



(Translation from the Italian original which remains the definitive version)

# 2014 ANNUAL REPORT



*Eurotower, the European Central Bank's new offices in Frankfurt (Germany)*



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**BOARD OF DIRECTORS**

Meeting of 10 March 2015

**Directors' report**



**Dear shareholders,**

Firstly, I would like to reiterate our observations made at the end of last year's report about the founded fears of an adverse economic outlook and the impact of the extension of the longest economic downturn since the Second World War.

The economic scenario of 2014 has in fact confirmed the significant uncertainty about the state of the main economies. Whereas growth has taken off in the US, the Japanese economy continues to be weak, the situation in China and the other emerging countries show a slow-down while the Russian economy has come to an abrupt standstill.

International crises have had a long-term impact on the economy and destabilised the financial markets. The ever-present crisis of Ukraine should be remembered, with its numerous side-effects including the significant state of exports to Russia and Greece's unresolved financial difficulties, made all the more tricky by the unorthodox communications of the new government.

Closer to hand, the Eurozone's economy is still struggling to recover, affected by very high unemployment levels and internal demand, in turn held back by the continued contraction in public and private investments.

The European Central Bank introduced appropriate and progressive expansionary monetary policies to encourage an upturn in the economy notwithstanding its difficulties in obtaining the widest consent possible. The outcome of these policies can be seen in the monetary market's short term rates, which have become negative: a fundamental concern to be addressed firstly on a cultural level and then in operational terms.

Price instability reflects the weak combined demand. For the first time since 2009, the year-on-year consumer inflation rate observed in December 2014 was negative for the entire Eurozone. This affects the outlook for medium to long-term inflation, whose weakness needs urgent action.

Italy is one of the EU countries finding it the hardest to recover and exit the recessionary phase. Its annual GDP variation has been negative for more than three years and investments have dropped by over 25% since 2007.

The economic crisis has affected entire industrial sectors, creating serious difficulties not only for companies but also for large layers of the resident population. This has had a far-reaching negative impact that has been clearly felt at every level, sweeping horizontally across the economy.

Due to their small size, many Italian companies, including those with which we work on a daily basis, have been affected more quickly by the international markets' serious difficulties and this has led to widespread economic hardship that has rapidly transferred to their relations with their banks. Indeed, the banking sector, which had just rallied from the 2008 financial crisis, has found itself in an awkward position due to the large increase in non-performing exposures.

The Marche region itself, a model of healthy and original economic development for decades, has seen its native economy collapse in the traditionally strong Fabriano area and this situation has severely affected the local banks.

In 2014, the European banking system saw the roll out of the Single Supervisory Mechanism (SSM) on 4 November and the announcement of the findings of the stress tests and the Asset Quality Reviews, better known by their acronym AQR, which preceded the SSM and involved the major European banks.

Excluding a few praiseworthy exceptions, these findings showed issues common to the Italian banks, some of which were requested to adjust their own funds in a period which is not at all conducive to this.

The English "originate to distribute" model was introduced alongside the drastic change to the legislative standards which had essentially guaranteed the orderly development of the banking sector in the past. These legislative amendments, partly brought about by Regulation (EU) no. 575/2013, were indirectly responsible for the adoption of very pro-cyclical models which firstly

encouraged the abnormal growth and immediately afterwards hastened the dramatic fall of the economic cycle.

Our bank has always favoured a traditional style of business, where risk appetite is tied directly to supporting the development of the local economy. This approach involves direct and immediate access to households' financial wealth and maintenance of liquidity and capitalisation sufficient to allow the bank to absorb and overcome any market tensions smoothly.

This particular characteristic is the reason for the bank's less volatile results, as can be seen by its consistent own funds.

During 2014 and precisely for the reasons set out above, credit quality did deteriorate as a direct result of the serious economic situation; similarly, the ratio of irregular loans to total loans to customers increased, although at a smaller rate than the preliminary figures furnished by the sector associations.

Conscious of the worsened economic scenario, the bank strengthened its already solid defences against credit risk, as can easily be seen from a glance at its financial figures.

Much of its energy has been devoted to the economic situation but it also continued with its technical and organisational development during the year.

Specifically, an agreement was signed with all the trade unions representing the bank's employees in August. This took place after negotiations aimed at obtaining a wide consensus of the objectives for the finalisation and management of a personnel redundancy scheme, which will significantly reduce the bank's administrative expenses.

As per the business plan, the partnership with Caricese S.r.l., a subsidiary of CSE, specialised in processing bills, cheques and other documents, was extended.

The technical and business synergies with Caricese make a significant contribution to the bank's achievement of the efficiency objectives of its current business plan, thanks also to the high degree of interaction with CSE.

Market rates fell steadily in 2014 reflecting the relevant authorities' intention to combat the ongoing crisis from a purely monetary standpoint. Indeed, the ECB brought the main refinancing operations' rate to 0.05% in September.

Despite this, the bank maintained its net interest income in line with the previous year.

Indirect funding shows a slight decrease on 2013. There was a strong reversal in funds under management during the year and after years of falling volumes, the year-end figure showed a significant about-turn. Funding from insurance premiums grew.

The lending business was obviously affected by the negative economic climate. Despite the considerable contraction in their turnover and investments, the bank continued to assist its local business customers. At year end, lending at over €966 million decreased by 5.1%.

Investments were assisted by the more relaxed performance of the reference markets with generalised higher volumes, partly achieved through trading activities, which boosted total income.

Banca d'Italia commenced a general inspection of Cassa di Risparmio di Fermo on 16 December 2014 which was completed in February 2015. At the date of this report, the board of directors has not received the central bank's report and, therefore, we cannot comment on its findings, which we hope are positive.

The bank informed Banca d'Italia of its assessment of substandard and non-performing loans recognised in profit or loss for 2014.

Despite the continued considerable difficulties encountered by major Italian and international banks in 2014, the bank managed to make a profit of more than €4 million for the year.

After examining the international and domestic situation in more detail, we will comment on the financial statements captions and their trends later in this report.

## **International situation**

### **UNITED STATES**

Although it saw a slowdown in its growth towards the end of the year, the US economy continues to maintain an enviable pace compared to the other advanced countries.

Its GDP growth rate slowed to 2.2% in the fourth quarter of the year, below the originally estimated 2.6%. On an annual basis, the rate is 2.4% which is better than the 2.2% average for the post-recession period although far from the 3.4% growth rate seen in the 1990's.

Consumption, which made up more than two thirds of the economy's output, improved by 4.2% in the last quarter of the year, just below the estimated 4.3% but definitely better than the last few months of 2010. Company investments in software and equipment soared by 4.8%, less than the previous three months but better than the original forecast of 1.9%.

The Federal Reserve announced during the year that the monetary expansionary phase was finished and it would cease purchasing public and private sector securities as per the third round of Quantitative Easing since the financial crisis exploded in 2008. Although the date of the next restrictive measures has not yet been communicated, the dollar has started to appreciate against all the main currencies, partly damaging the US industry's inclination to trade.

At year end, 2.95 million new jobs had been created in 2014 alone, decreasing the unemployment rate to 6.1%. This is the best result for the last five years and more than 11 million new jobs have been created since 2009.

Investments in the residential real estate market increased from 3.2% in the third quarter to 3.4% for the last three months of 2014.

Exports at +3.2% compared to +4.5% of the third quarter suffered due to the dollar's appreciation and Europe and Asia's economic difficulties.

Public spending decreased by 1.8% and was mainly affected by the cuts in the defence budget.

Inflation continued to be inexistent, with the personal spending index down 0.4%.

### **CHINA**

Economic growth lost momentum in China too, despite the low inflation. Real GDP growth in the last quarter of the year decreased 1.5% on the previous quarter due to the weak real estate and heavy industry sectors. GDP increased by 6.8% on a year-on-year basis.

It is expected that the Chinese economy's development will continue to slow down gradually in the long term, although the recent drop in oil prices may provide temporary relief given the high energy requirements of the country's production system.

Consumer inflation at 1.5% for the year is at a low not seen for the last two and a half years and should decrease again as a result of both the slowdown in demand and the currently weak raw materials prices.

### **JAPAN**

The Japanese government has announced it will introduce additional tax stimulation measures in an economy that has gradually stagnated after the April rise in the VAT rate.

The second estimates confirm that real GDP has decreased by 0.5% in the third quarter compared to the previous three months.

Following GDP's disappointing performance in the period from July to September, Japan has re-entered a "technical recessionary phase" due to the contraction for two consecutive quarters. Its economy's conditions are worse than the most negative forecasts made at the start of the year which predicted the economy would grow by 0.2%-3%, and by 2.4% on an annual basis.

Unfortunately, the contraction in the third quarter of 0.4% compared to the period from April to June (from -1.8% to +1.9%) and the annual decrease of 1.6% was mostly due to the 7.1% reduction in the second quarter.

At year end, the government announced a stimulus package and a reduction in the effective tax rate applied to businesses to encourage growth. However, the packages are limited given the public deficit of more than 200% of GDP.

The increase in VAT approved at the start of the year had been made to assist the reorganisation of welfare and social security spending.

At year end, consumer inflation was down to 2.4%, mainly as a result of the contraction in energy goods prices.

## **UK**

The UK economy is the sixth strongest in the world and the third of the Eurozone, mainly driven by the services sector which accounts for four fifths of the national GDP.

Its indicators show a slowdown in the economic development rate in a context where inflation has dropped to extremely low levels. Despite this, figures clearly demonstrate that the recessionary phase has been left behind and the country has started a very expansionary phase since the first four months of 2013, with an economic situation back to pre-crisis levels. Indeed, its 2013 GDP grew by 1.7% and the forecast for 2014 is 2.7%.

The pound sterling appreciated steadily against the Euro in 2014 while it depreciated against the US dollar.

Price trends were also very positive with an inflation rate, net of the foodstuffs component, down from 4.5% in 2011 to 1.3% in 2014. This has contributed to a progressive increase in disposable income, which in turn, boosts internal consumption.

The employment situation was also positive with unemployment down from the peak of 8.4% at the end of 2011 to 6% in 2014.

## **EUROZONE**

GDP grew 0.2% in the third quarter, bolstered by the rise in consumption by households and public administration bodies.

Demand was held back by another contraction in investments (-0.3%) and the variation in supplies.

With respect to the better performing economies, GDP started to grow in France (+0.3%) and, to a lesser extent, Germany (+0.1%) while it contracted again in Italy (-0.1%). The French economy's growth was assisted by the upturn in public and private consumption and the variation in supplies. The situation in Germany was similar and caused by greater spending by households and public administration bodies.

The most recent indicators confirm the cyclical weakness of the Eurozone's economy and predict more modest growth for the fourth quarter, with performances varying across Europe. The ECB revised its growth forecasts downwards again in December to 0.8% for 2014 and 1.0% for 2015.

Based on initial estimates, the change in consumer prices in December decreased to a negative 0.2% on an annual basis, caused by the 6.3% reduction in energy goods prices.

Prices are expected to remain low in the next few months as well. Companies predicted a decrease in their price lists in December, confirming them below the threshold compatible with a rise in prices.

Loans to businesses continued to decrease although less than in previous months, down 0.4% on an annual basis, while loans to households increased by a modest 1.1%.

Following the decisions adopted by the ECB's governing council on 2 October 2013, it commenced its asset-backed securities programme (ABSPP) and covered bond purchase programme (CBPP). On 9 January, it had purchased asset-backed securities of roughly €1.8 billion and covered bonds of €31.3 billion, very modest quantities compared to its objectives.

The ECB performed two operations in 2014 with a longer time frame than the previous years, aimed at refinancing loans to customers (TLTRO - targeted longer-term refinancing operations).

Banks that participated in the TLTROs obtained funds of €212.4 billion. Therefore, the total demand for liquidity by Eurozone banks was just over half the total amount available of €400 billion.

The banks' little interest in the last two operations highlights their difficulty in finding a valid and profitable way to use the very large resources made available. Indeed, the liquidity held by the banks with the Eurosystem in excess of the minimum reserve requirements increased over the year, contributing to maintaining very low monetary market rates.

Returns on ten-year government bonds of the advanced economies continued to decrease due to the drop in expectations about inflation. At year end, returns on US, UK, German and Japanese bonds were 2.0%, 1.6%, 0.5% and 0.3%, respectively, down an average annual of more than 50 bp. This downturn halted towards year end following the Ukraine crisis and the calling of new political elections in Greece.

## **ITALY**

The Italian fourth quarter GDP was unchanged while the average annual variation was another decrease of 0.4%. The steady contraction in investments was partly offset by private consumption and exports.

Volumes produced by industry decreased by an average 0.8%, a trend repeated for the third consecutive year although this year's reduction was significantly less than the two previous years. Exports and imports continue to be imbalanced. The average annual turnover of the industrial sector on the domestic market decreased by 1.2% while turnover generated on foreign markets grew 2.9%, confirming this channel's importance.

Specifically, Italy's exports were mainly boosted by sales to EU markets which increased by 3.7%.

Imports decreased by 1.6%, affected by the lack of internal demand.

Altogether, the trade balance is a surplus of over €42.8 billion, assisted by the reduction of liabilities of the energy balance.

According to ISTAT (the Italian consumer price index), the construction production index continued to be very variable, showing a 2.3% increase in December despite the setback of 3.9% of November. The average annual reduction was a significant 6.9%.

Banca d'Italia's economic survey forecast a slight upturn in demand in the residential construction sector, boosted by the steady improvement in bank lending conditions.

Overall, the figures for the real estate market were positive in 2014 showing growth of 1.8% after seven negative years. The number of transactions increased by 5.5% in the last quarter of the year compared to the corresponding period of 2013, finishing the year with 920,849 units sold against 904,960 in 2013.

The best performing sector was the commercial sector (+5.7%), followed by the residential and production sectors (+3.6%) in 2014, while the services sector continued to perform negatively (-4.6%).

The services turnover index rose 0.8% in the fourth quarter of the year after the contractions seen in the second and third quarters. The wholesale, transport and storage segments of the services sector all performed well as did the accommodation and food services segment while the professional services, scientific and technical segment only partially regained ground.

Conversely, the information and communication services segment continued to perform negatively.

There was an upturn in household spending in the second half of the year with a slight improvement confirmed by retail sales trends.

Average employment for the year increased by 0.4% after two years of decline.



However, the gap in employment trends continues to widen with an 0.4% increase in the employment rate in northern Italy, a 1.8% improvement in central Italy while the situation worsened again in southern Italy by 0.8%, equal to 45,000 jobs.

The drop in young people's employment continued against an increase in people over 50 being employed.

The 2014 ISTAT employment figures for Italians dropped by 23,000 jobs while they increased by 111,000 for non-Italian residents.

The rise in employment affected both employees with open-ended contracts (+18,000 jobs) to a lesser extent and those with term contracts (+79,000 jobs) more significantly.

The 1.4% increase in employment in the industrial sectors was offset by the steady decrease in employment in the construction sector (-4.4%). Employment also rose in the services sector (+0.5%). The average 2014 unemployment rate was 12.7% compared to 12.1% for 2013.

At year end, prices continued to show growth from the historical lows. Although heavily affected by the strong recovery of raw materials prices, consumer inflation remained around zero at an average +0.2% for the year, reflecting the unfavourable economic climate that led to a generalised reduction in prices for all sectors.

The prices of industrial products sold on the domestic market have continued to fall for over 18 months with an estimated negative annual performance of -2.1%, while those of non-food consumer goods have increased by about 0.5%.

Weak demand strengthened the downturn in consumer prices, which were also affected by the reduction in energy and food prices.

Although to a lesser extent than in previous months, the contraction in bank loans to companies and family businesses continued throughout 2014. According to Banca d'Italia figures, total corporate debt as a percentage of GDP decreased slightly in the summer compared to the corresponding period of 2013 levelling out at 77.3%.

## **MARCHE REGION**

The region's economy continued to stagnate in 2014. The signs of recovery seen towards the end of 2013 did not materialise. Moreover, the industrial sector was also at a standstill in the first nine months of the year.

Companies made little investment and their plans for 2015 do not show a significant about-turn in this trend given the great uncertainty about the economy and the existence of unused production capacity.

The construction sector is the worst hit. However, the decline in property sales, which has gone on for the last seven years, stopped in the first half of the year. Despite this, construction work is still very slow, affected by the large number of unsold properties and little investment by companies.

The growth in exports has slowed down. While foreign demand continues to better internal demand, it has weakened partly due to the sudden halt of certain important end markets, such as Russia.

Sales of the main regional industrial sectors, such as household appliances, furniture and footwear, have dropped, affected particularly by the difficulties in the CEE markets.

The labour market showed timid signs of recovery in the first six months, with an increase in the number of people with jobs and a drop in unemployment numbers, after five years of rising unemployment. However, companies continue to make great use of the government-sponsored lay-off scheme. In the first 11 months of the year, 45 million hours of lay-off time were applied for and authorised, less than the same period of 2013 by 6.2%. However, more than six million hours were authorised in just November, equal to full-time employment of 32 thousand workers, according to the regional branch of the trade union IRES CGIL.

This increase in lay-off hours, especially as regards overtime, highlights the structural nature of the economic crisis and its pervasion.

The outlook for employment is affected by uncertainty about redundancies to be made by many companies that still make huge use of social safety nets.

The credit squeeze continued, although to a lesser extent than before, and was -0.5% at the end of November, reflecting weak demand, in turn affected by the uncertain economic prospects.

The ratio of new non-performing loans to total loans continued to be high compared to the rest of the country although it decreased for the first time in the second quarter of the year after rising significantly in previous years.

The percentage of non-performing loans in the Marche region was 16.5% of total loans compared to 8.6% for central Italy and 9.8% of the entire country. Therefore, it rose by over 3% in 2014 alone compared to 2013 when it was 13.4%. It is even higher for business loans at 22.6% in the region.

## **THE ITALIAN BANKING SYSTEM**

2014 was quite a difficult year for the Italian banks, due to the adverse conditions facing most of the national production system. In addition to these economic issues, Italy has more structural problems related to the capitalisations essential to allow the banks to provide credit to companies.

The dramatic drop in profit margins over the last few years has reduced the available resources while the spread between Italian government bonds and the German Bund has fed the cost of collecting funds, although it has narrowed. This situation has held back the banks' ability to support the economy.

Following completion of the in-depth assessments of the financial statements of the major Eurozone banks, the normal supervisory activities of the Eurosystem commenced. All the banks supervised directly by the ECB, assisted by the national central banks, were informed of their capital ratio objectives, based on analyses of their risk profiles.

These objectives were amended for those banks identified as needing to capitalise themselves, which essentially mirrored the plans presented by the banks after the assessments.

The necessity to comply with more stringent capital requirements has affected banks' capacity to grant credit in an unfavourable economic phase over recent years. The tough regulations have generated pro-cyclical effects that have made the lending business more difficult in Italy.

Specifically, loans granted to the private sector by banks operating in Italy amounted to €1,557.6 billion at year end, down 2.1% on the previous year end.

However, there are positive signs of new loans being granted: loans to businesses increased by 12.1% on an annual basis in the fourth quarter of 2014 compared to the corresponding period of 2013. New loans disbursed to purchase property in the year grew by an annual 32.5% while new consumer credit transactions increased by an annual 9.2%.

At year end, total loans granted to households and businesses showed an annual decrease of 1.8%, which is better than the -4.5% of November 2013, when they reached an all-time low.

Interest rates applied in Italy are still minimal: the average rate for all loans provided was 3.67%, down 12 bp on the previous year. The average rate applied to new loans to businesses decreased to 2.56% and the average rate for new property loans was 2.88%, the lowest since November 2010.

As a result of the persistent crisis and its fallout on the economy, credit risk in Italy has grown again with gross non-performing loans amounting to €183.7 billion at year end compared to €155.9 billion at the end of 2013. The ratio of gross non-performing loans to total loans is 9.6% in December 2014 compared to 8.1% a year earlier.

Moreover, this ratio was 2.8% in December 2007, i.e., before the crisis.

Net non-performing loans decreased slightly at the end of the year from €84.8 billion in November to €84.5 billion. The ratio of net non-performing loans to total loans was 4.64% in December compared to 4.31% in December 2013 and 0.86% pre-crisis.

Medium to long-term funding contracted by 13.5% in 2014 for an annual decrease of more than €68.9 billion, which will definitely penalise the granting of medium to long-term loans.

Conversely, deposits increased by nearly €49.7 billion, up 4.1% on 2013. Overall, total funding, i.e., from deposits from resident customers and bonds, decreased by €19.8 billion at year end, down 1.15% due to the negative performance of medium to long-term funding.

Since 2007, before the crisis exploded, funding from customers has increased from €1,513 billion to €1,709 billion: up nearly €196 billion or 12.9% at year end.

The average interest rate applied to funding from customers was 1.50%, down 39 bp on 2013, while the rate applied to just deposits (current accounts, savings deposits and certificates of deposit) was 0.73%. The return on bonds was 3.16%.

The spread between the average interest rate applied to loans and that applied to funding from households and non-financial companies continues to be very narrow in Italy at 217 bp, showing just a tiny increase of 27 bp on the end of 2013.

2014 was a very positive year for the managed funds segment.

During the last quarter of the year, this segment collected over €32 billion for a total in excess of €134 billion for the year.

The collective funds were the key players with €19.7 billion collected in the last three months and €92.4 billion for the whole year. Net inflows from asset management for the year came to €41.4 billion, mostly from insurance products and retail securities management.

The funds were investors' favourite product throughout the year: +€91.5 billion for the year with a surge in the last quarter. Flexible funds, with net inflows of €42.4 billion, were the category that collected the most funds.

At year end, company funds under management reached a record €1,585 billion.

## **The bank's operations**

In 2014, the bank was required to both monitor credit risk, given the above-mentioned very adverse economic climate, and to adhere to large-scale legislative innovations, which involved its entire organisation in a costly compliance exercise.

The first activity of monitoring credit risk led to an increase in those procedures to monitor and recover credit as well as deploying greater prudence in approving new loan applications.

The changes to the legislative framework often created significant interpretative issues, which increased the difficulties in correctly applying them to the bank's operations on a timely basis.

The related difficulty in managing the bank requires a very specific organisational structure, production processes and policies which comply with the relevant legislation, customers' interests and the business plan.

During 2014 and in line with its business plan, the bank entered into and finalised negotiations with the trade unions for a reduction in the workforce in order to cut administrative costs.

As a consequence of this agreement, it expanded its working relationship with Caricese, part of CSE Group, for the outsourcing of certain operating and back office processes.

In this respect, the bank is aware that it must continue its commitment to refine and improve its internal controls so as to be able to monitor its governance system, commercial practices and modus operandi in an increasingly careful manner in line with its operating decisions and supervisory authorities' guidelines.

Reflecting these requirements, the bank's organisational structure includes a Compliance Unit which works together with the other relevant units, first and foremost the Inspection Office and Internal Audit Unit, carrying out second level controls as the first level controls are normally assigned to the operating units.

The activities completed during the year were based on the business plan guidelines and also reflected the ongoing legislative changes.

The drivers of the bank's commercial development were its key reference point to maintain its local base, implemented through:

- 1) the strong traditional branch network;
- 2) the new h24 branches, strengthening the multi-channel objectives;
- 3) rapid development of alternative channels by continuously introducing the reference products such as corporate banking and home banking.

Specifically, the bank engaged in:

### **1. Organisational change designed to improve its performance;**

- a. Extension of the automated payment systems for public administration bodies, especially the municipal authorities to which the bank provides treasury services;
- b. SEPA Direct Debit End Date project: management of collection of loan payments by the bank as creditor; management of transfers for restructurings and energy savings and activation of the SEDA service for mandate alignment;
- c. Ongoing replacement of hardcopy forms with e-forms, especially as regards collection management, discounting and advances on bills, orders, contracts and other documents;
- d. Activation of the new SIC (credit information system) of Experian - Cerved Information System S.p.A. to be used when investigating applications for credit, revising and monitoring credit facilities;
- e. Outsourcing of operating back office portfolio and payment proxy services to CARICESE;
- f. Reorganisation of the logistics, archives and correspondence services department and outsourcing of the archives function;
- g. Updating the business continuity plan, assisted by KPMG S.p.A. as per Banca d'Italia Circular no. 263.

**2. Multi-channel promotion activities:**

- a. Mobile banking: new functionalities and design of appropriate Apps for IOS and android systems;
- b. Launch of the new website with improved content and graphics and approval of the related update to the “Website management regulation”;
- c. Activation of CBILL, the electronic payment service of CBI consortium, through the internet banking channel to paying customers;
- d. Activation of MyBank, a product promoted by the EBA to support e-commerce payments based on the SEPA payment schemes (buyer side);
- e. Activation of payment of the RAI fee using the ATM advanced services;
- f. Improvement of the internet banking services offered to private customers and corporate banking services provided to businesses, with introduction of online storage of documents and new types of transactions.

**3. Organisational projects to support lending policies:**

- a. Adoption of a new credit monitoring procedure to automatically identify and manage irregular positions;
- b. “Solidarity fund for first home loans” (Law no. 244 of 24 December 2007), temporarily suspended following the amendments introduced by Law no. 92 of 28 June 2012 and reactivated on 27 April 2013;
- c. the “2013 credit agreement” of 1 July 2013 (ABI – company representative associations) for SMEs, due to expire on 30 June but extended to 31 December 2014.

**4. Commercial policies:**

- a. Agreement with Telepass S.p.A. to promote and sell the Telepass Family product, with the direct distribution of the device by the bank branches;
- b. Collaboration agreement with Consultique SIM S.p.A., a financial analysis and consultancy company, to improve the consultancy services offered to customers.

