure of delegated powers for both loans and operating credit, which represent the specific applications. The Risk Ceiling takes account of the credit risk mitigation effects of guarantees and cannot exceed the risk appetite.

The Risk Ceiling is monitored on a daily basis through the risk profile, which is the algebraic sum of the lines of credit granted, with the total being the Risk Ceiling. Two warning thresholds are also specified, which if exceeded trigger the transmission of a report from Risk Management to the Loans department and/or senior management for corrective action and subsequent reporting to the Board of Directors.

*Monitoring systems*

The systematic monitoring process, which is aimed at assessing problem positions and tracking developments in positions to ensure correct classification and activate any consequent operational responses, makes use of a specific application. More specifically, the control procedure reports performance problems on a monthly basis, assigning the positions to the various impairment categories. The discovery of anomalies triggers a systematic monitoring and assessment process for loans to customers.

The reporting of exposures subject to a ceiling is carried out daily, using a specific automated procedure.

Within the Group, taking account of the specific experience and specializations of the main subsidiaries, work has continued on developing internal assessment systems for bank counterparties and ordinary customers. The system is maintained and updated constantly by the Financial Risks unit. The findings of the assessments conducted with the assessment system are made available to the line units.

## 2.3 Risk mitigation techniques

A series of measures have been developed to upgrade the Bank's organizational and IT resources in order to create effective structural and process arrangements that ensure full compliance with the organizational, financial and legal requirements under the new regulations and govern the entire process of acquiring, assessing, controlling and realizing instruments used to mitigate credit risk.

Guarantees eligible for mitigation of credit risk are specified in an "analytic guarantee chart", which provides a specific description of all the information necessary for correct use of the security. The types of eligible guarantee must be approved by the Board of Directors.

Iccrea Banca also acquired financial guarantees in respect of "collateral pool" operations backing credit facilities for mutual banks. Pursuant to the provisions of Legislative Decree 170/2004, these guarantees are included, under the rules set out in supervisory instructions, among eligible credit risk mitigation techniques (see Bank of Italy Circular no. 263, Title II, Chapter 2).

Re-examination has begun of mortgage guarantees already acquired by the Bank covering existing real estate loans, and an electronic database containing their details is being prepared in order to enable for systematic monitoring of their value. A similar effort is being made for all lien security already acquired by the Bank.

Iccrea Banca uses a "close-out netting" mechanism with mutual banks. The arrangement provides for a specific right to terminate pending relationships immediately with the offsetting of reciprocal positions and payment of the net balance in the event of the counterparty's default or bankruptcy. This mechanism is used in contracts governing transactions in unlisted financial instruments (OTC). Iccrea Banca also uses contractual netting arrangements for the purposes of calculating capital requirements, in accordance with prudential supervision regulations (see Bank of Italy Circular no. 263, Title II, Chapter 3, Section 10.2).

In compliance with the provisions of law governing the cancellation of mortgages on extinguished mortgage loans, the Loans department has taken prompt action to implement the electronic systems for dialoguing with the government office responsible for cancelling encumbrances in respect of repaid loans.

In order to mitigate the credit risk associated with trading in financial derivative instruments with bank counterparties (counterparty risk), Iccrea Banca uses bilateral netting arrangements that in the event of counterparty default enable offsetting of creditor and debtor positions in financial derivatives transactions. In addition, work was completed to include securities financing transactions in this system.

On the operational front, risk mitigation is implemented with the use of ISDA agreements for derivatives transactions and Global Master Repurchase Agreements (GMRAs) for direct repurchase transactions with market counterparties. Both of these protocols are used to manage and mitigate credit risk and, in compliance with the conditions established under supervisory regulations, enable the reduction of capital requirements.

As regards OTC derivatives business, the Bank continued to enter into Credit Support Annex (CSA) arrangements with its main financial counterparties. At December 31, 2013, credit exposures in respect of transactions in derivatives were covered by security received under 39 CSA contracts with market counterparties and 4 contracts with mutual banks. As for repos, 6 GRMAs were entered into and the business is operational with one counterparty.

## 2.4 Impaired financial assets

*Procedures for classifying assets by debtor quality*

The Bank is equipped with regulatory/IT structures and procedures for loan management, classification and control.

In line with the provisions of the IASs/IFRSs, at every reporting date the presence of objective evidence of impairment is assessed for every instrument or group of financial instruments.

Objective evidence of the impairment of a financial asset or group of financial assets consists of observable data regarding the following events:

- significant financial difficulties of the debtor;
- breach of contractual agreements, such as default or delinquency in paying interest or principal;
- the lender, for economic or legal reasons associated with the borrower's financial difficulties, grants the debtor concessions that the lender would not otherwise have considered;
- a high probability of the debtor's entering bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial

asset as a result of the debtor's financial difficulties (a case not relevant for the current types of loans to banks/customers);

- the existence of evidence indicating a quantifiable decrease in estimated future cash flows for a group of assets, after initial recognition, even if such decrease cannot yet be ascribed to the individual position:
  - a reduction in the debtor's ability to discharge its liability in respect of the group of assets it holds;
  - national or local conditions that could give rise to default in respect of a group of receivables.

The above assessment is conducted with the support of special IT screening procedures on the basis of information from internal and external sources.

Within the scope of testing for the existence of objective evidence of impairment, non-performing loans are classified in the following categories:

- bad debts: loans to borrowers in a state of insolvency (even if bankruptcy has not been declared by a court) or in substantially equivalent situations, regardless of any expectations of loss formulated by the company;
- substandard loans: loans to borrowers in a temporary situation of objective difficulty, the removal of which is likely to occur within a reasonable period of time;
- restructured positions: loans for which, owing to the deterioration in the financial condition of the debtor, a pool of banks (or a single bank) agrees to a modification of the original contractual terms and conditions that gives rise to a loss;
- for past-due and over-limit positions, the Bank applies the provisions of the applicable supervisory regulations.

*Factors enabling reclassification of impaired exposures to performing status*

Only the return to full solvency of the debtor permits restoration of performing status. This comprises:

- elimination of the entire exposure or repayment of arrears;
- regularization of the exposure.

*Assessment of the adequacy of writedowns*

Loans are recognized at estimated realizable value. This value is obtained by deducting specific and general writedowns of principal and interest, net of any repayments, from the total amount disbursed.

Calculation of expected loss is based on analytical and statistical methodologies. The latter are used for personal loans classified as bad debts and for calculating normal risk.

The analytical assessment of non-performing positions is based on standard criteria approved by the Board of Directors that incorporate prudential assessments of any guarantees securing repayment.

In particular, impaired exposures are analytically evaluated on the basis of:

- forecast of future recovery of the credit position – with the exclusion of future losses that have not yet emerged – using different procedures depending on the type of loan:
  - for personal loans classified as bad debts the recovery forecast is determined using a statistical method based on stratification based on the age of the position, considering amounts collected and losses on past cases from which, with appropriate calculations, an estimated loss percentage can be determined for application to the entire existing portfolio;
  - for other loans, general writedowns based on statistical techniques that, using the values calculated for rates of default and non-recoverability, contribute to the calculation of a prudential coverage ratio;
- recovery times;
- expected realization of any guarantees, taking account of estimated collection/liquidation expenses, which must be incorporated into the expected future cash flows.

The writedown is recognized in the income statement as the difference between the initial carrying amount of the asset and the present value of the estimated recoverable cash flows, discounted at the original effective interest rate of the financial asset at the moment of classification as non-performing.

The original value of the receivable is written back in subsequent years if the reasons for the writedown no longer obtain.

**Quantitative disclosures**

# A. CREDIT QUALITY

## A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

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

| | BAD DEBTS | SUBSTANDARD LOANS | RESTRUCTURED POSITIONS | IMPAIRED PAST DUE POSITIONS | UNIMPAIRED PAST DUE POSITIONS | OTHER ASSETS | TOTAL |
|---|---|---|---|---|---|---|---|
| 1. Financial assets held for trading | - | - | - | - | 5 | 438,982 | 438,987 |
| 2. Financial assets available for sale | - | - | - | - | - | 3,442,254 | 3,442,254 |
| 3. Financial assets held to maturity | - | - | - | - | - | 3,755,290 | 3,755,290 |
| 4. Due from banks | - | - | - | - | - | 32,827,713 | 32,827,713 |
| 5. Loans to customers | 24,385 | 1,747 | - | 3,817 | 8,832 | 1,729,600 | 1,768,381 |
| 6. Financial assets at fair value | - | - | - | - | - | 321,150 | 321,150 |
| 7. Financial assets held for sale | - | 16 | - | 29 | 53 | 30,215 | 30,313 |
| 8. Hedging derivatives | - | - | - | - | - | 5,562 | 5,562 |
| **TOTAL 31/12/2013** | **24,385** | **1,763** | **-** | **3,846** | **8,890** | **42,550,766** | **42,589,650** |
| **TOTAL 31/12/2012** | **24,774** | **2,799** | **-** | **3,770** | **1,676** | **35,742,130** | **35,775,149** |

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

| | IMPAIRED ASSETS | | | PERFORMING | | | TOTAL (NET EXPOSURE) |
|---|---|---|---|---|---|---|---|
| | GROSS EXPOSURE | SPECIFIC ADJUSTMENTS | NET EXPOSURE | GROSS EXPOSURE | PORTFOLIO ADJUSTMENTS | NET EXPOSURE | |
| 1. Financial assets held for trading | - | - | - | X | X | 438,987 | 438,987 |
| 2. Financial assets available for sale | - | - | - | 3,442,254 | - | 3,442,254 | 3,442,254 |
| 3. Financial assets held to maturity | - | - | - | 3,755,290 | - | 3,755,290 | 3,755,290 |
| 4. Due from banks | 6,053 | 6,053 | - | 32,827,713 | - | 32,827,713 | 32,827,713 |
| 5. Loans to customers | 73,393 | 43,444 | 29,949 | 1,738,959 | 527 | 1,738,432 | 1,768,381 |
| 6. Financial assets at fair value | - | - | - | X | X | 321,150 | 321,150 |
| 7. Financial assets held for sale | 45 | - | 45 | 30,270 | 2 | 30,268 | 30,313 |
| 8. Hedging derivatives | - | - | - | X | X | 5,562 | 5,562 |
| **TOTAL 31/12/2013** | **79,491** | **49,497** | **29,994** | **41,794,486** | **529** | **42,559,656** | **42,589,650** |
| **TOTAL 31/12/2012** | **93,873** | **62,530** | **31,343** | **34,677,904** | **613** | **35,743,806** | **35,775,149** |

## Loans to customers – Exposures renegotiated in collective agreements

| | Performing | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Renegotiated exposures | | | | Other exposures | | | | Total 31/12/2013 |
| | Up to 3 months | From more than 3 months up to 6 months | From more than 6 months up to 1 year | More than 1 year | Up to 3 months | From more than 3 months up to 6 months | From more than 6 months up to 1 year | Not past due | |
| Gross exposure | - | - | 1,388 | 200 | 8,284 | - | 627 | 1,728,873 | **1,739,372** |
| Portfolio adjustments | | | 6 | 1 | 21 | - | - | 501 | **529** |
| Net exposure | - | - | 1,382 | 199 | 8,263 | - | 627 | 1,728,372 | **1,738,843** |

## A.1.3 On-balance-sheet and off-balance-sheet credit exposures to banks: gross and net values

| | Gross exposure | Specific writedowns | Portfolio writedowns | Net exposure |
|---|---|---|---|---|
| **A. ON-BALANCE-SHEET EXPOSURES** | | | | |
| a) Bad debts | 6,053 | 6,053 | X | - |
| b) Substandard loans | - | - | X | - |
| c) Restructured positions | - | - | X | - |
| d) Impaired past due positions | - | - | X | - |
| e) Other assets | 33,158,913 | X | - | 33,158,913 |
| **TOTAL A 31/12/2013** | **33,164,966** | **6,053** | **-** | **33,158,913** |
| **B. OFF-BALANCE-SHEET EXPOSURES** | | | | |
| a) Impaired | - | - | X | - |
| b) Other | 2,276,885 | X | - | 2,276,885 |
| **TOTAL B 31/12/2013** | **2,276,885** | **-** | **-** | **2,276,885** |

## A.1.4 On-balance-sheet credit exposures to banks: changes in gross impaired positions

| | Bad debts | Substandard loans | Restructured positions | Past due positions |
|---|---|---|---|---|
| **A. Opening gross exposure** | **18,573** | **-** | **-** | **-** |
| - of which: exposures assigned but not derecognized | - | - | - | - |
| **B. Increases** | **-** | **-** | **-** | **-** |
| B.1 from performing credit exposures | - | - | - | - |
| B.2 transfers from other categories of impaired positions | - | - | - | - |
| B.3 other increases | - | - | - | - |
| **C. Decreases** | **12,520** | **-** | **-** | **-** |
| C.1 to performing credit exposures | - | - | - | - |
| C.2 writeoffs | - | - | - | - |
| C.3 collections | 12,520 | - | - | - |
| C.4 assignments in disposals | - | - | - | - |
| C.4bis losses on disposal | - | - | - | - |
| C.5 transfers to other categories of impaired positions | - | - | - | - |
| C.6 other decreases | - | - | - | - |
| **D. Closing gross exposure** | **6,053** | **-** | **-** | **-** |
| - of which: exposures assigned but not derecognized | - | - | - | - |

## A.1.5 On-balance-sheet credit exposures to banks: changes in total adjustments of loans

| | BAD DEBTS | SUBSTANDARD LOANS | RESTRUCTURED POSITIONS | PAST DUE POSITIONS |
|---|---|---|---|---|
| **A. Total opening adjustments** | **18,071** | **-** | **-** | **-** |
| - of which: exposures assigned but not derecognized | - | - | - | - |
| **B. Increases** | **-** | **-** | **-** | **-** |
| B.1 writedowns | - | - | - | - |
| B.1 bis losses on disposal | - | - | - | - |
| B.2 transfers from other categories of impaired positions | - | - | - | - |
| B.3 other increases | - | - | - | - |
| **C. Decreases** | **12,018** | **-** | **-** | **-** |
| C.1 writebacks from valuations | 5 | - | - | - |
| C.2 writebacks from collections | 12,012 | - | - | - |
| C.2 bis gains on disposal | - | - | - | - |
| C.3 writeoffs | - | - | - | - |
| C.4 transfers to other categories of impaired positions | - | - | - | - |
| C.5 other decreases | - | - | - | - |
| **D. Total closing adjustments** | **6,053** | **-** | **-** | **-** |
| - of which: exposures assigned but not derecognized | - | - | - | - |

## A.1.6 On-balance-sheet and off-balance-sheet credit exposures to customers: gross and net values

| | GROSS EXPOSURE | SPECIFIC WRITEDOWNS | PORTFOLIO WRITEDOWNS | NET EXPOSURE |
|---|---|---|---|---|
| **A. ON-BALANCE-SHEET EXPOSURES** | | | | |
| a) Bad debts | 67,559 | 43,174 | X | 24,385 |
| b) Substandard loans | 2,006 | 243 | X | 1,763 |
| c) Restructured positions | - | - | X | - |
| d) Impaired past due positions | 3,873 | 27 | X | 3,846 |
| e) Other assets | 8,962,245 | X | 529 | 8,961,716 |
| **TOTAL A 31/12/2013** | **9,035,683** | **43,444** | **529** | **8,991,710** |
| **B. OFF-BALANCE-SHEET EXPOSURES** | | | | |
| a) Impaired | - | - | X | - |
| b) Other | 644,069 | X | - | 644,069 |
| **TOTAL B 31/12/2013** | **644,069** | **-** | **-** | **644,069** |

## A.1.7 On-balance-sheet credit exposures to customers: changes in gross impaired positions

| | BAD DEBTS | SUBSTANDARD LOANS | RESTRUCTURED POSITIONS | PAST DUE POSITIONS |
|---|---|---|---|---|
| **A. Opening gross exposure** | **68,731** | **2,799** | **-** | **3,770** |
| - of which: exposures assigned but not derecognized | - | - | - | - |
| **B. Increases** | **1,978** | **4,786** | **-** | **1,876** |
| B.1 from performing credit exposures | 120 | 3,760 | - | 878 |
| B.2 transfers from other categories of impaired positions | 80 | 828 | - | - |
| B.3 other increases | 1,778 | 197 | - | 998 |
| **C. Decreases** | **3,150** | **5,579** | **-** | **1,773** |
| C.1 to performing credit exposures | - | 240 | - | 317 |
| C.2 writeoffs | - | - | - | |
| C.3 collections | 3,150 | 5,259 | - | 627 |
| C.4 assignments in disposals | - | - | - | - |
| C.4 bis losses on disposals | - | - | - | - |
| C.5 transfers to other categories of impaired positions | - | 80 | - | 828 |
| C.6 other decreases | - | - | - | - |
| **D. Closing gross exposure** | **67,559** | **2,006** | **-** | **3,873** |
| - of which: exposures assigned but not derecognized | - | - | - | - |