**5. Activities useful and/or necessary to comply with the anti-money laundering law; the following activities were completed in the first half of the year:**

- a. Improvement of the procedures to identify and record transactions in the centralised computer database involving current account transfers for discounts of under reserve bills and transactions performed by public administration bodies’ accountants;
- b. Commencement of the procedure used to communicate termination of relationships, related to the obligation to abstain as per article 23 of Legislative decree no. 231/2007 when the bank is unable to perform the relevant due diligences introduced by Legislative decree no. 169 of 19 September 2012 and regulated by the Ministry for the Economy and Finance Circular of 30 July 2013.
- c. Circulation of the communication of 18 February 2014 (transactions using payment cards) issued by the Financial Security Committee of the Financial Intelligence Unit.
- d. Changes to the due diligence process carried out when selling savings products managed by third parties (Eurizon, Epsilon, Amundi, Symphonia and Arca), including Cartasi and AGOS products.
- e. Implementation of the “Measure setting out instructions for the implementation of customer due diligences” of 11 April 2013 issued by Banca d’Italia in relation to:
  - i. Identification of the real transaction owner
  - ii. Obtaining new customer information
  - iii. Completion of the due diligence questionnaire
  - iv. Politically exposed persons
  - v. Transactions involving large denomination banknotes
  - vi. Deposit of foreign securities

**6. Other laws and regulations:**

- a. Compliance with the new prudential supervisory rules for banks (Circular no. 263 of 27 December 2006, 15th update “Internal controls, IT systems and business continuity”) with respect to the obligation in chapters 7 (Internal controls) and 9 (Business continuity).
- b. Compliance with the Italian Data Protection Authority’s measure for the protection of personal data no. 192 of 12 May 2011 (Measures for the circulation

- of information in banks and tracing of bank transactions), whose application was postponed to 30 September 2014 with Measure no. 257 of 22 May 2014.
- c. Compliance with the FATCA (Foreign Account Tax Compliance Act) and related intergovernmental agreement of 10 January 2014 between Italy and the US, effective from 1 July 2014 even though a formal ratification act was not signed nor official implementation secondary regulations introduced.
  - d. Compliance with the changes in tax rules about financial income (article 3 on instructions about financial income of Decree law no. 66 of 24 April 2014), effective since 1 July 2014.
  - e. Compliance with the changes in tax monitoring rules for the application of withholdings to income from foreign investments and foreign financial activities (article 9.1.c of Law no. 97 of 6 August 2013, enacted on 1 January 2014, which amended Decree law no. 167 of 28 June 1990 converted, with amendments, by Law no. 227 of 4 August 1990);
  - f. Technological and training compliance following introduction of the Europa series 10 Euro bank note.

Development of the “banca h24” project, whose operational stage commenced in 2012, continued in 2014. The organisational innovation affected the following branches, with a high success factor and full achievement of the set objectives:

1. Corridonia;
2. San Benedetto – centre;
3. Silvi Marina.

Deployment of the new organisational model by the above branches was accompanied by an extraordinary design and organisational project which involved both the headquarters’ units, and the network employees (who were provided with extensive customised training) showed their great satisfaction with their new roles.

The preparation of the above branches led to a large increase in investments and maintenance costs, as can be seen clearly from the income statement, countered by the reduction in personnel at the branches involved in the project and in the same branches’ administrative expenses.

Given the results, the reorganisation will be continued in 2015 with the activation of another two medium/large sized branches with roughly 20 employees.

The bank’s treasury and cash service provided to local bodies continued to be very intense and profitable. During the year, it strengthened its traditional role in this segment through its engagement by the Porto San Giorgio municipality as its treasury and cash servicer.

The bank encouraged and consolidated collaboration agreements with the local bodies, aimed at exploiting all possible synergies to the advantage of the local communities served.

Following the centralisation of funds of local bodies and schools with the state’s provincial treasury, during tenders, the bank took steps to contain costs and concurrently offered the available technologies to improve its service with the view to the reciprocal reduction in costs.

Accordingly, it rolled out and fully activated the procedures for the IT mandate, drawn up for Chambers of Commerce, schools and public sector bodies as well as other customised activities involving highly qualified local technological companies.

At year end, the bank managed 22 treasury services and 20 cash services, including for six schools and the Fermo Chamber of Commerce.

The annexes to the financial statements include a list of the bodies to which the bank provides treasury and/or cash services.

## **Organisation and workforce**

The bank’s sales network did not undergo change during the year.

At 31 December 2014, its 60 branches were located in seven provinces and three regions as shown in the following table:



REGION	PROVINCE	No. of branches at 31/12/2014
Marche	Fermo	28
Marche	Ascoli Piceno	11
Marche	Macerata	13
Marche	Ancona	2
Abruzzo	Teramo	2
Abruzzo	Pescara	1
Lazio	Rome	3

The property maintenance programme included considerable work to maintain all the bank's properties, both owned and leased, in order to improve their working and comply correctly with the laws about safety in the workplace.

The bank focused on crime prevention measures, including through resort to cutting edge technological solutions to ensure the highest available security standards for its employees and customers.

Some of the most notable maintenance work included completion of the work on the Montefiore branch with its drastic renovation to facilitate the front office activities in particular, as well as the restructuring of the Corridonia, San Benedetto - Centre and Silvia Marina branches, converted into "banca h24" branches.

In 2014, the bank agreed a lease for a building in Via Diaz, Fermo to house an ATM, which has been very well met by its residents since its set up.

The bank's owned property used for operations has a surface of roughly 26,078 square metres while its leased property has a total surface of roughly 6,999 square metres.

The bank also owns properties which it leases for a total surface of 5,875 square metres.

At year end, the bank had a workforce of 378 employees, excluding the cleaning staff (1 person), a reduction of 5.5% on 31 December 2013, as follows:

	31/12/2014	31/12/2013	31/12/2012
Managers:	2	2	2
Junior managers (3rd and 4th level)	42	42	43
Junior managers (1st and 2nd level)	56	60	62
3rd professional area	275	291	286
2nd professional area	3	4	10
<b>Total</b>	<b>378</b>	<b>400</b>	<b>403</b>
<i>Cleaning staff</i>	<i>1</i>	<i>1</i>	<i>1</i>

The above workforce included two employees with term contracts.

In 2014, 29 employees left the bank while seven people were hired.

The following table summarises changes in the workforce during the year:



<b>Changes in the workforce</b>					
	<b>31/12/2014</b>	<b>2014 departures</b>	<b>2014 entries</b>	<b>Changes in employment contracts</b>	<b>31/12/2013</b>
Managers	2	0	0	0	2
Junior managers (3rd and 4th level)	42	2	1	1	42
Junior managers (1st and 2nd level)	56	7	0	3	60
3rd professional area	275	20	6	-2	291
2nd professional area	3	0	0	-2	5
<b>Total</b>	<b>378</b>	<b>29</b>	<b>7</b>	<b>0</b>	<b>400</b>

At year end, the bank had 26 employees with part-time contracts.

The containment and streamlining of operating processes associated with the increasingly intense development of IT technologies, together with adoption of more efficient organisational models, allowed the redistribution of human resources with 70.2% at the branches and the other 29.8% at head office.

This distribution, difficult to achieve given the bank's status as an independent bank, has effectively contributed to the necessary containment of overheads.

The employees' involvement in the bank's objectives, ensured through regular meetings of head office and branch personnel, and enhancement of their skills through training, is a key HR target as the bank is convinced of the central role played by its employees.

Training activities involved nearly all the professional staff about all relevant issues.

Special courses were held for new staff about both their specific duties and for long-term objectives.

Great importance was thus given to training with most employees participating at internal and external courses. As in the past, courses were held about finance issues, administration and taxes, lending and insurance.

The aims were threefold:

1. to provide training to new or recently hired staff and personnel transferred to new positions within the bank;
2. to build up the specific skills of personnel holding particularly important positions, also considering the legislative discontinuities which require ongoing refresher courses;
3. to promote new products and services, especially those of a financial nature, and with a special focus on risk management and anti-money laundering.

During the year, training courses also included issues pertinent to the roll out of the "banca h24" technology.

The bank also has an e-learning platform for on-line courses, used mainly for insurance sector training, which allows employees to consult course materials and monitor scheduled training activities without having to be physically present.

For some time now, its organisational policies have focused on developing the multi-channel tool as the way to reorganise work at the branches in a labour-saving manner.

As a result of these policies, which have culminated in the “banca h24” project, the number of transactions performed using channels other than the sales network has grown considerably, both as a percentage and amount.

Purchases and sales of securities made on-line by customers decreased to 75.7% compared to 72.5% in 2013.

Altogether, the internet banking service, which includes on-line trading, is well met by customers and 14,594 customers activated the service at year end compared to 12,059 at the end of 2013 (+21%).

Alongside the internet banking service, designed for individuals, the bank has successfully launched and disseminated its corporate banking service with an increasing number of businesses using this option. At 31 December 2014, 6,041 businesses had registered with this service compared to 4,840 at the end of 2013.

A large number of different transactions previously performed at the bank’s premises are now carried out on-line. With respect to commercial bill collection presentation requests, 82.2% are performed on-line compared to the previous 78.1% involving collection order (RIBA), interbank direct relationship (RID) and payment against notice (MAV) requests.

The ATM service has 1,434 machines compared to 1,215 at the end of 2013 with transaction volumes up 18% on an annual basis.

Cash deposits made by customers to the next generation ATMs installed at the h24 branches grew steadily during the year. They may be summarised as follows:

<b>2014 ATM DEPOSITS</b>		
	<b>No. of transactions</b>	<b>Amount</b>
Cash	32,456	58,936
Cheques	21,597	28,575

Deposits increased by 55% to €87.5 million compared to €50 million in 2013.

## Internal controls

The current system of internal controls is set up in such a way as to ensure appropriate and careful monitoring of the bank's activities and, especially, those subject to the most significant implicit risk.

Following issue of the new prudent regulatory measures by Banca d'Italia about internal controls, IT systems and business continuity, the bank set up two work groups to prepare the required self-assessments considering these new requirements.

In order to facilitate their work, both groups used a questionnaire prepared by PricewaterhouseCoopers Advisory, whose assistance was provided as part of the CSE consortium activities.

The board of directors was informed of the results of the self-assessments, the measures adopted and related suitable timeframe to ensure compliance with the new supervisory requirements in January 2014 as was Banca d'Italia.

The controls involve the board of directors, the board of statutory auditors, senior management and all personnel, based on their roles and responsibilities.

Specifically, responsibility for the internal controls lies solely with the board of directors, whose duty it is accordingly to:

- establish guidelines, strategies and risk management policies;
- approve the bank's organisational structure, ensuring duties and responsibilities are allocated clearly and appropriately;
- regularly check the organisational structure's adequacy and effective working;
- ensure that the control units are sufficiently independent of the other units and have the appropriate resources to correctly carry out their duties.

The board of directors also regularly assesses the internal controls' compliance with the bank's business model and their overall functionality, effectiveness and efficiency. It adopts any remedial actions promptly if it identifies weaknesses and/or irregularities during its checks.

The internal controls cover all the bank's operations and are an integral part thereof. They include the following types of control:

- first level controls:
  - line controls, that can be carried out by the production units themselves, included in procedures or performed as part of back office activities;
- second level controls
  - these are carried out by units that define the risk measurement methodologies, check compliance with the limits set by the board of directors on an ongoing basis and compliance with the assigned risk objectives; second level controls also include compliance controls, aimed at ensuring efficient risk management so as to avoid judicial or administrative sanctions, large financial losses or reputation damages due to the violation of external (laws and regulations) or internal rules;
- third level controls (internal audit)
  - their objective is to check the correctness of the bank's operations and adequacy of its risk management procedures.

Specifically, third level controls are carried out by the Inspection Office and the Internal Audit Unit to check the correctness of the bank's operations, the efficiency of its organisation, compliance with proxy limits, the overall working of the internal controls and reliability of the IT systems. These important functions are carried out with on-site inspections and distance controls. They cover all the bank's operations, e.g., credit, finance, related services and those issues which are subject to specific regulations such as transparency, usury, anti-money laundering, investment services and others.

In addition to the reports generated automatically by the IT system, which provide daily information useful for control purposes, the Inspection Office and the Internal Audit Unit have IT tools to prepare basic data. Their subsequent combination and application of predefined control parameters allow the faster identification of any irregularities or high risk situations.

Over the last few years, the Inspection Office has focused more on audit issues.

When urged to do so by the Inspection Office, senior management takes steps to eliminate any weaknesses, assisted by the relevant office due to the lack of line or second level controls, the related adequacy or inadequacy of organisational processes and any other aspects that could compromise the working of the internal controls as a whole or risk management.

The current credit risk management procedure gives an overall view of individual customers or groups of related customers. Compliance with credit limits is checked in real time and unauthorised overspending is identified and communicated to the relevant office which granted the facility.

A specific head office unit, identified by the Internal Services Regulations, checks the correct performance of customers. This is the Risk Controls Office which reports to the deputy general manager and may reclassify credit items if necessary with the managing director's approval.

Performing loans are monitored using automated reports to the relevant offices that identify any irregularities.

Given the bank's size and the principle of proportionality, the Risk Governance Office is responsible for monitoring and measuring risks, including the risk of non-compliance with the law. These are second level controls carried out by the Risk Management, Compliance and ALM units.

The Office is sufficiently independent in order to ensure segregation between the risk measuring/control functions from both the operating and internal audit functions.

## **Risk Management**

The Risk Management Unit continued its work during the year aimed at measuring and controlling the different types of risk in line with the instructions issued by the board of directors and the supervisory authorities.

Accordingly, it monitors the following risks:

### **Market risk**

Ruling regulations require that the VaR (Value at Risk) method be used to measure market risk. It estimates the potential loss considering market values for a set period of time and a set confidence level at normal market conditions.

The VaR method, developed for management purposes with a special application designed by Promoeteia, based on the variance-covariance method, calculates the maximum potential loss at a confidence level of 99% of the banking book over a time frame of 10 days. It measures the variability of the banking book's value using risk factors, being interest rates, exchange rates and market indexes, without considering the issuer's credit risk.

### **Liquidity risk**

Liquidity risk is measured using an internal model and data provided by the ERMAS application. The board of directors' model is based on the cumulative imbalance between assets and liabilities split by maturity.

### **Interest rate risk**

The model used to measure the banking book's exposure to interest rate risk includes calculation of the risk indicator considering the maturity or repricing of assets and liabilities as per the supervisory authorities' instructions. It gives the bank's net weighted position compared to its regulatory capital. The ERMAS application, provided by the IT outsourcer as a result of Prometeia's collaboration, is again used.

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**Credit risk**

Systematic application of the CPC (Credit Position Control) model, introduced in 2006, has improved the efficiency levels of monitoring performing loans both at branch and head office level. Reports are produced regularly on the largest irregularities, broken down by geographical location and customer type.

A counterparty internal rating system is also used for internal purposes only. The adopted procedure (S.A.Ra. - automatic rating system) classifies customers by credit risk level and estimates the probability of default (PD) based on the counterparty's performance trends, qualitative information obtained in questionnaires and, for companies, assessments of financial statements on a statistical basis and using system analyses.

**Single-name and geo-business segment concentration risk**

The bank's exposure to business and geographical concentration risk is assessed every three months using Banca d'Italia's regulatory models.

**Compliance Unit**

The Compliance Unit assesses the risk of non-compliance of the bank's strategic and operating decisions. It carries out preventive checks and subsequent monitoring of the effectiveness of procedures, mainly to prevent possible violations or infractions of the relevant legislation.

As provided for by the fifteenth update of Banca d'Italia's Circular no. 263/05, this Unit manages the risk of non-compliance using a risk-based approach, considering all the pertinent legislation.

Accordingly, it has direct and indirect responsibilities. Specifically, the Unit is directly responsible for management of the risk of non-compliance with the more significant rules related to the "core" scope, such as the performance of banking activities and financial intermediation, management of conflicts of interest, transparency versus customers and, in general, consumer protection laws.

As far as the non-core scope activities are concerned, the Unit's functions are scaled and specialised controls defined for each compliance area.

**IT risks and the data protection document**

The bank's IT systems are mainly housed on an operating platform supplied and managed by CSE - Consorzio Servizi Bancari Soc. Cons. a r.l. on an outsourcing basis. This guarantees the security, quality and reliability necessary for all the services used.

The bank also uses other application packages, mainly to provide IT support, analysis and control functionalities. They are installed and managed directly by the relevant internal offices.

Following enactment of Legislative decree no. 196/2003, the Privacy Code, which became effective on 1 January 2004, the bank drew up the data protection document as per point 19 of the Technical Regulations, Annex B to the aforesaid Legislative decree. This document is revised regularly.

The bank's primary objective is the secure processing of personal information and, therefore, the document has been prepared to ensure the correct performance of the internal information system, its correct working and resistance to hacking for the equipment exposed to internet risks.

The relevant internal units perform the related controls at different levels, focusing on checking that the security measures are updated regularly to reflect changes in risks deriving

from unauthorised access, changes to personal data or its destruction, either unintentionally or intentionally.

As required by law, the outsourcer CSE has a disaster recovery plan which it regularly updates and checks the data in order to combat the significant risk of disaster and/or hacking.

While the currently directly managed application systems do not have any critical aspects, the bank has a backup plan with all the data recovered from the intranet servers, as required by Legislative decree no. 196/03.

In order to reduce the potential risks of on-line connections to the internet, the bank has a special portal and an intranet for internal e-mail management.

All bank employees who handle personal data and use electronic tools undergo training about the related risks and the proper procedures to adopt in order to avoid damaging events.

## **Business continuity and disaster recovery plans**

In accordance with Banca d'Italia's instructions, the bank has a business continuity plan prepared with the assistance of its IT outsourcer.

The issue of business continuity includes a purely technological component (disaster recovery) and an organisational aspect, aimed at defining a business continuity plan for emergencies to ensure a return to minimum operations in a short as possible time frame in the case of a disaster.

The plan's objective is to analyse the effects of events that could threaten the continuity of internal operating processes and to design the related preventive and remedial measures as well as any related actions to be taken to restore business operations as quickly as possible.

The bank's business continuity plan is consistent with the business continuity and disaster recovery plans adopted by its IT outsourcer, CSE, which are also regularly updated and checked.

## **IT Audit**

The engagement for the IT audit, checks of the general controls and security of the CSE IT systems for 2014 was assigned to PricewaterhouseCoopers Advisory S.p.A. by the bank members of the consortium. The consultants also carried out checks and follow-ups of the main findings of the IT audit of the previous year and specific analysis of the system's vulnerability to threats and external attacks.

## **Privacy - Legislative decree no. 196/2003**

Pursuant to the Italian Data Protection Authority's measure of 12 March 2011 "Measures for the circulation of information in banks and tracing of bank transactions", the bank has implemented the related trade union agreement and provided the representatives with the relevant information. Moreover, it has adopted a suitable tracking log management system and introduced the necessary organisational procedures.

## **ISVAP Circular no. 551/d of 1 March 2005 - Instructions about the transparency of life assurance contracts**

In accordance with ISVAP Regulation no. 05/2006, the bank sells insurance products solely via its specially trained personnel. This training, required by the above regulation, is mainly provided by its insurance partners.

The documented procedures for contacts/sales are constantly and carefully checked with respect to the completeness of the information provided to customers and employee training.

### **Law no. 262/2005 - Instructions for savings protection and financial markets regulations**

With respect to Law no. 262 of 28 December 2005 and the bank's proper application, on 27 December 2013, Consob approved the bank's prospectus for the issue of bonds as part of the Issuance Programme approved by the board of directors on 22 October 2013 with its measure no. 10103671.

This prospectus comprises the Filing document, Summary notes and Notes on each type of bond.

All the documentation can be found on the bank's website and downloaded.

### **Law no. 231/2001 - Companies' administrative liability**

Legislative decree no. 231/2001 introduced the administrative liability of companies for unlawful practices carried out by company key personnel in its interests. This decree provides for the non-liability of companies that have previously adopted and implemented an "Organisational model" suitable to prevent the crimes it sets out.

The bank introduced its Organisational model during the year and updated it to include the new crimes, assisted by the supervisory body which checks its working, effectiveness and compliance. The body also ensures that it is up to date.

During the year, the bank assigned the duties of the supervisory body to the board of statutory auditors which may resort to the internal control unit managers for specific functions.

### **Law no. 231/2007 - Prevention of the use of the financial system for the purpose of money laundering and terrorist financing**

Specifically, during 2014, the following measures were taken to align the bank's procedures and processes with the anti-money laundering legislation, including:

- a. optimisation of the operating processes used to communicate suspect transactions in line with the anti-money laundering policy adopted by the bank on 3 August 2011 and updated with its resolution of 24 June 2014;
- b. circulation of the Italian Financial Intelligence Unit communications of 18 February 2014 (transactions using payment cards);
- c. introduction of the operating process for compliance with the restrictive measures imposed by the EU institutions in response to the crisis in Ukraine;
- d. implementation of the measures introduced by Legislative decree no. 169 of 19 September 2012 and regulated by Ministry for the Economy and Finance circular of 30 July 2013 related to the obligation to abstain, as per article 23 of Legislative decree no. 231/2007, when it is impossible to perform due diligences;
- e. alignment of the information system with the "Measure setting out instructions for the implementation of customer due diligences" of Banca d'Italia of 11 April 2013 effective from 1 January 2014.



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**Other laws and regulations:**

1. Compliance with the new prudential supervisory rules for banks (Circular no. 263 of 27 December 2006, 15th update “Internal controls, IT systems and business continuity) with respect to the obligations in chapters 7 (Internal controls) and 9 (Business continuity). The new rules about the calculation of “own funds” and the “solvency ratio”, set out in Regulation (EU) no. 575/2013 (CRR) and Directive no. 36/2013/EU (CRD IV) have been applicable since 1 January 2014.
2. Compliance with the Italian Data Protection Authority’s measure for the protection of personal data (no. 192 of 12 May 2011 (Measures for the circulation of information in banks and the tracing of bank transactions), whose application was postponed to 30 September 2014 with Measure no. 257 of 22 May 2014.
3. Compliance with the FATCA (Foreign Account Tax Compliance Act) and related intergovernmental agreement of 3 January 2014 between Italy and the US, effective from 1 July 2014 even though a formal ratification act was not enacted nor official implementation secondary regulations, including with respect to the sale of ARCA Vita products.
4. Compliance with the changes in tax rules about financial income (article 3 on instructions about financial income of Decree law no. 66 of 24 April 2014), effective since 1 July 2014.
5. Compliance with the changes in tax monitoring rules for the application of withholdings to income from foreign investments and foreign financial activities (article 9.1.c of Law no. 97 of 6 August 2013, enacted on 1 January 2014, which amended Decree law no. 167 of 28 June 1990 converted, with amendments, by Law no. 227 of 4 August 1990).
6. Compliance of the “Basic account” product following amendment of the related agreement, signed on 31 May 2014 by representatives of the Ministry for the Economy and Finance, Banca d’Italia, ABI, Poste Italiane S.p.A. and the Italian Association of E-payment and money institutions.
7. Management of the obligations arising from use of computerised channels to pay the F24 tax form by proxy, introduced by article 11.2 of Decree law no. 66 of 24 April 2014 converted, with amendments, by Law no. 89 of 23 June 2014;
8. Variation in the parties assigned as “system administrators”, in line with the Italian Data Protection Authority’s measure of 27 November 2008, amended with its measure of 25 June 2009;
9. Application of the ESMA guidance on certain aspects of the MIFID compliance requirements; new questionnaire and policy to assess the appropriateness and suitability of investment advice;
10. Update of the customer classification (business sectors) following the amendments to Banca d’Italia Circular no. 140 of 11 February 1991 by the fourth revision of 30 September 2014.

## THE BANK'S FINANCIAL POSITION

### Lending

Breakdown of lending by product							
	Year			Half year difference		Annual difference	
	31/12/2014	30/06/2014	31/12/2013	Amount	%	Amount	%
Current accounts	179,950	197,717	190,453	-17,767	-9.0%	-10,503	-5.5%
Postal current accounts	25	46	33	-21	-45.7%	-8	-24.2%
Advances	152,436	160,150	168,547	-7,714	-4.8%	-16,111	-9.6%
Loans	546,416	562,470	565,845	-16,054	-2.9%	-19,429	-3.4%
Subsidies not settled through current accounts	49,019	45,806	57,500	3,213	7.0%	-8,481	-14.7%
Loans against pledges	71	188	266	-117	-62.2%	-195	-73.3%
Salary-backed loans	14	24	47	-10	-41.7%	-33	-70.2%
Non-performing loans	38,223	38,502	34,965	-279	-0.7%	3,258	9.3%
Portfolio risk	265	783	850	-518	-66.2%	-585	-68.8%
Treasury transactions	0	388	75	-388	-100.0%	-75	-100.0%
<b>Total lending</b>	<b>966,419</b>	<b>1,006,074</b>	<b>1,018,581</b>	<b>-39,655</b>	<b>-3.9%</b>	<b>-52,162</b>	<b>-5.1%</b>
- of which in Euros	965,083	1,005,370	1,017,703	-40,287	-4.0%	-52,620	-5.2%
- of which in foreign currency	1,336	704	878	632	89.8%	458	52.2%

**Table 1**

This business segment's performance cannot be analysed without considering the rather serious and worrying economic situation, as described briefly in the introduction to this report.

A quick look at the figures in Table 1 shows how the segment's performance is represented by the reduction in loans and receivables with customers and the considerable drop in quality, seen moreover by all the banks.

The above-mentioned reduction in lending has its roots in two factors: the contraction in demand and the rise in riskiness that led the bank to adopt a more prudent lending policy. These factors were not at all eased by the steady erosion of interest rates.

The most worrying element is the deterioration in loan quality, caused by the economic crisis although the chronic under-capitalisation of companies is another significant reason, with their over-indebtedness to banks leaving them without those resources that would have allowed them to better face the crisis.

The bank assessed its problematic loans prudently to quantify the related impairment losses which led to a further increase in protection against non-performing and substandard loans. This approach ensures the quality of its loan portfolio.

Obviously, this did not detract from the bank's vocation as a reference point for the local households and businesses and indeed it took all steps possible to ensure that they did not have to do without credit assistance in this extraordinarily difficult period, compatibly with their individual credit worthiness of course.

This approach is at the heart of the bank's *modus operandi*, the thin line between its mission as the key reference bank in its area and the need to manage its operations in a healthy and prudent manner.

The concurrent downturn in household consumption and business investments fed a vicious circle whereby the contraction in one contributed to the decrease of the other and vice versa.

As can be seen in the notes to the financial statements and indirectly in the breakdown of lending by product, where loans make up more than 50% of total lending, guarantee levels remained at the usual suitable levels, especially given the current economic climate.

Overall, the lending business contracted to €966,419 thousand, down by 5.1% on 2013 (€1,018,581) on a consistent basis and net of impairment losses, affected by the general economic performance.

Loan concentration, assessed by borrower, carried on the trend seen in previous years, continuing its steady splitting, as shown in the following table:

<b>Loan concentration</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Top 10 customers	7.04%	7.02%	7.17%	7.17%
Top 50 customers	18.33%	17.75%	18.38%	18.58%
Top 100 customers	25.82%	24.86%	25.26%	25.89%

**Table 2**

An analysis of lending by product confirms the slowdown in growth of the longer-term products at €546,416 thousand compared to €565,845 thousand at the end of 2013, a decrease of €19,429 thousand or 3.4%.

The non-performing loans/performing loans ratio continued to be very modest in 2014 in line with previous years, with only a small growth.

Renegotiated performing loans, as part of collective agreements, amounted to €5,610 thousand at year end compared to the 31 December 2013 balance of €18,557 thousand.

Current account balances amounted to €179,950 thousand at year end, a decrease of 5.5% on an annual basis, reflecting weak demand, mostly from businesses.

Advances decreased significantly from €168,147 thousand at 31 December 2013 to €152,436 thousand (-9.6%), again entirely due to the negative economic situation which penalises companies' turnover.

Statistics for bills presented for collection or under reserve show an annual increase of 3.2% (number of transactions) and a drop of 5.8% (amounts involved). These two opposing figures show how the bank has increased its services to companies that, however, see a reduction in their turnover.

Subsidies not settled through current accounts decreased to €49,019 thousand compared to €57,500 thousand at the end of 2013.

The bank did not use derivatives to hedge interest rate risks on fixed rate loans during the year, also because of the small percentage of this type of loan compared to floating rate loans.

Its credit risk controls entailed the careful monitoring of non-current assets, both with respect to their financing and the risk that the repayment dates may be extended.

The Management Controls and Risk Management Units kept general management up to date on developments with respect to the risk of repayment date extensions and the interest rate risk.

Credit quality showed the generalised difficult situation for all Italian banks, which is steadily worsening.

Doubtful loans, net of impairment losses, which include non-performing, substandard and overdue loans, increased by 8.1% to €94,007 thousand over 31 December 2013, equal to 9.7% of total loans.

Overdue positions decreased from €3,869 thousand at the end of 2013 to €3,438 thousand at year end, with impairment losses of €309 thousand, covering 7% of the loans.

Substandard loans, including estimated losses, came to €66,981 thousand compared to €57,388 thousand at 31 December 2013. The related impairment losses amounted to €14,327 thousand, equal to 21.4% of the loans.

Non-performing loans amounted to €82,920 thousand at 31 December 2014 compared to €68,846 thousand at the end of 2013, an increase of €14,073 thousand, while impairment losses came to €44,695 thousand. Net of these impairment losses, non-performing loans total €38,224 thousand compared to €34,965 thousand at 31 December 2013, an increase of 9.3%.

An analysis of irregular loans shows that the percentage of new loans reclassified as non-performing increased during the year and amounted to €19,575 thousand, equal to 28.43% of the entire non-performing category at the end of 2014, including €11,496 thousand of loans previously classified as substandard.

On the other hand, collections received during the year were consistently high, directly offsetting non-performing loans which came to €4,197 thousand compared to €4,771 thousand in 2013.

The following table shows the performance of irregular loans and the bank's coverage ratio:

<b>LOANS AND RECEIVABLES WITH CUSTOMERS - DOUBTFUL EXPOSURES</b>					
		<b>31/12/2014</b>	<b>31/12/2013</b>	<b>Difference amount</b>	<b>Difference %</b>
<b>DETERIORATED EXPOSURES</b>	Gross amount	153,339	130,103	23,236	17.86%
	Impairment losses	59,332	43,403	15,929	36.70%
	<b>Carrying amount</b>	<b>94,007</b>	<b>86,700</b>	<b>7,307</b>	<b>8.43%</b>
	coverage rate	38.69%	33.36%		
<b>Non-performing loans</b>	Gross amount	82,920	68,846	14,074	20.44%
	Impairment losses	44,696	34,151	10,545	30.88%
	<b>Carrying amount</b>	<b>38,224</b>	<b>34,695</b>	<b>3,529</b>	<b>10.17%</b>
	coverage rate	53.90%	49.60%		
<b>Substandard loans</b>	Gross amount	66,981	57,388	9,593	16.72%
	Impairment losses	14,327	8,979	5,348	59.56%
	<b>Carrying amount</b>	<b>52,654</b>	<b>48,409</b>	<b>4,245</b>	<b>8.77%</b>
	coverage rate	21.39%	15.65%		
<b>Past due loans</b>	Gross amount	3,438	3,869	-431	-11.14%
	Impairment losses	309	273	36	13.19%
	<b>Carrying amount</b>	<b>3,129</b>	<b>3,596</b>	<b>-467</b>	<b>-12.99%</b>
	coverage rate	8.99%	7.06%		

**Table 3**

Collective impairment losses on performing loans were made using credit deterioration statistics of previous years and the credit deterioration rates published by Banca d'Italia and communicated to the banks via the public database, integrated by an empirical analysis of companies' results.

These two estimates, i.e., the probability of default (PD) and the bank's historical loss trends, were used to determine the different impairment percentages for each business segment, adjusted to reflect the duration of each type of loan.

In line with previous years, a prudent floor of 0.3% was then applied to the above percentages.

The implicit risk on performing loans is determined by considering the economic climate and making a collective impairment, currently calculated to be €9,980 thousand down on the balance of €11,150 thousand at 31 December 2013 partly due to the reduction in performing loans, equal to 1.13% of the performing loans, which falls within the high end bracket of the performing loans of the Italian banking system.

Monitoring of credit risk, both for loans and endorsement credit, is an ongoing process which uses analyses obtained using the state-of-the-art IT credit position control (CPC) tool, designed to provide an automatic analysis of credit by determining a point system for the different loan performances and a weighting system.

In addition, the bank rolled out a loan monitoring procedure during the year for the prompt identification of any deterioration in customer positions.

As part of the internal control project, the bank has developed and introduced a more evolved system to assign ordinary customers (households, craftsmen, professionals, partnerships and companies) specific ratings depending on the type of company and, obviously, their financial position, results of operations and performance. This system will work alongside the CPC model and also considers the performance of the different business sectors to which the customers belong, integrated by subjective merit factors.

Specifically, the internal rating system uses three sources of information:

- analyses of the customer's relationship with the bank and the banking system in general;
- statistical analyses of their financial statements;
- qualitative analyses of aspects that require subjective assessment by an expert.

The bank also gives particular importance to the customers' "personal" data.

As part of its traditional policy of prudence, the internal rating programme is not used to determine regulatory capital requirements, for which the standard method is used.

Should the customers' relationships with the bank deteriorate and it be deemed necessary, the Risk Control Unit monitors all their positions and works with the relevant branch to implement all suitable actions to return the relationship to normal, as the key priority, and to establish and coordinate the measures to recover the outstanding amounts when necessary.

When this is not possible and the deterioration in the customer's financial position leads to its insolvency, even if not yet ascertained at judicial level and regardless of the existence of guarantees, the customer's entire position is transferred to the Legal Affairs Office so that legal recovery actions can be commenced, after cancellation of any credit facilities and the related reclassification as non-performing.

The bank's support of the local economy was not limited to the above lending transactions during the year as it also developed its asset brokerage business considerably.

The following activities were carried out:

**Leasing:** the bank continued its operations in the finance lease sector through its operating agreements with Mediocredito Italiano S.p.A. (of the Intesa Sanpaolo group), leading to the execution of four contracts worth €65 thousand in addition to ten contracts agreed with Alba Leasing for €1,631 thousand.

**Credit cards:** the bank was very active in this sector with a total 15,230 credit cards issued at year end (+548). It reviewed its issue of Viacard and Telepass cards, including in organisational terms, with 8,391 cards issued at year end, an increase of 548 cards over 31 December 2013.

## **Investments**

Interest rates dropped sharply in 2013 and the related curve was very low at the start of 2014. Moreover, the risk-free interest rate curve showed another downwards trend in 2014.

The Eonia rate decreased steadily to negative figures from September, when the ECB set the main refinancing operations rate at 0.05% and the overnight deposit rate at -0.20%. During the year, the spread between the 10-year IRS and the 3-month Euribor rates progressively lost about 100 bp, down to 0.83%, reflecting the flattening of the curve's minimum values.

The 3-month Euribor was roughly 0.08% at year end, fluctuating within a range of between 0.33% and 0.08%, while the EONIA rate, which is much more sensitive to the ECB's marginal lending facility, performed similarly and continued to fluctuate between -0.04% and 0.23%.

The Italian BTP treasury bonds-Bund spread continued the trend seen since 2012 and narrowed from 216 bp in December 2013 to 129 bp at the end of 2014, significantly impacting the additional recovery of market prices of Italian government bonds.

The bank's financial investments are comprised of government bonds (more than 90%) and senior bonds issued by major Italian banks.

Given the nature and objectives of its securities portfolio, the bank's investment policy is to maintain both market and counterparty risk at very low levels.

The ongoing assessments of risk using the VaR model showed that it always remained within the limits set by the board of directors.

In line with its decisions made upon first-time adoption of the international financial reporting standards (IFRS) and following the 2008 amendment to IAS 39, the bank classified its entire securities portfolio at the reporting date in line with each financial instrument's objective.

The securities portfolio is classified depending on whether the securities are held for trading (HFT) or are available-for-sale (AFS). Specifically, securities that are held for trading contribute to the net trading income (expense) while available-for-sale securities contribute to net interest income (expense).

The bank's decisions about its investments and how to allocate its resources consider the different purposes of its two main portfolios with the result that they have an average duration of two years and 71 days and an average residual life of three years and 243 days at year end, an increase in both cases on the previous year end.

The bank's involvement in LTROs, promoted by the ECB since 2012, led to the acquisition of short-term government bonds, not held for trading and thus classified as available-for-sale.

Accordingly and with the sole exception of the bonds issued by the Italian government (nominal amount of €5 million), classified as a held-to-maturity (HtM) investment and which had previously been recognised as a non-current security under Legislative decree no. 87/1992, the rest of the portfolio is either classified as held for trading (HFT) or available-for-sale (AFS).

A breakdown of the fixed-income securities classified in the trading and AFS portfolios and their nominal amounts is as follows:



<b>Breakdown of bonds in the HFT and AFS portfolios</b>				
<b>Nominal amounts</b>				
			<b>difference</b>	
	<b>31/12/2014</b>	<b>31/12/2013</b>	<b>amount</b>	<b>%</b>
<b>BOT Italian treasury bills and zero coupon bonds</b>	18,074	52,251	-34,177	-65.41%
<b>CCT Italian Treasury certificates</b>	267,615	204,151	63,464	31.09%
<b>BTP Italian Treasury bonds</b>	298,945	203,135	95,810	47.17%
<b>Bonds</b>	38,541	64,567	-26,026	-40.31%
<b>Shares</b>	0	0	0	0.00%
<b>Total</b>	<b>623,175</b>	<b>524,104</b>	<b>99,071</b>	<b>18.90%</b>

**Table 4**

Given the above-mentioned market trend, the bank's securities portfolio steadily recouped value compared to the carrying amounts at 31 December 2013 and amounted to €2,168 thousand and €6,457 thousand for the trading portfolio and the AFS portfolio, respectively, at year end.

The AFS portfolio made an operating profit of €4,645 thousand.

The bank maintained its traditional position as a lender on the interbank market during 2014.

It obtained additional liquidity from the ECB as part of the TLTROs for a total €60 million.

Its Euro treasury activities had two objectives:

- ✓ maintenance of suitable funds to meet payment commitments;
- ✓ improvement of the return on its investments in line with market indexes.

The bank issued bonds during the year and did not deem it necessary to resort to specific hedges of market risks using derivatives given the overall very modest interest rate risk.

## **Equity investments**

The bank has recognised its non-controlling interests in banks, financial and commercial companies in the AFS portfolio even though it intends to hold on to these investments in the long term.

Following CSE's extraordinary distribution of reserves, the bank impaired its investment from €6,800 thousand at 31 December 2013 to €6,116 thousand. It recognised the loss of €684 thousand by decreasing the equity reserve of €1,720 thousand set up at the end of 2013.

In 2014, the bank signed a joint venture agreement pursuant to article 2549 of the Italian Civil Code for its involvement in production of a film, contributing €1,800 thousand. It recognised its investment in the AFS portfolio. The related test of the investment did not show an indication of impairment.

As a result of the above transactions, the bank had equity investments of €12,076 thousand at year end compared to €10,937 thousand at 31 December 2013.

The annexes to the financial statements show a list of the bank's equity investments at year end, all classified in the AFS portfolio as they do not meet the requirements for inclusion in caption 100 - Equity investments under Assets.



## Funding:

The bank's funding policy was significantly influenced by the downward trend of the lending business and its considerable structural liquidity, which was increased by its participation in the ECB's LTFOs.

Customers clearly appreciated the bank's solid position in this period when many Italian banks are encountering difficulties and this gives it a strong competitive advantage.

The bank's funding policy aimed at maintaining its position without having to compete at unfavourable conditions. Direct funding was stable throughout the year even though interest rates were progressively adjusted to the downward trend imposed by the ECB and the market, not always clearly understood by customers.

There were other issues affecting funding during the year. Specifically, this business segment saw a rise in the tax rate applied to financial income, to bank debt instruments' disadvantage yet again, and another increase in the stamp duty on financial instruments. Thanks to these two measures, savings obviously became less attractive.

During the year, the bank's direct funding, measured at its carrying amount, underwent the following changes:

<b>Breakdown of direct funding by product</b>							
				<b>Half year difference</b>		<b>Annual difference</b>	
	<b>31/12/2014</b>	<b>30/06/2014</b>	<b>31/12/2013</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Savings deposits	114,803	115,130	119,731	(327)	-0.3%	(4,928)	-4.1%
Current accounts	853,696	821,864	810,654	31,832	3.9%	43,042	5.3%
Repos	1,375	5,793	8,608	(4,418)	-76.3%	(7,233)	-84.0%
Certificates of deposit	89,690	91,934	108,447	(2,244)	-2.4%	(18,757)	-17.3%
Bonds	233,248	241,350	248,460	(8,102)	-3.4%	(15,212)	-6.1%
<b>Total direct funding</b>	<b>1,292,812</b>	<b>1,276,071</b>	<b>1,295,900</b>	<b>16,741</b>	<b>1.3%</b>	<b>(3,088)</b>	<b>-0.2%</b>

**Table 5**

Overall, direct funding amounted to €1,292,812 thousand, a very marginal decrease on an annual basis of €3,088 thousand or 0.2%.

Euro and foreign currency current account overdrafts runs increased by €43,042 thousand (+5.3%) to €853,696 thousand, equal to 66% of the bank's entire direct funding. As a result, this sector was the object of much attention leading the bank to offer innovative products and services such as on-line trading or the expansion of the operations that can be carried out at ATMs which are the natural reference point for current account transactions.

Savings deposits continued to lose ground tapering off to €114,803 thousand.

Senior bonds issued by the bank decreased by 6.1% to €233,248 thousand compared to 31 December 2013. Certificates of deposit showed a concurrent sharp drop of 17.3% to €89,690 thousand.

Bonds issued by the bank during the year maintained their standard characteristics.

It did not issue subordinated securities in 2014.

Bonds accounted for roughly 18% of the entire direct funding at year end.

At 31 December 2014, the bank had 19 bond issues, described in the annexes to the financial statements. Ten issues matured during the year (€118,304 thousand) while seven new issues were placed (€91,870 thousand).

The bank redeemed in advance bonds of €70,000 issued in 2012 and collateralised for LTROs during the year.

All the bonds were step-up and their financial characteristics were those established in the prospectus approved by Consob.

Repos amounted to €1,375 thousand compared to €8,608 thousand at 31 December 2013. This small amount is partly due to the bank's policy of controlling liquidity which means that settlement dates are concentrated on a quarterly basis.

**Indirect funding** at year end may be analysed as follows:

	31/12/2014	30/06/2014	31/12/2013	Half year difference		Annual difference	
				Amount	%	Amount	%
<i>Government bonds</i>	314,078	340,288	340,082	-26,210	-7.70%	-26,004	-7.65%
<i>Bonds</i>	115,809	141,318	163,579	-25,509	-18.05%	-47,770	-29.20%
<i>Shares</i>	86,511	92,573	90,686	-6,062	-6.55%	-4,175	-4.60%
<b>Total administered funds</b>	<b>516,398</b>	<b>574,179</b>	<b>594,347</b>	<b>-57,781</b>	<b>-10.06%</b>	<b>-77,949</b>	<b>-13.12%</b>
<i>Funds and OEICs</i>	205,901	193,330	180,991	12,571	6.50%	24,910	13.76%
<i>Asset management</i>	26,672	26,198	26,441	474	1.81%	231	0.87%
<b>Total managed funds</b>	<b>232,573</b>	<b>219,528</b>	<b>207,432</b>	<b>13,045</b>	<b>5.94%</b>	<b>25,141</b>	<b>12.12%</b>
<b>Total indirect funding</b>	<b>748,971</b>	<b>793,707</b>	<b>801,779</b>	<b>-44,736</b>	<b>-5.64%</b>	<b>-52,808</b>	<b>-6.59%</b>
<i>Insurance and pension products</i>	255,766	211,311	176,921	44,455	21.04%	78,845	44.57%
<b>Total</b>	<b>1,004,737</b>	<b>1,005,018</b>	<b>978,700</b>	<b>-281</b>	<b>-0.03%</b>	<b>26,037</b>	<b>2.66%</b>

**Table 6**

Indirect funding, consisting of administered and managed funds, decreased at year end to €748,971 thousand compared to €801,779 thousand at 31 December 2013.

If the analysis is extended to include insurance and pension products, indirect funding shows an increase of €26,037 thousand or 2.7% on 31 December 2013 to €1,004,737 thousand.

A breakdown of indirect funding, compared to that at 31 December 2013, shows customers' smaller interest in administered funds, which lost 13.2%, while, with respect to managed funds, mutual funds and OEIC units saw a modest increase to €205,901 thousand compared to €180,991 thousand at 31 December 2013 (+13.8%).

The asset management business recorded a year-end balance of €26,672 thousand, in line with the opening amount.

Net funding from mutual funds and OEIC units confirmed the trend seen for these products with a year-end balance of €16,047 thousand. Net funding from the asset management business remained negative at €1,262 thousand.

The bank continued to sell insurance products during the year.

Finally, life policies and open pension fund products increased by €78,845 thousand or 44.6% on an annual basis.

## INCOME STATEMENT

The following table summarises the key income statement figures, using the same reclassification criteria adopted in previous years.

	2014	2013	Difference	
			Amount	%
<b>Net interest income</b>	36,346	36,533	-187	-0.51%
<b>Net operating income</b>	73,482	73,772	-290	-0.39%
<b>Operating costs</b>	-49,549	-49,038	-511	1.04%
<b>Operating profit</b>	23,933	24,734	-801	-3.24%
<b>Pre-tax profit from continuing operations</b>	8,048	13,831	-5,783	-41.81%
<b>Profit for the year</b>	4,084	8,147	-4,063	-49.87%

**Table 7**

The individual balances are shown below.

## Net interest income

	2014	2013	Difference	
			Amount	%
<b>Interest income:</b>	<b>49,994</b>	<b>53,415</b>	<b>-3,421</b>	<b>-6.40%</b>
- Ordinary customers	39,902	41,673	-1,771	-4.25%
- Securities portfolio	10,041	11,652	-1,611	-13.83%
- Banks	51	90	-39	-43.33%
<b>Interest expense:</b>	<b>-13,648</b>	<b>-16,882</b>	<b>3,234</b>	<b>-19.16%</b>
- Ordinary customers	-5,872	-6,904	1,032	-14.95%
- Bonds	-7,504	-9,137	1,633	-17.87%
- Banks	-272	-841	569	-67.66%
<b>Net interest income</b>	<b>36,346</b>	<b>36,533</b>	<b>-374</b>	<b>-1.02%</b>

**Table 8**

Net interest income amounted to €36,346 thousand, substantially in line with the previous year.

The effect of the contraction in lending on interest income was partly offset by the bank's measure to ensure the correct balance between remuneration and risk. This contributed to the final increase in the size of the securities portfolio, although its returns are shrinking rapidly.

As a result of the continued low interest rates, especially as regards deposits, and the steady reduction between the spread on Italian government bonds and that on the German bund, the bank saw a decrease in accrued interest on bonds.

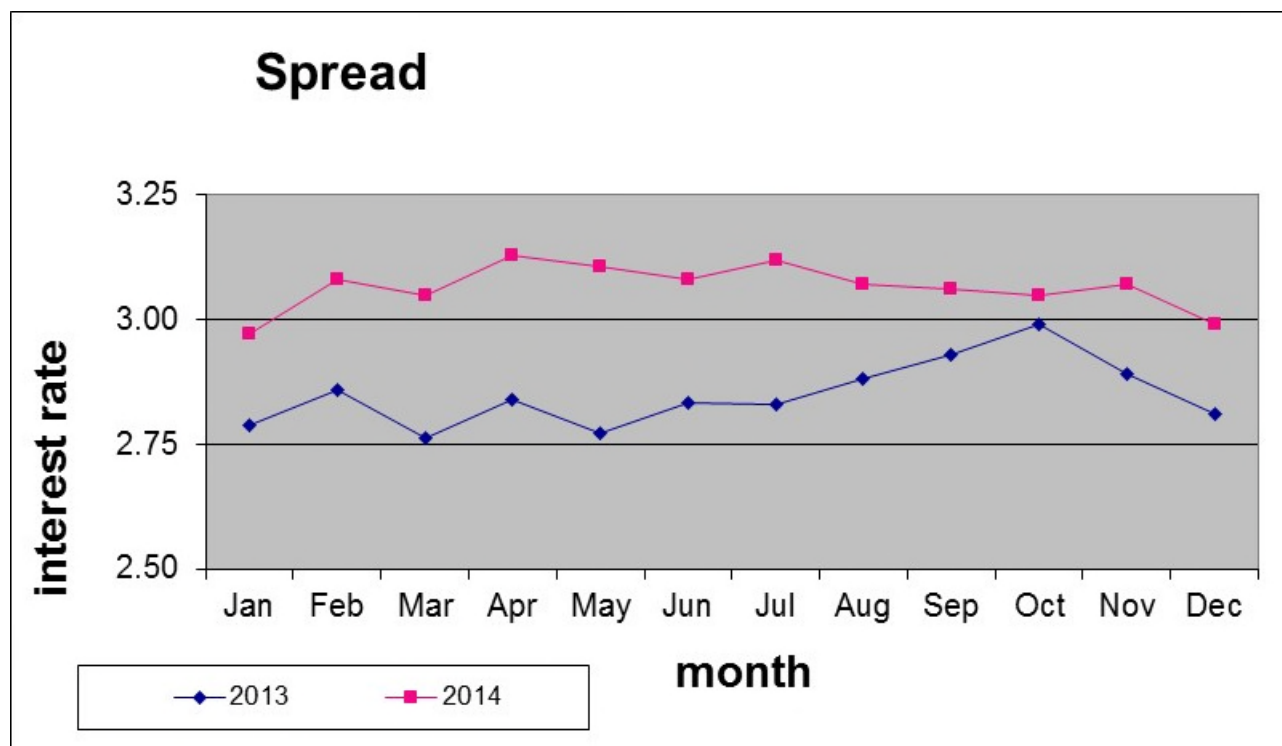
Despite its decrease, the return on Italian government bonds is nonetheless higher than those of the other EU states, as these bonds are perceived as a risk-free investment by the market and this had a follow-on effect on interest rates paid and received to ordinary customers, where the greater stickiness of interest rates paid compared to those received is visible.

Interest expense decreased by 19.2% due to the contraction in interest rates paid on customer and bank funding.

The average annual rate paid on direct funding was 1.02% compared to the average 1.27% at the end of 2013, an average drop of 25 bp, and the 2014 year-end rate was 0.94%.

Interest income from ordinary customers went from an average 4.11% in 2013 to an average rate of 4.08% in 2014 equal to an average annual reduction of 3 bp. The rate was 3.93%.

Interest income from ordinary customers, shown in the following graph, went from an average 2.85% in 2013 to an average 3.06% at the end of 2014:



**Table 9**

## NET OPERATING INCOME

	2014	2013	Difference	
			Amount	%
<b>Net interest income</b>	<b>36,346</b>	<b>36,533</b>	<b>-374</b>	<b>-1.02%</b>
Dividends	1,588	234	1,354	578.63%
Net fee and commission income	20,182	20,172	10	0.05%
Net trading income	9,876	11,790	-1,914	-16.23%
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	0	0	0	0.00%
Other operating income	5,490	5,043	447	8.86%
<b>Net operating income</b>	<b>73,482</b>	<b>73,772</b>	<b>-290</b>	<b>-0.39%</b>

**Table 10**

Net operating income decreased by €290 thousand to €73,482 thousand for 2014.

Dividends increased from €234 thousand for 2013 to €1,588 thousand, principally due to the subsidiary CSE's extraordinary distribution of reserves (the bank's share was €1,000 thousand).

Net fee and commission income, unchanged from the previous year, amounted to €20,182 thousand and was positively affected by the waiver of the Italian government's guarantee on bonds collateralised for LTROs.

As part of this caption, securities placement commissions decreased by €395 thousand from €2,312 thousand for 2013 to €1,917 thousand while fee and commission income earned on the

distribution of third party products went from €1,853 thousand to €2,140 thousand (+€287 thousand).

Net trading income had a positive effect on net interest income at €9,876 thousand compared to €11,790 thousand for 2013, showing a decrease of €1,914 thousand. The 2013 figure included the gain of €2,167 thousand on the revaluation of the Banca d'Italia shares.

This caption was also affected by the fair value gains of €2,168 thousand on financial assets held for trading.

## OPERATING PROFIT

	2014	2013	Difference	
			Amount	%
<b>Net operating income</b>	<b>73,482</b>	<b>73,772</b>	<b>-290</b>	<b>-0.39%</b>
Personnel expense	-29,284	-28,837	-447	-1.55%
Administrative expenses	-18,676	-18,793	117	0.62%
Amortisation and depreciation	-1,589	-1,408	-181	-12.86%
<b>Operating costs</b>	<b>-49,549</b>	<b>-49,038</b>	<b>-511</b>	<b>1.04%</b>
<b>Operating profit</b>	<b>23,933</b>	<b>24,734</b>	<b>-801</b>	<b>-3.24%</b>

**Table 11**

The operating profit for the year was €23,933 thousand compared to €24,734 thousand for 2013.

The caption includes a slight increase in personnel expense (€447 thousand) and a reduction in administrative expenses (€140 thousand).