## A.1.8 On-balance-sheet credit exposures to customers: changes in total adjustments of loans

| | BAD DEBTS | SUBSTANDARD LOANS | RESTRUCTURED POSITIONS | PAST DUE POSITIONS |
|---|---|---|---|---|
| **A. Total opening adjustments** | **44,459** | **-** | **-** | **-** |
| - of which: exposures assigned but not derecognized | - | - | - | - |
| **B. Increases** | **1,915** | **245** | **-** | **30** |
| B.1 writedowns | 1,580 | 240 | - | 29 |
| B.1 bis losses on disposal | - | - | - | - |
| B.2 transfers from other categories of impaired positions | - | - | - | - |
| B.3 other increases | 335 | 5 | - | 1 |
| **C. Decreases** | **3,200** | **2** | **-** | **3** |
| C.1 writebacks from valuations | 1,168 | 2 | - | 3 |
| C.2 writebacks from collections | 2,032 | - | - | - |
| C.2 bis gains on disposal | - | - | - | - |
| C.3 writeoffs | - | - | - | - |
| C.4 transfers to other categories of impaired positions | - | - | - | - |
| C.5 other decreases | - | - | - | - |
| **D. Total closing adjustments** | **43,174** | **243** | **-** | **27** |
| - of which: exposures assigned but not derecognized | - | - | - | - |

## A.2 CLASSIFICATION OF EXPOSURES ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

### A.2.1 Distribution of on-balance-sheet credit exposures and off-balance-sheet exposure by external rating grades

| | EXTERNAL RATING GRADES | | | | | | NOT RATED | TOTAL 31/12/2013 |
|---|---|---|---|---|---|---|---|---|
| | AAA/AA- | A+/A- | BBB+/BBB- | BB+/BB- | B+/B- | OTHER | | |
| **A. On-balance-sheet exposures** | **8,647** | **2,490** | **21,935,686** | **3,413** | **155** | **19** | **20,199,945** | **42,150,355** |
| **B. Derivatives** | **85,375** | **818** | **79,579** | **-** | **-** | **-** | **49,721** | **215,493** |
| B.1 Financial derivatives | 85,375 | 818 | 79,579 | - | - | - | 49,721 | 215,493 |
| B.2 Credit derivatives | - | - | - | - | - | - | - | - |
| **C. Guarantees issued** | **131** | **259** | **5,543** | **-** | **-** | **-** | **894,924** | **900,857** |
| **D. Commitment to disburse** | **168** | **-** | **58,030** | **-** | **-** | **-** | **1,485,013** | **1,543,211** |
| **E. Other** | **-** | **-** | **-** | **-** | **-** | **-** | **56,326** | **56,326** |
| **TOTAL** | **94,321** | **3,567** | **22,078,838** | **3,413** | **155** | **19** | **22,685,929** | **44,866,242** |

The distribution of the exposures in the table shows the breakdown by rating grade of the borrowers referred to in the prudential regulations of the Bank of Italy. The information has been provided by the Fitch rating agency as the External Credit Assessment Institution (ECAI).

### A.2.2 Distribution of on-balance-sheet exposures and off-balance-sheet exposure by internal rating grades

The table has not been completed because at the reporting date use was made of external ratings.

## A.3 DISTRIBUTION OF SECURED EXPOSURES BY TYPE OF GUARANTEE

### A.3.1 Secured credit exposures to banks

| | VALUE OF NET EXPOSURE | COLLATERAL (1) | | | | UNSECURED GUARANTEES (2) | | | | | | | | | TOTAL 31/12/2013 (1)+(2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | CREDIT DERIVATIVES | | | | | GUARANTEES | | | | |
| | | | | | | | OTHER DERIVATIVES | | | | | | | | |
| | | PROPERTIES - MORTGAGES | PROPERTIES - FINANCE LEASES | SECURITIES | OTHER ASSETS | CLN | GOVERNMENTS AND CENTRAL BANKS | OTHER GOVERNMENT AGENCIES | BANKS | OTHER | GOVERNMENTS AND CENTRAL BANKS | OTHER GOVERNMENT AGENCIES | BANKS | OTHER | |
| **1. Secured on-balance-sheet credit exposures:** | | | | | | | | | | | | | | | |
| 1.1 fully secured | 25,091,991 | 8,460 | - | 30,649,439 | - | - | - | - | - | - | - | - | - | 1,583 | **30,659,482** |
| - - of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.2 partially secured | 277 | - | - | 131 | - | - | - | - | - | - | - | - | - | - | **131** |
| - - of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **2. Secured off-balance-sheet credit exposures:** | | | | | | | | | | | | | | | |
| 2.1 fully secured | 1,041,085 | - | - | 1,058,491 | - | - | - | - | - | - | - | - | 2,324 | - | **1,060,815** |
| - - of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2 partially secured | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - - of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

## A.3.2 Secured credit exposures to customers

| | Value of net exposure | Collateral (1) | | | | Unsecured guarantees (2) | | | | | | | | | Total 31/12/2013 (1)+(2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Credit derivatives | | | | | Guarantees | | | | |
| | | | | | | | Other derivatives | | | | | | | | |
| | | Properties - mortgages | Properties - finance leases | Securities | Other assets | CLN | Governments and central banks | Other government agencies | Banks | Other | Governments and central banks | Other government agencies | Banks | Other | |
| **1. Secured on-balance-sheet credit exposures:** | | | | | | | | | | | | | | | |
| 1.1 fully secured | 150,329 | 226,928 | - | 36,345 | 127 | - | - | - | - | - | - | - | 64 | 4,158 | **267,622** |
| - of which: impaired | 23,758 | 27,615 | - | - | - | - | - | - | - | - | - | - | - | 492 | **28,107** |
| 1.2 partially secured | 6,007 | 1,231 | - | 2,540 | - | - | - | - | - | - | - | - | 53 | 1,016 | **4,840** |
| - of which: impaired | 226 | 11 | - | - | - | - | - | - | - | - | - | - | 28 | 75 | **114** |
| **2. Secured off-balance-sheet credit exposures:** | | | | | | | | | | | | | | | |
| 2.1 fully secured | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2 partially secured | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

# B. Distribution and concentration of credit exposures

## B.1 On-balance-sheet and off-balance-sheet credit exposures to customers by sector (carrying amount)

| | Governments | | | Other government agencies | | | Financial companies | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Specific writedowns | Portfolio writedowns | Net exposure | Specific writedowns | Portfolio writedowns | Net exposure | Specific writedowns | Portfolio writedowns |
| **A. On-balance-sheet** | | | | | | | | | |
| A.1 Bad debts | - | - | X | - | - | X | 533 | 4,396 | X |
| A.2 Substandard loans | - | - | X | - | - | X | - | - | X |
| A.3 Restructured positions | - | - | X | - | - | X | - | - | X |
| A.4 Past due positions | - | - | X | - | - | X | 3,747 | 26 | X |
| A.5 Other | 7,208,083 | X | - | 204 | X | - | 1,585,758 | X | 40 |
| **TOTAL A** | **7,208,083** | **-** | **-** | **204** | **-** | **-** | **1,590,038** | **4,422** | **40** |
| **B. Off-balance-sheet** | | | | | | | | | |
| B.1 Bad debts | - | - | X | - | - | X | - | - | X |
| B.2 Substandard loans | - | - | X | - | - | X | - | - | X |
| B.3 Other impaired assets | - | - | X | - | - | X | - | - | X |
| B.4 Other | 394,819 | X | - | 39 | X | - | 233,708 | X | - |
| **TOTAL B** | **394,819** | **-** | **-** | **39** | **-** | **-** | **233,708** | **-** | **-** |
| **TOTAL (A+B) 31/12/2013** | **7,602,902** | **-** | **-** | **243** | **-** | **-** | **1,823,746** | **4,422** | **40** |
| **TOTAL (A+B) 31/12/2012** | **6,375,528** | **-** | **-** | **850** | **-** | **-** | **1,778,440** | **5,831** | **48** |

| INSURANCE UNDERTAKINGS | | | NON-FINANCIAL COMPANIES | | | OTHER | | |
|---|---|---|---|---|---|---|---|---|
| NET EXPOSURE | SPECIFIC WRITEDOWNS | PORTFOLIO WRITEDOWNS | NET EXPOSURE | SPECIFIC WRITEDOWNS | PORTFOLIO WRITEDOWNS | NET EXPOSURE | SPECIFIC WRITEDOWNS | PORTFOLIO WRITEDOWNS |
| | | | | | | | | |
| - | - | X | 17,980 | 31,501 | X | 5,872 | 7,276 | X |
| - | - | X | 645 | 129 | X | 1,118 | 115 | X |
| - | - | X | - | - | X | - | - | X |
| - | - | X | 1 | - | X | 98 | 1 | X |
| 30 | X | - | 66,050 | X | 30 | 101,591 | X | 459 |
| **30** | **-** | **-** | **84,676** | **31,630** | **30** | **108,679** | **7,392** | **459** |
| | | | | | | | | |
| - | - | X | - | - | X | - | - | X |
| - | - | X | - | - | X | - | - | X |
| - | - | X | - | - | X | - | - | X |
| 100 | X | - | 483 | X | - | 14,920 | X | - |
| **100** | **-** | **-** | **483** | **-** | **-** | **14,920** | **-** | **-** |
| **130** | **-** | **-** | **85,159** | **31,630** | **30** | **123,599** | **7,392** | **459** |
| **3** | **-** | **-** | **94,145** | **30,855** | **133** | **122,158** | **7,773** | **432** |

## B,2 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA (CARRYING AMOUNT)

| | ITALY | | OTHER EUROPEAN COUNTRIES | | AMERICAS | | ASIA | | REST OF THE WORLD | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NET EXPOSURE | TOTAL WRITEDOWNS | NET EXPOSURE | TOTAL WRITEDOWNS | NET EXPOSURE | TOTAL WRITEDOWNS | NET EXPOSURE | TOTAL WRITEDOWNS | NET EXPOSURE | TOTAL WRITEDOWNS |
| **A. On-balance-sheet** | | | | | | | | | | |
| A.1 Bad debts | 24,385 | 38,903 | - | - | - | 4,271 | - | - | - | - |
| A.2 Substandard loans | 1,763 | 243 | - | - | - | - | - | - | - | - |
| A.3 Restructured positions | - | - | - | - | - | - | - | - | - | - |
| A.4 Past due positions | 3,846 | 27 | - | - | - | - | - | - | - | - |
| A.5 Other | 8,933,808 | 529 | 27,039 | - | 869 | - | - | - | - | - |
| **TOTAL A** | **8,963,802** | **39,702** | **27,039** | **-** | **869** | **4,271** | **-** | **-** | **-** | **-** |
| **B. Off-balance-sheet** | | | | | | | | | | |
| B.1 Bad debts | - | - | - | - | - | - | - | - | - | - |
| B.2 Substandard loans | - | - | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - | - | - |
| B.4 Other | 617,692 | - | 25,591 | - | 786 | - | - | - | - | - |
| **TOTAL B** | **617,692** | **-** | **25,591** | **-** | **786** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL (A+B) 31/12/2013** | **9,581,494** | **39,702** | **52,630** | **-** | **1,655** | **4,271** | **-** | **-** | **-** | **-** |
| **TOTAL (A+B) 31/12/2012** | **8,347,255** | **39,329** | **21,649** | **443** | **2,122** | **5,300** | **-** | **-** | **98** | **-** |

## B.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA (CARRYING AMOUNT)

| | ITALY | | OTHER EUROPEAN COUNTRIES | | AMERICAS | | ASIA | | REST OF THE WORLD | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NET EXPOSURE | TOTAL WRITEDOWNS | NET EXPOSURE | TOTAL WRITEDOWNS | NET EXPOSURE | TOTAL WRITEDOWNS | NET EXPOSURE | TOTAL WRITEDOWNS | NET EXPOSURE | TOTAL WRITEDOWNS |
| **A. On-balance-sheet** | | | | | | | | | | |
| A.1 Bad debts | - | - | - | 6,053 | - | - | - | - | - | - |
| A.2 Substandard loans | - | - | - | - | - | - | - | - | - | - |
| A.3 Restructured positions | - | - | - | - | - | - | - | - | - | - |
| A.4 Past due positions | - | - | - | - | - | - | - | - | - | - |
| A.5 Other | 33,057,690 | - | 84,549 | - | 9,203 | - | 4,312 | - | 3,159 | - |
| **TOTAL A** | **33,057,690** | **-** | **84,549** | **6,053** | **9,203** | **-** | **4,312** | **-** | **3,159** | **-** |
| **B. Off-balance-sheet** | | | | | | | | | | |
| B.1 Bad debts | - | - | - | - | - | - | - | - | - | - |
| B.2 Substandard loans | - | - | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - | - | - |
| B.4 Other | 2,170,485 | - | 36,398 | - | 10,676 | - | 447 | - | 649 | - |
| **TOTAL B** | **2,170,485** | **-** | **36,398** | **-** | **10,676** | **-** | **447** | **-** | **649** | **-** |
| **TOTAL (A+B) 31/12/2013** | **35,228,175** | **-** | **120,947** | **6,053** | **19,879** | **-** | **4,759** | **-** | **3,808** | **-** |
| **TOTAL (A+B) 31/12/2012** | **28,652,561** | **-** | **346,047** | **18,071** | **35,135** | **-** | **8,996** | **-** | **1,579** | **-** |

## B.4 LARGE EXPOSURES

| | |
|---|---|
| **a) Number of positions** | **182** |
| **b) Carrying amount** | **49,201,213** |
| **c) Risk-weighted amount** | **3,547,232** |

Under the provisions of applicable regulations, "large exposures" are exposures equal to or greater than 10% of regulatory capital.

The amendments introduced by the Bank of Italy (6th update of December 27, 2010 of Circular 263 of December 27, 2006) also modified the presentation of large exposures, as follows:

- reporting the carrying amount rather that the weighted amount;
- reporting intercompany amounts previously not reported.

The positions mainly regard transactions with bank counterparties as part of our role as the industry's central bank and the Group Finance company.

# C. SECURITIZATIONS AND ASSET DISPOSALS

## C.1 SECURITIZATIONS

**Qualitative disclosures**

During the course of 2007, pursuant to Law 130 of 30 April 1999 on the securitization of claims, Iccrea Banca carried out an assignment of securities issued by mutual banks. The operation was conducted to meet the mutual banks direct medium/long-term funding needs aimed at:

- reducing the exposure to interest rate risk of the mutual banks through maturity transformation;
- rebalancing assets and liabilities;
- expanding lending capacity.

The assignment, which involved bonds with a nominal value of € 1,222,500 thousand, was carried out on June 7, 2007 with Credico Funding 3 S.r.l. of Milan, a special-purpose vehicle established pursuant to Law 130/1999 and entered at no. 35207 in the general register maintained by the Italian Foreign Exchange Office pursuant to Article 106 of Legislative Decree 385/1993 and the special register maintained by the Bank of Italy pursuant to Article 107 of Legislative Decree 385/1993 at number 32861.

The assignment of securities issued by the mutual banks (called CBO3) expired on March 10, 2013. The vehicle redeemed all tranches of the notes issued in 2007 and paid the associated interest. Accordingly, at the reporting date for the period under review, there were no securitizations outstanding.

**Quantitative disclosures**

## C.1.1 Exposures in respect of securitizations by quality of securitized assets

| | ON-BALANCE-SHEET EXPOSURES | | | | | | GUARANTEES ISSUED | | | | | | CREDIT LINES | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | SENIOR | | MEZZANINE | | JUNIOR | | SENIOR | | MEZZANINE | | JUNIOR | | SENIOR | | MEZZANINE | | JUNIOR | |
| | GROSS EXPOSURE | NET EXPOSURE | GROSS EXPOSURE | NET EXPOSURE | GROSS EXPOSURE | NET EXPOSURE | GROSS EXPOSURE | NET EXPOSURE | GROSS EXPOSURE | NET EXPOSURE | GROSS EXPOSURE | NET EXPOSURE | GROSS EXPOSURE | NET EXPOSURE | GROSS EXPOSURE | NET EXPOSURE | GROSS EXPOSURE | NET EXPOSURE |
| **A. With own underlying assets:** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| b) other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **B. With third-party underlying assets:** | **16,781** | **16,781** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **200,000** | **200,000** |
| a) impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| b) other | 16,781 | 16,781 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 200,000 | 200,000 |

## C.1.2 Exposures in respect of main own securitizations by type of securitized assets and type of exposure

The table has not been completed because there were no such positions as of the balance sheet date.

## C.1.3 Exposures in respect of main third-party securitizations by type of securitized assets and type of exposure

| | ON-BALANCE-SHEET EXPOSURES | | | | | | GUARANTEES ISSUED | | | | | | CREDIT LINES | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | SENIOR | | MEZZANINE | | JUNIOR | | SENIOR | | MEZZANINE | | JUNIOR | | SENIOR | | MEZZANINE | | JUNIOR | |
| | CARRYING AMOUNT | WRITEDOWNS / WRITEBACKS | CARRYING AMOUNT | WRITEDOWNS / WRITEBACKS | CARRYING AMOUNT | WRITEDOWNS / WRITEBACKS | CARRYING AMOUNT | WRITEDOWNS / WRITEBACKS | CARRYING AMOUNT | WRITEDOWNS / WRITEBACKS | CARRYING AMOUNT | WRITEDOWNS / WRITEBACKS | CARRYING AMOUNT | WRITEDOWNS / WRITEBACKS | CARRYING AMOUNT | WRITEDOWNS / WRITEBACKS | CARRYING AMOUNT | WRITEDOWNS / WRITEBACKS |
| A.1 Agricart 4 Finance 2009 | | | | | | | | | | | | | | | | | | |
| - lease receivables | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 100,000 | - |
| A.2 Iccrea SME Cart | | | | | | | | | | | | | | | | | | |
| - lease receivables | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 100,000 | - |
| A.3 ELM B.V. | | | | | | | | | | | | | | | | | | |
| - Italian government securities | 16,781 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

The amounts reported above regard subordinated credit lines granted to Iccrea BancaImpresa as part of the "Agri-cart 4 Finance 2009" and Iccrea SME cart" securitizations for the exclusive benefit of the Class A notes in the event the funds available to the special purpose vehicle were insufficient to pay expenses, interest and principal on the securities.

## C.1.4 Exposures in respect of securitizations by portfolio and type

| | Financial assets held for trading | Financial assets at fair value | Financial assets available for sale | Financial assets held to maturity | Loans & receivables | Total 31/12/2013 | Total 31/12/2012 |
|---|---|---|---|---|---|---|---|
| **1. On-balance-sheet exposures** | **-** | **-** | **-** | **-** | **16,781** | **16,781** | **70,119** |
| - "senior" | - | - | - | - | 16,781 | 16,781 | 45,044 |
| - "mezzanine" | - | - | - | - | - | - | 5,223 |
| - "junior" | - | - | - | - | - | - | 19,852 |
| **2. Off-balance-sheet exposures** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - "senior" | - | - | - | - | - | - | - |
| - "mezzanine" | - | - | - | - | - | - | - |
| - "junior" | - | - | - | - | - | - | - |

## C.1.5 Total amount of securitized assets underlying junior securities or other forms of credit support

The table has not been completed because there were no such positions as of the balance sheet date.

## C.1.6 Involvement in special purpose vehicle

The table has not been completed because there were no such positions as of the balance sheet date.

## C.1.7 Servicer activities - collections on securitized assets and redemption of securities issued by vehicle

The table has not been completed because there were no such positions as of the balance sheet date.

## C.2 DISPOSALS

### C.2.1 Financial assets assigned but not derecognized: carrying amounts and full values

| | FINANCIAL ASSETS FOR TRADING | | | FINANCIAL ASSETS AT FAIR VALUE | | | FINANCIAL ASSETS AVAILABLE FOR SALE | | | FINANCIAL ASSETS HELD TO MATURITY | | | LOANS TO BANKS | | | LOANS TO CUSTOMERS | | | TOTAL AT | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | C | A | B | C | A | B | C | A | B | C | A | B | C | A | B | C | 31/12/2013 | 31/12/2012 |
| **A. On-balance-sheet assets** | **-** | **-** | **-** | **-** | **-** | **-** | **123,237** | **-** | **-** | **3,423,054** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **3,546,291** | **3,251,413** |
| 1. Debt securities | - | - | - | - | - | - | 123,237 | - | - | 3,423,054 | - | - | - | - | - | - | - | - | 3,546,291 | 3,251,413 |
| 2. Equity securities | - | - | - | - | - | - | - | - | - | X | X | X | X | X | X | X | X | X | - | - |
| 3. Units in collective investment undertakings | - | - | - | - | - | - | - | - | - | X | X | X | X | X | X | X | X | X | - | - |
| 4. Loans | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **B. Derivatives** | **-** | **-** | **-** | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | **-** | **-** |
| **TOTAL 31/12/2013** | **-** | **-** | **-** | **-** | **-** | **-** | **123,237** | **-** | **-** | **3,423,054** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **3,546,291** | **X** |
| of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | X |
| **TOTAL 31/12/2012** | **-** | **-** | **-** | **-** | **-** | **-** | **1,272,224** | **-** | **-** | **1,979,189** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **X** | **3,251,413** |
| of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | X | - |

***Key:***
A= Assigned financial assets fully recognized (carrying amount)
B= Assigned financial assets partially recognized (carrying amount)
C=Assigned financial assets partially recognized (full value)

### C.2.2 Financial liabilities in respect of financial assets assigned but not derecognized: carrying amounts

| | FINANCIAL ASSETS HELD FOR TRADING | FINANCIAL ASSETS AT FAIR VALUE | FINANCIAL ASSETS AVAILABLE FOR SALE | FINANCIAL ASSETS HELD TO MATURITY | LOANS TO BANKS | LOANS TO CUSTOMERS | TOTAL AT 31/12/2013 |
|---|---|---|---|---|---|---|---|
| **1. Due to customers** | **-** | **-** | **101,414** | **3,210,818** | **-** | **-** | **3,312,232** |
| a) in respect of assets fully recognized | - | - | 101,414 | 3,210,818 | - | - | 3,312,232 |
| b) in respect of assets partially recognized | - | - | - | - | - | - | - |
| **2. Due to banks** | **-** | **-** | **48,806** | **4,866** | **-** | **-** | **53,672** |
| a) in respect of assets fully recognized | - | - | 48,806 | 4,866 | - | - | 53,672 |
| b) in respect of assets partially recognized | - | - | - | - | - | - | - |
| **TOTAL 31/12/2013** | **-** | **-** | **150,220** | **3,215,684** | **-** | **-** | **3,365,904** |
| **TOTAL 31/12/2012** | **-** | **-** | **1,268,281** | **1,781,004** | **-** | **-** | **3,049,285** |

### C.2.3 DISPOSALS INVOLVING LIABILITIES WITH RECOURSE ONLY ON DIVESTED ASSETS: FAIR VALUE

The table has not been completed because there were no such positions as of the balance sheet date.

## C.3 COVERED BONDS

The table has not been completed because there were no such positions as of the balance sheet date.

## D. MODELS FOR MEASURING CREDIT RISK

At the date of the financial statements, no internal models were used for measuring credit risk.

## SECTION 2 – MARKET RISKS

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Part One).

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.

At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

The assumption and management of market risks is the responsibility of the Finance unit, which manages assets in accordance with the strategic objectives of the Bank in cooperation with the coordination bodies established at the Group level.

In this system, the Finance unit is the competence center and liaison with the money and financial markets of the Iccrea Banking Group and the mutual banking system in general.

The main activities performed are:

- funding and lending on the interbank market;
- trading as a primary dealer on the MTS exchange;
- acting as a market maker and direct participant (for transmission of orders from mutual banks) on the Hi-MTF and EuroTLX multilateral trading systems;
- participating in the primary market for share and bond placements and in tenders and subscriptions of government securities;
- negotiating repurchase agreements on both OTC and regulated markets, and derivatives on regulated markets;
- structuring, executing and managing financial derivatives traded on unregulated markets, mainly to satisfy the specific needs of the Bank's customers;
- providing the mutual banks with investment services, trading on own account, order execution for customers, order reception and transmission, trading on behalf of third parties and the placement of financial instruments issued by the Bank and by third parties;
- providing the mutual banks with access to standing facilities with the ECB;
- management of liquidity and the short-term interest rate profile in respect of transactions on the interbank, foreign exchange and precious metals markets.
- structuring of medium/long-term funding operations on domestic and international markets.

### 2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

**Qualitative disclosures**

#### A. General aspects

Within the Iccrea Group, trading activities are carried out by Iccrea Banca, whose interest rate risk position is mainly generated by transactions on interbank markets, trading in derivatives on regulated and OTC markets, and securities trading on the MTS, BondVision, HiMTF and EuroTLX markets.

Within the context of operating powers, specific operational limits on trading positions that generate exposures to market risks have been established. These risks are assumed in respect of domestic government securities and futures contracts, traded on official markets with netting and guarantee mechanisms, as well as mainly plain vanilla interest rate derivatives to support the mutual banks' hedging requirements.

Transactions in interest rate derivatives also include interest rate swaps with institutional counterparties to support the special purpose vehicle in transforming interest flows generated by securitizations of receivables of the mutual banks and the companies of the Iccrea Banking Group. Overall exposure to interest rate risk is concentrated in transactions in euro. As a result, the impact of correlation between developments in the yield curves for other currencies is minimal.

#### B. Management and measurement of interest rate risk and price risk

**Organization**

#### Governance

The market risk management system is designed to analyze and monitor market risks, ensuring that control functions are separate form business units.

The control and monitoring of market risks is carried out by the Financial Risks unit.

Market risks are managed by the Finance department, which manages the Bank's assets in conformity with the strategic objectives of the Bank in cooperation with the coordination bodies established at the Group level.

Within the Finance department, exposures are assumed and managed by the following units:

- Proprietary Finance and Trading, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- Money Markets, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

Compliance with limits is verified by the Financial Risks unit.

## Control and monitoring

The monitoring and control of market risks is performed through a comprehensive system of operating limits and risk appetite limits.

The monitoring of risk exposures on trading book positions is carried out by the Financial Risks unit, using metrics in line with market best practice: sensitivity analyses, estimates of Value at Risk and stress tests. The process of monitoring limits entails the measurement and systematic control of exposures assumed in the various portfolios and verification of compliance with VaR limits and other operating limits established under the current system of delegated powers.

Current operating limits are structured in line with the organizational/operational structure of the Finance department and consist of:

- portfolio size limits;
- VaR limits on the trading book;
- limits on the average duration of the trading and operational book;
- position limits by counterparty/group of counterparties and concentration limits (by rating class, sector, country, geographical area);
- size limits by type of financial instrument;
- VaR limits for trading in derivative contracts and the associated securities and on the MTS;
- VaR limits for treasury and foreign exchange operations;
- maximum loss limits for trading in securities and derivatives, treasury operations and foreign exchange;
- warning thresholds for losses on trading in securities and derivatives, treasury operations and foreign exchange.

The overall risk appetite limits are set by the Finance department for trading operations. They are measured using probabilistic metrics such as Value at Risk (parametric VaR with a holding period of 1 day and a confidence level of 99%).

With regard to the Bank's own portfolio, in view of the market conditions that are currently impacting Italian government securities and in order to effectively manage the liquidity raised in the two LTROs with the ECB, in 2013 the Bank continued expand its holdings of Italian government securities, which rose by about €3.5 billion, with a limit of 2.5 years on the average life of the portfolio, minimizing the exposure to interest rate risk and volatility in net interest income. In addition, the Bank established a portfolio of Italian government securities (the liquidity portfolio) to create a structural reserve of liquidity in the amount of no more than €1.8 billion.

During 2013 the Financial Risks unit continued its work to strengthen the tools available to manage and monitor those risks.

A major activity in that effort was the ongoing maintenance of the application (the RiskSuite) used in measurement processes and reporting on the risk exposure. That work enabled specific daily monitoring of the trading book and the operation of the Bank.

In addition, the Summit Risk Management project to develop a risk system capable of consolidating – on a daily basis and in an independent calculation environment – the positions in the trading book in order to further improve risk analysis.

With regard to equities, the Bank holds plain vanilla options on highly liquid equity indices (Eurostoxx50, Nikkei225, S&P-MIB) and shares of leading listed companies on the Italian stock exchange, mainly connected with the structuring of indexed bonds of the mutual banks and the BCC Vita life insurance company. The options written were hedged partly with market counterparties and partly with delta hedging. Sensitivity techniques are used for scenarios of instantaneous price changes of up to 24% (in steps of 8%) together with instantaneous volatility changes of up to 25% (in steps of 8%).

Other support offered to the mutual banks in hedging their structured bond issues involved transactions in options on investment funds and units of cash funds for delta hedging purposes. The profiles of these operations are monitored on a daily basis by verifying compliance with the net position limits for each underlying instrument.

## Reporting

The Financial Risks unit prepares the periodic reports for the different risk factors, providing appropriate disclosure to the operating units, senior management and the Board of Directors.

### Measuring risk

Market risk is analyzed by measuring the sensitivity of the portfolio to risk factors in order to obtain aggregate exposures and determine how they compare with the corresponding limits.

Since no risk metric can reflect all aspects of market risk, a variety of statistical and other methods are used, in line with market best practice.

The algorithms, methods and sets of indicators used are reviewed and updated periodically to take account of the growing complexity of the market and the sophistication of financial instruments.

## Methods

At the operational level, the risk metrics used can be broken down into the following main types:

- **Value at Risk** (VaR), which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- **Sensitivity and Greeks,** which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial trading positions in response to changes in the identified risk factors;
- **Level metrics** (such as, for example, notional amounts and mark to market values), which provide helpful support to the above indicators as an immediately applicable solution;
- **Stress testing and scenario analysis,** which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios).

*Value at Risk (VaR)*

VaR estimates the maximum potential loss that could be incurred, with a specified level of confidence, in normal conditions and within a specified holding period, on the basis of observed market developments over that period.

To calculate VaR, the Iccrea Banking Group uses the so-called Delta Gamma parametric approach (confidence level of 99% and holding period of 1 day), in which the risk factors and the financial instruments in the portfolio have a normal distribution. Measuring VaR therefore involves calculating (i) the sensitivity of the individual positions to changes in market parameters, summarized in the so-called VaRMap; and (ii) the variance/covariance matric of the market parameters.

The model currently covers the following risk factors:

- interest rates;
- exchange rates;
- interest rate volatility.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

*Sensitivity and Greeks of options*

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors.

The main sensitivity indicators currently used are:

PV01: the change in market value in response to a change of 1 basis point in the zero coupon yield curve;

Vega01: a change of 1 percentage point in implied volatilities.

*Nominal position*

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile. The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);

In determining the equivalent position, risk is defined as the value of the different assets converted into an aggregate position that is "equivalent" in terms of its sensitivity to changes in the risk factors under examination.

At Iccrea Banca, the approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements.

These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures.

*Stress testing and scenarios*

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

*Backtesting*

Group Risk Management conducts backtesting of models on an ongoing basis. The effectiveness of the calculation model must be monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically.

*Calculating the capital requirement*

To quantify the capital requirement for market risk, Iccrea Banca uses the standardized method (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Section I).

**Quantitative disclosures**

### 1. Supervisory trading book: distribution by residual maturity (repricing date) of on-balance-sheet financial assets and liabilities and financial derivatives

This table has not been completed since an analysis of interest rate risk sensitivity has been provided.

### 2. Supervisory trading book: distribution of exposures in equity securities and equity indices by main countries of listing

This table has not been completed since an analysis of interest rate risk sensitivity has been provided.

### 3. Supervisory trading book: internal models and other sensitivity analysis methodologies

With regard to interest rate risk, the following table reports the results of the sensitivity analysis on value following a shift of +/- 100 bp in the yield curves for the currencies held in the positions.

| | ESTIMATED IMPACT ON GROSS INCOME | | ESTIMATED IMPACT ON NET PROFIT | | ESTIMATED IMPACT SHAREHOLDERS' EQUITY | |
|---|---|---|---|---|---|---|
| | + 100 bp | - 100 bp | + 100 bp | - 100 bp | + 100 bp | - 100 bp |
| Iccrea Banca | 14.78 | -14.63 | 9.89 | -9.79 | 2.64 | -2.62 |

Figures in millions of euro at December 31, 2013

As regards price risk, the following table reports the results of the sensitivity analysis for scenarios of instantaneous price changes of up to 24% (in steps of 8%).

| | ESTIMATED IMPACT ON GROSS INCOME | | ESTIMATED IMPACT ON NET PROFIT | | ESTIMATED IMPACT SHAREHOLDERS' EQUITY | |
|---|---|---|---|---|---|---|
| | +24% | -24% | +24% | -24% | +24% | -24% |
| Iccrea Banca | 0.27 | -0.43 | 0.18 | -0.29 | 0.05 | -0.08 |

Figures in millions of euro at December 31, 2013

## 2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

**Qualitative disclosures**

### A. General aspects, management and measurement of interest rate risk and price risk

Financial operations with the mutual banks are characterized by a marked predominance of short-term flows, in line with Banca Iccrea's mission, which consists of making the operations of the mutual banks more effective, supporting them and expanding their business through the performance of functions of lending, technical intermediation and financial assistance.

In implementation of the new Group finance model, in 2009 Iccrea Banca was made responsible for funding activities for the companies in the banking group.

Iccrea Banca represents the interface between the individual mutual banks and Group companies and the domestic and international monetary and financial markets. Specifically, the Bank:

- performs treasury activities, managing the liquidity of the mutual banks;

- operates on Italian and foreign securities markets, including as a primary dealer on the MTS, the electronic market for government securities;
- ensures that the financial needs of the Group companies are met through funding activities within the mutual bank system and on the financial markets;
- with the support of the Financial Risks unit, monitors and manages interest rate risk at the individual and consolidated level and verifies compliance with the limits set at the strategic planning stage.

Management of interest rate risk on the banking book is the responsibility of the Finance department, which is directly responsible for achieving financial and commercial targets for financial and credit intermediation and which identifies and develops financial services and instruments to support the needs of the mutual banks and manages the Bank's own assets, in compliance with the guidelines set by senior management.