The variation in personnel expense is mainly due to payment of the termination benefits under the redundancy agreement mentioned earlier. Net of this non-recurring outlay, personnel expense would have decreased by approximately €247 thousand.

Other administrative expenses, down slightly on the previous year, came to €18,676 thousand. The most significant variations were seen in the following sub captions:

1. legal and technical consultancy, down from €1,113 thousand for 2013 to €802 thousand, mainly due to the non-occurrence of the costs for consultancies incurred in 2013 to appraise a bank asset;
2. maintenance, repair and conversions, from €1,252 thousand to €1,056 thousand;
3. leases, up from €1,207 thousand for 2013 to €1,168 thousand due to the renegotiation of agreements and improvements made to leased properties.

Other administrative expenses also included the increase in stamp duties from €3,529 thousand to €3,847 thousand, due to the rise in this tax as mentioned earlier.

## Pre-tax profit from continuing operations

	2014	2013	Difference	
			Amount	%
<b>Operating profit</b>	<b>23,933</b>	<b>24,734</b>	<b>-801</b>	<b>-3.24%</b>
Net accruals to provisions for risks and charges	-58	17	-75	-441.18%
Net impairment losses on loans	-15,930	-10,928	-5,002	-45.77%
Net impairment losses on other assets	-2	0	-2	0.00%
Net gains on held-to-maturity and other investments	105	8	97	1212.50%
<b>Pre-tax profit from continuing operations</b>	<b>8,048</b>	<b>13,831</b>	<b>-5,783</b>	<b>-41.81%</b>

**Table 12**

The pre-tax profit from continuing operations contracted to €8,048 thousand from €13,831 thousand for 2013.

Net accruals to provisions for risks and charges of €58 thousand reflect the bank's prudent evaluation of the higher risks of ongoing legal disputes and claw-back claims as well as operating risks and charges and potential risks on endorsement credits.

Loans to ordinary customers were measured using the methods set out in the notes to the financial statements with the usual prudent approach.

Impairment losses on irregular loans were recognised considering the borrowers' objective repayment difficulties and the recovery value of the underlying guarantees. The bank estimated the possible recovery times of the loans, considering the frequent resort to term negotiations, and made discounts.

The collective impairment losses considered the implicit risk of the different business segments using historical and forward-looking statistics. These collective impairment losses cover 1.13% of the performing loans.

Overall, the bank had to counter the drop in credit quality by recognising larger impairment losses and losses on loans of €23,716 thousand, offset however by reversals of impairment losses of €6,634 thousand (excluding reversals for performing loans) for a net balance of €15,930 thousand, up on the €10,928 thousand for 2011.

The cost of credit was 1.65% and shows the bank's attention to safeguarding against credit risk, which has increased considerably due to the ongoing far-reaching economic crisis.

The bank discussed its assessment of the recoverability of loans with Banca d'Italia's inspectors.

## PROFIT FOR THE YEAR:

	2014	2013	Difference	
			Amount	%
<b>Pre-tax profit from continuing operations</b>	<b>8,048</b>	<b>13,831</b>	<b>-5,783</b>	<b>-41.81%</b>
Income taxes	-3,964	-5,684	1,720	30.26%
Profit (loss) from discontinued operations	0	0	0	0.00%
<b>Profit for the year</b>	<b>4,084</b>	<b>8,147</b>	<b>-4,063</b>	<b>-49.87%</b>

**Table 13**

Estimated direct IRES and IRAP taxes for the year came to €6,728 thousand compared to €8,611 thousand for 2013 due to the decline in the estimated IRES tax base of €16,684 thousand compared to €19,032 thousand for the previous year.

The bank considered the modifications to legislation about impairment losses on loans and receivables pursuant to Law no. 147/2013 when calculating the IRES tax base. This law significantly changed the deductibility of these impairment losses for banks and other financial institutions.

The bank derecognised the effects of fiscally-driven entries by calculating deferred tax assets and liabilities. This gave rise to new deferred tax assets, net of those recognised in previous years, of €2,763 thousand, mainly arising on the impairment losses on loans deductible in the following four years as established by article 106.3 of the Consolidated Income Tax Act.

Accordingly, the profit for the year amounted to €4,084 thousand.

**Comprehensive income** for 2014 is €6,804 thousand.

Positive contributors were the fair value gains on the AFS portfolio recognised net of the tax effect in a specific equity reserve (€4,290 thousand), net of the actuarial loss on the supplementary pension fund and post-employment benefits, which led to a reduction in the related equity reserve of €1,570 thousand.

## **Cash flows**

The statement of cash flows has been prepared using the indirect method as allowed by IAS 7. Cash flows generated and used during the year are split between operating, investing and financing activities.

Operating activities generated cash flows of €5,390 thousand, including €26,623 thousand from operations while financial liabilities used €21,234 thousand. Specifically, the cash flows used for financial assets of €65,758 thousand were offset by financial liabilities, up €44,524 thousand for amounts due to banks and customers.

Investing activities used cash flows of €1,292 thousand, mainly due to the purchase of property, equipment and investment property for €939 thousand.

Financing activities used funds of €3,039 thousand to pay dividends to shareholders in 2014.

As a result, the net cash flows for the year were €1,059 thousand.



## Indicators

The customary analysis using financial statements indicators is set out in the following table:

Financial statements indicators	2014	2013
<b>Capitalisation ratios:</b>		
Equity/total assets	9.42%	9.54%
CET 1 capital ratio	16.49%	14.88%
Tier 1 capital ratio	16.49%	14.88%
Total capital ratio	16.54%	14.92%
Non-current assets/equity	11.57%	12.28%
Net non-performing loans/equity	23.16%	21.68%
Own funds/third-party funds	12.77%	12.45%
<b>Risk ratios:</b>		
Net non-performing loans/loans	3.96%	3.43%
Collective impairment losses/performing loans	1.13%	1.18%
Allowance for impairment/total loans	6.69%	5.06%
New non-performing loans ratio	2.26%	1.97%
<b>Profitability ratios:</b>		
Net interest income/total income	53.46%	53.15%
Income from financial transactions/total income	14.53%	17.15%
Cost of lending	1.65%	1.07%
Gross operating profit/Equity	14.50%	15.34%
Profit/equity	2.47%	5.05%
Profit/total assets	0.23%	0.48%
Tax ratio	49.25%	41.09%
Net other administrative expenses/total income	19.39%	20.01%
Personnel expense/total income	43.07%	41.96%
Administrative expenses/total income	62.46%	61.96%
Cost/income	64.80%	64.01%
Costs/gains on fair value measurement of securities	66.93%	69.10%
Administrative expenses/total assets	2.74%	2.82%
<b>Productivity - Distribution efficiency</b>		
Loans and receivables with customers/employees	2,557	2,546
Due to customers/employees	3,420	3,240
Total income/average employees	174.789	177.139
Average employees/branches	6.483	6.467
Cost per employee	72.70	71.76
Loans and receivables with customers and due to customers/average employees	5,808	5,965
Loans and receivables with customers and due to customers/branches	37,654	38,575
Branch employees/employees	70.37%	69.75%

**Table 14**

Indicators reflecting the bank's core business are summarised in the above table, split into four macro areas.

The indicators for the bank's capitalisation continued to be very high in 2014, positively affected by the enactment of the Capital Requirement Regulation on 1 January 2014. However, the net non-performing loans/equity ratio increased again.

The loan risk indicators show that, on the one hand, loan quality has worsened, with non-performing loans making up 3.96% of loans while, on the other, the loan coverage ratio has increased from 5.1% to 6.7% for 2014.

The performing loans indicator continues to be high at 1.13%.

The new non-performing loans indicator is 2.26% for 2014.

The bank's profitability profile is clearly conditioned by the impairment losses on loans, which increased from 1.07% to 1.65% in 2014.

The cost/income ratio is 64.8%, and net of the unrealised fair value gains/losses on securities, it is 66.9%, better than the 69.1% for 2013, showing the effects of the continued measures for efficiency implemented by the bank.

That being said, ROE is 2.5% while ROA is 0.2%.

The efficiency indicator shows the overall stability of the indicators.

## Objectives: have they been met:

The bank avails of two tools which operate independently but are both used to determine its objectives: the three-year business plan and the annual budget, which has a more commercial nature.

The objectives included in the business plan, revised and updated by the board of directors in September 2013 and which covers the period ending 31 December 2015, include improving organisational and production efficiency. Such progress has included:

1. continuation of the Banca h24 project;
2. promotion of the multi-channel offer;
3. monitoring and checking of operating costs;
4. use of e-documents for transactions with customers;
5. outsourcing of the back office or low value added services.

The board of directors monitored progress with attainment of the qualitative and quantitative objectives on an ongoing basis through discussions and resolutions.

The quantitative objectives for 2014 were based on forecasts made at the end of 2013 by very reputable research institutes, which indicated a reversal in the economic crisis in 2014 together with an increase in lending and a reduction in impairment losses on loans in a scenario characterised by very low interest rates.

**Lending**, including the allowance for impairment, estimated to amount to €1,077,971 thousand at year end, actually came to €1,035,730 thousand, €42,241 thousand or 3.9% below forecasts.

**Direct funding** was estimated to amount to €1,347,650 thousand compared to the actual €1,292,812 thousand: a difference of €54,838 thousand or 4.1%.

**Indirect funding** was estimated to amount to €999,800 thousand, substantially in line with the actual €1,004,737 thousand.

The next table compares the forecast income statement figures as per the business plan with the actual figures:

	ANALYSIS OF PROFITABILITY		Difference compared to forecast
	2014 actual	2014 plan	
Net interest income	36,346	36,169	177
Total income	73,586	66,212	7,374
Administrative expenses	-18,734	-17,619	-1,115
Amortisation and depreciation	-1,589	-1,291	-298
Personnel expenses	-29,283	-28,779	-504
Operating profit	23,980	18,523	5,457
Net impairment losses	-15,932	-8,539	-7,393
Pre-tax profit from continuing operations	8,048	9,984	-1,936
Income taxes	-3,964	-5,040	1,076
<b>Profit for the year</b>	<b>4,084</b>	<b>4,944</b>	<b>-860</b>
<b>Equity</b>	<b>165,051</b>	<b>163,817</b>	<b>1,234</b>

**Table 15**

The table shows that the bank mostly met its objectives although the various profit margins were different.

The larger differences are due to:

1. total income, up €7,374 thousand due to the exceptional results achieved in the securities trading segment;
2. impairment losses on loans and receivables, up €7,393 thousand due to the worsening in credit quality.

Any deviation from the plan forecasts with respect to the bank's assets and liabilities not caused by the external variables is worthy of attention and requires correction to the bank's policies, including as a result of the related effects on its risk appetite. The bank's equity was in line with the forecasts throughout the year, although it increased slightly.

That being said, forecast equity at 31 December 2014 was estimated at €163,817 thousand compared to the actual €165,051 thousand.

A comparison of the business plan financial statements indicators compared to the actual indicators for 2014 is as follows:

	Indicators	
	2014 actual	2014 plan
Gross impaired loans / Loans	14.80%	12.96%
Gross non-performing loans / Loans	8.01%	6.69%
Gross impaired loans / Equity	92.90%	90.32%
Net impaired loans / Equity	56.96%	59.33%
Gross operating profit / Equity	4.88%	6.09%
ROE - Return on Equity	2.47%	3.02%
RORE - Return on Regulatory Equity	5.51%	5.91%
Personnel expenses / Total income	43.07%	43.46%
Operating costs / Total income	31.76%	28.56%
Gross lending / Funding	80.11%	79.99%
<b>Total capital ratio</b>	<b>16.53%</b>	<b>14.67%</b>

**Table 16**

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**Banca d'Italia/Consob/Isvap (the Italian Insurance Companies Supervisory Authority) document no. 2 of 6 February 2009**

The directors note that they have assessed the bank's profitability and liquidity for a period of not less than 12 months from the reporting date based on the business plan, the 2014 budget and all other available information.

With respect to the bank's liquidity, the board of directors confirms the following management guidelines:

1. ongoing alignment and monitoring of interbank credit facilities;
2. maintenance of a lending/funding ratio always below the 90% threshold identified by the board of directors as prudential.

With respect to the bank's profitability, the board of directors believes that, despite this difficult economic period, the bank has appropriate profitability margins for the near and far future notwithstanding increasingly volatility in its results due to changed economic conditions and application of the IFRS.

It is sufficient to consider the following:

- a. the bank has never made a loss despite other unfavourable economic periods;
- b. it has a large market share and its local ground roots have actually been strengthened by the unfavourable climate;
- c. its high capitalisation and prudent approach are a solid basis for dealing with any future risks;
- d. excluding the results of the fair value measurement of securities, the bank continues to improve its results as clearly demonstrated in this report.

It can, therefore, clearly be seen that the going concern assumption is fully met without having to provide any more detail.

**Banca d'Italia document no. 0265719/13 of 15 March 2013**

This communication focuses on the measurement of loans and receivables, remuneration and dividend policies.

It essentially deals with banks' capitalisation in light of their requirement for funds as a result of the current recession.

The central bank expects bank bodies to adopt strict and transparent criteria for the measurement of financial statements captions and to adopt dividend distribution policies that ensure adequate capitalisation.

In full compliance with these instructions, the bank has built up its risk monitoring activities in 2014 in line with its objective of maintaining high capitalisation levels and to continue its actions taken in previous years. Measurement of loans and receivables was heavily affected by the need to align controls to the sudden drop in credit quality following the current economic crisis.

This policy, monitored continuously to focus on the bank's capitalisation and to comply with the new regulations about the calculation of own funds, as set out in Regulation (EU) no. 575/2013 (the CCR), Directive no. 2013/36/EU and Banca d'Italia Circular no. 285/2013, led to the very acceptable Own Funds and Tier 1 ratios achieved.

The bank's remuneration policy for its key management personnel hinges on maximum prudence, limiting the variable part indexed to financial statements data to just the mechanisms provided for by labour agreements while another part, agreed annually by the board of directors, is based on quantitative/qualitative assessments of the work performed by the management team.

## **Outlook**

Although signs of a possible albeit slow recovery of the economy have been seen, a significant reversal in the current trend is not expected to take place in the near future.

Rather, the continuation of the difficulties being encountered by many companies, which risk closure, suggest that credit quality will continue to suffer leading to the inevitable consequences on the banking sector's profitability.

The quantitative easing announced by the ECB will commence in 2015 and its effects should help keep interest rates at their current low levels and the Euro at very low exchange rate levels against the main currencies.

On 26 February 2015, the bank repaid the ECB two loans of €150 million obtained as part of the 2012 LTRO, without significantly impacting its liquidity ratios. It used the highly liquid assets held specifically for this purpose.

Based on the budget for 2015 and given this context, the bank's net interest income should decrease in 2015.

It will continue to closely monitor its credit risk. Nonetheless, the cost of credit is expected to improve considerably although it will remain high.

Once again, the cash flows generated by the bank's operations will be a key factor although they will be affected by the market's performance which, in turn, is sensitive to many factors that are often unpredictable. However, the reduction in sovereign debt and the ECB's government bond purchase programme will ease the situation.

Thanks to the implemented structural measures, operating costs and, especially, personnel expense, are expected to decrease.

## PROPOSED ALLOCATION OF THE PROFIT FOR THE YEAR

### Dear shareholders,

As described, the profit for the year amounts to €4,083,995. Pursuant to the relevant laws and article 25 of the by-laws, we propose it be allocated as follows:

- 10% to the legal reserve	408,400
- 15% to the statutory reserve	612,599
- to the shareholders as a unit dividend of €4.00	3,039,000
- the remainder to the statutory reserve	23,996
<b>Total profit for the year</b>	<b>4,083,995</b>

Therefore, should you approve the financial statements and the related proposed allocation of the profit for the year as set out above, the bank's equity will amount to €162,012,426 as follows:

- <b>Share capital</b>	39,241,087
- <b>Share premium</b>	34,660,068
- <b>Income-related reserves</b>	68,275,499
- <b>Valuation reserves</b>	19,835,772
<b>TOTAL</b>	<b>162,012,426</b>

After the allocation set out above pursuant to article 25 of the by-laws, the legal reserve, which amounted to €16,725,497 at 31 December 2014, will amount to €17,133,897, exceeding one fifth of the share capital as per article 2430 of the Italian Civil Code by €9,285,679.



## **Conclusions**

To wind up this report, I would like to firstly thank all our customers that have chosen Cassa di Risparmio di Fermo S.p.A. as their bank in a difficult year and are confident that the bank has been able to repay such choice with its top quality services.

The bank's activities are those set out by the Fondazione Cassa di Risparmio di Fermo which are its reference point and guiding light. Our unfailing certainty that we can count on the expert assistance of the shareholder Intesa Sanpaolo contributes great added value.

We are deeply appreciative of the managing director's expert assistance provided to the board of directors and for his ability to guide the bank in this period characterised by significant legislative discontinuities and a difficult economic situation.

We would also like to particularly thank all the bank's employees, the deputy general manager, Marino Silvi, and the central manager, Marchetto Morrone Mozzi. We are confident that the bank will be able to fully achieve its objectives thanks to the long-standing contribution of its employees.

The precious assistance provided by the board of statutory auditors is also worthy of mention.

Finally, we would like to express our gratitude to the supervisory authorities and, especially, the Ancona branch manager, Gabriele Magrini Alunno, and the Ascoli Piceno branch manager, Marcello Salice, for their availability as well as all the personnel at those branches for their assistance.

On behalf of the board of directors  
**The Chairman**  
(signed on the original)

Fermo, 10 March 2015



## STATEMENT OF FINANCIAL POSITION: ASSETS

Assets		31/12/2014	31/12/2013
10.	Cash and cash equivalents	15,412,031	14,353,280
20.	Financial assets held for trading	297,032,049	248,691,183
30.	Financial assets at fair value through profit or loss	-	-
40.	Available-for-sale financial assets	355,226,926	288,622,466
50.	Held-to-maturity investments	5,015,042	5,029,949
60.	Loans and receivables with banks	46,591,650	48,105,709
70.	Loans and receivables with customers	966,418,753	1,018,581,311
80.	Hedging derivatives	-	-
90.	Adjustments to generically hedged financial assets (+/-)	-	-
100.	Equity investments	-	-
110.	Property, equipment and investment property	18,950,411	19,725,850
120.	Intangible assets	144,405	87,385
	<i>including: - goodwill</i>	-	-
130.	Tax assets	25,382,419	28,451,986
	a) <i>current</i>	10,832,365	16,903,661
	b) <i>deferred</i>	14,550,054	11,548,325
	<i>including as per Law no. 214/2011</i>	10,895,054	8,166,936
140.	Non-current assets classified as held for sale and disposal groups	-	-
150.	Other assets	22,482,747	18,983,640
<b>Total assets</b>		<b>1,752,656,433</b>	<b>1,690,632,759</b>



## STATEMENT OF FINANCIAL POSITION: LIABILITIES

Liabilities and equity		31/12/2014	31/12/2013
10.	Due to banks	210,197,274	150,007,308
20.	Due to customers	969,873,432	938,992,853
30.	Securities issued	322,938,542	356,907,526
40.	Financial liabilities held for trading	480,539	727,276
50.	Financial liabilities at fair value through profit or loss	-	-
60.	Hedging derivatives	-	-
70.	Adjustments to generically hedged financial liabilities (+/-)	-	-
80.	Tax liabilities	13,611,968	13,795,149
	<i>a) current</i>	8,341,051	10,334,035
	<i>b) deferred</i>	5,270,917	3,461,114
90.	Liabilities associated with discontinued operations	-	-
100.	Other liabilities	45,270,391	44,377,602
110.	Post-employment benefits	10,384,845	10,556,445
120.	Provisions for risks and charges:	14,848,017	13,982,353
	<i>a) pension and similar obligations</i>	11,974,871	11,166,973
	<i>b) other provisions</i>	2,873,146	2,815,380
130.	Valuation reserves	19,835,770	17,115,587
140.	Redeemable shares	-	-
150.	Equity instruments	-	-
160.	Reserves	67,230,504	62,121,438
170.	Share premium	34,660,068	34,660,068
180.	Share capital	39,241,088	39,241,088
190.	Treasury shares (-)	-	-
200.	Profit for the year (+/-)	4,083,995	8,148,066
<b>Total liabilities and equity</b>		<b>1,752,656,433</b>	<b>1,690,632,759</b>



# INCOME STATEMENT

		<b>2014</b>	<b>2013</b>
10.	Interest and similar income	49,976,705	53,425,478
20.	Interest and similar expense	- 13,631,064	- 16,891,998
30.	<b>Net interest income</b>	<b>36,345,641</b>	<b>36,533,480</b>
40.	Fee and commission income	21,632,087	22,038,688
50.	Fee and commission expense	- 1,450,381	- 1,866,318
60.	<b>Net fee and commission income</b>	<b>20,181,706</b>	<b>20,172,370</b>
70.	Dividends and similar income	1,588,111	234,234
80.	Net trading income	5,273,721	8,710,653
90.	Net hedging income (expense)	-	-
100.	Gain (loss) from sales or repurchases of:	4,603,721	3,078,981
	<i>a) loans and receivables</i>	-	-
	<i>b) available-for-sale financial assets</i>	4,644,633	3,182,236
	<i>c) held-to-maturity investments</i>	-	-
	<i>d) financial liabilities</i>	- 40,912	- 103,255
110.	Net gains (losses) on financial assets and liabilities at fair value through profit or loss	-	-
120.	<b>Total income</b>	<b>67,992,900</b>	<b>68,729,718</b>
130.	Net impairment losses on:	- 16,321,334	- 10,928,480
	<i>a) loans and receivables</i>	- 15,930,306	- 10,928,480
	<i>b) available-for-sale financial assets</i>	- 2,066	-
	<i>c) held-to-maturity investments</i>	-	-
	<i>d) other financial transactions</i>	- 388,962	-
140.	<b>Net financial income</b>	<b>51,671,566</b>	<b>57,801,238</b>
150.	Administrative expenses	- 47,959,991	- 47,630,646
	<i>a) personnel expense</i>	- 29,283,726	- 28,837,200
	<i>b) other administrative expenses</i>	- 18,676,265	- 18,793,446
160.	Net accruals to provisions for risks and charges	- 57,766	17,250
170.	Depreciation and net impairment losses on property, equipment and investment property	- 1,510,088	- 1,361,951
180.	Amortisation and net impairment losses on intangible assets	- 79,351	- 45,806
190.	Other operating income	5,878,606	5,043,276
200.	<b>Operating costs</b>	<b>- 43,728,590</b>	<b>- 43,977,877</b>
210.	Gains (losses) on equity investments	-	-
220.	Fair value gains (losses) on property, equipment and invest. property and int. assets	-	-
230.	Impairment losses on goodwill	-	-
240.	Net gains on sales of investments	105,207	7,616
250.	<b>Pre-tax profit from continuing operations</b>	<b>8,048,183</b>	<b>13,830,977</b>
260.	Income taxes	- 3,964,188	- 5,682,911
270.	<b>Post-tax profit from continuing operations</b>	<b>4,083,995</b>	<b>8,148,066</b>
280.	Post-tax profit (loss) from discontinued operations	-	-
290.	<b>Profit for the year</b>	<b>4,083,995</b>	<b>8,148,066</b>





**STATEMENT OF COMPREHENSIVE INCOME**

		<b>2014</b>	<b>2013</b>
<b>10.</b>	<b>Profit for the year</b>	<b>4,083,995</b>	<b>8,148,066</b>
	<b>Items, net of tax, that will not be reclassified subsequently to profit or loss</b>		
<b>20.</b>	Property, equipment and investment property	-	-
<b>30.</b>	Intangible assets	-	-
<b>40.</b>	Defined benefit plans	1,569,685	361,712
<b>50.</b>	Non-current assets held for sale	-	-
<b>60.</b>	Share of valuation reserves of equity-accounted investees	-	-
	<b>Items, net of tax, that will be reclassified subsequently to profit or loss</b>		
<b>70.</b>	Hedges of investments in foreign operations	-	-
<b>80.</b>	Exchange rate gains (losses)	-	-
<b>90.</b>	Cash flow hedges	-	-
<b>100.</b>	Available-for-sale financial assets	4,289,868	1,676,167
<b>110.</b>	Non-current assets held for sale	-	-
<b>120.</b>	Share of valuation reserves of equity-accounted investees	-	-
<b>130.</b>	<b>Total other comprehensive income, net of tax</b>	<b>2,720,183</b>	<b>2,037,879</b>
<b>140</b>	<b>Comprehensive income (captions 10 + 130)</b>	<b>6,804,178</b>	<b>10,185,945</b>



**STATEMENT OF CHANGES IN EQUITY FOR 2014**

	Balance at 31/12/2013	Change to opening balances	Balance at 1/01/2014	Allocation of prior year profit		Changes in 2014								Equity at 31 December 2014
						Changes in reserves	Equity transactions						Comprehensive income for 2014	
				Reserves	Dividends and other allocations		Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:	39,241,087	-	39,241,087	-	-	-	-	-	-	-	-	-	-	39,241,087
a) ordinary shares	39,241,087	-	39,241,087	-	-	-	-	-	-	-	-	-	-	39,241,087
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	34,660,068	-	34,660,068	-	-	-	-	-	-	-	-	-	-	34,660,068
Reserves:	62,121,438	-	62,121,438	5,109,066	-	-	-	-	-	-	-	-	-	67,230,504
a) income-related	58,851,678	-	58,851,678	5,109,066	-	-	-	-	-	-	-	-	-	63,960,744
b) other	3,269,760	-	3,269,760	-	-	-	-	-	-	-	-	-	-	3,269,760
Valuation reserves	17,115,589	-	17,115,589	-	-	2,720,183	-	-	-	-	-	-	-	19,835,772
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	8,148,066	-	8,148,066	5,109,066	-3,039,000	-	-	-	-	-	-	-	4,083,995	4,083,995
Equity	161,286,248	-	161,286,248	-	-3,039,000	2,720,183	-	-	-	-	-	-	4,083,995	165,051,426