In the context of treasury operations, a quantitative limit is adopted for each currency, which combines the imbalance between loans and funding with the related interest rate maturities.

In 2013, in view of the current challenging economic conditions, funding and lending operations were mainly conducted on the collateralized market.

The pooling service launched for the mutual banks in June 2011 continued. It gives them access to the standing facilities of the ECB, supporting the mutual bank system in the last two three-year auctions held by the ECB, raising €12.6 billion in funding, of which €2.2 billion repaid in 2013.

As for short-term funding with the mutual banks through the daily settlement account, fixed-term deposits and investment accounts, lending mainly took place on the interbank market or to finance the Group companies. Derivatives contracts on interest rates with maturities of less than 12 months were operationally correlated with treasury operations.

With regard to medium/long-term funding, in 2013, Iccrea Banca placed bonds totaling €1.96 billion. More specifically, it placed about €1.11 billion through the mutual banks, €325 million through the EMTN program and the remainder through and on the domestic market.

As regards support for the funding operations of the mutual banks, the amount of bonds issued by them and held by the Bank is substantially unchanged.

Within the scope of ALM activities, in order to comply both with regulatory requirements and management needs, the Group has a specific policy setting out guidelines, principles for prudent management, the roles and responsibilities of corporate bodies and operating units and control processes for interest rate risk on the banking book. On a monthly basis, the Financial Risks Unit estimates the exposure to interest rate risk using a current earnings approach, with a short-term time horizon, and a medium/long-term economic value approach for shareholders' equity, adopting a scenario of a +/- 100 basis point shift in interest rates. More specifically, as regards sensitivity analyses concerning the impact of a change in market rates, limits are defined on the change in the prospective net interest income at 12 months and the market value of shareholders' equity. Additionally, stress tests are conducted to identify events or factors that could severely impact the Bank's financial balance. In order to capture the specific features of its portfolio, the Bank has identified a number of highly unfavorable stress situations: more specifically, the Bank uses a combination of the stress tests specified by the Bank of Italy and tests developed internally on the basis of its own risk characteristics.

In accordance with the new IFRS 13, Iccrea Banca conducted a sensitivity analysis to determine the potential impact on the measurement of Level 3 instruments of any changes in the corresponding non-observable market parameters. The analysis found no material impact on the reported situation. The fair value option was elected for:

- one structured debt security held in portfolio in order to avoid the need to unbundle the embedded derivative;
- two structured bonds issued by the Bank, which are operationally connected with derivatives, in order to avoid an accounting mismatch, thereby creating establishing a natural hedge;
- one structured bond issued by the Bank in order to avoid the need to unbundle the embedded derivative;
- a group of financial instruments in order to significantly reduce the overall mismatching in the accounts. The group consists of:
  - a bond issued by the Bank containing a separable embedded derivative;
  - a debt security issued by Iccrea BancaImpresa held by the Bank;
  - derivatives connected with the above instruments that establish a natural hedge.

As regards price risk, at December 31, 2013, the Bank held €0.5 million in units of real estate investment funds as well as a total of about €6.7 million in shares and other equity investments.

The strategic nature of the investment in real estate investment fund units has not yet made it necessary to select specific price risk hedging policies. In any case, the impact of a prudential assumption of an instantaneous change of 8% in the fair value of the holding is monitored periodically by the Financial Risks Unit.

### B. Fair value hedging

Positions exposed to interest rate risk are hedged in accordance with the IAS rules for fair value hedges.

More specifically, at December 31, 2013 the following positions were hedged:

- 1 fixed-rate loan issued to BCC Solutions with a remaining liability of €24.4 million, hedged by means of an interest rate swap (IRS);
- 1 fixed-rate loan issued to BCC CreditoConsumo with a remaining liability of € 14.4 million, hedged by means of an IRS;
- 2 fixed-rate bonds issued by the Bank and hedged by means of an IRS with a nominal value of €11.4 million;
- 3 mixed-rate bonds issued by the Bank and hedged with IRSs and interest rate options (floors) with a nominal value of €600.3 million;
- 3 treasury bonds (BTPs) linked to European inflation hedged with IRSs and options with a nominal value of €470 million;
- 2 fixed-rate securities issued by Iccrea BancaImpresa and hedged with IRSs with a nominal value of €261 million.
- 3 fixed-rate deposits hedged with overnight indexed swaps (OISs) with a nominal value of € 181 million;
- 3 repurchase transactions hedged with OISs with a nominal value of €266 million.

In addition, during the period the Bank also undertook the following macro-hedging transaction:

- the hedging of a portfolio of repurchase agreements using OISs with a nominal value of € 190 million.

Effectiveness tests were carried out using the dollar offset method for the retrospective profile and the scenario method for the prospective profile.

### C. Cash flow hedging

The Bank has outstanding cash flow hedge transactions involving 2 Italian government bonds (BTPs) linked to European inflation using asset swaps with a nominal value of €78 million.

**Quantitative disclosures**

### 1. Banking book: distribution of financial assets and liabilities by residual maturity (repricing date)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

### 2. Banking book: internal models and other sensitivity analysis methodologies

With regard to interest rate risk, the following table reports the results of the sensitivity analysis on value following a shift of +/- 100 bp in the yield curves for the currencies held in the positions.

| | ESTIMATED IMPACT ON NET INTEREST INCOME | | ESTIMATED IMPACT ON NET PROFIT | | ESTIMATED IMPACT ON SHAREHOLDERS' EQUITY | |
|---|---|---|---|---|---|---|
| | + 100 bp | - 100 bp | + 100 bp | - 100 bp | + 100 bp | - 100 bp |
| Iccrea Banca | -3.01 | -25.73 | -2.02 | -17.22 | -0.54 | -4.60 |

Figures in millions of euro at December 31, 2013

As regards price risk, the following table reports the results of the sensitivity analysis for scenarios of instantaneous price changes of up to 24% (in steps of 8%).

| | ESTIMATED IMPACT ON GROSS INCOME | | ESTIMATED IMPACT ON NET PROFIT | | ESTIMATED IMPACT ON SHAREHOLDERS' EQUITY | |
|---|---|---|---|---|---|---|
| | +24% | -24% | +24% | -24% | +24% | -24% |
| Iccrea Banca | 14.20 | -14.20 | 9.50 | -9.50 | 2.54 | -2.54 |

Figures in millions of euro at December 31, 2013

## 2.3 EXCHANGE RATE RISK

**Qualitative disclosures**

### A. General aspects, management and measurement of exchange rate risk

Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

## Quantitative disclosures

### 1. Distribution by currency of assets, liabilities and derivatives

| | CURRENCY | | | | | |
|---|---|---|---|---|---|---|
| | US DOLLAR | POUND STERLING | YEN | CANADIAN DOLLAR | SWISS FRANC | OTHER |
| **A. Financial assets** | **104,380** | **7,301** | **33,288** | **1,494** | **87,104** | **16,911** |
| A.1 Debt securities | 2 | - | - | - | - | - |
| A.2 Equity securities | 2,834 | 713 | - | - | - | - |
| A.3 Loans to banks | 97,906 | 6,588 | 33,288 | 1,494 | 87,098 | 16,911 |
| A.4 Loans to customers | 3,638 | - | - | - | 6 | - |
| A.5 Other financial assets | - | - | - | - | - | - |
| **B. Other assets** | **2,935** | **3,193** | **173** | **1,111** | **6,467** | **1,628** |
| **C. Financial liabilities** | **511,498** | **11,058** | **3,274** | **6,814** | **21,306** | **20,690** |
| C.1 Due to banks | 506,326 | 9,682 | 1,884 | 6,703 | 20,985 | 16,358 |
| C.2 Due to customers | 5,172 | 1,376 | 1,390 | 111 | 321 | 4,332 |
| C.3 Debt securities | - | - | - | - | - | - |
| C.4 Other financial liabilities | - | - | - | - | - | - |
| **D. Other liabilities** | **-** | **-** | **-** | **-** | **1** | **-** |
| **E. Financial derivatives** | | | | | | |
| - Options | | | | | | |
| + long positions | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - |
| - Other derivatives | | | | | | |
| + long positions | 967,597 | 140,461 | 26,729 | 8,073 | 23,508 | 25,463 |
| + short positions | 560,106 | 137,483 | 56,513 | 3,856 | 95,605 | 22,898 |
| **TOTAL ASSETS** | **1,074,912** | **150,955** | **60,190** | **10,678** | **117,079** | **44,002** |
| **TOTAL LIABILITIES** | **1,071,604** | **148,541** | **59,787** | **10,670** | **116,912** | **43,588** |
| **DIFFERENCE (+/-)** | **3,308** | **2,414** | **403** | **8** | **167** | **414** |

### 2. Internal models and other sensitivity analysis methods

There is no other information to report in addition to that provided above.

# 2.4 DERIVATIVES

## A. Financial derivatives

### A.1 Supervisory trading book: end-period and average notional amounts

| | TOTAL 31/12/2013 | | TOTAL 31/12/2012 | |
|---|---|---|---|---|
| | OVER THE COUNTER | CENTRAL COUNTERPARTIES | OVER THE COUNTER | CENTRAL COUNTERPARTIES |
| **1. Debt securities and interest rates** | **28,010,551** | **47,417** | **31,839,453** | **67,925** |
| a) Options | 3,740,343 | - | 4,208,860 | - |
| b) Swaps | 24,223,584 | - | 27,587,400 | - |
| c) Forwards | 46,624 | 16,117 | 43,193 | 60,725 |
| d) Futures | - | 31,300 | - | 7,200 |
| e) Other | - | - | - | - |
| **2. Equity securities and equity indices** | **37,176** | **439** | **52,378** | **326** |
| a) Options | 37,117 | - | 52,378 | - |
| b) Swap | - | - | - | - |
| c) Forward | 59 | 59 | - | - |
| d) Futures | - | 380 | - | 326 |
| e) Other | - | - | - | - |
| **3. Foreign currencies and gold** | **1,657,084** | **-** | **1,086,506** | **-** |
| a) Options | - | - | 7,330 | - |
| b) Swaps | - | - | - | - |
| c) Forwards | 1,657,084 | - | 1,079,176 | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **4. Commodities** | **-** | **-** | **-** | **-** |
| **5. Other underlyings** | **-** | **-** | **-** | **-** |
| **TOTAL** | **29,704,811** | **47,856** | **32,978,337** | **68,251** |
| **AVERAGE VALUES** | **31,341,574** | **58,054** | **37,166,543** | **60,278** |

## A.2 Banking book: end-period and average notional amounts

### A.2.1 Hedging

| | Total 31/12/2013 | | Total 31/12/2012 | |
|---|---|---|---|---|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **1. Debt securities and interest rates** | **3,785,216** | **-** | **3,258,562** | **-** |
| a) Options | 1,149,200 | - | 669,200 | - |
| b) Swaps | 2,636,016 | - | 2,589,362 | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **2. Equity securities and equity indices** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Swap | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **3. Foreign currencies and gold** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **4. Commodities** | **-** | **-** | **-** | **-** |
| **5. Other underlyings** | **-** | **-** | **-** | **-** |
| **Total** | **3,785,216** | **-** | **3,258,562** | **-** |
| **Average values** | **3,521,889** | **-** | **2,618,840** | **-** |

## A.2.2 Other derivatives

| | TOTAL 31/12/2013 | | TOTAL 31/12/2012 | |
|---|---|---|---|---|
| | OVER THE COUNTER | CENTRAL COUNTERPARTIES | OVER THE COUNTER | CENTRAL COUNTERPARTIES |
| **1. Debt securities and interest rates** | **1,236,076** | **-** | **1,244,076** | **-** |
| a) Options | 618,038 | - | 622,038 | - |
| b) Swaps | 618,038 | - | 622,038 | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **2. Equity securities and equity indices** | **20,000** | **-** | **20,000** | **-** |
| a) Options | 20,000 | - | 20,000 | - |
| b) Swaps | - | - | - | - |
| c) Forward | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **3. Foreign currencies and gold** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **4. Commodities** | **-** | **-** | **-** | **-** |
| **5. Other underlyings** | **-** | **-** | **-** | **-** |
| **TOTAL** | **1,256,076** | **-** | **1,264,076** | **-** |
| **AVERAGE VALUES** | **1,260,076** | **-** | **632,038** | **-** |

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

| | POSITIVE FAIR VALUE | | | |
|---|---|---|---|---|
| | TOTAL 31/12/2013 | | TOTAL 31/12/2012 | |
| | OVER THE COUNTER | CENTRAL COUNTERPARTIES | OVER THE COUNTER | CENTRAL COUNTERPARTIES |
| **A. Supervisory trading book** | **411,021** | **98** | **678,419** | **15** |
| a) Options | 14,625 | - | 14,952 | - |
| b) Interest rate swaps | 390,368 | - | 648,235 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | 6,028 | 25 | 15,232 | 15 |
| f) Futures | - | 73 | - | - |
| g) Other | - | - | - | - |
| **B. Banking book – hedging** | **5,562** | **-** | **14,148** | **-** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | 5,562 | - | 14,148 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **C. Banking book – Other derivatives** | **22,342** | **-** | **33,476** | **-** |
| a) Options | 41 | - | 125 | - |
| b) Interest rate swaps | 22,301 | - | 33,351 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **TOTAL** | **438,925** | **98** | **726,043** | **15** |

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

| | Negative fair value | | | |
|---|---|---|---|---|
| | Total 31/12/2013 | | Total 31/12/2012 | |
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **A. Supervisory trading book** | **390,968** | **48** | **639,916** | **110** |
| a) Options | 15,803 | - | 16,427 | - |
| b) Interest rate swaps | 367,242 | - | 611,535 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | 7,923 | 22 | 11,954 | 78 |
| f) Futures | - | 26 | - | 32 |
| g) Other | - | - | - | - |
| **B. Banking book – hedging** | **75,167** | **-** | **115,043** | **-** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | 75,167 | - | 115,043 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **C. Banking book – Other derivatives** | **1,515** | **-** | **1,929** | **-** |
| a) Options | 1,515 | - | 1,929 | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **TOTAL** | **467,650** | **48** | **756,888** | **110** |

## A.5 Over-the-counter financial derivatives – supervisory trading book: notional values, gross positive and negative fair values by counterparty - contracts not covered by netting arrangements

| | GOVERNMENTS AND CENTRAL BANKS | OTHER GOVERNMENT AGENCIES | BANKS | FINANCIAL COMPANIES | INSURANCE UNDERTAKINGS | NON-FINANCIAL COMPANIES | OTHER |
|---|---|---|---|---|---|---|---|
| **1) Debt securities and interest rates** | | | | | | | |
| - notional value | - | 5,064 | 4,306,191 | 34,920 | - | - | 228,946 |
| - positive fair value | - | 39 | 93,657 | 232 | - | - | - |
| - negative fair value | - | - | 59,576 | 14 | - | - | 2,708 |
| - future exposure | - | 13 | 14,080 | 100 | - | - | - |
| **2) Equity securities and equity indices** | | | | | | | |
| - notional value | - | - | 13,936 | 59 | - | - | 902 |
| - positive fair value | - | - | 318 | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | 102 |
| - future exposure | - | - | 102 | 1 | - | - | - |
| **3) Foreign currencies and gold** | | | | | | | |
| - notional value | - | - | 92,772 | 621,392 | - | - | - |
| - positive fair value | - | - | 1,649 | 1,119 | - | - | - |
| - negative fair value | - | - | 139 | 1,729 | - | - | - |
| - future exposure | - | - | 1,147 | 6,214 | - | - | - |
| **4) Other assets** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |

## A.6 Over-the-counter financial derivatives – supervisory trading book: notional values, gross positive and negative fair values by counterparty - contracts covered by netting arrangements

| | GOVERNMENTS AND CENTRAL BANKS | OTHER GOVERNMENT AGENCIES | BANKS | FINANCIAL COMPANIES | INSURANCE UNDERTAKINGS | NON-FINANCIAL COMPANIES | OTHER |
|---|---|---|---|---|---|---|---|
| **1) Debt securities and interest rates** | | | | | | | |
| - notional value | - | - | 21,484,982 | 1,950,449 | - | - | - |
| - positive fair value | - | - | 271,879 | 38,770 | - | - | - |
| - negative fair value | - | - | 314,298 | 6,398 | - | - | - |
| **2) Equity securities and equity indices** | | | | | | | |
| - notional value | - | - | 21,739 | 540 | - | - | - |
| - positive fair value | - | - | 120 | 2 | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| **3) Foreign currencies and gold** | | | | | | | |
| - notional value | - | - | 918,271 | 24,650 | - | - | - |
| - positive fair value | - | - | 3,236 | - | - | - | - |
| - negative fair value | - | - | 5,656 | 348 | - | - | - |
| **4) Other assets** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |

## A.7 Over-the-counter financial derivatives – banking book: notional values, gross positive and negative fair values by counterparty - contracts not covered by netting arrangements

| | GOVERNMENTS AND CENTRAL BANKS | OTHER GOVERNMENT AGENCIES | BANKS | FINANCIAL COMPANIES | INSURANCE UNDERTAKINGS | NON-FINANCIAL COMPANIES | OTHER |
|---|---|---|---|---|---|---|---|
| **1) Debt securities and interest rates** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |
| **2) Equity securities and equity indices** | | | | | | | |
| - notional value | - | - | - | 20,000 | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | 1,515 | - | - | - |
| - future exposure | - | - | - | - | - | - | - |
| **3) Foreign currencies and gold** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |
| **4) Other assets** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |

## A.8 Over-the-counter financial derivatives – banking book: notional values, gross positive and negative fair values by counterparty - contracts covered by netting arrangements

| | GOVERNMENTS AND CENTRAL BANKS | OTHER GOVERNMENT AGENCIES | BANKS | FINANCIAL COMPANIES | INSURANCE UNDERTAKINGS | NON-FINANCIAL COMPANIES | OTHER |
|---|---|---|---|---|---|---|---|
| **1) Debt securities and interest rates** | | | | | | | |
| - notional value | - | - | 4,649,538 | 371,754 | - | - | - |
| - positive fair value | - | - | 27,732 | 172 | - | - | - |
| - negative fair value | - | - | 68,039 | 7,128 | - | - | - |
| **2) Equity securities and equity indices** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| **3) Foreign currencies and gold** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| **4) Other assets** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |

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

| | UP TO 1 YEAR | MORE THAN 1 YEAR AND UP TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|
| **A. Supervisory trading book** | **16,683,548** | **9,341,689** | **3,679,574** | **29,704,811** |
| A.1 Financial derivatives on debt securities and interest rates | 15,008,452 | 9,322,525 | 3,679,574 | 28,010,551 |
| A.2 Financial derivatives on equity securities and equity indices | 18,353 | 18,823 | | 37,176 |
| A.3 Financial derivatives on exchange rates and gold | 1,656,743 | 341 | | 1,657,084 |
| A.4 Financial derivatives on other assets | - | - | - | - |
| **B. Banking book** | **2,077,473** | **2,947,738** | **16,081** | **5,041,292** |
| B.1 Financial derivatives on debt securities and interest rates | 2,057,473 | 2,947,738 | 16,081 | 5,021,292 |
| B.2 Financial derivatives on equity securities and equity indices | 20,000 | | | 20,000 |
| B.3 Financial derivatives on exchange rates and gold | - | - | - | - |
| B.4 Financial derivatives on other assets | - | - | - | - |
| **TOTAL 31/12/2013** | **18,761,021** | **12,289,427** | **3,695,655** | **34,746,103** |
| **TOTAL 31/12/2012** | **15,181,812** | **17,247,572** | **5,071,591** | **37,500,975** |

## A.10 Over-the-counter financial derivatives: counterparty risk/financial risk – internal models

At the reporting date, internal models were not used to measure counterparty risk/financial risk.

# B. CREDIT DERIVATIVES

## B.1 Credit derivatives: end-of-period and average values

| | SUPERVISORY TRADING BOOK | | BANKING BOOK | |
|---|---|---|---|---|
| | SINGLE NAME | MULTI-NAME (BASKET) | SINGLE NAME | MULTI-NAME (BASKET) |
| **1. Purchase of protection** | | | | |
| a) Credit default products | - | - | - | - |
| b) Credit spread products | - | - | - | - |
| c) Total rate of return swaps | - | - | - | - |
| d) Other | - | - | - | - |
| **TOTAL 31/12/2013** | **-** | **-** | **-** | **-** |
| **AVERAGE VALUES** | **-** | **-** | **-** | **-** |
| **TOTAL 31/12/2012** | **-** | **-** | **-** | **-** |
| **2. Sale of protection** | | | | |
| a) Credit default products | - | - | - | - |
| b) Credit spread products | - | - | - | - |
| c) Total rate of return swaps | - | - | - | - |
| d) Other | - | - | - | - |
| **TOTAL 31/12/2013** | **-** | **-** | **-** | **-** |
| **AVERAGE VALUES** | **-** | **-** | **9,000** | **-** |
| **TOTAL 31/12/2012** | **-** | **-** | **18,000** | **-** |

## B.2 Over-the-counter Credit derivatives: gross positive fair value– breakdown by product

The table has not been completed because there were no such positions as of the balance sheet date.

## B.3 Over-the-counter credit derivatives: gross negative fair value– breakdown by product

| | NEGATIVE FAIR VALUE | |
|---|---|---|
| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
| **A. Supervisory trading book** | **-** | **-** |
| a) Credit default products | - | - |
| b) Credit spread products | - | - |
| c) Total rate of return swaps | - | - |
| d) Other | - | - |
| **B. Banking book** | **-** | **4,085** |
| a) Credit default products | - | - |
| b) Credit spread products | - | - |
| c) Total rate of return swaps | - | - |
| d) Other | - | 4,085 |
| **TOTAL** | **-** | **4,085** |

### B.4 Over-the-counter credit derivatives: gross positive and negative fair values by counterparty– - contracts not covered by netting arrangements

The table has not been completed because there were no such positions as of the balance sheet date.

### B.5 Over-the-counter credit derivatives: gross positive and negative fair values by counterparty – - contracts covered by netting arrangements

The table has not been completed because there were no such positions as of the balance sheet date.

### B.6 Residual life of credit derivatives: notional values

| | UP TO 1 YEAR | MORE THAN 1 YEAR AND UP TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|
| **A. Supervisory trading book** | **-** | **-** | **-** | **-** |
| A.1 Credit derivatives with an "eligible" reference obligation | - | - | - | - |
| A.2 Credit derivatives with an "ineligible" reference obligation | - | - | - | - |
| **B. Banking book** | **-** | **-** | **-** | **-** |
| B.1 Credit derivatives with an "eligible" reference obligation | - | - | - | - |
| B.2 Credit derivatives with an "ineligible" reference obligation | - | - | - | - |
| **TOTAL 31/12/2013** | **-** | **-** | **-** | **-** |
| **TOTAL 31/12/2012** | **-** | **-** | **18,000** | **18,000** |

### B.7 Credit derivatives: counterparty risk/financial risk – internal models

At the reporting date, internal models were not used to measure counterparty risk/financial risk.

## C. FINANCIAL AND CREDIT DERIVATIVES

### C.1 Over-the-counter financial and credit derivatives: net fair value and future exposure by counterparty

| | GOVERNMENTS AND CENTRAL BANKS | OTHER GOVERNMENT AGENCIES | BANKS | FINANCIAL COMPANIES | INSURANCE | NON-FINANCIAL COMPANIES | OTHER |
|---|---|---|---|---|---|---|---|
| **1) Bilateral agreements – financial derivatives** | | | | | | | |
| - positive fair value | - | - | 92,966 | 25,416 | - | - | - |
| - negative fair value | - | - | 189,365 | 1,497 | - | - | - |
| - future exposure | - | - | 70,508 | 7,600 | - | - | - |
| - net counterparty risk | - | - | 61,480 | 6,957 | - | - | - |
| **2) Bilateral agreements – credit derivatives** | | | | | | | |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |
| **3) Cross-product agreements** | | | | | | | |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |

# SECTION 3 – LIQUIDITY RISK

## Qualitative disclosures

### A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

Liquidity risk is managed by the Finance department, which primarily invests liquidity on the interbank market in term deposits. As a result of its role as an intermediary with the settlement system on behalf of the mutual banks, the liquidity of the mutual bank system is concentrated with Iccrea Banca.

In compliance with the provisions of the 4th update of Circular no. 263/2006 of December 13, 2010, with which the Bank of Italy transposed into Italian law the changes introduced by Directive 2006/48/EC on the capital adequacy of banks and investment firms concerning the governance and management of liquidity risk for banks and banking groups, the Bank has updated its rules for managing liquidity risk and modified its system of delegated powers to incorporate the specified indicators and limits.

The main changes regard the formalization by the Board of Directors:

- of the liquidity risk tolerance threshold, represented by the maximum exposure considered sustainable in both normal operating conditions and under stress conditions. The tolerance threshold is explicated by way of:
  - two indicators for the short and medium/long term respectively, at the consolidated level for the Group and the individual level solely for Iccrea Banca, which is responsible for operational management of liquidity risk. The indicators adopted are those envisaged under the new Basel 3 rules: LCR and NSFR. For the short-term indicator, the limit is set at 1.2 in the baseline scenario and 1.0 in the stress scenario. For the medium/long-term indicator, there is a single limit of 0.8;
  - the minimum survival period, which is the number of consecutive days in which liquidity reserves must exceed the sum of net negative cash flows. The minimum level for this indicator has been set at 30 days at the consolidated level;
  - an increase in the minimum liquidity buffer from € 1 billion to 1.5 billion, specifying first and second line reserves;
- of a new operational indicator for the Finance department, which is measured using a minimum survival period at the individual level;
- of two new systemic risk monitoring indicators as part of the Contingency Funding Plan;
- of criteria for the determination of intercompany transfer rates in order to take account of systemic risk, issuer risk, interest rate risk, the maturity of loans and the direct and indirect costs of funding;
- of the extension of the scope of application of the rules to Banca Sviluppo;
- of methodologies for determining the aggregates and for calculating the indicators included in the technical annexes that are an integral part of the liquidity policy.

A system of limits has been established as the main instrument for mitigating liquidity risk. It is made up of indicators for monitoring sources of vulnerability associated with liquidity risk in line with the tolerance threshold and commensurate with the nature, objectives and operational complexity of the Group and Iccrea Banca.

The overall system of limits is based on the following limit categories:

- Risk Appetite Limits, which represent the maximum exposure considered sustainable in both normal operating conditions and under stress conditions; these limits explicate the tolerance threshold, the specification of which is required under supervisory regulations;
- Management Operational Limits, which represent the "operational" implementation of the strategic decisions taken by the Board;
- Warning Limits, which represent the value or assessment of an indicator that enables prompt warning that an operational limit is being approached. Breach of this threshold activates a situation of heightened attention but does not necessarily dictate action to return the position below the threshold.

Since October 2008, the liquidity position at the consolidated level has been subject to specific weekly reporting requirements for the Bank of Italy.

Liquidity risk is measured by identifying cash imbalances by maturity band, both in static terms (with a view to identifying actual liquidity strains seen from the characteristics of the account items, through the construction, for each specified time band, of the corresponding gap indicator) and in dynamic terms (using estimation and simulation techniques, aiming to develop the most likely scenarios following changes in the financial variables that can impact the time profile of liquidity).

Measurement and monitoring of the limits and indicators at the individual and overall Group level for short-term and structural liquidity are performed by the Financial Risks unit, which on a daily basis monitors the indicators, the risk appetite limits, the individual management operational limits for Iccrea Banca and the Group level, and the indicators envisaged in the CFP. The analyses and reports are transmitted to management at the Parent Company, Iccrea Banca and Iccrea BancaImpresa. In addition, on a weekly basis it monitors the 1-month liquidity coverage ratio (in both ordinary and stress conditions), the maturity ladder with a time horizon of 12 months and a time horizon of indefinite maturity and the net stable funding ratio.

The Group Risk Management unit participates in the Group Finance Committee and reports to it on developments in the liquidity position and compliance with the limits in place. If the limits are exceeded, Group Risk Management notifies the head of Iccrea Banca's Finance department to agree any corrective actions to restore balance, notifying senior management and the Group Finance Committee.

## Quantitative disclosures

## 1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY CURRENCY: EURO

| | ON DEMAND | MORE THAN 1 DAY TO 7 DAYS | MORE THAN 7 DAYS TO 15 DAYS | MORE THAN 15 DAYS TO 1 MONTH | MORE THAN 1 MONTH TO 3 MONTHS | MORE THAN 3 MONTHS TO 6 MONTHS | MORE THAN 6 MONTHS TO 1 YEAR | MORE THAN 1 YEAR TO 5 YEARS | MORE THAN 5 YEARS | UNSPECIFIED MATURITY |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance-sheet assets** | **1,359,287** | **1,270,896** | **2,488,581** | **2,115,176** | **2,439,954** | **3,162,790** | **5,840,995** | **22,142,168** | **666,309** | **467,296** |
| A.1 Government securities | 1,171 | - | 14,287 | 335,925 | 243,353 | 634,637 | 1,592,235 | 4,301,968 | 50,194 | - |
| A.2 Other debt securities | 30,309 | 49,500 | 216 | 8,368 | 67,133 | 1,017,353 | 1,560,368 | 1,476,120 | 490,144 | - |
| A.3 Units in collective investment undertakings | 1,386 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 1,326,421 | 1,221,396 | 2,474,078 | 1,770,883 | 2,129,468 | 1,510,800 | 2,688,392 | 16,364,080 | 125,971 | 467,296 |
| - banks | 501,298 | 1,211,174 | 2,474,066 | 1,766,783 | 1,906,283 | 1,465,270 | 2,577,528 | 15,944,893 | 1,833 | 467,296 |
| - customers | 825,123 | 10,222 | 12 | 4,100 | 223,185 | 45,530 | 110,864 | 419,187 | 124,138 | |
| **On-balance-sheet liabilities** | **7,178,356** | **3,132,759** | **3,503,560** | **1,749,847** | **2,169,734** | **2,815,117** | **6,023,465** | **14,789,001** | **5,082** | **-** |
| B.1 Deposits | 6,378,808 | 50,005 | 16,324 | 415,746 | 110,160 | 45,725 | 136,473 | 329,500 | - | - |
| - banks | 5,627,202 | 50,005 | 16,324 | 415,746 | 110,160 | 45,725 | 136,473 | 329,500 | - | - |
| - customers | 751,606 | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | 340,000 | 5,873 | - | 4,276 | 73,051 | 30,074 | 705,760 | 4,059,449 | 5,000 | - |
| B.3 Other liabilities | 459,548 | 3,076,881 | 3,487,236 | 1,329,825 | 1,986,523 | 2,739,318 | 5,181,232 | 10,400,052 | 82 | - |
| **Off-balance-sheet transactions** | **22,210** | **(285,036)** | **223,271** | **210,513** | **722,675** | **1,370,231** | **1,842,462** | **(4,413,197)** | **(4,912)** | **-** |
| C.1 Financial derivatives with exchange of principal | 6 | (282,054) | 34,922 | (2,958) | (59,396) | 16,071 | 2,184 | (38,030) | (4,912) | - |
| - long positions | 281 | 396,515 | 156,869 | 516,126 | 38,810 | 79,894 | 17,816 | 194,566 | 157,773 | 125 |
| - short positions | 275 | 678,569 | 121,947 | 519,084 | 98,206 | 63,823 | 15,632 | 232,596 | 162,685 | 125 |
| C.2 Financial derivatives without exchange of principal | 22,204 | (2,982) | - | (51) | (352) | 2,464 | 1,102 | - | - | - |
| - long positions | 419,764 | 47 | - | - | 1,816 | 4,592 | 7,036 | - | - | - |
| - short positions | 397,560 | 3,029 | - | 51 | 2,168 | 2,128 | 5,934 | - | - | - |
| C.3 Deposits and loans to receive | - | - | 188,349 | 213,522 | 782,423 | 1,766,451 | 1,834,569 | (4,785,315) | - | - |
| - long positions | - | 3,052,760 | 188,349 | 213,522 | 824,510 | 1,766,451 | 1,955,591 | 180,908 | - | - |
| - short positions | - | 3,052,760 | - | - | 42,087 | - | 121,022 | 4,966,223 | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | (414,755) | 4,607 | 410,148 | - | - |
| - long positions | - | - | - | - | - | - | 414,755 | 624,006 | - | - |
| - short positions | - | - | - | - | - | 414,755 | 410,148 | 213,858 | - | - |
| C.5 Financial guarantees issued | - | - | - | - | - | - | - | - | - | - |
| 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 | - | - | - | - | - | - | - | - | - | - |