**STATEMENT OF CHANGES IN EQUITY FOR 2013**

	Balance at 31/12/2012	Change to opening balances	Balance at 1/01/2013	Allocation of prior year profit		Changes in 2013								Equity at 31/12/2013
						Changes in reserves	Equity transactions						Comprehensive income for 2013	
				Reserves	Dividends and other allocations		Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:	39,241,087	-	39,241,087	-	-	-	-	-	-	-	-	-	-	39,241,087
a) ordinary shares	39,241,087	-	39,241,087	-	-	-	-	-	-	-	-	-	-	39,241,087
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	34,660,068	-	34,660,068	-	-	-	-	-	-	-	-	-	-	34,660,068
Reserves:	59,512,638	-	59,512,638	2,608,800	-	-	-	-	-	-	-	-	-	62,121,438
a) income-related	56,242,878	-	56,242,878	2,608,800	-	-	-	-	-	-	-	-	-	58,851,678
b) other	3,269,760	-	3,269,760	-	-	-	-	-	-	-	-	-	-	3,269,760
Valuation reserves	15,077,710	-	15,077,710	-	-	2,037,879	-	-	-	-	-	-	-	17,115,589
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	10,320,262	-	10,320,262	- 2,608,800	- 7,711,462	-	-	-	-	-	-	-	8,148,066	8,148,066
Equity	158,811,765	-	158,811,765	-	- 7,711,462	2,037,879	-	-	-	-	-	-	8,148,066	161,286,248





**STATEMENT OF CASH FLOWS: indirect method**

A. OPERATING ACTIVITIES		
	2014	2013
<b>1. Operations</b>	<b>26,623,462</b>	<b>4,006,355</b>
- profit for the year (+/-)	4,083,995	8,148,066
- losses on financial assets held for trading and financial assets/liabilities at fair value through profit or loss (-/+)	- 2,168,586	- 7,220,686
- gains/losses on hedging transactions (-/+)	-	-
- net impairment losses/reversals of impairment losses (+/-)	18,683,918	12,393,485
- net impairment losses/reversals of impairment losses on property, equipment and investment property and intangible assets (+/-)	1,834,213	1,546,659
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	4,676,235	- 12,757,265
- unpaid taxes and duties (+)	3,964,188	6,160,789
- net impairment losses/reversals of impairment losses on disposal groups, net of the tax effect (+/-)	-	-
- other adjustments (+/-)	- 4,450,501	- 4,264,693
<b>2. Cash flows used for financial assets</b>	<b>- 65,758,045</b>	<b>- 41,915,939</b>
- financial assets held for trading	- 43,982,858	- 38,206,852
- financial assets at fair value through profit or loss	-	-
- available-for-sale financial assets	- 55,216,120	- 12,973,876
- loans and receivables with banks: on demand	- 5,085,231	- 6,178,492
- loans and receivables with banks: other	6,596,967	1,968,475
- loans and receivables with customers	34,967,858	24,966,788
- other assets	- 3,038,661	- 11,491,982
<b>3. Cash flows generated by financial liabilities</b>	<b>44,524,272</b>	<b>48,173,934</b>
- due to banks: on demand	-	590,014
- due to banks: other	60,189,966	425,876
- due to customers	30,960,519	44,820,770
- securities issued	- 33,433,416	6,224,255
- financial liabilities held for trading	- 246,736	-
- financial liabilities at fair value through profit or loss	-	-
- other liabilities	- 12,946,061	- 1,855,201
<b>Net cash flows generated by operating activities</b>	<b>5,389,689</b>	<b>10,264,350</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flows generated by</b>	<b>308,224</b>	<b>9,649</b>
- sales of equity investments	-	-
- dividends from equity investments	-	-
- sales of HtM investments	-	-
- sales of property, equipment and investment property	308,224	9,649
- sales of intangible assets	-	-
- sales of business units	-	-
<b>2. Cash flows used to acquire</b>	<b>- 1,600,162</b>	<b>- 2,310,245</b>
- equity investments	-	-
- HtM investments	-	-
- property, equipment and investment property	- 939,442	- 2,039,065
- intangible assets	- 660,720	- 271,180
- business units	-	-
<b>Net cash flows used in investing activities</b>	<b>- 1,291,938</b>	<b>- 2,300,596</b>

<b>C. FINANCING ACTIVITIES</b>		
- issue/repurchase of treasury shares	-	-
- issue/purchase of equity instruments	-	-
- dividend and other distributions	- 3,039,000	- 7,711,462
<b>Net cash flows used in financing activities</b>	<b>- 3,039,000</b>	<b>- 7,711,462</b>
<b>NET CASH FLOWS FOR THE YEAR</b>	<b>1,058,751</b>	<b>252,292</b>

Key: (+) generated; (-) used

### Reconciliation:

<b>FINANCIAL STATEMENTS CAPTIONS</b>		
	<b>2014</b>	<b>2013</b>
Opening cash and cash equivalents	14,353,280	14,100,988
Total net cash cash flows for the year	1,058,751	252,292
Cash and cash equivalents: exchange rate effects	-	-
Closing cash and cash equivalents	15,412,031	14,353,280

## **NOTES TO THE FINANCIAL STATEMENTS**



# **PART A**

## **Accounting policies**



## **A.1 – GENERAL PART**

### **Section 1 – Statement of compliance**

The financial statements of Cassa di Risparmio di Fermo S.p.A. as at and for the year ended 31 December 2014 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission with EC regulation 1606 of 19 July 2002 and applied in Italy with article 1 of Legislative decree no. 38 of 28 February 2005. The instructions issued by Banca d'Italia in its Circular no. 262 of 22 December 2005 and subsequent updates.

The bank also referred to the Framework for application of the IFRS.

When a standard or an interpretation did not exist for a specific transaction, event or circumstance, the board of directors based itself on its judgement to develop and apply an accounting policy in order to provide information that is:

- useful as a basis for the readers to take financial decisions;
- reliable, so that the financial statements:
  - give a faithful view of the bank's financial position, results of operations and cash flows;
  - reflect the economic substance of transactions, other events and circumstances and not merely their legal form;
  - are neutral, i.e., are not prejudiced;
  - are prudent;
  - are complete with reference to all significant aspects.

When exercising its judgement, the board of directors made reference to, and considered the applicability of the following sources, set out below in decreasing order of importance:

- the guidance and instructions set out in the standards and interpretations for similar or related cases;
- the definitions, measurement criteria and concepts used to recognise assets, liabilities, revenue and costs provided in the Framework.

The board of directors may also refer to the most recently issued measures of other bodies that issue accounting standards and use a framework similar to that of the IFRS to develop such standards, other accounting reference documentation and consolidated practices.

Pursuant to article 5 of Legislative decree no. 38 of 28 February 2005, when, in exceptional cases, application of a provision established by the IFRS is incompatible with the true and fair view of an entity's financial position, results of operations and cash flows, it is not applied. In such case, the reasons for departure from the standard are explained in the notes together with its impact on the presentation of the entity's financial position, results of operations and cash flows.

Any gains arising from application of the above-mentioned departure are recognised in a non-distributable reserve to the extent of the amount that can be recovered.

## **Section 2 - Basis of presentation**

The financial statements are clearly stated and give a true and fair view of the bank's financial position at 31 December 2014 and its results of operations and cash flows for the year then ended. They comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

They are accompanied by a directors' report which comments on the bank's performance and financial position.

When the disclosures required by the IFRS and the instructions set out in the Banca d'Italia Circular no. 262 of 22 December 2005, and subsequent amendments, are not sufficient to give a true and fair, material, reliable, comparable and understandable view of the bank's financial position, results of operations and cash flows, additional information is provided in the notes.

The general guidelines for presentation of the financial statements are:

- the assumption of going concern;
- the accruals basis of accounting: costs and revenue are recognised on an accruals basis;
- consistency of presentation: in order to ensure the comparability of data and information in the financial statements, they are presented and classified consistently over the years unless another presentation or classification would be more appropriate or amendments are made to the IFRS;
- In 2011, the IASB published IAS 19 (revised), introducing, inter alia, new accounting treatments for defined benefit plans, which include pension funds and the Italian post-employment benefits. The bank applied the revised standard starting from 2012. The most significant effects on the bank's financial statements are as follows:
  1. actuarial gains and losses:
    - a. elimination of the corridor approach and full recognition in profit or loss;
    - b. adoption of the model of immediate recognition in equity (i.e., other comprehensive income);
  2. the costs recognised in profit or loss are those relating to the actuarial capitalisation (i.e., interest cost);
  3. service costs, i.e., the increase in the present value of future benefits attributable to the service period is, in the bank's case, equal to zero, since pension funds do not include any current employees but only retired employees;
- materiality and aggregation: each material class of similar items is presented separately in the statement of financial position and the income statement. Items of a dissimilar nature or function are presented separately unless they are immaterial;
- when an asset or liability item relates to more than one caption, disclosure is provided in the notes when this is necessary to understand the financial statements;
- offsetting: assets and liabilities, income and expenses are not offset, unless expressly required or permitted by a standard or an interpretation or the above-mentioned Banca d'Italia Circular no. 262 of 22 December 2005 and subsequent amendments;
- substance over form: the financial statements are presented in accordance with the principle of substance over form;
- comparative information: comparative information in respect of the previous year is disclosed for all amounts reported in the current year's financial statements.

Pursuant to article 5 of Legislative decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the reporting currency. Specifically, the financial statements are prepared in Euros and the notes in thousands of Euros. When necessary in the notes, more detail is given (Euros or cents).



**Section 3 - Events after the reporting date**

Banca d'Italia's inspection, which started on 16 December 2014, was completed on 27 February 2015. The bank has not yet received the related report.

There are no significant events requiring mention in this section of the financial statements.

**Section 4 - Other aspects**

None.

## **A2 – ACCOUNTING POLICIES**

### **1 - FINANCIAL ASSETS HELD FOR TRADING**

#### **a) Recognition**

Debt and equity instruments are initially recognised at their settlement date while derivative contracts are recognised at the date they are signed.

Financial assets held for trading are initially recognised at fair value, which usually equals the consideration paid, without considering transaction costs or revenue, which are recognised in profit or loss.

Embedded derivatives in structured financial instruments whose characteristics are not strictly correlated with those of the host instrument and that meet the definition of a derivative are separated from the host contract and recognised at fair value in profit or loss.

The host contract is recognised using the relevant standard.

#### **b) Classification**

Financial assets held for trading include debt and equity instruments acquired to make profits, including through their trading.

Hedging derivatives with positive fair values are included in this caption, including those embedded in financial instruments that meet the conditions for separation of the underlying derivatives.

#### **c) Measurement**

Financial assets are measured at fair value following initial recognition. Changes in fair value are taken to profit or loss.

The fair value of financial instruments listed on active markets equals the reporting date market closing prices.

The fair value of financial instruments traded on inactive markets is determined using commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models, prices registered in recent similar transactions, considering the different risk profiles of the instruments.

The zero coupon rates derived from the closing swap rates are used to discount the above cash flows.

A market is defined as inactive when there are significant differences in the bid/ask prices of the instrument in question.

#### **d) Derecognition**

These financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

#### **e) Recognition of costs and revenue**

Interest and dividends are recognised under “Interest and similar income” and “Dividends and similar income”, respectively. Trading income or expense and gains or losses on the sale of financial assets are recognised under “Net trading income (expense), except for those related to derivatives recognised at fair value through profit or loss, which are classified under “Net gains (losses) on financial assets and liabilities at fair value through profit or loss”.

### **2 - AVAILABLE-FOR-SALE FINANCIAL ASSETS**

#### **a) Recognition**

Available-for-sale (AFS) financial assets are initially recognised at the settlement date (debt and equity instruments) or at the disbursement date (loans and financing). They are initially recognised at fair value, which usually equals cost, including any transaction costs or revenue.

**b) Classification**

This category includes non-derivative financial assets that are not classified as held for trading, held-to-maturity investments or are not loans and receivables.

The caption includes equity investments not held for trading and that do not qualify as investments in subsidiaries, associates or interests in joint ventures.

**c) Measurement**

AFS financial assets are subsequently measured at fair value with any fair value gains or losses being recognised in a specific equity reserve.

The fair value of financial instruments listed on active markets equals the reporting date market closing prices.

The fair value of debt instruments not traded on an active market is determined based on the price of instruments with similar characteristics or the present value of future cash flows, considering the different risk profiles inherent in the instruments, or based on the actual prices for trades of the same asset.

The zero coupon rates derived from the closing swap rates are used to discount the above cash flows.

A market is defined as inactive when there are significant differences in the bid/ask prices of the instrument in question.

The fair value of equity instruments classified as AFS is determined considering the actual prices for trades of the same asset. When fair value cannot be determined reliably, the carrying amount equals cost, redetermined if necessary when the asset is sold.

AFS financial assets are tested for impairment whenever there are objective indications of an impairment loss due to a worsening in the issuer's solvency or the other indicators provided for in IAS 39. The impairment loss is determined:

- as the difference between carrying amount and fair value for equity instruments;
- as the difference between the carrying amount and the recoverable amount, i.e., the present value of estimated future cash flows, discounted using the effective interest method, for debt instruments.

Impairment losses are recognised in profit or loss after decreasing the equity reserve for each financial instrument.

When the reasons for impairment are eliminated, the reversal of the impairment loss is taken to:

- equity for equity instruments;
- profit or loss for debt instruments.

**d) Derecognition**

These financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

**e) Recognition of costs and revenue**

Interest and dividends are recognised under "Interest and similar income" and "Dividends and similar income", respectively. Gains or losses on the sale of financial assets are recognised under "Gain (loss) on sale or repurchase of available-for-sale financial assets". Gains and losses on the fair value measurement of AFS financial assets are recognised in the "Valuation reserve" under equity and reclassified to profit or loss when sold.

Impairment losses are recognised as "Net impairment losses on available-for-sale financial assets". Any reversals of impairment losses on debt instruments are recognised as "Net reversals of impairment losses on available-for-sale financial assets" while those on equity instruments are reclassified from the valuation reserve to profit or loss when they are sold.

**3 - HELD-TO-MATURITY INVESTMENTS****a) Recognition**

Held-to-maturity investments are initially recognised at the settlement date.

They are initially recognised at fair value, which usually equals the consideration paid, including any transaction costs or revenue.

The fair value of AFS financial assets reclassified to held-to-maturity investments is their amortised cost.

**b) Classification**

This category includes non-derivatives with fixed or determinable payments and fixed maturities that the bank has the ability and intention to hold to maturity.

If it is no longer appropriate to maintain an asset as classified as held to maturity following a change in the bank's intentions or ability, it is reclassified to "AFS financial assets".

Should the sale or reclassification of a held-to-maturity investment not be immaterial in quantitative or qualitative terms, the investment is reclassified as available for sale.

**c) Measurement**

After initial recognition, held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

They are tested for impairment to determine whether there is objective evidence of impairment due to a worsening in the issuer's solvency or the other indicators provided for by IAS 39.

The amount of the loss is measured as the difference between the asset's carrying amount and its recoverable amount, being the present value of estimated future cash flows, discounted at the asset's original effective interest rate.

The impairment loss is recognised in profit or loss.

When the reasons for impairment are no longer valid, the impairment loss is reversed.

**d) Derecognition**

These financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

**e) Recognition of costs and revenue**

Interest is recognised in "Interest and similar income". Gains and losses on the asset's sale are recognised in "Gain (loss) on the sale or repurchase of held-to-maturity investments". Impairment losses and any reversals are recognised under "Net impairment losses on held-to-maturity investments".

#### **4- LOANS AND RECEIVABLES WITH CUSTOMERS AND BANKS**

**a) Recognition**

Loans and receivables are initially recognised at the disbursement date or, in the case of a debt instrument, at the settlement date, based on the financial instrument's fair value, which usually equals the amount disbursed, or the subscription price, including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently.

The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs. Reverse repurchase agreements and repurchase agreements are recognised as lending or funding transactions.

Specifically, spot resale and forward repurchase agreements are recognised as a liability for the spot amount received while spot repurchase and forward resale agreements are recognised as an asset for the spot amount paid.

**b) Classification**

Loans and receivables include non-derivative amounts with banks and customers, both disbursed directly and acquired from third parties, with fixed or determinable payments that are not listed on an active market and are not initially recognised as "Financial assets at fair value through profit or loss".

The category includes trade receivables, repurchase agreements, finance lease receivables and securities acquired as part of underwriting or private placement transactions with fixed or determinable payments that are not listed on an active market.

**c) Measurement**

After initial recognition, loans and receivables are measured at amortised cost, that is, their initial carrying amount minus/plus principal repayments, impairment losses/reversals of impairment losses and cumulative amortisation, using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future payments over the expected life of the loan or receivable to the carrying amount at the time of initial recognition, including directly attributable transaction costs and amounts paid or received between the contracting parties.

The amortised cost method is not used for short-term loans (with maturities of less than 18 months) as discounting these loans has no material impact. They are measured at historical cost.

Loans without a specified maturity and revocable loans are treated similarly.

Loans and receivables are tested for impairment at each reporting date to determine whether there is objective evidence of impairment due to events subsequent to initial recognition or a worsening in the debtors' solvency.

Impaired loans include non-performing loans, substandard loans or loans past due by more than 180 days. They are tested for impairment individually and the impairment loss is equal to the difference between their carrying amount at the (annual or interim) measurement date (amortised cost) and the present value of the recoverable cash flows, calculated using the original effective interest rate. Estimated future cash flows are determined considering the estimated recovery time and the estimated realisable amount of any guarantees. The original effective interest rate of each loan is unchanged over time. The recovery time is reasonably estimated considering general or specific factors. General factors include the estimated recovery time considering the nature of the transaction while specific factors include the estimate of the estimated future cash flows considering negotiations for an out-of-court settlement or ongoing repayment plans. The bank monitors the difference between the originally planned recovery time and the effective cash flows to best estimate the expected recovery times.

Performing loans are tested for impairment collectively using loss percentages. They are grouped into categories of exposures with similar credit risk characteristics and the loss rate estimated on a statistical basis and expressed as the counterparty's probability of default (PD) and the loss given default (LGD) rate are applied. The expected loss (EL) is the loan amount multiplied by PD and LGD or, if higher, by a floor of 0.30%.

Impairment losses are recognised in profit or loss. The loss attributable to discounting cash flows is released on an accruals basis using the effective interest method and recognised as a reversal.

Collectively-determined impairment losses are recognised in profit or loss.

Any additional impairment losses or reversals of impairment losses are recalculated at each reporting date using a different approach considering the entire performing loan portfolio at that date.

When the reasons for impairment are no longer valid, the impairment loss is reversed.

**d) Derecognition**

Loans and receivables are derecognised when substantially all the risks and rewards of ownership of the asset are transferred.

Conversely, if the risks and rewards associated with the asset are retained, the loan or receivable continues to be recognised to the extent of the bank's continuing involvement in the asset, even though legal title has been transferred.

When it is not possible to verify the substantial transfer of the risks and rewards, the assets are derecognised when no control thereover is retained. If even a portion of control is retained, the asset continues to be recognised in line with the bank's continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, loans and receivables are derecognised when the bank retains the contractual rights to receive the related cash flows with the concurrent obligation to pay them to a third party.

***e) Recognition of costs and revenue***

Interest is recognised under “Interest and similar income”. Impairment losses and reversals of impairment losses are recognised under “Net impairment losses on loans and receivables”.

Gains or losses on sales are shown under “Gain (loss) on sales or repurchases of loans and receivables”.

## **5 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

***a) Recognition***

***b) Classification***

***c) Measurement***

***d) Derecognition***

***e) Recognition of costs and revenue***

At the reporting date, the bank did not have financial assets at fair value through profit or loss either to hedge derivatives or to exercise the fair value option.

## **6 - HEDGING**

The bank has not undertaken hedging transactions.

## **7 – EQUITY INVESTMENTS**

At the reporting date, the bank did not have investments in subsidiaries or associates.

## **8 - PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY**

***a) Recognition***

They are recognised at cost, including directly related charges.

Subsequent maintenance expenditure is capitalised if it leads to an increase in the future economic benefits generated by the asset.

Borrowing costs are recognised in accordance with IAS 23 and are, therefore, recognised as a cost in the year in which they are incurred.

***b) Classification***

Property, equipment and investment property include land, owned buildings and investment property, furniture, fittings, technical systems and other assets held for use in production or to supply goods and services, for lease to third parties or for administrative purposes which will be used over more than one period.

This caption also includes leasehold improvements and related costs when the asset is identifiable and separable. Buildings and appurtenance land are recognised separately when purchased.

***c) Measurement***

Assets held for operating purposes are measured at cost net of accumulated depreciation and any impairment losses.

Land and assets under construction are not depreciated.

Property and equipment held for operating purposes are depreciated systematically over their useful lives on a straight-line basis, except for land which has an indefinite useful life and is not depreciable. Should the carrying amount of land be included in that of the related building, they are separated using an appraisal performed by sector experts.

These assets are tested for impairment when there is objective indication thereof.

Investment property is measured at fair value, which is determined periodically using specific appraisal estimates prepared by sector experts.

**d) Derecognition**

An asset is derecognised when divested or when it is no longer used and its disposal is not expected to generate future risks or benefits.

**e) Recognition of costs and revenue**

Accumulated depreciation and any impairment losses on operating assets are recognised under “Depreciation and net impairment losses on property, equipment and investment property”. Impairment losses and reversals of impairment losses of investment property, determined considering its fair value, are recognised under “Fair value gains (losses) on property, equipment and investment property”.

**9 - INTANGIBLE ASSETS****a) Classification**

Intangible assets include long-term software licences.

**b) Recognition and measurement**

Intangible assets are recognised at cost, including directly related charges only when it is probable that the future economic benefits of the asset will materialise and its cost can be determined reliably.

The cost of assets with finite lives is amortised on a straight-line basis over their useful lives.

**d) Derecognition**

Intangible assets are derecognised upon their disposal or when no future benefits are expected therefrom.

**d) Recognition of costs and revenue**

Accumulated amortisation is recognised under “Amortisation and net impairment losses on intangible assets”. Impairment losses on goodwill and intangible assets with indefinite useful lives are taken to “Impairment losses on goodwill” and “Amortisation and net impairment losses on intangible assets”, respectively.

**10 - NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE**

The bank does not have non-current assets classified as held for sale.

**11 - CURRENT AND DEFERRED TAXES****a) Classification**

Current tax assets and liabilities consists of receivables for tax advances paid and income taxes on the tax base for the year, respectively.

Deferred tax assets and liabilities originate on the temporary differences between the carrying amounts of assets and liabilities and their tax bases.

**b) Recognition and measurement**

Current and deferred taxes, calculated in accordance with the Italian tax legislation, are recognised on an accruals basis, in line with the costs and revenue generating them and using enacted tax rates. Income taxes are recognised in profit or loss except for those related to captions recognised directly in equity.

Income taxes are provided for based on a prudent estimate of the current and deferred taxes.

Current taxes are the net of current tax liabilities and current tax assets, being the advances paid and other tax credits for withholdings.

Deferred taxes are determined considering the temporary differences (without time limits) between the carrying amount of assets and liabilities and their tax bases.

Following enactment of Law no. 214/2011, governing the recognition of deferred tax assets, a round table was held during which Banca d'Italia, Consob and ISVAP discussed the issue in the light of the IFRS. On 15 May 2012, they published a document stating that, due to the above-mentioned law, the probability test is automatically passed, as the recoverability of deferred tax assets is now certain in any circumstances. Accordingly, they are recognised in the financial statements.



Deferred tax liabilities are recognised since the amount of the available taxed reserves is such that it can reasonably be held that transactions which require their taxation will not take place.

Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting.

***e) Recognition of costs and revenue***

Current and deferred taxes are recognised under “Income taxes”.

They are recognised in equity if they relate to transactions recognised directly in equity.

## **12- PROVISIONS FOR RISKS AND CHARGES**

***a) Recognition and derecognition***

***b) Classification***

***c) Measurement***

### **Pension and similar provisions**

They include accruals for the supplementary pension plan which integrates the benefits provided by INPS (the Italian social security institution).

The plan, which technically is a defined benefit fund, includes accruals to guarantee pensioners with the related vested rights a supplementary pension, determined on an objective and realistic forward-looking basis, equal to the “mathematical reserve” calculated by an external actuary. It is recognised in accordance with IAS 19 (revised in 2011), with respect to elimination of the possibility to apply the corridor approach and the subsequent immediate recognition of any actuarial gains or losses in equity (other comprehensive income).

### **Other provisions**

Other provisions for risks and charges include provisions made when the following concurrent conditions are met:

- a) the bank has a present legal or constructive obligation as a result of a past event;
- b) it is probable that an outflow of resources will be necessary to settle the obligation;
- c) the obligation can be determined reliably.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation or transfer it to third parties at the closing date.

The types of events that could require provisions are:

- a) ongoing legal disputes;
- b) risks for ongoing claw-back claims;
- c) certain or probable obligations arising from contractual commitments or an executive ruling which is not yet final.

When the effect of the time value of money is material, the provisions are discounted using the current market rates at the closing date.

***e) Recognition of costs and revenue***

Accruals to these provisions are recognised in “Net accruals to provisions for risks and charges” while those for post-employment benefits are recognised under “Personnel expense”.

## **13 - LIABILITIES AND ISSUED SECURITIES**

***a) Recognition***

These financial liabilities are recognised when the amounts are received or the debt instruments are issued.

They are initially recognised at fair value, which is normally equal to the consideration received or the issue price, plus or minus any additional costs or revenue directly attributable to the individual transaction and not reimbursed to the creditor. The fair value of financial liabilities issued at other than market conditions is estimated and the difference compared to the consideration received is recognised directly in profit or loss, when the conditions of IAS 39 are met.



Structured financial liabilities, consisting of a security and one or more embedded derivatives, are classified under liabilities measured at fair value using the fair value option. Therefore, their fair value includes that of the embedded derivatives and the host contract.

**b) Classification**

Due to banks, due to customers and securities issued include the characteristic types of interbank and customer funding as well as lending through certificates of deposit and bonds issued net of any repurchases.

**c) Measurement**

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Conversely, current financial liabilities continue to be measured at the consideration received as the effect of the amortised cost measurement would be negligible.

**d) Derecognition**

Financial liabilities are derecognised when they expire or are extinguished. They are also derecognised when previously issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in profit or loss.

If the repurchased security is subsequently placed on the market again, this is treated as a new issue and is recognised at the new placement price, with no effect on profit or loss.

**e) Recognition of costs and revenue**

Interest is recognised under "Interest and similar expense". Gains and losses on the repurchase of the liabilities are shown under "Gain (loss) from sales or repurchases of financial liabilities".

**14 - FINANCIAL LIABILITIES HELD FOR TRADING****a) Recognition**

Financial liabilities held for trading are initially recognised at the settlement date while derivatives are recognised at their agreement date.

They are initially recognised at fair value, which usually equals the consideration received, without considering directly related transaction costs and revenue.