## CURRENCY: US DOLLAR

| | ON DEMAND | MORE THAN 1 DAY TO 7 DAYS | MORE THAN 7 DAYS TO 15 DAYS | MORE THAN 15 DAYS TO 1 MONTH | MORE THAN 1 MONTH TO 3 MONTHS | MORE THAN 3 MONTHS TO 6 MONTHS | MORE THAN 6 MONTHS TO 1 YEAR | MORE THAN 1 YEAR TO 5 YEARS | MORE THAN 5 YEARS | UNSPECIFIED MATURITY |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance-sheet assets** | **8,406** | **12,948** | **9,223** | **20,097** | **22,250** | **27,525** | **386** | **924** | **-** | **-** |
| A.1 Government securities | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | - | - | - | - | - | - | - | - |
| A.3 Units in collective investment undertakings | - | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 8,406 | 12,948 | 9,223 | 20,097 | 22,250 | 27,525 | 386 | 924 | - | - |
| - banks | 7,684 | 12,948 | 9,223 | 20,097 | 21,687 | 25,152 | 386 | 924 | - | - |
| - customers | 722 | - | - | - | 563 | 2,373 | - | - | - | - |
| **On-balance-sheet liabilities** | **415,447** | **10,805** | **20,869** | **33,173** | **13,929** | **6,151** | **11,128** | **127** | **-** | **-** |
| B.1 Deposits | 415,418 | 10,805 | 20,869 | 20,214 | 13,929 | 6,151 | 11,128 | 127 | - | - |
| - banks | 410,246 | 10,805 | 20,869 | 20,214 | 13,929 | 6,151 | 11,128 | 127 | - | - |
| - customers | 5,172 | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 29 | - | - | 12,959 | - | - | - | - | - | - |
| **Off-balance-sheet transactions** | **(206)** | **257,407** | **66,743** | **31,417** | **63,246** | **(9,977)** | **(1,334)** | **14** | **(13)** | **-** |
| C.1 Financial derivatives with exchange of principal | - | 257,407 | 66,743 | 31,417 | 63,246 | (9,977) | (1,334) | 14 | (13) | - |
| - long positions | - | 277,119 | 152,634 | 383,100 | 81,863 | 63,441 | 10,311 | 125 | 716 | 6 |
| - short positions | - | 19,712 | 85,891 | 351,683 | 18,617 | 73,418 | 11,645 | 111 | 729 | 6 |
| C.2 Financial derivatives without exchange of principal | (206) | - | - | - | - | - | - | - | - | - |
| - long positions | 1,598 | - | - | - | - | - | - | - | - | - |
| - short positions | 1,804 | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to receive | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | 1,695 | - | - | - | - | - | - | - | - |
| - short positions | - | 1,695 | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | 539 | - | - | - | - | - | - | - | - |
| - short positions | - | 539 | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees issued | - | - | - | - | - | - | - | - | - | - |
| 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 | - | - | - | - | - | - | - | - | - | - |

## CURRENCY: POUND STERLING

| | ON DEMAND | MORE THAN 1 DAY TO 7 DAYS | MORE THAN 7 DAYS TO 15 DAYS | MORE THAN 15 DAYS TO 1 MONTH | MORE THAN 1 MONTH TO 3 MONTHS | MORE THAN 3 MONTHS TO 6 MONTHS | MORE THAN 6 MONTHS TO 1 YEAR | MORE THAN 1 YEAR TO 5 YEARS | MORE THAN 5 YEARS | UNSPECIFIED MATURITY |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance-sheet assets** | **4,128** | **254** | **610** | **157** | **1,141** | **301** | **-** | **-** | **-** | **-** |
| A.1 Government securities | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | - | - | - | - | - | - | - | - |
| A.3 Units in collective investment , undertakings | - | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 4,128 | 254 | 610 | 157 | 1,141 | 301 | - | - | - | - |
| - banks | 4,128 | 254 | 610 | 157 | 1,141 | 301 | - | - | - | - |
| - customers | - | - | - | - | - | - | - | - | - | - |
| **On-balance-sheet liabilities** | **6,476** | **362** | **376** | **1,607** | **887** | **217** | **1,148** | **-** | **-** | **-** |
| B.1 Deposits | 6,476 | 362 | 376 | 1,607 | 887 | 217 | 1,148 | - | - | - |
| - banks | 5,100 | 362 | 376 | 1,607 | 887 | 217 | 1,148 | - | - | - |
| - customers | 1,376 | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | - | - | - | - | - | - | - | - | - | - |
| **Off-balance-sheet transactions** | **-** | **3,728** | **(541)** | **(208)** | **-** | **-** | **-** | **-** | **-** | **-** |
| C.1 Financial derivatives with exchange of principal | - | 3,728 | (541) | (208) | - | - | - | - | - | - |
| - long positions | - | 4,315 | 5,843 | 130,534 | - | - | - | - | 240 | - |
| - short positions | - | 587 | 6,384 | 130,742 | - | - | - | - | 240 | - |
| C.2 Financial derivatives without exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to receive | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | 42 | - | - | - | - | - | - | - | - |
| - short positions | - | 42 | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees issued | - | - | - | - | - | - | - | - | - | - |
| 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 | - | - | - | - | - | - | - | - | - | - |

## CURRENCY: SWISS FRANC

| | ON DEMAND | MORE THAN 1 DAY TO 7 DAYS | MORE THAN 7 DAYS TO 15 DAYS | MORE THAN 15 DAYS TO 1 MONTH | MORE THAN 1 MONTH TO 3 MONTHS | MORE THAN 3 MONTHS TO 6 MONTHS | MORE THAN 6 MONTHS TO 1 YEAR | MORE THAN 1 YEAR TO 5 YEARS | MORE THAN 5 YEARS | UNSPECIFIED MATURITY |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance-sheet assets** | **1,355** | **10,158** | **15,955** | **21,820** | **24,482** | **12,960** | **463** | **-** | **-** | **-** |
| A.1 Government securities | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | - | - | - | - | - | - | - | - |
| A.3 Units in collective investment undertakings | - | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 1,355 | 10,158 | 15,955 | 21,820 | 24,482 | 12,960 | 463 | - | - | - |
| - banks | 1,349 | 10,158 | 15,955 | 21,820 | 24,482 | 12,960 | 463 | - | - | - |
| - customers | 6 | - | - | - | - | - | - | - | - | - |
| **On-balance-sheet liabilities** | **14,014** | **416** | **1,557** | **1,891** | **2,159** | **990** | **284** | **-** | **-** | **-** |
| B.1 Deposits | 14,014 | 416 | 1,557 | 1,891 | 2,159 | 990 | 284 | - | - | - |
| - banks | 13,693 | 416 | 1,557 | 1,891 | 2,159 | 990 | 284 | - | - | - |
| - customers | 321 | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | - | - | - | - | - | - | - | - | - | - |
| **Off-balance-sheet transactions** | **-** | **185** | **(71,685)** | **(109)** | **-** | **(489)** | **-** | **-** | **-** | **-** |
| C.1 Financial derivatives with exchange of principal | - | 185 | (71,685) | (109) | - | (489) | - | - | - | - |
| - long positions | - | 2,393 | | 21,114 | - | - | - | - | - | - |
| - short positions | - | 2,208 | 71,685 | 21,223 | - | 489 | - | - | - | - |
| C.2 Financial derivatives without exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to receive | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | 4,359 | - | - | - | - | - | - | - | - |
| - short positions | - | 4,359 | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees issued | - | - | - | - | - | - | - | - | - | - |
| 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 | - | - | - | - | - | - | - | - | - | - |

## OTHER CURRENCIES

| | ON DEMAND | MORE THAN 1 DAY TO 7 DAYS | MORE THAN 7 DAYS TO 15 DAYS | MORE THAN 15 DAYS TO 1 MONTH | MORE THAN 1 MONTH TO 3 MONTHS | MORE THAN 3 MONTHS TO 6 MONTHS | MORE THAN 6 MONTHS TO 1 YEAR | MORE THAN 1 YEAR TO 5 YEARS | MORE THAN 5 YEARS | UNSPECIFIED MATURITY |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance-sheet assets** | **21,385** | **4,773** | **4,992** | **7,244** | **9,467** | **3,735** | **128** | **-** | **-** | **-** |
| A.1 Government securities | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | - | - | - | - | - | - | - | - |
| A.3 Units in collective investment undertakings | - | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 21,385 | 4,773 | 4,992 | 7,244 | 9,467 | 3,735 | 128 | - | - | - |
| - banks | 21,385 | 4,773 | 4,992 | 7,244 | 9,467 | 3,735 | 128 | - | - | - |
| - customers | - | - | - | - | - | - | - | - | - | - |
| **On-balance-sheet liabilities** | **17,674** | **1,086** | **7,878** | **1,452** | **346** | **2,182** | **180** | **-** | **-** | **-** |
| B.1 Deposits | 17,674 | 1,086 | 7,878 | 1,452 | 346 | 2,182 | 180 | - | - | - |
| - banks | 11,842 | 1,086 | 7,878 | 1,452 | 346 | 2,182 | 180 | - | - | - |
| - customers | 5,832 | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | - | - | - | - | - | - | - | - | - | - |
| **Off-balance-sheet transactions** | **(6)** | **4,544** | **7,652** | **(27,655)** | **(1,133)** | **(5,328)** | **(737)** | **(340)** | **-** | **-** |
| C.1 Financial derivatives with exchange of principal | (6) | 4,544 | 7,652 | (27,655) | (1,133) | (5,328) | (737) | (340) | - | - |
| - long positions | - | 7,342 | 38,450 | 14,580 | 69 | 46 | - | 205 | 5 | - |
| - short positions | 6 | 2,798 | 30,798 | 42,235 | 1,202 | 5,374 | 737 | 545 | 5 | - |
| C.2 Financial derivatives without exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to receive | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | 976 | - | - | - | - | - | - | - | - |
| - short positions | - | 976 | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | 3,634 | - | - | - | - | - | - | - | - |
| - short positions | - | 3,634 | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees issued | - | - | - | - | - | - | - | - | - | - |
| 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. Disclosures on encumbered assets recognized in balance sheet

| | ENCUMBERED | | UNENCUMBERED | | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|---|---|---|---|
| | CA | FV | CA | FV | | |
| 1. Cash and cash equivalents | - | X | 82,637 | X | 82,637 | - |
| 2. Debt securities | 5,520,022 | 5,554,051 | 98,941 | 102,329 | 5,618,963 | - |
| 3. Equity securities | - | - | - | - | - | - |
| 4. Loans | 672,184 | X | 29,636,412 | X | 30,308,596 | - |
| 5. Other financial assets | - | X | 543,131 | X | 543,131 | - |
| 6. Non-financial assets | - | X | 195,421 | X | 195,421 | - |
| **TOTAL 31/12/2013** | **6,192,206** | **5,554,051** | **30,556,542** | **102,329** | **36,748,748** | **X** |
| **TOTAL 31/12/2012** | **-** | **-** | **-** | **-** | **X** | **-** |

Key: CA = carrying amount FV = fair value

## 3. Disclosures on encumbered assets not recognized in balance sheet

| | ENCUMBERED | UNENCUMBERED | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|---|---|
| 1. Financial assets | 6,355,136 | 532,122 | 6,887,258 | - |
| - Securities | 6,355,136 | 532,122 | 6,887,258 | - |
| - Other | - | - | - | - |
| 2. Non-financial assets | - | - | - | - |
| **TOTAL 31/12/2013** | **6,355,136** | **532,122** | **6,887,258** | **X** |
| **TOTAL 31/12/2012** | **-** | **-** | **X** | **-** |

# SECTION 4 – OPERATIONAL RISKS

### Qualitative disclosures

## A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Within the framework of the initiatives defined at the Group level in the Risk Management area, the Bank has implemented an integrated operational risk identification and analysis system which makes it possible to assess exposure to operational risk for each business area.

The approach adopted also makes it possible to pursue the following specific objectives:

- providing risk owners with greater awareness of the risks associated with their operations;
- assessing the Bank's positioning with respect to operational risk factors in corporate processes;
- providing top management with an overall view of the Bank's operational issues by period and area of observation;
- providing information to improve the internal control system;
- optimizing operational risk mitigation actions through a process that identifies risks, assesses their potential financial impact and identifies the internal problems underlying those risks, thereby enabling cost/benefit analysis of the initiatives to be taken in response.

The operational risk analysis system created through these initiatives is composed of:

- an overall framework for managing operational risks, setting out classification models, analytical methodologies, management processes and support tools;
- a forward looking self-assessment process for determining exposures to operational risks. The results of the assessment are processed using a statistical model that makes it possible to translate the estimates for operational risk exposures into amounts of economic capital;
- a loss data collection process;
- an actuarial quantitative model to analyze time series of operational losses over a six-year time horizon.

### Quantitative disclosures

In accordance with Bank of Italy Circular no. 263 of December 27, 2006 (New Regulations for the Prudential Supervision of Banks), the Bank has been using the Basic Indicator Approach (BIA) to calculate operational risks for reporting purposes.

In the BIA, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the company's volume of business, more specifically "gross income".

In particular, the Bank's capital requirement, equal to 15% of the average of the last three observations of "gross income" at the end of the period, was €24,828 thousand.

# Part - F

# Information on capital

# PART F – INFORMATION ON CAPITAL

## SECTION 1 – COMPANY CAPITAL

### A. Qualitative disclosures

Shareholders' equity (share capital, share premium reserve, reserves, equity instruments, own shares, valuation reserves, redeemable shares, profit/loss for the period) represents the Bank's capital, i.e. the sum of financial resources used for achieving the corporate purpose and dealing with the risks of business.

Therefore, equity represents the main safeguard against the risks of the banking business and, as such, the amount of capital must be sufficient to ensure an appropriate degree of independence in development and growth and guarantee the soundness and stability of the company on an ongoing basis.

### B. Quantitative disclosures

## B.1 COMPANY CAPITAL: COMPOSITION

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **1. Share capital** | **216,913** | **216,913** |
| **2. Share premium reserve** | **-** | **-** |
| **3. Reserves** | **181,691** | **168,530** |
| - earnings | 99,922 | 86,923 |
| a) legal | 48,201 | 48,201 |
| b) established in bylaws | 205 | 205 |
| c) treasury shares | - | - |
| d) other | 51,516 | 38,517 |
| - other | 81,769 | 81,607 |
| **4. Equity instruments** | **-** | **-** |
| **5. (Treasury shares)** | **-** | **-** |
| **6. Valuation reserves:** | **92,042** | **68,069** |
| - Financial assets available for sale | 44,680 | 21,063 |
| - Property and equipment | - | - |
| - Intangible assets | - | - |
| - Hedging of investments in foreign operations | - | - |
| - Cash flow hedges | 640 | 127 |
| - Foreign exchange differences | - | - |
| - Non-current assets held for sale | (8) | - |
| - Actuarial gains (losses) on defined benefit plans | (1,136) | (987) |
| - Share of valuation reserves of equity investments accounted for using equity method | - | - |
| - Special revaluation laws | 47,866 | 47,866 |
| **7. Net profit (loss) for the period** | **40,028** | **48,376** |
| **TOTAL** | **530,674** | **501,888** |

## B.2 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

| | TOTAL 31/12/2013 | | TOTAL 31/12/2012 | |
|---|---|---|---|---|
| | POSITIVE RESERVE | NEGATIVE RESERVE | POSITIVE RESERVE | NEGATIVE RESERVE |
| 1. Debt securities | 43,465 | (2,967) | 30,837 | (12,956) |
| 2. Equity securities | 4,186 | - | 3,185 | - |
| 3. Units in collective investment undertakings | - | (12) | - | (2) |
| 4. Loans | - | - | - | - |
| **TOTAL** | **47,651** | **(2,979)** | **34,022** | **(12,958)** |

## B.3 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: CHANGE FOR THE PERIOD

| | DEBT SECURITIES | EQUITY SECURITIES | UNITS IN COLLECTIVE INVESTMENT . UNDERTAKINGSI | LOANS |
|---|---|---|---|---|
| **1. Opening balance** | **17,880** | **3,185** | **(2)** | **-** |
| **2. Increases** | **51,813** | **1,001** | **-** | **-** |
| 2.1 Fair value gains | 49.993 | 1,001 | - | - |
| 2.2 Reversal to income statement of negative reserves: | 1,820 | - | - | - |
| - from impairment | - | - | - | - |
| - from realization | 1,820 | - | - | - |
| 2.3 Other changes | 17,203 | - | - | - |
| **3. Decreases** | **29,195** | **-** | **10** | **-** |
| 3.1 Fair value losses | 4,464 | - | 10 | - |
| 3.2 Impairment adjustments | - | - | - | - |
| 3.3 Reversal to income statement of positive reserves: from realization | 24,731 | - | - | - |
| 3.4 Other changes | - | - | - | - |
| **4. Closing balance** | **40,498** | **4,186** | **(12)** | **-** |

## B.4 VALUATION RESERVES DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

| | TOTAL 31/12/2013 | |
|---|---|---|
| | POSITIVE RESERVE | NEGATIVE RESERVE |
| 1. Gain (loss) from changes in financial assumptions | - | (86) |
| 2. Gain (loss) from passage of time | - | (63) |
| **TOTAL** | **-** | **(149)** |

# SECTION 2 - REGULATORY CAPITAL AND CAPITAL RATIOS

## 2.1 REGULATORY CAPITAL

**A. Qualitative disclosures**

Regulatory capital and capital ratios are calculated on the basis of the balance sheet data and performance figures determined using the IAS/IFRS and taking account of the Supervisory Instructions issued by the Bank of Italy with the most recent update of Circular no. 155/91 “Instructions for reporting on regulatory capital and capital ratios”.

Regulatory capital is calculated as the sum of the positive and negative components, on the basis of their nature as capital. Positive components must be fully available to the Bank in order for them to be used in calculating capital requirements.

Regulatory capital totals €430,903,299. It is composed of Tier 1 capital and Tier 2 capital, net of the deductions provided for under supervisory regulations. More specifically:

### 1. Tier 1 capital

Tier 1 capital is composed of positive elements (which increase its value) and negative elements (which reduce its value). Total Tier 1 capital at December 31, 2013, prior to application of prudential filters, amounted to €396,366,582. Following application of prudential filters, represented by decreases in the credit rating (€10,768,896) and negative reserves in respect of available-for-sale securities (€3,396,575), Tier 1 capital gross of deductible elements amounted to €382,201,110. Deductible elements are composed of 50% of shareholdings in financial companies exceeding, equal to and less than 10% of the share capital of the investee company and total €625,000, leaving total Tier 1 capital of €381,576,110.

### 2. Tier 2 capital

Tier 2 capital, prior to application of prudential filters, amounted to €52,038,728. Following application of prudential filters, represented by the ineligible share of positive reserves in respect of available-for-sale securities (50%) in the amount of €2,086,539, Tier 2 capital gross of deductible elements amounted to €49,952,189. Deductible elements are composed of 50% of shareholdings in financial companies exceeding, equal to and less than 10% of the share capital of the investee company and total €625,000, leaving total Tier 2 capital of €49,327,189.

### 3. Tier 3 capital

There are no instruments representing Tier 3 capital.

**B. Quantitative disclosures**

| | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
|---|---|---|
| **A. Tier 1 capital before prudential filters** | **396,367** | **392,687** |
| B. Tier 1 capital prudential filters: | (14,165) | (38,164) |
| B.1 Positive IAS/IFRS prudential filters (+) | - | - |
| B.2 Negative IAS/IFRS prudential filters (-) | (14,165) | (38,164) |
| **C. Tier 1 capital gross of deductible elements (A + B)** | **382,201** | **354,523** |
| D. Elements to deduct from Tier 1 capital | 625 | 625 |
| **E. Total Tier 1 capital (C – D)** | **381,576** | **353,898** |
| **F. Tier 2 capital before prudential filters** | **52,039** | **51,048** |
| G. Tier 2 prudential filters: | (2,087) | (1,591) |
| G.1 Positive IAS/IFRS prudential filters (+) | - | - |
| G.2 Negative IAS/IFRS prudential filters (-) | (2,087) | (1,591) |
| **H. Tier 2 capital gross of deductible elements (F + G)** | **49,952** | **49,457** |
| I. Elements to deduct from Tier 2 capital | 625 | 625 |
| **L. Total Tier 2 capital (H – I)** | **49,327** | **48,832** |
| M. Elements to deduct from total Tier 1 and Tier 2 capital | - | - |
| **N. Regulatory capital (E + L – M)** | **430,903** | **402,730** |
| O. Tier 3 capital | - | - |
| **P. Regulatory capital including Tier 3 (N + O)** | **430,903** | **402,730** |

## 2.2 CAPITAL ADEQUACY

### A. Qualitative disclosures

Capital ratios at December 31, 2013 were determined in accordance with the provisions of the Basel 2 Capital Accord, adopting the Standardized Approach for the calculation of capital requirements for credit and counterparty risk and the Basic Indicator Approach for operational risk.

### B. Quantitative disclosures

| | UNWEIGHTED AMOUNTS | | WEIGHTED AMOUNTS/REQUIREMENTSI | |
|---|---|---|---|---|
| | TOTAL 31/12/2013 | TOTAL 31/12/2012 | TOTAL 31/12/2013 | TOTAL 31/12/2012 |
| **A. EXPOSURES** | | | | |
| **A.1 CREDIT AND COUNTERPARTY RISK** | **52,268,452** | **43,375,971** | **2,526,395** | **2,125,920** |
| 1. Standardized approach | 51,666,823 | 43,105,852 | 2,163,600 | 1,535,203 |
| 2. IRB approach | - | - | - | - |
| 2.1 Foundation | - | - | - | - |
| 2.2 Advanced | - | - | - | - |
| 3. Securitizations | 601,629 | 270,119 | 362,795 | 590,717 |
| **B. CAPITAL REQUIREMENTS** | | | | |
| **B.1 CREDIT AND COUNTERPARTY RISK** | | | **151,584** | **127,555** |
| **B.2 MARKET RISKS** | | | **20,261** | **18,152** |
| 1. Standardized method | | | 20,261 | 18,152 |
| 2. Internal models | | | - | - |
| 3. Concentration risk | | | - | - |
| **B.3 OPERATIONAL RISK** | | | **24,828** | **23,237** |
| 1. Basic indicator approach | | | 24,828 | 23,237 |
| 2. Standardized approach | | | - | - |
| 3. Advanced measurement approaches | | | - | - |
| **B.4 OTHER PRUDENTIAL REQUIREMENTS** | | | **-** | **-** |
| **B.5 OTHER ELEMENTS** | | | **-** | **-** |
| **B.6 TOTAL PRUDENTIAL REQUIREMENTS** | | | **196,673** | **168,944** |
| **C. EXPOSURES AND CAPITAL ADEQUACY RATIOS** | | | | |
| **C.1 RISK-WEIGHTED ASSETS** | | | **2,458,413** | **2,111,800** |
| **C.2 TIER 1 CAPITAL/RISK WEIGHTED ASSETS (TIER 1 CAPITAL RATIO)** | | | **15.52%** | **16.76%** |
| **C.3 REGULATORY CAPITAL INCLUDING TIER 3 /RISK-WEIGHTED ASSETS (TOTAL CAPITAL RATIO)** | | | **17.53%** | **19.07%** |

Following the measure of the Bank of Italy of May 18, 2010 and the resolution of the Board of Directors of June 24, 2010, the Group has elected to remove the prudential filter on the reserves from the fair value measurement of securities classified as "financial assets available for sale (AFS)" issued by central governments of EU Member States.

Pursuant to the provisions of Bank of Italy Circular no. 263 of December 27, 2006 ("New Regulations for the Prudential Supervision of Banks") as amended, the Bank, as a member of the Iccrea Banking Group, benefits from a 25% reduction in its total capital requirement.

# Part - G

# Business combinations

# PART G – BUSINESS COMBINATIONS

At the reporting date, the Bank is not involved in any business combinations.

# *Part - H*

## *Transactions with related parties*

# PART H – TRANSACTIONS WITH RELATED PARTIES

## 1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following tables report the information required under IAS 24 concerning the remuneration of directors and 2 top managers, as well as the members of the Board of Auditors.

| | TOTAL 31/12/2013 |
|---|---:|
| Compensation and other remuneration (1) | 1,424 |
| Post-employment benefits (2) | 41 |

(1) Includes compensation paid to the General Manager and the Deputy General Managers.
(2) Represents the accrual for the year to the provision for termination benefits calculated in accordance with the applicable regulations.

| | TOTAL 31/12/2013 |
|---|---:|
| Compensation of members of Board of Auditors | 198 |

### LOANS AND GUARANTEES GRANTED:

| | TOTAL 31/12/2013 |
|---|---:|
| - Members of Board of Directors | 847 |
| - Members of Board of Auditors | - |

## 2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

### FEES OF AUDIT FIRM

Pursuant to Article 149 – duodecies of the Consob Issuers Regulation no. 11971,
the following table reports the fees paid to the audit firm, Reconta Ernst & Young S.p.A., and entities belonging to its network.

| SERVICE PROVIDER | TYPE OF SERVICE | FEES (€/000)* |
|---|---|---:|
| Reconta Ernst & Young S.p.A. | Auditing | 108 |
| Reconta Ernst & Young S.p.A. | Ancillary auditing services | 26 |
| Reconta Ernst & Young S.p.A. | Certification (EMTN programs) | 65 |
| Ernst & Young - Studio Legale e Tributario | Tax advisory | 44 |
| **TOTAL** | | **243** |

*net of VAT and reimbursement of costs

**NAME OF PARENT COMPANY**
ICCREA HOLDING S.P.A.

**REGISTERED OFFICE**
VIA LUCREZIA ROMANA, 41/47
00178 ROME

## PARENT COMPANY - key figures at December 31, 2012 (Thousands of euro)

| BALANCE SHEET | TOTAL 31/12/2012 |
|---|---|
| **Assets** | **1,352,895** |
| Liabilities | 197,621 |
| Share capital | 1,046,718 |
| Legal reserve | 26,556 |
| Treasury share reserve | 307 |
| Extraordinary reserve | 53,894 |
| Other reserves | 3,374 |
| Valuation reserve | 1,027 |
| Treasury shares | (307) |
| Net profit (loss) for the period | 23,706 |
| **Shareholders' equity** | **1,155,274** |

| INCOME STATEMENT | TOTAL 31/12/2012 |
|---|---|
| Net interest income | 3,463 |
| Net commission income | 25 |
| Gross income | 40,093 |
| Net income (loss) from financial operations | 40,093 |
| Operating expenses | (21,596) |
| **Net profit (loss) for the period** | **23,706** |

The Parent Company performs management and co-ordination activities.

### THE FOLLOWING TABLES REPORT THE BALANCE SHEET AND INCOME STATEMENT ITEMS INVOLVED IN INTERCOMPANY TRANSACTIONS:

| ASSETS | A20_FINANCIAL ASSETS HELD FOR TRADING | A30_FINANCIAL ASSETS AT *FAIR VALUE* | A60_DUE FROM BANKS | A70_LOANS TO CUSTOMERS | A150_ OTHER ASSETS |
|---|---|---|---|---|---|
| Bcc Risparmio e Previdenza | - | - | - | - | 611 |
| Iccrea BancaImpresa | 50,625 | 312,665 | 12,132,483 | - | 21,398 |
| Bcc Gestione Crediti | - | - | - | 2,765 | 247 |
| Bcc Solutions | - | - | - | 25,491 | 1,716 |
| Bcc Securis | - | - | - | - | 4 |
| Bcc Retail | - | - | - | 531 | - |
| Iccrea Holding | - | - | - | - | 29,467 |
| Immicra | - | - | - | - | 10 |
| Bcc Lease | - | - | - | 173,714 | 11 |
| Bcc CreditoConsumo | - | - | - | 379,603 | 106 |
| Bcc Factoring | - | - | - | 280,441 | 63 |
| Banca Sviluppo | 149 | - | 495,327 | - | 152 |
| **TOTAL** | **50,774** | **312,665** | **12,627,810** | **862,545** | **53,875** |

| LIABILITIES | P10_DUE TO BANKS | P20_DUE TO CUSTOMERS | P30_ SECURITIES ISSUED | P40_FINANCIAL LIABILITIES HELD FOR TRADING | P50_FINANCIAL LIABILITIES AT *FAIR VALUE* | P100_ OTHER LIABILITIES |
|---|---|---|---|---|---|---|
| Bcc Risparmio e Previdenza | - | 2,807 | - | - | - | - |
| Iccrea BancaImpresa | 95,632 | - | - | 7,637 | - | 537 |
| Bcc Gestione Crediti | - | 1,839 | - | - | - | 5 |
| Bcc Solutions | - | 3,924 | - | - | - | 4,925 |
| Bcc Retail | - | 8 | - | - | - | - |
| Bcc Securis | - | 106 | - | - | - | - |
| Iccrea Holding | - | 152,757 | - | - | - | 22,714 |
| Immicra | - | 381 | - | - | - | - |
| Bcc Lease | - | - | - | - | - | 3 |
| Bcc CreditoConsumo | - | 27,203 | - | - | - | - |
| Bcc Factoring | - | 1,775 | - | - | - | - |
| Banca Sviluppo | 53,290 | - | 98,519 | - | 5,060 | - |
| **TOTAL** | **148,922** | **190,800** | **98,519** | **7,637** | **5,060** | **28,184** |

| INCOME STATEMENT | E10_INTEREST AND SIMILAR INCOME | E20_INTEREST AND SIMILAR EXPENSE | E40_FEE AND COMMISSION INCOME | E50_FEE AND COMMISSION EXPENSE | I80_ NET GAIN (LOSS) ON TRADING ACTIVITIES | E150_ EXPENSES | E190_OTHER OPERATING EXPENSES/ INCOME |
|---|---|---|---|---|---|---|---|
| Bcc Risparmio e Previdenza | - | (8) | 179 | - | - | - | 575 |
| Iccrea BancaImpresa | 118,996 | (507) | 1,668 | (1) | (7,655) | (157) | 4,481 |
| Bcc Gestione Crediti | 100 | (22) | 8 | - | - | (26) | 143 |
| Bcc Solutions | 1,172 | (28) | 2 | - | - | (12,792) | 1,162 |
| Bcc Securis | - | - | 7 | - | - | - | 14 |
| Bcc Retail | 10 | - | - | - | - | - | - |
| Iccrea Holding | 424 | (780) | 1 | - | - | (2,242) | 667 |
| Immicra | - | (4) | - | - | - | - | 20 |
| Bcc Lease | 5,174 | - | 52 | - | - | (534) | 34 |
| Bcc CreditoConsumo | 13,556 | (22) | 102 | - | - | - | 151 |
| Bcc Factoring | 2,872 | (64) | 10 | - | - | - | 57 |
| Banca Sviluppo | 2,239 | (4,021) | 544 | (132) | (9) | - | 230 |
| **TOTAL** | **144,543** | **(5,456)** | **2,573** | **(133)** | **(7,664)** | **(15,751)** | **7,534** |

The following table reports the additional disclosures required by IAS 24.

| | TOTAL 31/12/2013 | | | |
|---|---|---|---|---|
| | GROUP COMPANIES | GROUP ASSOCIATES/ OTHER RELATED PARTIES | TOP MANAGEMENT | POST-EMPLOYMENT BENEFIT PLANS EMPLOYEES |
| Financial assets held for trading | 50,774 | - | - | - |
| Financial assets at fair value | 312,665 | - | - | - |
| Financial assets available for sale | 385 | - | - | - |
| Due from banks | 12,627,810 | - | - | - |
| Loans to customers | 862,545 | 1,736 | 384 | - |
| Equity investments | 61,609 | 1,955 | - | - |
| Other assets | 53,875 | - | - | - |
| **TOTAL ASSETS** | **13,969,573** | **3,691** | **384** | **-** |
| Due to banks | 148,922 | - | - | - |
| Due to customers | 190,800 | 35,657 | 114 | 226,854 |
| Financial liabilities held for trading | 7,637 | - | - | - |
| Financial liabilities designated as at fair value | 5,060 | - | - | - |
| Securities issued | 98,519 | 52,726 | - | - |
| Other liabilities | 28,184 | - | - | - |
| **TOTAL LIABILITIES** | **479,122** | **88,383** | **114** | **226,854** |
| **GUARANTEES GRANTED AND COMMITMENTS** | **843,708** | **-** | **-** | **-** |

*Part - I*

# *Share-based payments*

## PART I – SHARE-BASED PAYMENTS

As at the reporting date, the Bank had no payment agreements based on its own equity instruments in place.

# Part - L

# Operating segments

# PART L – OPERATING SEGMENTS

In line with the provisions of IFRS 8, operating segment disclosures have been based on elements that management uses in taking its own operational and strategic decisions. The Bank's main income statement and balance sheet aggregates are reported below.

### Primary reporting basis

Iccrea Banca systematically prepares management reports on the results achieved by the individual business segments into which its operations and organization are structured. These segments are:

- finance and lending;
- payment systems;

in addition to central governance and support functions, as well as the institutional services functions grouped under the "Corporate Center".

The business segments are formed from the aggregation of similar business units and lines in terms of the types of products and service they provide. This representation reflects the operational responsibilities set out in the Bank's organizational arrangements, with periodic reporting to top management.

More specifically, the finance and lending business segment includes the units Proprietary Finance and Trading, Treasury and Foreign Exchange, Institutional Sales, Securitizations and Institutional and Retail Lending, while the payment systems segment comprises Collections and Payments, E-Bank and CAIS Applications. For a discussion of the individual segments, please see the section on the Bank's activities in the report on operations.

### Income statement

The following reports the main aggregates of the income statement by business segment. The figures are presented using the reclassified income statement format given in the report on operations.

| | FINANCE AND LENDING | | PAYMENT SERVICES | | CORPORATE CENTER | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| **(THOUSANDS OF EURO)** | **DEC-13** | **DEC-12** | **DEC-13** | **DEC-12** | **DEC-13** | **DEC-12** | **DEC-13** | **DEC-12** |
| Net interest income | 69,501 | 78,885 | 344 | 584 | 1,200 | 4,304 | 71,045 | 83,772 |
| Net service income | 36,978 | 26,443 | 108,181 | 108,555 | 22,550 | 23,509 | 167,709 | 158,507 |
| **TOTAL REVENUES** | **106,479** | **105,328** | **108,526** | **109,138** | **23,749** | **27,813** | **238,754** | **242,279** |
| Administrative expenses | 34,707 | 30,874 | 74,977 | 66,082 | 57,201 | 56,542 | 166,885 | 153,498 |
| Net adjustments of property and equipment and intangible assets | 1,283 | 1,251 | 3,125 | 2,966 | 3,196 | 2,157 | 7,603 | 6,373 |
| **TOTAL OPERATING EXPENSES** | **35,990** | **32,125** | **78,102** | **69,048** | **60,397** | **58,699** | **174,489** | **159,871** |
| **GROSS OPERATING INCOME** | **70,488** | **73,203** | **30,424** | **40,091** | **-36,647** | **-30,886** | **64,265** | **82,408** |

As regards the procedures for the determination of performance:

- net interest income is calculated by segment as the difference between actual interest and imputed interest on the treasury pool;
- net service income is calculated by way of direct allocation of income and expense components;
- operating expenses are allocated using a "full costing" approach that allocates all operating costs.