**b) Classification**

The category includes financial liabilities held for trading and embedded derivatives with a negative fair value.

**c) Measurement**

Financial liabilities held for trading are subsequently measured at fair value through profit or loss.

Market prices are used to determine the fair value of financial instruments listed on active markets. If an active market does not exist, commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions are used.

**d) Derecognition**

Financial liabilities held for trading are derecognised when they expire, are extinguished or all the related risks and rewards are transferred to third parties.

**e) Recognition of costs and revenue**

Fair value gains and losses are recognised in "Net trading income (expense)", except for those related to derivatives recognised at fair value through profit or loss, which are classified in "Net gains (losses) on financial assets and liabilities at fair value through profit or loss".

**15 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS****a) Recognition**

Debt instruments are initially recognised at their issue date. Financial liabilities at fair value through profit or loss are initially recognised at their fair value which is usually the consideration received, without considering directly related transaction costs or revenue, which are recognised in profit or loss.

The fair value of financial liabilities issued at other than market conditions is estimated and the difference compared to the consideration received is taken directly to profit or loss when the conditions of IAS 39 are met.

**b) Classification**

This category includes financial liabilities measured at fair value through profit or loss when:

1. fair value designation allows elimination or reduction of significant inconsistencies that would otherwise arise in presenting financial instruments or between financial and non-financial liabilities; or
2. a group of financial instruments at fair value through profit or loss is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
3. the liability has an embedded derivative that significantly alters the cash flows of the host instrument and shall be separated.

Specifically, this category includes financial liabilities subject to natural hedges using derivatives.

**c) Measurement**

Financial liabilities are subsequently measured at fair value.

Market prices are used to determine fair value of financial instruments quoted on an active market.

If an active market does not exist, commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions are used.

**d) Derecognition**

Financial liabilities are derecognised when they expire or are extinguished. They are also derecognised when previously issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in profit or loss.

**e) Recognition of costs and revenue**

Fair value gains and losses are recognised in “Net trading income (expense)”, except for those related to derivatives recognised at fair value through profit or loss, which are classified in “Net gains (losses) on financial assets and liabilities at fair value through profit or loss”.

**16 - FOREIGN CURRENCY TRANSACTIONS****a) Recognition and derecognition**

Foreign currency transactions are initially recognised in Euros by applying the exchange rate prevailing at the transaction date.

**b) Classification and measurement**

Foreign currency assets and liabilities are translated into Euros at each subsequent reporting date using the following criteria:

- ✓ monetary items are translated using the closing rates;
- ✓ non-monetary items measured at historical cost are translated using the transaction-date exchange rates;
- ✓ non-monetary items measured at fair value are translated using the closing rates.

**e) Recognition of costs and revenue**

Exchange rate differences arising from the settlement of monetary items or from the translation at exchange rates other than the initial translation rate or the prior closing rate are recognised in profit or loss in the period in which they arise.

When the gain or loss on a non-monetary item is recognised in equity, the exchange rate gain or loss is also taken to equity. However, when the gain or loss is recognised in profit or loss, the related exchange rate gain or loss is recognised there too.

All exchange rate gains and losses are recognised under “Net trading income (expense)”.

**17 - OTHER INFORMATION****17.1 - Post-employment benefits****a) Recognition****b) Classification****c) Measurement****d) Derecognition**

Post-employment benefits are recognised at their actuarial value.

This value is determined using the procedure for defined benefit plans and the projected unit credit method, whereby future payments are projected using historical series analyses and demographical trends and discounted using a market rate.

Accruals are recognised under “Personnel expense” and include the Italian Civil Code revaluation and interest expense on the increase in present value due to the time value of money. The actuarial gains or losses are calculated in accordance with IAS 19 (revised by the IASB in 2011), which eliminated the possibility to apply the corridor approach and their full recognition in profit or loss and requires their recognition in other comprehensive income (equity).

**e) Recognition of costs and revenue**

Accruals for post-employment benefits are recognised in “Personnel expense” in the income statement. Actuarial gains and losses are recognised as other comprehensive income, in a specific equity reserve.

**17.2 - Treasury shares**

The bank did not have any treasury shares in its portfolio at the reporting date.

**17.3 - Dividends and revenue recognition**

Revenue is recognised when received and when it is probable that future economic benefits will flow to the bank and these benefits can be measured reliably.

Dividends are recognised in profit or loss when their distribution is approved.

Income from the trading or issue of financial instruments, being the difference between the transaction price and the instrument’s fair value, is recognised in profit or loss when the transaction is recognised if the fair value can be determined using parameters or recent transactions on the same market as that on which the instrument is traded; if not, they are deferred and recognised over the instrument’s term considering its nature.

Income from financial instruments that cannot be measured using the above methods is taken to profit and loss over the transaction’s term.

## A3 – TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

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

Type of financial instrument	Original portfolio	Portfolio to which transfer is made	Valore contabile al 31/12/2014	Fair value al 31/12/2014	Income or expense if transfer had not taken place (pre-tax)		Income or expense for the year (pre-tax)	
					Fair value gains	Other	Fair value gains	Other
Debt	HFT	AFS	36,999	36,999	1,013	406	1,013	406
				<b>Total A</b>	<b>1,013</b>	<b>406</b>	<b>1,013</b>	<b>406</b>

No financial assets were reclassified out of one portfolio and into another in 2014.

The table shows the fair value of the securities held by the bank at the reporting date and reclassified from the HFT portfolio into the AFS portfolio in 2008, following the amendment to IAS 39 and IFRS 7, endorsed by the relevant bodies. Due to the reclassification of securities from the HFT portfolio into the AFS portfolio, the bank continued to recognise the assets in question at fair value through a special equity reserve (OCI) rather than through profit or loss. The amounts shown in the “Income or expense for the year (pre-tax) - Fair value gains” column and recognised in equity reflect the 2014 gains. The “Other” column shows interest on bonds and trading income (expense) on securities sold/redeemed during the year.

Calculation of the fair value of just the debt instruments reclassified into the AFS portfolio, which had a nominal amount of €37,860 thousand compared to €63,860 thousand at 31 December 2013, decreased the fair value loss on these bonds from €1,707 thousand for the previous year to €694 thousand and, hence, recognition of a gross reversal of €1,013 thousand. Net of the related deferred tax assets, this reversal was used to directly increase equity.

All reclassified securities, including those that matured during the year were redeemed at par.

## A4 – FAIR VALUE

### Qualitative disclosure

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 on the principal market at the measurement date.

The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

The fair value of financial instruments quoted on active markets is calculated using the official prices of the principal market. A financial instrument is considered to be quoted on an active market if the quoted prices are promptly and regularly available in a price list, from an operator, broker, etc. and these prices represent effective market transactions that take place regularly in normal conditions.

#### A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used like level 2 and level 3

If an active market that can give the price of a financial instrument does not exist, the bank determines fair value using the following methods:

- ❖ **Market approach:** the bank uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets and liabilities.
- ❖ **Discounted cash flow:** the bank estimates future cash flows expected or generated by the financial instrument which it discounts using risk free rates, to which it adds the credit spread requested by the market for instruments with similar risk profiles. Fair value equals the sum of the discounted cash flows. The credit spread for performing loans with customers is calculated considering expected losses. The fair value of impaired loans is their carrying amount.
- ❖ **Similar transactions:** the fair value of equity instruments for which market prices or market prices for identical or similar assets is based on recent transactions or the unrestricted trade of the same instrument are not available. If there are no recent transactions by third parties, the bank uses the transaction performed to acquire the financial instrument to calculate its fair value.

Financial products are classified as level 2 when fair value is determined by using observable inputs on an active market. They are classified as level 3 when market sources do not provide a market price and the bank applies valuation techniques used on the market and applied to its assets.

Financial instruments not measured at fair value, including loans and receivables with customers and banks and amounts due to customers and banks are not classified by fair value, which is only calculated to comply with the disclosure requirements of IFRS 13 and does not affect the financial statements or profit or loss. As these instruments are not traded, determination of their fair value is based on internal parameters not directly observable on the market as defined by IFRS 13.

The fair value of debt instruments issued by the bank and recognised at amortised cost is determined using the effective interest method.

#### A.4.2 Measurement processes and sensitivity

The bank has measured investments in unlisted entities, classified in the AFS portfolio and for which observable prices in an active market do not exist, as level 3-fair value. As mentioned earlier, the carrying amount was determined using the prices of the most recent transactions performed. The bank performed a sensitivity analysis for these assets, assuming a variation of -10%/+10% in equity. The following table shows the possible variations:

	Equity	Investment %	Share of equity	10% decrease in equity	10% increase in equity	Carrying amount at 31/12/2014
S.W.I.F.T. - Brussels	252,362,000	0.0004%	927	834	1,020	2,529
CartaSi S.p.A.	463,806,012	0.1447%	670,973	603,875	738,070	266,220
SEDA S.p.A.	7,355,374	3.6664%	269,676	242,709	296,644	256,584
ConfidiCoop Marche	6,650,000	1.5000%	99,750	89,775	109,725	100,000
SIA S.p.A. (former Società Servizi Bancari S.p.A.)	216,289,000	0.0340%	73,535	66,182	80,889	161,770
Alipicene S.r.l.	49,033	2.5000%	1,226	1,103	1,348	2,582
Fermano Leader S.c.a.r.l.	42,377	1.5000%	636	572	699	3,000
CSE Cons.Servizi Bancari S.r.l.	153,714,317	4.0000%	6,148,573	5,533,715	6,763,430	6,116,000
CARICESE S.r.l.	5,105,372	0.5000%	25,527	22,974	28,080	20,000
<b>TOTAL</b>	<b>1,105,373,485</b>		<b>7,290,823</b>	<b>6,561,739</b>	<b>8,019,905</b>	<b>6,928,685</b>

The above table shows that the fair value of the equity investments listed above (shown in the financial statements) is consistent with the inputs used for the sensitivity analysis.

The table does not show the bank's investment of €1,800 thousand in the joint venture with IDF S.r.l. for the production of the film "Ma tu di che segno 6" (What sign are you), regulated by the contract drawn up under article 2549 of the Italian Civil Code.

#### A.4.3 Fair value hierarchy

IFRS 13 establishes a fair value hierarchy depending on the observability of the valuation technique inputs adopted. There are three levels:

1. Level 1: the fair value of instruments classified in this level is based on quoted prices in active markets;
2. Level 2: the fair value of instruments classified in this level is based on valuation models that use inputs that are observable on inactive/active markets for the asset or liability;
3. Level 3: the fair value of instruments classified in this level is based on valuation models used on the market and applicable to the bank's assets.

#### A.4.4 Other disclosures

The bank has not undertaken transactions that would require disclosure as per paragraphs 51, 93.i and 96 of IFRS 13.

## Quantitative disclosure

### A.4.5 Fair value hierarchy

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

	31/12/2014			31/12/2013		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	295,936	1,096	-	247,375	1,316	-
2. Financial assets at fair value through profit or loss	-	-	-	-	-	-
3. Available-for-sale financial assets	343,248	3,250	8,729	267,475	13,532	7,615
4. Hedging derivatives	-	-	-	-	-	-
5. Property, equipment and investment property	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>639,184</b>	<b>4,346</b>	<b>8,729</b>	<b>514,850</b>	<b>14,848</b>	<b>7,615</b>
1. Financial liabilities held for trading	-	481	-	-	727	-
2. Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>481</b>	<b>-</b>	<b>-</b>	<b>727</b>	<b>-</b>

**Key:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial assets classified as trading in the L2 column of the A.4.2.1 table refer to debt instruments traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes.

Financial assets classified as AFS in the L1 column of the A.4.5.1 table refer to:

- debt instruments traded on organised markets;
- the bank's listed equity instruments,

Financial assets classified as AFS in the L2 column of the A.4.5.1 table refer to debt securities traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes and the investment in Banca d'Italia, for which fair value can objectively be determined.

Financial assets classified as AFS in table A.4.5.1 of the L3 column refer to unlisted equity investments and investments in companies limited by quotas (S.r.l.) acquired by the bank over the last few years with carrying amounts equal to the average prices struck for the last few acquisitions. If this information is not available, they are measured at cost.

**A.4.5.2 Changes in assets measured at fair value on a recurring basis (level 3)**

	HFT	Financial assets at fair value through profit or loss	AFS	Hedging	Property, equipment and investment property	Intangible assets
<b>1. Opening balance</b>	-	-	7,615	-	-	-
<b>2. Increases</b>	-	-	1,800	-	-	-
2.1. Purchases	-	-	1,800	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-
2.2.1. Profit or loss	-	-	-	-	-	-
- including gains on sales	-	-	-	-	-	-
2.2.2. Equity	-	-	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-
<b>3. Decreases</b>	-	-	686	-	-	-
3.1. Sales	-	-	-	-	-	-
3.2. Repayments	-	-	-	-	-	-
3.3. Losses recognised in:	-	-	686	-	-	-
3.3.1. Profit or loss	-	-	2	-	-	-
- including losses on sales	-	-	-	-	-	-
3.3.2. Equity	-	-	684	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
<b>4. Closing balance</b>	-	-	8,729	-	-	-

Line 2.1 Purchases shows the cost of the 48.31% investment in the joint venture to produce a film, "Ma tu di che segno 6?", directed by Italian Dream Factory S.r.l..

Line 3.3.2 shows the impairment loss on the investment in CSE following its extraordinary dividend distribution.



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

	31/12/2014				31/12/2013			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity investments	5,015	4,976	-	-	5,030	4,821	-	-
2. Loans and receivables with banks	46,592	-	-	46,592	48,106	-	-	48,106
3. Loans and receivables with customers	966,419	-	-	1,078,542	1,018,581	-	-	1,050,017
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets classified as held for sale and disposal groups	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>1,018,026</b>	<b>4,976</b>	<b>-</b>	<b>1,125,134</b>	<b>1,071,717</b>	<b>4,821</b>	<b>-</b>	<b>1,098,123</b>
1. Due to banks	210,197	-	-	210,197	150,007	-	-	150,007
2. Due to customers	969,873	-	-	969,873	938,993	-	-	938,993
3. Securities issued	322,939	-	-	326,642	356,908	-	-	360,182
4. Liabilities associated with discontinued operations	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>1,503,009</b>	<b>-</b>	<b>-</b>	<b>1,506,712</b>	<b>1,445,908</b>	<b>-</b>	<b>-</b>	<b>1,449,182</b>



## **PART B**

# **Notes to the statement of financial position**



# ASSETS

## Section 1 – Cash and cash equivalents – Caption 10

### 1.1 Cash and cash equivalents: breakdown

	31/12/2014	31/12/2013
a) Cash	15,412	14,353
b) Demand deposits with central banks	-	-
<b>Total</b>	<b>15,412</b>	<b>14,353</b>

## Section 2 – Financial assets held for trading – Caption 20

### 2.1 Financial assets held for trading: breakdown by product

	31/12/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>A. Assets</b>						
1. Debt instruments	295,936	614	-	247,375	584	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	295,936	614	-	247,375	584	-
2. Equity instruments	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total A</b>	<b>295,936</b>	<b>614</b>	<b>-</b>	<b>247,375</b>	<b>584</b>	<b>-</b>
<b>B. Derivatives</b>						
1. Financial derivatives:	-	482	-	-	731	-
1.1 trading	-	482	-	-	731	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
<b>Total B</b>	<b>-</b>	<b>482</b>	<b>-</b>	<b>-</b>	<b>731</b>	<b>-</b>
<b>Total (A + B)</b>	<b>295,936</b>	<b>1,096</b>	<b>-</b>	<b>247,375</b>	<b>1,315</b>	<b>-</b>

The amount shown in the “Level 2” column for item “1.2 Other debt instruments” relates to the securities subscribed by the bank and issued by public sector bodies.

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

	31/12/2014	31/12/2013
<b>A. ASSETS</b>		
<b>1. Debt instruments</b>	<b>296,550</b>	<b>247,959</b>
a) Government and central banks	295,936	247,375
b) Other government agencies	614	584
c) Banks	-	-
d) Other issuers	-	-
<b>2. Equity instruments</b>	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
<b>3. OEIC units</b>	-	-
<b>4. Financing</b>	-	-
a) Government and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>Total A</b>	<b>296,550</b>	<b>247,959</b>
<b>B. DERIVATIVES</b>		
a) Banks	435	527
b) Customers	47	204
<b>Total B</b>	<b>482</b>	<b>731</b>
<b>Total (A + B)</b>	<b>297,032</b>	<b>248,690</b>

The derivatives set out in item B were agreed given customers' requirements to reduce their exposure to financial risks assumed when they take out loans or agree leases. The bank agrees three types of derivative with its customers:

- *Interest rate swaps;*
- *Interest rate caps;*
- *Interest rate collars.*

The bank has agreed a specular derivative with leading national banks to hedge each derivative agreed with its customers.

This leads to the overlapping of the fair value of derivative assets and liabilities and the sterilisation of the related market risks.

## 2.3 Financial assets held for trading: changes

	Debt instruments	Equity instruments	OEIC units	Financing	Total
<b>A. Opening balance</b>	<b>247,960</b>	-	-	-	<b>247,960</b>
<b>B. Increases</b>	<b>565,753</b>	-	-	-	<b>565,753</b>
B1. Purchases	561,328	-	-	-	561,328
B2. Fair value gains	2,235	-	-	-	2,235
B3. Other increases	2,190	-	-	-	2,190
<b>C. Decreases</b>	<b>517,163</b>	-	-	-	<b>517,163</b>
C1. Sales	516,985	-	-	-	516,985
C2. Repayments	111	-	-	-	111
C3. Fair value losses	67	-	-	-	67
C4. Transfers to other portfolios	-	-	-	-	-
C5. Other decreases	-	-	-	-	-
<b>D. Closing balance</b>	<b>296,550</b>	-	-	-	<b>296,550</b>

The bank's trading portfolio mainly consists of Italian government bonds.

Item B3 includes the trading income of €2,953 thousand and the difference at the reporting date between the accrued interest and interest at the start of the year (-€763 thousand).

## Section 4 – Available-for-sale financial assets – Caption 40

### 4.1 Available-for-sale financial assets: breakdown by product

	31/12/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	343,150	-	-	267,403	10,282	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	343,150	-	-	267,403	10,282	-
2. Equity instruments	98	3,250	8,729	72	3,250	7,615
2.1 FVTPL	98	3,250	8,729	72	3,250	7,615
2.2 Cost	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
<b>Total</b>	<b>343,248</b>	<b>3,250</b>	<b>8,729</b>	<b>267,475</b>	<b>13,532</b>	<b>7,615</b>

AFS financial assets shown:

- in the Level 1 column refer to:
  - debt instruments traded on regulated active markets;
  - listed equity instruments.
- in the Level 2 column refer to debt instruments traded on inactive markets for which fair value was determined using the methods described in Part A, Section 2;
- in the Level 3 column refer to equity instruments measured based on recent transactions or at cost if recent transactions do not exist. The investment in Intesa Sanpaolo (listed) is shown in column Level 1. A list of the bank's equity investments is

given in the annexes, where the carrying amount of the investment in Banca d'Italia is based on its objective fair value.

#### **4.2 Available-for-sale financial assets: breakdown by debtor/issuer**

	31/12/2014	31/12/2013
<b>1. Debt instruments</b>	<b>343,150</b>	<b>277,685</b>
a) Government and central banks	306,151	215,527
b) Other government agencies	-	-
c) Banks	36,999	60,159
d) Other issuers	-	1,999
<b>2. Equity instruments</b>	<b>12,076</b>	<b>10,937</b>
a) Banks	3,348	3,322
b) Other issuers:	8,728	7,615
- insurance companies	-	-
- financial companies	366	366
- non-financial companies	8,362	7,249
- other	-	-
<b>3. OEIC units</b>	<b>-</b>	<b>-</b>
<b>4. Financing</b>	<b>-</b>	<b>-</b>
a) Government and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>Total</b>	<b>355,226</b>	<b>288,622</b>



#### 4.4 Available-for-sale financial assets: changes

	Debt instruments	Equity instruments	OEIC units	Financing	Total
<b>A. Opening balance</b>	<b>277,685</b>	<b>10,937</b>	-	-	<b>288,622</b>
<b>B. Increases</b>	<b>227,512</b>	<b>1,826</b>	-	-	<b>229,338</b>
B1. Purchases	211,663	1,800	-	-	213,463
B2. Fair value gains	9,778	26	-	-	9,804
B3. Reversals of impairment losses:	-	-	-	-	-
- recognised in profit or loss	-	-	-	-	-
- recognised in equity	-	-	-	-	-
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other increases	6,071	-	-	-	6,071
<b>C. Decreases</b>	<b>162,047</b>	<b>686</b>	-	-	<b>162,733</b>
C1. Sales	132,379	-	-	-	132,379
C2. Repayments	25,867	-	-	-	25,867
C3. Fair value losses	510	684	-	-	1,194
C4. Impairment losses:	-	-	-	-	-
- recognised in profit or loss	-	-	-	-	-
- recognised in equity	-	-	-	-	-
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other decreases	3,291	2	-	-	3,293
<b>D. Closing balance</b>	<b>343,150</b>	<b>12,077</b>	-	-	<b>355,227</b>

Senior bonds issued by Italian banks were redeemed at their natural maturity during the year for €25,867 thousand.

Sales of €132,379 thousand mainly relate to the sale of the Italian BTP bonds given the favourable market conditions in the year. The bank purchased BTP bonds for €211,663 thousand in 2014.

Item “B5. Other increases” includes interest accrued on bonds of €3,531 thousand and gains of €2,540 thousand, including €2,200 thousand reclassified to profit or loss.

Item “C6. Other decreases” includes opening accrued interest of €3,241 thousand and losses of €49 thousand, including €47 thousand reclassified to profit or loss.

Column 2 of item B1 includes the acquisition of a 48.31% investment in a joint venture with IDF S.r.l. to produce the film, Ma tu di che segno 6?.

## Section 5 - Held-to-maturity investments - Caption 50

### 5.1 Held-to-maturity investments: breakdown by product

	31/12/2014				31/12/2013			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt instruments	5,015	4,976	-	-	5,030	4,821	-	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	5,015	4,976	-	-	5,030	4,821	-	-
2. Financing	-	-	-	-	-	-	-	-
<b>Total</b>	<b>5,015</b>	<b>4,976</b>	<b>-</b>	<b>-</b>	<b>5,030</b>	<b>4,821</b>	<b>-</b>	<b>-</b>

This caption comprises floating rate Italian government bonds, maturing in 2019 indexed to the 10-year swap rate and acquired to be held until their maturity.

The difference between the carrying amount and fair value is €39 thousand, equal to the smaller value of the bonds compared to their market prices.

### 5.2 Held-to-maturity investments: breakdown by debtor/issuer

	31/12/2014	31/12/2013
<b>1. Debt instruments</b>	<b>5,015</b>	<b>5,030</b>
a) Government and central banks	5,015	5,030
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>2. Financing</b>	<b>-</b>	<b>-</b>
a) Government and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>Total</b>	<b>5,015</b>	<b>5,030</b>
<b>Total fair value</b>	<b>4,976</b>	<b>4,821</b>

#### **5.4 Held-to-maturity investments other than those transferred and not derecognised or impaired: changes**

	Debt instruments	Financing	Total
<b>A. Opening balance</b>	<b>5,030</b>	<b>-</b>	<b>5,030</b>
<b>B. Increases</b>	<b>15</b>	<b>-</b>	<b>15</b>
B1. Purchases	-	-	-
B2. Reversals of impairment losses	-	-	-
B3. Transfers from other portfolios	-	-	-
B4. Other increases	15	-	15
<b>C. Decreases</b>	<b>30</b>	<b>-</b>	<b>30</b>
C1. Sales	-	-	-
C2. Repayments	-	-	-
C3. Impairment losses	-	-	-
C4. Transfers to other portfolios	-	-	-
C5. Other decreases	30	-	30
<b>D. Closing balance</b>	<b>5,015</b>	<b>-</b>	<b>5,015</b>

The changes refer to interest accrued on the investments.

### **Section 6 - Loans and receivables with banks - Caption 60**

#### **6.1 Loans and receivables with banks: breakdown by product**

	31/12/2014				31/12/2013			
	CA	FV Level 1	FV Level 2	FV Level 3	CA	FV Level 1	FV Level 2	FV Level 3
<b>A. Loans and receivables with central banks</b>	<b>7,286</b>	<b>-</b>	<b>-</b>	<b>7,286</b>	<b>8,200</b>	<b>-</b>	<b>-</b>	<b>8,200</b>
1. Term deposits	-				-			
2. Minimum reserve	7,286				8,200			
3. Reverse repurchase agreements	-				-			
4. Other	-				-			
<b>B. Loans and receivables with banks</b>	<b>39,306</b>	<b>-</b>	<b>-</b>	<b>39,306</b>	<b>39,906</b>	<b>-</b>	<b>-</b>	<b>39,906</b>
<b>1. Financing</b>	<b>39,306</b>	<b>-</b>	<b>-</b>	<b>39,306</b>	<b>39,906</b>	<b>-</b>	<b>-</b>	<b>39,906</b>
1.1 Current accounts and demand deposits	37,230				35,963			
1.2 Term deposits	2,076				3,943			
1.3 Other financing:	-	-	-	-	-	-	-	-
- Reverse repurchase agreements	-				-			
- Finance leases	-				-			
- Other	-				-			
<b>2. Debt instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Structured instruments	-				-			
2.2 Other debt instruments	-				-			
<b>Total (carrying amount)</b>	<b>46,592</b>	<b>-</b>	<b>-</b>	<b>46,592</b>	<b>48,106</b>	<b>-</b>	<b>-</b>	<b>48,106</b>

## Section 7 - Loans and receivables with customers - Caption 70

### 7.1 Loans and receivables with customers: breakdown by product

	31/12/2014						31/12/2013					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
<b>Financing</b>												
1. Current accounts	226,040	-	24,187				251,464	-	19,327			
2. Reverse repurchase agreements	-	-	-				-	-	-			
3. Loans	512,500	-	54,395				533,975	-	51,327			
4. Credit cards, personal loans and salary-backed loans	18,218	-	2,918				21,401	-	3,266			
5. Finance leases	-	-	-				-	-	-			
6. Factoring	-	-	-				-	-	-			
7. Other	115,653	-	12,508				124,771	-	13,050			
<b>Debt instruments</b>												
8. Structured instruments	-	-	-				-	-	-			
9. Other debt instruments	-	-	-				-	-	-			
<b>Total</b>	<b>872,411</b>	<b>-</b>	<b>94,008</b>	<b>-</b>	<b>-</b>	<b>1,078,542</b>	<b>931,611</b>	<b>-</b>	<b>86,970</b>	<b>-</b>	<b>-</b>	<b>1,050,017</b>

The fair value of loans and receivables with customers was calculated considering the risk-free interest rate curve, increased by a spread calculated on the basis of expected losses based on historical data.