The decrease in net interest income (down €12.7 million compared with December 2012) is mainly attributable to decline in interest rates. The decline affected the Finance, Treasury and Foreign Exchange unit within the finance and lending segment.

Net service income, which came to €167.7 million at December 31, 2013, includes €141 million from net fees and commissions and other income, and €26.7 million from trading operations and from dividends.

The rise in net fees and commissions and other income from €138 million in 2012 to €141 million in 2013 is primarily associated with the rapid growth in all electronic money segments and the corporate center.

The increase in net income from financial operations from €17.3 million in 2012 to €26.5 million this year is entirely attributable to the increase of €20.9 million in the gain on disposal/repurchase.

Administrative expenses totaled €166.9 million in 2013 and include personnel expenses in the amount of €63.5 million (€59.2 million the previous year) and other administrative expenses in the amount of €103.4 million (€94.3 million the previous year).

Total value adjustments amounted to about €7.6 million for 2013, of which €3 million in adjustments of property and equipment and €4.6 million in adjustments of intangible assets.

As a result of the foregoing, the gross profit from ordinary operations at December 31, 2013, came to about €64.3 million, a decrease of about €18.1 million on the previous year.

### Balance sheet

The following table reports the main balance sheet aggregates for lending to and funding from customers and banks. The amounts are end-period figures. Liabilities include share capital, reserves and net profit for the period.

The main balance sheet aggregates for lending to and funding from customers and banks are primarily attributable to the finance and lending segment as the payment system segment is mainly involved in providing fee-based services.

| | FINANCE AND LENDING | | PAYMENT SERVICES | | CORPORATE CENTER | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| (FIGURES IN MILLIONS OF EURO) | DEC-13 | DEC-12 | DEC-13 | DEC-12 | DEC-13 | DEC-12 | DEC-13 | DEC-12 |
| Loans to customers | 1,769 | 1,665 | - | - | 83 | 111 | 1,852 | 1,776 |
| Due from banks | 32,828 | 27,023 | - | - | - | - | 32,828 | 27,023 |
| Financial assets and equity investments | 8,017 | 7,114 | 52 | 22 | 245 | 193 | 8,314 | 7,330 |
| **TOTAL LENDING** | **42,614** | **35,802** | **52** | **22** | **328** | **304** | **42,994** | **36,128** |
| Due to customers | 14,895 | 8,890 | 393 | 378 | 4 | 2 | 15,292 | 9,270 |
| Due to banks | 21,393 | 21,197 | - | - | - | - | 21,393 | 21,197 |
| Other financial liabilities | 5,551 | 4,928 | - | 34 | 758 | 699 | 6,309 | 5,661 |
| **TOTAL FUNDING** | **41,839** | **35,015** | **393** | **412** | **762** | **701** | **42,994** | **36,128** |

### Secondary reporting basis

As regards the secondary reporting basis, please note that the Bank operates almost exclusively in Italy.

*Annexes*

- *Bcc Securis*
- *Hi-Mtf*
- *M-Facility*
- *Immicra*

# BCC SECURIS Financial statements

## BALANCE SHEET

| ASSETS | 31/12/2013 | | 31/12/2012 | |
|---|---|---|---|---|
| **60.** Due from banks: | | 106,052 | | 9,875 |
| **120.** Tax assets | | 360,622 | | 1,236 |
| a) current | 360,622 | | 1,236 | |
| a) deferred | - | | - | |
| **140.** Other assets | | 0 | | 18,297 |
| **TOTAL ASSETS** | | **466,674** | | **29,408** |

| LIABILITIES AND SHAREHOLDERS' EQUITY | 31/12/2013 | | 31/12/2012 | |
|---|---|---|---|---|
| **70.** Tax liabilities | | 438 | | 429 |
| a) current | 438 | | 429 | |
| a) deferred | - | | - | |
| **90.** Other liabilities | | 455,586 | | 18,329 |
| **120.** Share capital | | 10,000 | | 10,000 |
| **160.** Reserves | | 650 | | 649 |
| **180.** Net profit (loss) for the period | | 0 | | 1 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **466,674** | | **29,408** |

## INCOME STATEMENT

| | 31/12/2013 | | 31/12/2012 | |
|---|---|---|---|---|
| **10.** Interest and similar income | | 30 | | 1 |
| **Net interest income** | | **30** | | **1** |
| **40.** Fee and commission expense | | (-214) | | -60 |
| **Net fee and commission income (expense)** | | **(214)** | | **(60)** |
| **Gross income** | | **(184)** | | **(59)** |
| **110.** Administrative expense: | | (35,477) | | (65,553) |
| a) personnel expense | (7,384) | | (9,753) | |
| b) other administrative expenses | (28,093) | | (55,800) | |
| **160.** Other operating income | | 35,950 | | 65,613 |
| **Operating result** | | **473** | | **60** |
| **Profit (loss) before tax on continuing operations** | | **289** | | **1** |
| **190.** Income tax expense from continuing operations corrente | | -289 | | 0 |
| **Profit (loss) after tax on continuing operations** | | **0** | | **1** |
| **Utile (Perdita) d'esercizio** | | **0** | | **1** |

## STATEMENT OF COMPREHENSIVE INCOME

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **10.** Net profit (loss) for the period | 0 | 1 |
| **110.** Total other comprehensive income net of taxes | - | - |
| **120.** Comprehensive income (item 10+110) | 0 | 1 |

# Hi-MTF Financial statements

## BALANCE SHEET

| | | 31/12/2013 | | 31/12/2012 | |
|---|---|---|---|---|---|
| **10.** | Cash and cash equivalents | | 333 | | 1,019 |
| **60.** | Receivables | | 6,186,318 | | 5,594,779 |
| **100.** | Property and equipment | | 12,566 | | 25,025 |
| **110.** | Intangible assets | | 33,170 | | 70,694 |
| **120** | Tax assets | | 17,267 | | - |
| | a) current | 17,267 | | - | |
| | a) deferred | - | | - | |
| **140.** | Other assets | | 40,050 | | 184,315 |
| | **TOTAL ASSETS** | | **6,289,704** | | **5,875,833** |

| | | 31/12/2013 | | 31/12/2012 | |
|---|---|---|---|---|---|
| **10.** | Payables | | - | | 43 |
| **70.** | Tax liabilities | | 76,934 | | 140,921 |
| | a) current | 76,934 | | 140,921 | |
| | a) deferred | - | | - | |
| **90.** | Other liabilities | | 475,805 | | 430,813 |
| **100.** | Employee termination benefits | | 96,310 | | 94,749 |
| **120.** | Share capital | | 5,000,000 | | 5,000,000 |
| **160.** | Reserves | | 221,236 | | (241,431) |
| **180.** | Net profit (loss) for the period | | 419,420 | | 450,738 |
| | **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **6,289,704** | | **5,875,833** |

## INCOME STATEMENT

| | | 31/12/2013 | | 31/12/2012 | |
|---|---|---|---|---|---|
| **50.** | Fee and commission income | | 2,894,648 | | 2,706,388 |
| **60.** | Fee and commission expense | | (5,895) | | (64,007) |
| **70.** | Interest and similar income | | 151,493 | | 172,464 |
| **80.** | Interest and similar expense | | (2,171) | | (2,113) |
| | **Gross income** | | **3,038,076** | | **2,812,732** |
| **110.** | Administrative expenses: | | (2,229,289) | | (2,081,819) |
| | a) personnel expenses | (916,305) | | (870,210) | |
| | b) other administrative expenses | (1,312,985) | | (1,211,609) | |
| **120.** | Net adjustments of property and equipment | | (21,040) | | (17,038) |
| **130.** | Net adjustments of intangible assets | | (39,715) | | (48,925) |
| **160.** | Other operating expenses/income | | - | | (22) |
| | **Operating result** | | **748,031** | | **664,928** |
| | **Profit (loss) before tax on continuing operations** | | **748,031** | | **664,928** |
| **190.** | Income tax expense from continuing operations | | (328,612) | | (219,166) |
| | **Profit (loss) after tax on continuing operations** | | **419,420** | | **445,761** |
| | **Net profit (loss) for the period** | | **419,420** | | **445,761** |

## STATEMENT OF COMPREHENSIVE INCOME

| | | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| **10.** | Net profit (loss) for the period | 419,420 | 445,761 |
| **110.** | Total other comprehensive income net of taxes | 11,929 | 4,977 |
| **120.** | Comprehensive income (item 10+110) | 431,349 | 450,738 |

# M – FACILITY S.p.A. Financial statements

## BALANCE SHEET

| | ASSETS | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| **B)** | **NON-CURRENT ASSETS** | | |
| I) | INTANGIBLES | | |
| Ia) | GROSS INTANGIBLES | 1,221,182 | 6,281 |
| **TOTAL B)** | | **1,221,182** | **6,281** |
| C ) | CURRENT ASSETS | | |
| **II)** | **RECEIVABLES** | | |
| 4-bis) | TAX RECEIVABLES | | |
| 4a) | FALLING DUE WITHIN NEXT YEAR | 10,526 | 1,634 |
| IV) | CASH AND CASH EQUIVALENTS | | |
| 1) | BANK AND POSTAL DEPOSITS | 682,260 | 2,451 |
| **TOTAL C)** | | **692,786** | **4,085** |
| | **TOTAL ASSETS** | **1,913,968** | **10,366** |

| | LIABILITIES AND SHAREHOLDERS' EQUITY | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| **A)** | **SHAREHOLDERS' EQUITY** | | |
| I) | SHARE CAPITAL | 1,879,000 | 10,000 |
| VIII) | | (3,080) | |
| IX) | NET PROFIT (LOSS) FOR THE YEAR | (27,573) | (3,080) |
| **TOTAL A)** | | **1,848,347** | **6,920** |
| **D)** | **PAYABLES** | | |
| 7) | TO SUPPLIERS | | |
| 7a) | FALLING DUE WITHIN NEXT YEAR | 65,191 | 2,366 |
| 12) | TO TAX AUTHORITIES | | |
| 12a) | FALLING DUE WITHIN NEXT YEAR | 325 | 879 |
| 14) | OTHER PAYABLES | | |
| 14a) | FALLING DUE WITHIN NEXT YEAR | 105 | 201 |
| **TOTAL D)** | | **65,621** | **3,446** |
| | **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **1,913,968** | **10,366** |

## INCOME STATEMENT

| | | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| **A)** | **VALUE OF PRODUCTION** | **-** | **-** |
| **B)** | **PRODUCTION COSTS** | **(27,573)** | **(3,068)** |
| 6) | | (86) | |
| 7) | SERVICES | (26,894) | (2,558) |
| 14) | OTHER OPERATING EXPENSES | (593) | (510) |
| **C)** | **FINANCIAL INCOME AND EXPENSE** | **-** | **-12** |
| 17) | INTEREST AND OTHER FINANCIAL CHARGES | | |
| 17a) | BANK INTEREST EXPENSE | - | -12 |
| **D)** | **VALUE ADJUSTMENTS OF FINANCIAL ASSETS** | **-** | **-** |
| **E)** | **NON-RECURRING INCOME AND EXPENSEE** | **-** | **-** |
| | PROFIT (LOSS) BEFORE TAXES (A-B+C+D+E) | (27,573) | (3,080) |
| | **NET PROFIT (LOSS) FOR THE YEAR** | **(27,573)** | **(3,080)** |

# IMMICRA s.r.l. Financial statements

## BALANCE SHEET

| | | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| **B)** | **NON-CURRENT ASSETS** | **15,676,561** | **3,635,721** |
| I) | INTANGIBLES | - | 9,476 |
| II) | PROPERTY AND EQUIPMENT | 15,673,074 | 3,624,312 |
| III) | FINANCIAL | 3,487 | 1,933 |
| **C )** | **CURRENT ASSETS** | **2,035,253** | **1,956,659** |
| **II)** | **RECEIVABLES** | **660,769** | **171,963** |
| 1) | CUSTOMERS | 59,184 | 19,548 |
| 4 BIS) | TAX RECEIVABLES | 22,096 | 78,111 |
| 4 TER) | DEFERRED TAX ASSETS | 1,091 | - |
| 5) | OTHER | 578,397 | 74,305 |
| **III)** | **CURRENT FINANCIAL ASSETS** | **-** | **1,000,000** |
| 1) | SECURITIES | - | 1,000,000 |
| **IV)** | **CASH AND CASH EQUIVALENTS** | **1,374,484** | **784,696** |
| 1) | BANK AND POSTAL DEPOSITS | 1,374,484 | 784,671 |
| 2) | CASH AND VALUABLES ON HAND | - | 25 |
| **D)** | **ACCRUED INCOME AND PREPAID EXPENSES** | **4,145** | **14,380** |
| | **TOTAL ASSETS** | **17,715,959** | **5,606,760** |

| | LIABILITIES AND SHAREHOLDERS' EQUITY | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| **A)** | **SHAREHOLDERS' EQUITY** | **17,089,521** | **5,514,160** |
| I) | SHARE CAPITAL | 12,649,000 | 6,630,000 |
| II) | SHARE PREMIUM RESERVE | 5,581,000 | - |
| IV) | LEGAL RESERVE | 4,759 | 4,759 |
| VIII) | RETAINED EARNINGS (LOSS CARRY FORWARD) | (1,120,599) | (1,049,561) |
| IX) | NET PROFIT (LOSS) FOR THE YEAR | (24,639) | (71,038) |
| **C)** | **TERMINATION BENEFITS** | **4,476** | **2,821** |
| **D)** | **PAYABLES** | **607,628** | **89,779** |
| 3) | SUPPLIERS | 44,423 | 43,807 |
| 4) | INVOICES TO BE RECEIVED | 543,601 | 41,854 |
| 5) | TAX AUTHORITIES | 16,885 | 1,221 |
| 6) | SOCIAL SECURITY INSTITUTIONS | 1,328 | 1,386 |
| 7) | OTHER | 1,391 | 1,511 |
| **E)** | **ACCRUED EXPENSES AND DEFERRED INCOME** | **14,333** | **-** |
| | **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **17,715,959** | **5,606,760** |

## INCOME STATEMENT

| | | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| **A)** | **VALUE OF PRODUCTION** | **366,810** | **444,013** |
| **B)** | **PRODUCTION COSTS** | **(424,860)** | **(576,458)** |
| **C)** | **FINANCIAL INCOME AND EXPENSE** | **47,960** | **38,904** |
| **E)** | **NON-RECURRING INCOME AND EXPENSE** | **-** | **19,094** |
| | PROFIT (LOSS) BEFORE TAXES (A-B+C+E) | (10,090) | (74,447) |
| | INCOME TAX EXPENSE FOR THE YEAR | (15.640) | 3.822 |
| | DEFERRED TAX ASSETS | 1.091 | (413) |
| **23)** | **NET PROFIT FOR THE YEAR** | **(24,639)** | **(71,038)** |
| | **NET PROFIT (LOSS) FOR THE YEAR** | **(24,639)** | **(71,038)** |

# *Certification of the financial statements 2013*

Iccrea Banca

Gruppo bancario Iccrea

Iccrea Banca S.p.A.
Istituto Centrale del Credito Cooperativo

## CERTIFICATION OF THE FINANCIAL STATEMENTS 2013

We, the undersigned Francesco Carri, as Chairman of the Board of Directors, and Giuseppino Pezza as Chief Accounting Officer.

"We confirm to the best of our knowledge that:

1. the financial statements of the Issuer prepared in accordance with International Financial Reporting Standards (as adopted in the European Union) give a true and fair view of the assets, liabilities, financial position and profit of the Issuer;

2. the management report includes a fair review of the development and performance of the business and position of the Issuer, together with a description of the principal risks and uncertainties that they face.

Rome, 6 march 2014

| | |
|---|---|
| Giuseppino Pezza | Francesco Carri |
| Chief Accounting Officer | Chairman of the Board of Directors |

BCC
CREDITO COOPERATIVO

# Auditor's Report

Reconta Ernst & Young S.p.A.
Via Po, 32
00198 Roma

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**Independent auditors' report**
**pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010**
*(Translation from the original Italian text)*

To the Shareholders
of Iccrea Banca S.p.A.

1. We have audited the financial statements of Iccrea Banca S.p.A. as of 31 December 2013 and for the year then ended, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Iccrea Banca S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   The financial statements of the prior year are presented for comparative purposes. As described in the explanatory notes, management has restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditor's report dated March 25, 2013. We have examined the method used to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of expressing our opinion on the financial statements as of 31 December 2013 and for the year then ended.

3. In our opinion, the financial statements of Iccrea Banca S.p.A. at 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Iccrea Banca S.p.A. for the year then ended.

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.IVA 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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4. The management of Iccrea Banca S.p.A. are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the specific section on Corporate Governance and the Company's Ownership Structure regarding the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 2, letter b), as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 2), letter b) included in the specific section on Corporate Governance and the Company's Ownership Structure, are consistent with the financial statements of Iccrea Banca S.p.A. at December 31, 2013.

Rome, April 1, 2014

Reconta Ernst & Young S.p.A.
Signed by: Alberto M. Pisani, Partner

*This report has been translated into the English language solely for the convenience of international readers.*

2

Iccrea Banca

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