The risk-free interest rate curve, fed daily by the Reuters provider, is the short-term interbank rate + medium to long-term swap rate. At the reporting date, the curve was as follows:

Currency	Date	Months	Years	ZC interest rate	Currency	Date	Months	Years	ZC interest rate
Euro	31/12/2014	1	0.083	0.0180	Euro	31/12/2014	63	5.250	0.3802
Euro	31/12/2014	2	0.167	0.0440	Euro	31/12/2014	66	5.500	0.4014
Euro	31/12/2014	3	0.250	0.0780	Euro	31/12/2014	69	5.750	0.4226
Euro	31/12/2014	6	0.500	0.1710	Euro	31/12/2014	72	6.000	0.4438
Euro	31/12/2014	9	0.750	0.1682	Euro	31/12/2014	75	6.250	0.4667
Euro	31/12/2014	12	1.000	0.1638	Euro	31/12/2014	78	6.500	0.4896
Euro	31/12/2014	15	1.250	0.1623	Euro	31/12/2014	81	6.750	0.5126
Euro	31/12/2014	18	1.500	0.1642	Euro	31/12/2014	84	7.000	0.5355
Euro	31/12/2014	21	1.750	0.1731	Euro	31/12/2014	87	7.250	0.5599
Euro	31/12/2014	24	2.000	0.1820	Euro	31/12/2014	90	7.500	0.5843
Euro	31/12/2014	27	2.250	0.1912	Euro	31/12/2014	93	7.750	0.6088
Euro	31/12/2014	30	2.500	0.2008	Euro	31/12/2014	96	8.000	0.6332
Euro	31/12/2014	33	2.750	0.2107	Euro	31/12/2014	102	8.500	0.6826
Euro	31/12/2014	36	3.000	0.2205	Euro	31/12/2014	108	9.000	0.7321
Euro	31/12/2014	39	3.250	0.2358	Euro	31/12/2014	114	9.500	0.7818
Euro	31/12/2014	42	3.500	0.2515	Euro	31/12/2014	120	10.000	0.8316
Euro	31/12/2014	45	3.750	0.2675	Euro	31/12/2014	144	12.000	0.9964
Euro	31/12/2014	48	4.000	0.2839	Euro	31/12/2014	180	15.000	1.1859
Euro	31/12/2014	51	4.250	0.3027	Euro	31/12/2014	240	20.000	1.3736
Euro	31/12/2014	54	4.500	0.3214	Euro	31/12/2014	300	25.000	1.4682
Euro	31/12/2014	57	4.750	0.3402	Euro	31/12/2014	360	30.000	1.5282
Euro	31/12/2014	60	5.000	0.3590					

A spread is applied to each transaction, depending on their riskiness.

The discount factor is calculated to determine fair value using the above rates and the transaction period.

Item “7. Other” of table 7.1 includes the following (€'000):

- import/export advances of €23,140 thousand;
- advances on bills under reserve and invoices of €64,208 thousand;
- portfolio risks of €212 thousand;
- financing with or without repayment plans of €29,006 thousand.

**7.2 Loans and receivables with customers: breakdown by debtor/issuer**

	31/12/2014			31/12/2013		
	Performing	Impaired		Performing	Impaired	
		Purchased	Other		Purchased	Other
<b>1. Debt instruments:</b>	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
<b>2. Financing to:</b>	<b>872,411</b>	-	<b>94,008</b>	<b>931,612</b>	-	<b>86,970</b>
a) Governments	-	-	-	77	-	-
b) Other government agencies	2,358	-	-	2,810	-	-
c) Other:	870,053	-	94,008	928,725	-	86,970
- non-financial companies	587,285	-	68,283	644,413	-	60,860
- financial companies	10,149	-	94	11,352	-	52
- insurance companies	-	-	-	-	-	-
- other	272,619	-	25,631	272,960	-	26,058
<b>Total</b>	<b>872,411</b>	-	<b>94,008</b>	<b>931,612</b>	-	<b>86,970</b>

Item "2. Financing to: b) Other government agencies" shows the loans granted by the bank to bodies to which it provides treasury services.

**Section 11 - Property, equipment and investment property - Caption 110**
**11.1 Property, equipment and investment property: assets measured at cost**

	31/12/2014	31/12/2013
<b>1 Owned</b>	<b>18,950</b>	<b>19,726</b>
a) land	4,223	4,350
b) buildings	12,420	13,180
c) furniture	759	682
d) electronic systems	542	394
e) other	1,006	1,120
<b>2 Under finance lease</b>	<b>-</b>	<b>-</b>
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
<b>Total</b>	<b>18,950</b>	<b>19,726</b>

### 11.5 Operating assets: changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
<b>A. Gross opening balance</b>	<b>4,350</b>	<b>34,588</b>	<b>5,482</b>	<b>5,744</b>	<b>6,222</b>	<b>56,386</b>
A.1 Total net impairment losses	-	21,408	4,800	5,350	5,102	36,660
A.2 Net opening balance	4,350	13,180	682	394	1,120	19,726
<b>B. Increases:</b>	<b>-</b>	<b>306</b>	<b>157</b>	<b>340</b>	<b>135</b>	<b>938</b>
B.1 Purchases	-	306	157	340	135	938
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	-	-	-	-	-
<b>C. Decreases:</b>	<b>127</b>	<b>1,066</b>	<b>80</b>	<b>192</b>	<b>249</b>	<b>1,714</b>
C.1 Sales	127	75	-	-	2	204
C.2 Depreciation	-	991	80	192	247	1,510
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	-	-
<b>D. Net closing balance</b>	<b>4,223</b>	<b>12,420</b>	<b>759</b>	<b>542</b>	<b>1,006</b>	<b>18,950</b>
D.1 Total net impairment losses	-	22,399	4,880	5,542	5,349	38,170
<b>D.2 Gross closing balance</b>	<b>4,223</b>	<b>34,819</b>	<b>5,639</b>	<b>6,084</b>	<b>6,355</b>	<b>57,120</b>
<b>E. Measurement at cost</b>	<b>4,223</b>	<b>12,420</b>	<b>759</b>	<b>542</b>	<b>1,006</b>	<b>18,950</b>

The decreases in item “C2 Depreciation” of table 11.3 reflect the assets’ real wear and tear, in line with the tax rates established by the Ministry for the Economy and Finance decree as no material wear and tear was identified during the year.

During the year, the bank purchased a new building to house a branch in Recanati and sold another used as an archive in Contrada San Martino, Fermo. The sale generated a gain of €98 thousand, recognised in caption 240 of the income statement.

Property and equipment are held for operating purposes.

A list of the property owned by the bank is attached to these notes.



## Section 12 - Intangible assets - Caption 120

### 12.1 Intangible assets: breakdown by asset

	31/12/2014		31/12/2013	
	Finite life	Indefinite life	Finite life	Indefinite life
<b>A.1 Goodwill</b>		-		-
<b>A.2 Other intangible assets</b>	<b>144</b>	-	<b>87</b>	-
A.2.1 Assets measured at cost:	144	-	87	-
a) Internally developed assets	-	-	-	-
b) Other	144	-	87	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally developed assets	-	-	-	-
b) Other	-	-	-	-
<b>Total</b>	<b>144</b>	-	<b>87</b>	-

## 12.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: Other		Total
		finite life	indefinite life	finite life	indefinite life	
<b>A. Gross opening balance</b>	-	-	-	234	-	<b>234</b>
A.1 Total net impairment losses	-	-	-	147	-	147
A.2 Net opening balance	-	-	-	87	-	87
<b>B. Increases</b>	-	-	-	<b>136</b>	-	<b>136</b>
B.1 Purchases	-	-	-	136	-	136
B.2 Increase in internally generated assets	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	-	<b>79</b>	-	<b>79</b>
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	79	-	79
- Amortisation	-	-	-	79	-	79
- Impairment losses	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
<b>D. Net closing balance</b>	-	-	-	<b>144</b>	-	<b>144</b>
D.1 Total net impairment losses	-	-	-	226	-	226
<b>E. Gross closing balance</b>	-	-	-	<b>370</b>	-	<b>370</b>
<b>F. Measurement at cost</b>	-	-	-	<b>144</b>	-	<b>144</b>

Intangible assets include program packages amortised over five years unless their user licence provides otherwise.

## Section 13 - Tax assets and liabilities - Caption 130 of assets and Caption 80 of liabilities

### 13.1 Deferred tax assets: breakdown

	31/12/2014
Personnel expense	1,134
Administrative expenses	790
Fair value gains on AFS financial assets	229
Impairment losses on loans	10,895
Actuarial losses on agents' termination benefits/post-employment benefits	1,502
<b>Total</b>	<b>14,550</b>

### 13.2 Deferred tax liabilities: breakdown

	31/12/2014
Fair value gains on bonds	-
Fair value gains on AFS financial assets	4,375
Deferred gains	-
FTA depreciation of land	671
Post-employment benefits	225
Actuarial gains on post-employment benefits	-
<b>Total</b>	<b>5,271</b>

Deferred tax assets and liabilities were affected by changes in the fair value reserve. Moreover, the tax legislative changes applicable to entities that apply the IFRS imposed use of the “derivazione rafforzata” criterion rather than the “neutrality” criterion.

This substantially decreased the differences between the carrying amounts and tax bases of assets and liabilities with the resulting decrease in the related deferred tax assets and liabilities. Law no. 214/2011 introduced the provision for the conversion of deferred tax assets recognised on loans and receivables and goodwill when they satisfy the probability test.

Table 13.3.1 shows the deferred tax assets covered by the law if the bank has an accounting or tax loss.

Based on its business plan forecasts, the bank expects to earn profits sufficient to realise the recognised the deferred tax assets in future years.

**13.3 Changes in deferred tax assets (recognised in profit or loss)**

	31/12/2014	31/12/2013
<b>1. Opening balance</b>	<b>10,056</b>	<b>7,128</b>
<b>2. Increases</b>	<b>4,698</b>	<b>3,808</b>
2.1 Deferred tax assets recognised in the year	4,698	3,808
<i>a) related to previous years</i>	-	-
<i>b) due to changes in accounting policies</i>	-	-
<i>c) reversals of impairment losses</i>	-	-
<i>d) other</i>	4,698	3,808
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>1,934</b>	<b>880</b>
3.1 Deferred tax assets derecognised in the year	1,934	880
<i>a) reversals</i>	1,934	880
<i>b) impairment due to non-recoverability</i>	-	-
<i>c) change in accounting policies</i>	-	-
<i>d) other</i>	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
<i>a) conversion into tax assets, including as per Law no. 214/2011</i>	-	-
<i>b) other</i>	-	-
<b>4. Closing balance</b>	<b>12,820</b>	<b>10,056</b>

**13.3.1 Change in deferred tax assets as per Law no. 214/2011 (recognised in profit or loss)**

	31/12/2014	31/12/2013
<b>1. Opening balance</b>	<b>8,167</b>	<b>5,105</b>
<b>2. Increases</b>	<b>4,255</b>	<b>3,389</b>
<b>3. Decreases</b>	<b>1,527</b>	<b>327</b>
3.1 Reversals	1,527	327
3.2 Conversions into tax assets	-	-
<i>a) arising on the loss for the year</i>	-	-
<i>b) arising on tax losses</i>	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>10,895</b>	<b>8,167</b>

The above table shows the deferred tax assets related to impairment losses on loans convertible into tax assets should the bank record a loss for accounting or tax purposes as per Law no. 214/2011. These conditions did not materialise in 2014.

### **13.4 Changes in deferred tax liabilities (recognised in profit or loss)**

	31/12/2014	31/12/2013
<b>1. Opening balance</b>	<b>882</b>	<b>882</b>
<b>2. Increases</b>	-	-
2.1 Deferred tax liabilities recognised in the year	-	-
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	-	-
3.1 Deferred tax liabilities derecognised in the year	-	-
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>882</b>	<b>882</b>

### **13.5 Changes in deferred tax assets (recognised in equity)**

	31/12/2014	31/12/2013
<b>1. Opening balance</b>	<b>1,492</b>	<b>3,147</b>
<b>2. Increases</b>	<b>595</b>	<b>40</b>
2.1 Deferred tax assets recognised in the year	595	40
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	595	40
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>357</b>	<b>1,695</b>
3.1 Deferred tax assets derecognised in the year	357	1,695
a) reversals	357	1,695
b) impairment due to non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>1,730</b>	<b>1,492</b>

**13.6 Changes in deferred tax liabilities (recognised in equity)**

	31/12/2014	31/12/2013
<b>1. Opening balance</b>	<b>2,579</b>	<b>2,434</b>
<b>2. Increases</b>	<b>2,892</b>	<b>860</b>
2.1 Deferred tax liabilities recognised in the year	2,892	860
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	2,892	860
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>1,083</b>	<b>715</b>
3.1 Deferred tax liabilities derecognised in the year	1,083	715
a) reversals	1,083	715
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>4,388</b>	<b>2,579</b>

**13.7 - Other information**

Caption 130 "Tax assets: a) current" of €10,832 thousand comprises:

- IRES payments on account of €4,936 thousand;
- IRAP advances of €2,376 thousand;
- substitute tax on account of €808 thousand on the capital gain;
- IRES claimed for reimbursement of €1,532 thousand as follows: €234 thousand for the claim presented on 20 November 2009 as per Law decree no. 185/2008 and €1,298 thousand for the IRES tax asset arising on the deductibility of IRAP from personnel expense as per Law decree no. 201/2011; the related claim was presented on 18 January 2013 - the click day for the Marche region;
- IRES tax asset of €1,180 thousand for offsetting.

## Section 15 - Other assets - Caption 150

### 15.1 Other assets: breakdown

	31/12/2014
a) receivables from tax authorities and other tax bodies	5,418
b) cheques drawn on other banks	319
c) cheques to be received from clearing house and drawn on customer accounts	-
d) suspense items	-
e) revenue stamps and other stamps	3
f) gold, silver and other precious metals	-
g) shortfalls, embezzlement, theft and other prior year items	-
h) items in transit	11,023
i) leasehold improvements	665
l) accrued income	58
m) prepayments	780
n) other	4,217
<b>Total</b>	<b>22,483</b>

Specifically, in the above table:

- item h) includes transactions under settlement by the Istituto Centrale delle Banche Popolari Italiane and Banca d'Italia (€8,958 thousand) and items in transit to be debited to the end accounts (€2,065 thousand);
- point m) mostly consists of prepaid insurance premiums;
- point n) includes sundry amounts of €1,395 thousand and accrued commissions of €2,822 thousand.

## LIABILITIES

### Section 1 - Due to banks - Caption 10

#### 1.1 Due to banks: breakdown by product

	31/12/2014	31/12/2013
<b>1. Due to central banks</b>	<b>210,000</b>	<b>150,000</b>
<b>2. Due to banks</b>	<b>197</b>	<b>7</b>
2.1. Current accounts and demand deposits	-	7
2.2. Term deposits	197	-
2.3 Financing	-	-
2.3.1 Repurchase agreements	-	-
2.3.2 Other	-	-
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other payables	-	-
<b>Total</b>	<b>210,197</b>	<b>150,007</b>
<b>Fair value - level 1</b>	<b>-</b>	<b>-</b>
<b>Fair value - level 2</b>	<b>-</b>	<b>-</b>
<b>Fair value - level 3</b>	<b>210,197</b>	<b>150,007</b>
<b>Total fair value</b>	<b>210,197</b>	<b>150,007</b>

The €210,000 thousand balance in item 1 of the above table represents the ECB financing pursuant to the rules about Eurosystem refinancing operations guaranteed by financial assets. It includes the financing set out in the following table

Drawdown date	Expiry date	Amount
01/03/2012	26/02/2015	€120,000 thousand
22/12/2011	29/01/2015	€30,000 thousand
24/09/2014	26/09/2018	€60,000 thousand
<b>Total</b>		<b>€210,000 thousand</b>

These pledged securities are shown in Part B “Notes to the statement of financial position”, “Other information” in table 2 “Assets pledged as guarantee for liabilities and commitments”.

The €60,000 thousand increase relates to the TLTRO with an interest rate of 0.15% offered by the ECB with a four-year maturity. The European Central Bank’s intention is to tie this financing to banks to lending to households and businesses.



## Section 2 - Due to customers - Caption 20

### 2.1 Due to customers: breakdown by product

	31/12/2014	31/12/2013
1. Current accounts and demand deposits	951,650	910,819
2. Term deposits	15,240	16,867
3. Financing	1,375	8,608
3.1 Repurchase agreements	1,375	8,608
3.2 Other	-	-
4. Commitments to repurchase own equity instruments	-	-
5. Other payables	1,608	2,698
<b>Total</b>	<b>969,873</b>	<b>938,992</b>
<b>Fair value - level 1</b>	<b>-</b>	<b>-</b>
<b>Fair value - level 2</b>	<b>-</b>	<b>-</b>
<b>Fair value - level 3</b>	<b>969,873</b>	<b>938,993</b>
<b>Total fair value</b>	<b>969,873</b>	<b>938,993</b>

## Section 3 - Securities issued - Caption 30

### 3.1 Securities issued: breakdown by product

	31/12/14				31/12/13			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Securities</b>								
1. bonds	233,248	-	-	236,059	248,460	-	-	250,361
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	233,248	-	-	236,059	248,460	-	-	250,361
2. other securities	89,691	-	-	90,583	108,447	-	-	109,821
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	89,691	-	-	90,583	108,447	-	-	109,821
<b>Total</b>	<b>322,939</b>	<b>-</b>	<b>-</b>	<b>326,642</b>	<b>356,907</b>	<b>-</b>	<b>-</b>	<b>360,182</b>

The debt instruments in the “Level 3-fair value” column are bonds and certificates of deposit issued by the bank measured at amortised cost.

## Section 4 - Financial liabilities held for trading - Caption 40

### 4.1 Financial liabilities held for trading: breakdown by product

	Totale al 12/2014					Totale al 12/2013				
	NA	FV			FV*	NA	FV			FV*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
<b>A. Financial liabilities</b>										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt instruments	-	-	-	-	-	-	-	-	-	-
3.1 bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
<b>Total A</b>	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>										
1. Financial derivatives	25,158	-	481	-	-	30,657	-	727	-	-
1.1 Trading	-	-	481	-	-	-	727	-	-	-
1.2 Associated with fair value option	-	-	-	-	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-	-	-	-	-
2.2 Associated with fair value option	-	-	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-	-	-
<b>Total B</b>	-	-	481	-	-	-	727	-	-	-
<b>Total (A + B)</b>	-	-	481	-	-	-	727	-	-	-

#### Key:

FV = Fair value

FV\* = Fair value calculated by excluding gains and losses due to changes in the issuer's credit standing compared to the issue date.

NA = Nominal (liabilities) or notional (derivatives) amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

## Section 8 - Tax liabilities - Caption 80

### 8.1 Current tax liabilities

	31/12/2014
<b>Current tax liabilities</b>	<b>8,341</b>
IRES	4,588
IRAP	2,140
Stamp duty	316
Substitute tax @ 12.00%	-
Prior year tax receivables	1,297

## Section 10 - Other liabilities - Caption 100

### 10.1 Other liabilities: breakdown

	31/12/2014
a) Tax liabilities	4,160
b) Social security liabilities	973
c) Amounts available to customers	1,459
d) Third party guarantee deposits	660
d) Suspense items	-
f) Other amounts due to employees	3,294
h) Items in transit	8,264
h) Accrued expenses	2,273
i) Deferred income	255
j) Portfolio adjustment differences	21,248
k) Other	2,684
<b>Total</b>	<b>45,270</b>

Item "a) Tax liabilities" includes tax withholdings to be paid, usually within 20 days of the interim reporting date of 30 June.

Item "k) Other" includes amounts due to suppliers (€998 thousand); sundry items (€1,184 thousand); and subsidies for loans to customers provided by public sector bodies (€502 thousand).

## Section 11 – Post-employment benefits – Caption 110

### 11.1 Post-employment benefits: changes

	31/12/2014	31/12/2013
<b>A. Opening balance</b>	<b>10,556</b>	<b>11,039</b>
<b>B. Increases</b>	<b>1,093</b>	<b>241</b>
B.1 Accruals	253	241
B.2 Other increases	840	-
<b>C. Decreases</b>	<b>1,264</b>	<b>724</b>
C.1 Payments	1,248	451
C.2 Other decreases	16	273
<b>D. Closing balance</b>	<b>10,385</b>	<b>10,556</b>
<b>Total</b>	<b>10,385</b>	<b>10,556</b>

Item “B.2 Other increases” comprises the actuarial loss of €840 thousand while item B.1 shows the interest cost for the year calculated by the actuary.

## 11.2 - Other information:

### ***Breakdown of caption "B. Increases"***

Interest cost	253
<i>including: revaluations</i>	146
Actuarial loss	840
<b>Total</b>	<b>1,093</b>

### ***Breakdown of caption "C. Decreases"***

Decrease due to post-employment benefits reform as per Legislative decree no. 252/2005/actuarial gain	-
Advances and payments for employee departures	1,248
Substitute tax on revaluation	16
<b>Total</b>	<b>1,264</b>

### ***Actuarial valuation of post-employment benefits***

Present value of benefits at 31 December 2013	10,556
Interest cost	253
Substitute tax	- 16
Service cost	-
Payments	- 1,248
<b>Total</b>	<b>9,545</b>
Present value of benefits at 31 December 2014	10,385
<b>Cumulated actuarial loss</b>	<b>- 840</b>

Since 1 January 2007, post-employment benefits are transferred to either the INPS treasury fund or a supplementary pension fund. Therefore, the actuarial calculation considers the accrued benefits, i.e., the total liability for each employee. The calculation is based on demographic and economic assumptions already used in 2012. The bank eliminated the corridor approach in 2012 and recognised the actuarial loss immediately in equity, thus adopting one of the effects of the revised IAS 19 (2011) early.

Measurement was based on an actuarial simulation developing the obligations vested at the measurement date and the additional obligations for continuation of the employment relationship in the form of future accruals.

Adoption of a criterion that allows a prudent valuation of the obligations consistently with the legislative measures that govern Italian post-employment benefits and, more generally, developments in the employment relationships is essential, considering:

- the legal criteria for calculation and revaluation of the accrual for post-employment benefits;
- the remaining service of each employee;
- utilisation of post-employment benefits, other than for “institutional” purposes, especially as regards advances and transfers to pension funds as per Legislative decree no. 252/2005 and subsequent amendments and integrations.

With respect to the second point, there is a difference between termination of the employment relationship due to the employee’s retirement and termination for other reasons (resignations, death and full disability).

Following enactment of Law no. 214/2011, regulations governing pensionability provide for the steady replacement of pensions paid for years of service (occupational pension) to old-age pensions. In 2012, the regulation about pensionability due to the employee having reached the contributions limit (tied to a quota system up until 31 December 2011) became obsolete. It was replaced by another regime for “early” pensions that can be obtained after 41 years and one month service for women and 42 years and 1 month for men. This regime includes a penalisation factor as the amount of the pension is decreased by 1% for each year of early retirement compared to the old-age pension requirements.

The following table shows the eligibility requirements for old-age pensions from 1 January 2015:

YEAR	Years of service WOMEN	Years of service MEN
2015	63 years and 9 months	66 years and 3 months
2016	65 years and 3 months	66 years and 3 months
2017	65 years and 3 months	66 years and 3 months
2018	66 years and 3 months	66 years and 3 months
2019	66 years and 3 months	66 years and 3 months
2020	66 years and 3 months	66 years and 3 months
2021	67 years	67 years

With respect to calculation of the years of service rendered at the measurement date, given the lack of accurate information about the date of first inclusion in the compulsory general insurance, the bank has assumed that its employees have prior years of service based on when they entered the labour market as follows:

***Qualification Age of first job***

Managers 25

Junior managers  $\frac{3}{4}$  25

Junior managers  $\frac{1}{2}$  23

White collars 21

Subaltern employees 20

In addition to the assumed termination of employment relationships due to employees’ retirement, the bank also assumed that payments may be necessary for advances requested by employees or for their resignation or dismissal, therefore, when the requirements for retirement are not met. As significant historical data about this trend do not exist, the bank referred to special departure rates adopted for actuarial valuations adapted for its employees.

At the reporting date, the bank had 379 employees, a decrease of 22 people on the previous year end.

Another element to be considered is the bank's post-employment benefit obligation which amounted to €9,017 thousand at the measurement date net of advances paid from time to time.

The following information is useful for a complete view of the qualitative and quantitative data representing the bank's obligation. They were calculated based on the individual positions and changes over time.

The actuarial valuations were based on a projection of the individual beneficiaries' positions at the reporting date. This projection was extended until the complete extinguishment of the population based on likely assumptions considering:

- a) demographic parameters;
- b) economic parameters;
- c) financial parameters.

The *demographic parameters* are fundamental for actuarial valuations. They are normally grouped in tables based on general samples from the various institutions (e.g., Istat, Inail, etc.).

The bank considered different assumptions of reducing the workforce:

- *probability of death*. The RG 48 chart prepared by the State General Accounting Office was used;
- *probability of disability*. The chart prepared by INPS for commercial sector employees was used (INPS - projections up to 2010);

The *economic parameters* include assumptions about the amounts involved.

The bank assumed a long-term annual price/inflation growth rate of 2.00%. This is relevant because it provides a reference figure for the financial rate of return and can be used to calculate the revaluation of accruals for post-employment benefits.

The legal revaluation of post-employment benefits is based on a mechanism whereby the annual revaluation rate is equal to 75% of the prices growth rate increased by 1.5%.

Given the assumed inflation rate, this revaluation system gives an annual revaluation rate of 3.00% ( $75\% \times 2.00\% + 1.50\%$ ).

With respect to the salary factor, given the characteristics of the workforce which, as mentioned, is covered by the system whereby new post-employment benefits are not retained by the bank, the assumption of average salary increases is not important.

The *financial parameter*, which is more significant, is the rate used to discount cash outflows and, hence, the average present value of the bank's obligations. Use of this rate is essential as the model estimates cash flows over several years after that in which the valuation is made.

Discounting is used to determine the present value of the future obligations at the valuation date.

With respect to the rate identified, the standard (see IAS 19.78) provides a general indication that it "*shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations*".

Therefore, reference was made to the yield curve for AA corporate bonds at the reporting date instead of the yield curve for government bonds used in previous years for the financial assumptions. The bank recognised the actuarial loss of €840 thousand in other comprehensive income.

The following table shows the yield curve for AA Corporate Euro securities recognised at 31 December 2014 (source: Bloomberg):

YEAR	AA CORPORATE YIELD 30/06/2013	YEAR	AA CORPORATE YIELD 30/06/2013
1	0.1360%	16	1.3572%
2	0.1630%	17	1.3714%
3	0.2250%	18	1.3856%
4	0.3170%	19	1.3998%
5	0.4250%	20	1.4140%
6	0.5470%	21	1.4434%
7	0.6690%	22	1.4728%
8	0.8000%	23	1.5022%
9	0.9320%	24	1.5316%
10	1.0560%	25	1.5610%
11	1.1134%	26	1.5904%
12	1.1708%	27	1.6198%
13	1.2282%	28	1.6492%
14	1.2856%	29	1.6786%
15	1.3430%	30	1.7080%

Adoption of these yields allows the bank to use discounting by matching the dates of when the cash outflows will take place to the discount factors to be applied thereto.



## Section 12 - Provisions for risks and charges - Caption 120

### 12.1 Provisions for risks and charges: breakdown

	31/12/2014	31/12/2013
1. Internal pension funds	11,975	11,167
2. Other provisions for risks and charges	2,873	2,815
2.1 legal disputes	2,386	1,889
2.2 personnel expense	-	-
2.3 other	487	926
<b>Total</b>	<b>14,848</b>	<b>13,982</b>

### 12.2 Provisions for risks and charges: changes

	Pension funds	Other provisions	Total
<b>A. Opening balance</b>	<b>11,167</b>	<b>2,815</b>	<b>13,982</b>
<b>B. Increases</b>	<b>1,638</b>	<b>1,189</b>	<b>2,827</b>
B.1 Accruals	313	1,189	1,502
B.2 Discounting	-	-	-
B.3 Changes due to variations in discount rate	-	-	-
B.4 Other increases	1,325	-	1,325
<b>C. Decreases</b>	<b>830</b>	<b>1,131</b>	<b>1,961</b>
C.1 Utilisations	830	1,131	1,961
C.2 Changes due to variations in discount rate	-	-	-
C.3 Other decreases	-	-	-
<b>D. Closing balance</b>	<b>11,975</b>	<b>2,873</b>	<b>14,848</b>

Utilisation of these provisions is recognised in caption 160 of the income statement and includes €194 thousand referred to the settlement of legal disputes, €398 thousand for claw-back claims, €416 thousand for actions requested by the Interbank Deposit Protection Fund, €119 thousand for the completion of public works and €4 thousand due to obligations “to give”.

Other provisions for risks and charges of €2,873 thousand, shown in table 12.1, may be analysed as follows by type of litigation:

- Civil litigation	2,027,146
- Claw-back claims	99,820
- Sureties	64,509
- Lump-sum endorsement credits	222,146
- Labour disputes	358,707
- Other charges	100,818
<b>-Total</b>	<b>2.873.146</b>

As can be seen, the larger accruals are made for civil litigation, mostly related to third party claims about the charging of compound interest or interest exceeding the legal rate.

Risks for ongoing proceedings about securities trading are modest, also given the:

1) limited number of legal actions: eight at the reporting date for which the bank has accrued €139 thousand;

- 2) generally modest amounts involved;
- 3) rulings at all levels in the bank's favour.

The accrual for claw-back claims refers to one customer under bankruptcy proceedings for which the court ruling had not been handed down at the reporting date.

The bank is unaware of other liabilities at the reporting date that could give rise to costs other than those provided for above.

The bank has considered the typical risks of the banking sector and a prudent interpretation of the reference regulations when measuring and determining the various provisions.

It regularly reviews contingent liabilities for which specific provisions have not been made and which are treated like the recognised liabilities. These relate to obligations that are possible only or present obligations for which:

- a. it is not certain whether an outflow of resources will be necessary;
- b. the amount cannot be determined.

Conversely, the case in point a. is more frequent and the probability that an outflow of resources will be necessary depends on events that suggest that the probability of a negative outcome is very unlikely or impossible.

Specifically, it includes legal disputes existing at the reporting date, for which a negative outcome is improbable based on:

- (i) the legal advisors' opinion;
- (ii) rulings in the bank's favour by earlier court hearings.

Based on the probability of contingent or actual liabilities presented in the 2014 financial statements and in table 12.2, the situation is as follows (in Euros):

Type of risk	Contingent liability		Obligation	
	<i>Petitem</i>	<i>Accrual</i>	<i>Petitem</i>	<i>Accrual</i>
Legal disputes	15,272,091	0	5,816,998	2,027,146
Claw-back claims	0	0	143,546	99,820
Labour disputes	2,600,000	0	720,000	358,707
Other charges	0	0	101,000	100,818
<b>Total</b>	<b>17.872.091</b>	<b>0</b>	<b>6.781.544</b>	<b>2.586.491</b>

Contingent liabilities for legal disputes refer to the following categories:

- a) Repudiation of false drawers' signatures on credit instruments;
- b) Trading of bonds;
- c) Compound interest;
- d) Other requests for damage compensation.

Contingent liabilities for labour disputes refer to the following categories:

- a) Claims by individual employees previously rejected by the first level court;
- b) Legal action for mobbing following a disciplinary measure.

### 12.3 Defined benefit internal pension plans

The bank's pension fund (*"Fondo d'integrazione delle pensioni dell'assicurazione obbligatorio per l'invalidità, la vecchiaia ed i superstiti gestita dall'INPS per il Personale - ruolo credito - della Cassa di Risparmio di Fermo"*), included in the special section III as number 9107 of the Pension funds register held by COVIP (the Italian pension regulator) and recognised in caption 120-a on the liabilities side of the statement of financial position, is regulated by the Agreement of 4 December 1990, Legislative decree no. 124/93, the new legislative framework as defined by Law no. 335 of 8 August 1995 and the measure attached to the 1998 Finance Act (Law no. 449/12) as well as the agreement of 18 October 2000 for the fund's transformation by setting up a defined contribution part from 1 January 2001.

The fund's object is to provide its beneficiaries and their surviving family members with a supplementary pension in addition to that provided by INPS.

Following the aforesaid transformation agreement, the fund covers the bank's employees that had retired at 31 December 2000 or their surviving family members. The bank pays in a contribution in order to ensure its actuarial balance.

At the reporting date, the fund had 130 beneficiaries, including those with zero annuities as shown in the following table:

<b>Gender</b>	<b>Direct</b>	<b>Indirect or reversible</b>	<b>Total</b>
Women	7	45	<b>52</b>
Men	77	1	<b>78</b>
<b>Total</b>	<b>84</b>	<b>46</b>	<b>130</b>

The actuarial calculations were based on a projection of the individual beneficiaries' positions at the reporting date. This projection was extended until the complete extinguishment of the obligations based on a hypothetical system based on:

1. legislative parameters;
2. demographic parameters;
3. economic parameters;
4. financial parameters.

The generation RG 48 chart prepared by the State General Accounting Office was used for the demographic parameters while the estimates usually used for INPS simulates was used for the family beneficiaries.

An annual increase in prices of 2.00% over the long term was assumed for the economic parameters. The valuation also considered the effects of article 1.483 of Law no. 147 of 27 December 2013 which established the reduced use of the general rules about pension equalisation which differs by amount bracket in the three-year period 2014-2016.

Under the new law, the average equalisation rate calculated in line with the general rule is recognised using the following percentages:

<b>BRACKET</b>	<b>2014</b>	<b>2015-2016</b>
Up to 3 times the minimum treatment	100%	100%
From 3 to 4 times the minimum treatment	95%	95%
From 4 to 5 times the minimum treatment	75%	75%
From 5 to 6 times the minimum treatment	50%	50%
More than 6 times the minimum treatment	40%	45%

With respect to the financial parameters, the current situation was assessed, characterised by the illiquid corporate bond markets, as confirmed by the recent amendment to IAS 39.

Therefore, reference was made to the yield curve for AA corporate bonds at the reporting date instead of the yield curve for government bonds, without prejudice to the other technical assumptions.

The table on AA corporate bonds yield curves is included in the note to post-employment benefits.

Adoption of these yields allows the bank to use discounting by matching the dates of when the cash outflows will take place to the discount factors to be applied thereto pursuant to the IFRS.

The average current value appraised by the relevant expert of the cost of integrating and substituting the pension plan for the 130 beneficiaries is in line with the amount recognised in the financial statements.

<b>Technical accounts at 31/12/2014</b>	
Modified present value - immediate charges	11,975
Modified present value - total charges	11,975
Mathematical provision at 31/12/2013	11,167
Equity at 31/12/2014	11,975
Mathematical provision	11,975
<b>TECHNICAL SURPLUS</b>	-
<b>Calculation of actuarial gains/losses for IFRS purposes</b>	
Mathematical provision at 31 December 2013	11,167
Interest cost	313
Service cost	0
Payments	-830
<b>Actuarial gain (-) / loss (+) at 31/12/2014</b>	<b>1.325</b>

The bank has replaced the corridor approach with the immediate recognition of actuarial losses in equity (other comprehensive income). The interest cost recognised in profit or loss amounted to €313 thousand and the actuarial loss to €1,325 thousand, recognised in other comprehensive income.

## **Section 14 – Equity – Captions 130, 150, 160, 170, 180, 190 and 200**

### **14.1 “Share capital” and “Treasury shares”: breakdown**

Share capital	39,241
<b>Total</b>	<b>39,241</b>

The fully subscribed and paid-in share capital consists of 759,750 shares with a nominal amount of €51.65 for a total €39,241,087.50.

The bank's shareholders are:

- Fondazione Cassa di Risparmio di Fermo, with 506,500 ordinary shares equal to an investment of 66.67%;
- Intesa Sanpaolo S.p.A., with 253,250 ordinary shares equal to an investment of 33.33%.

The caption did not undergo any change during the year.

**14.2 Share capital - number of shares: changes**

	Ordinary	Other
<b>A. Opening balance</b>	<b>759,750</b>	<b>-</b>
- fully paid-in	759,750	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	-	-
<b>A.2 Outstanding shares: opening balance</b>	<b>-</b>	<b>-</b>
<b>B. Increases</b>	<b>-</b>	<b>-</b>
B.1 New issues	-	-
- against consideration:	-	-
- business combinations	-	-
- bond conversions	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
<b>C. Decreases</b>	<b>-</b>	<b>-</b>
C.1 Cancellations	-	-
C.2 Repurchases of treasury shares	-	-
C.3 Disposals of equity investments	-	-
C.4 Other decreases	-	-
<b>D. Outstanding shares: closing balance</b>	<b>759,750</b>	<b>-</b>
D.1 Treasury shares (+)	-	-
D.2 Closing balance	759,750	-
- fully paid-in	759,750	-
- not fully paid-in	-	-

#### 14.4 Income-related reserves: other information

	LEGAL RESERVE	STATUTORY RESERVE	Other
OPENING BALANCE	15,911	42,941	3,270
INCREASES	815	4,294	-
Allocation of profits	815	4,294	-
DECREASES	-	-	-
Other changes (negative FTA reserve)	-	-	-
CLOSING BALANCE	16,726	47,235	3,270

The legal reserve was increased by the allocation of 10% of the profit for the year as provided for by article 25 of the by-laws, even though the reserve's balance now equals one fifth of the bank's share capital as required by article 2430 of the Italian Civil Code.

The legal reserve exceeds one fifth of the bank's share capital by €8,877 thousand.

The statutory reserve includes:

- 15% of the profit for the year as provided for by article 24 of the by-laws;
- reclassification of the income-related reserves for €15,200 thousand as determined during IFRS FTA.

The other reserves comprise:

- the contribution reserve of €6,130 thousand as per Law no. 218/90 net of the IFRS FTA reserve of €2,860 thousand.

##### 14.4.1 Equity: breakdown, availability and distributability of the different captions

	Amount	Possible use (1)	Available portion	Summary of use in the last 3 years (2)	
				To cover losses	For other purposes
Share capital	39,241,087.50				
<b>Equity-related reserves:</b>					
Contribution reserve	15,121,767.94	A,B,C	15,121,767.94		
Revaluation reserve	6,129,826.94	A,B,C	6,129,826.94		
Share premium reserve (3)	34,660,068.07	A,B,C	34,660,068.07		
<b>Income-related reserves:</b>					
Legal reserve	16,725,496.72	B	8,877,279.22		
Statutory reserve	47,235,247.43	B	-		
FTA reserve	- 2,860,067.03		-		
Fair value reserve	8,673,717.81		-		
Actuarial reserve	- 3,959,715.53		-		
Retained earnings	-		-		
<b>Total</b>	<b>160,967,429.85</b>		<b>64,788,942.17</b>	-	-
<b>Undistributable portion (4)</b>			665,380.00		
<b>Remaining distributable portion</b>			64,123,562.17		

in Euros

#### Key:

A = share capital increase



B = to cover losses

C= dividend distribution

**Note:**

(1) = Except for additional constraints imposed by by-laws

(2) = Utilisations are shown from 2000 as comparative previous years' data are unavailable

(3) = Pursuant to article 2431 of the Italian Civil Code, the entire reserve can only be distributed when the legal reserve has reached the threshold set by article 2430 of the Italian Civil Code.

(4) = The portion that cannot be distributed due to: the translation reserve, the reserve for equity-accounted investees, the reserve for departures as per article 2413.4 of the Italian Civil Code and the part allocated to cover unamortised deferred costs as per article 2426.5 of the Italian Civil Code.

**14.7 Valuation reserves: breakdown**

	31/12/2014	31/12/2013
1. Available-for-sale financial assets	8,674	4,384
2. Property, equipment and investment property	-	-
3. Intangible assets	-	-
4. Hedges of investments in foreign operations	-	-
5. Cash flow hedges	-	-
6. Exchange rate gains (losses)	-	-
7. Non-current assets held for sale	-	-
8. Special revaluation laws	15,122	15,122
9. Net actuarial losses on defined benefit plans	- 3,960	- 2,390
<b>Total</b>	<b>19,836</b>	<b>17,116</b>

## OTHER DISCLOSURES

### 1. Guarantees and commitments

	31/12/2014	31/12/2013
<b>1) Financial guarantees issued</b>	<b>2,480</b>	<b>2,459</b>
a) Banks	2,437	2,416
b) Customers	43	43
<b>2) Commercial guarantees issued</b>	<b>21,612</b>	<b>31,487</b>
a) Banks	-	-
b) Customers	21,612	31,487
<b>3) Irrevocable commitments to disburse funds</b>	<b>28,086</b>	<b>41,837</b>
a) Banks	150	9,596
i) certain use	150	9,596
ii) uncertain use	-	-
b) Customers	27,936	32,241
i) certain use	156	39
ii) uncertain use	27,780	32,202
<b>4) Commitments underlying credit derivatives: protection sales</b>	<b>-</b>	<b>-</b>
<b>5) Assets pledged as collateral for third party commitments</b>	<b>-</b>	<b>-</b>
<b>6) Other commitments</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>52,178</b>	<b>75,783</b>

### 2. Assets pledged as guarantee for liabilities and commitments

	31/12/2014	31/12/2013
1. Financial assets held for trading	56,694	43,388
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	192,864	89,370
4. Held-to-maturity investments	5,015	5,030
5. Loans and receivables with banks	-	-
6. Loans and customers with customers	-	-
7. Property, equipment and investment property	-	-
<b>TOTAL</b>	<b>254,573</b>	<b>137,788</b>

Table 2 shows the securities pledged as guarantee for the bank's liabilities:

- repos of €1,375 thousand with a nominal amount of €1,365 thousand;
- financing operations with the ECB of €210,000 thousand for a nominal amount of securities of €246,239 thousand.

The table also includes guarantee deposits paid for “treasury” services with a nominal amount of €50 thousand.

#### **4. Management and trading on behalf of third parties**

<b>1. Execution of customer orders</b>	-
a) Purchases	-
1. <i>settled</i>	-
2. <i>unsettled</i>	-
b) Sales	-
1. <i>settled</i>	-
2. <i>unsettled</i>	-
<b>2. Asset management</b>	-
a) individual	-
b) collective	-
<b>3. Securities custody and administration</b>	<b>1,939,769</b>
a) third party securities held as part of depository bank services (excluding asset management)	-
1. <i>securities issued by the reporting entity</i>	-
2. <i>other securities</i>	-
b) third party securities on deposit (excluding asset management): other	791,828
1. <i>securities issued by the reporting entity</i>	222,464
2. <i>other securities</i>	569,364
c) third party securities deposited with third parties	757,019
d) securities owned by the bank deposited with third parties	390,922
<b>4. Other</b>	-

**9. Credit collection on behalf of third parties: adjustments**

	31/12/2014	31/12/2013
<b>a) "debit" adjustments</b>	<b>273,980</b>	<b>287,233</b>
1) bank joint accounts	64,031	70,718
2) central portfolio	208,107	209,531
3) cash	599	824
4) other accounts	1,243	6,160
<b>b) "credit" adjustments</b>	<b>295,228</b>	<b>311,895</b>
1) bank joint accounts	69,466	75,376
2) transferors of bills and documents	225,500	235,567
3) other accounts	262	952
<b>DIFFERENCE</b>	<b>21,248</b>	<b>24,662</b>

The difference of €21,248 thousand is shown under caption 100 "Other liabilities" in the statement of financial position.

The adjustments made during the year were affected by the currency effect on the bills under reserve portfolio following enactment of the PSD regulation.

The bills were paid on 31 December 2014 but they were settled on 2 January 2015. Therefore, the amount was recognised as illiquid at the reporting date.



## **PART C**

# **Notes to the income statement**





## Section 1 – Interest – Captions 10 and 20

### 1.1 Interest and similar income: breakdown

	Debt instruments	Financing	Other	2014	2013
1. Financial assets held for trading	3,214	-	-	3,214	4,182
2. Available-for-sale financial assets	6,754	-	-	6,754	7,398
3. Held-to-maturity investments	73	-	-	73	72
4. Loans and receivables with banks	-	58	-	58	90
5. Loans and receivables with customers	-	39,862	-	39,862	41,624
6. Financial assets at fair value through profit or loss	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	15	15	59
<b>Total</b>	<b>10,041</b>	<b>39,920</b>	<b>15</b>	<b>49,976</b>	<b>53,425</b>

Interest accrued during the year on impaired loans recognised at 31 December 2014 is as follows:

1. Doubtful debts of €3,165 thousand;
2. Past due/overdue loans by more than 99 days of €196 thousand.

### 1.3 Interest and similar income: other information

#### 1.3.1 Interest income on foreign currency financial assets

	2014	2013
1.3.1 Interest income on foreign currency financial assets	50	88

### 1.4 Interest and similar expense: breakdown

	Liabilities	Securities	Other	2014	2013
1. Due to central banks	269	-	-	269	838
2. Due to banks	3	-	-	3	3
3. Due to customers	5,854	-	-	5,854	6,891
4. Securities issued	-	7,505	-	7,505	9,137
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities at fair value through profit or loss	-	-	-	-	-
7. Other liabilities and provisions	-	-	-	-	23
8. Hedging derivatives	-	-	-	-	-
<b>Total</b>	<b>6,126</b>	<b>7,505</b>	<b>-</b>	<b>13,631</b>	<b>16,892</b>

## 1.6 Interest and similar expense: other information

### 1. 1.6.1 Interest expense on foreign currency liabilities

	2014	2013
1.6.1 Interest expense on foreign currency liabilities	14	4

## Section 2 – Fees and commissions - Captions 40 and 50

### 2.1 Fee and commission income: breakdown

	2014	2013
a) guarantees received	371	418
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	5,262	5,314
1. trading in financial instruments	228	211
2. foreign currency transactions	104	99
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	148	172
5. depository services	-	-
6. securities placement	1,917	2,312
7. order collection and transmission	725	667
8. consultancy services	-	-
8.1. concerning investments	-	-
8.2. concerning financial structure	-	-
9. distribution of third party services	2,140	1,853
9.1 asset management	370	369
9.1.1. individual	188	202
9.1.2. collective	182	167
9.2. insurance products	949	712
9.3. other products	821	772
d) collection and payment services	3,180	3,356
e) servicing services for securitisations	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) keeping and management of current accounts	10,109	10,331
j) other services	2,710	2,619
<b>Total</b>	<b>21,632</b>	<b>22,038</b>

The balance shown as letter “j” in the above table includes:<sup>1</sup>

<sup>1</sup> €'000

Loan preliminary investigation fees	553
Financing fees	680
Bancomat (debit card) and home banking fees	527
Other commissions	950

## **2.2 Fee and commission income: product and service distribution channels**

	2014	2013
<b>a) own branches:</b>	<b>4,057</b>	<b>4,165</b>
1. asset management	-	-
2. securities placement	1,917	2,312
3. third party services and products	2,140	1,853
<b>b) off-premises distribution:</b>	<b>-</b>	<b>-</b>
1. asset management	-	-
2. securities placement	-	-
3. third party services and products	-	-
<b>c) other distribution channels:</b>	<b>-</b>	<b>-</b>
1. asset management	-	-
2. securities placement	-	-
3. third party services and products	-	-

## **2.3 Fee and commission expense: breakdown**

	2014	2013
<b>a) guarantees received</b>	<b>- 334</b>	<b>749</b>
<b>b) credit derivatives</b>	<b>-</b>	<b>-</b>
<b>c) management and brokerage services:</b>	<b>- 222</b>	<b>252</b>
1. trading in financial instruments	- 154	153
2. foreign currency transactions	-	-
3. asset management	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	- 68	99
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	-	-
<b>d) collection and payment services</b>	<b>- 815</b>	<b>817</b>
<b>e) other services</b>	<b>- 79</b>	<b>48</b>
<b>Total</b>	<b>- 1,450</b>	<b>1,866</b>

Item “a) Guarantees received” of €334 thousand includes commissions paid to the Ministry for the Economy and Finance for the government’s guarantee of financial liabilities issued by the bank pursuant to Law no. 214/2011.

## Section 3 - Dividends and similar income - Item 70

### 3.1 Dividends and similar income: breakdown

	2014		2013	
	Dividends	Income from OEIC units	Dividends	Income from OEIC units
A. Financial assets held for trading	-	-	-	-
B. Available-for-sale financial assets	1,588	-	234	-
C. Financial assets at fair value through profit or loss	-	-	-	-
D. Equity investments	-	-	-	-
<b>Total</b>	<b>1,588</b>	<b>-</b>	<b>234</b>	<b>-</b>

## Section 4 - Net trading income (expense) - Caption 80

### 4.1 Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income [(A+B) - (C+D)]
<b>1. Financial assets held for trading</b>	<b>2,235</b>	<b>2,953</b>	<b>67</b>	<b>10</b>	<b>5,111</b>
1.1 Debt instruments	2,235	2,953	67	10	5,111
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
<b>2. Financial liabilities held for trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
<b>3. Other financial assets and liabilities: exchange rate gains</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>160</b>
<b>4. Derivatives</b>	<b>414</b>	<b>-</b>	<b>412</b>	<b>-</b>	<b>2</b>
4.1. Financial derivatives:	414	-	412	-	2
- On debt securities and interest rates	414	-	412	-	2
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold	-	-	-	-	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>2,649</b>	<b>2,953</b>	<b>479</b>	<b>10</b>	<b>5,273</b>

**Currency: Costs, Revenue and Inventories**

EXPENSES AND LOSSES:			REVENUE AND PROFITS:		
	2014	2013		2014	2013
A) Opening balance in foreign currencies	431	235	E) Revenue from currency sales	72,757	69,430
B) Cost of purchasing currency	72,333	69,548	F) Closing balance	124	431
<b>D) Total costs</b>	<b>72,764</b>	<b>69,783</b>	<b>H) Total revenue</b>	<b>72,881</b>	<b>69,861</b>
<b>SUMMARY:</b>					
	2014	2013			
(+) Total revenue	72,881	69,861			
(-) Total costs	- 72,764	- 69,783			
(+) Currency fees	61	52			
(-) IFRS adjustments	- 18	- 2			
<b>Unrealised exchange rate gains</b>	<b>160</b>	<b>128</b>			

The purchase costs and income from sales relate to foreign currency dealt in by the bank during the year, except for participating currencies and Euro captions.

**Section 6 - Gain (loss) from sales/repurchases - Caption 100**
**6.1 Gain (loss) from sales or repurchases: breakdown**

	2014			2013		
	Gain	Loss	Net loss	Gain	Loss	Net loss
<b>Financial assets</b>						
1. Loans and receivables with banks	-	-	-	-	-	-
2. Loans and receivables with customers	-	-	-	-	-	-
3. Available-for-sale financial assets	4,741	96	4,645	3,710	528	3,182
3.1 Debt instruments	4,741	96	4,645	1,543	528	1,015
3.2 Equity instruments	-	-	-	2,167	-	2,167
3.3 OEIC units	-	-	-	-	-	-
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
<b>Total assets</b>	<b>4,741</b>	<b>96</b>	<b>4,645</b>	<b>3,710</b>	<b>528</b>	<b>3,182</b>
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	2	43	41	12	115	103
<b>Total liabilities</b>	<b>2</b>	<b>43</b>	<b>41</b>	<b>12</b>	<b>115</b>	<b>103</b>

## Section 8 - Net impairment losses - Caption 130

### 8.1 Net impairment losses on loans and receivables: breakdown

	Impairment losses (1)			Reversals of impairment losses (2)				Totale al 42004	Totale al 41639
	Individual		Collective	Individual		Collective			
	Derecognition	Other		A	B	A	B		
A. Loans and receivables with banks	-	-	-	-	-	-	-	-	-
- Financing	-	-	-	-	-	-	-	-	-
- Debt instruments	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	- 762	- 22,954	- 18	4,046	2,588	-	1,170	15,930	10,928
Impaired loans purchased	-	-	-	-	-	-	-	-	-
- Financing	-	-	-	-	-	-	-	-	-
- Debt instruments	-	-	-	-	-	-	-	-	-
Other	- 762	- 22,954	- 18	4,046	2,588	-	1,170	15,930	10,928
- Financing	- 762	- 22,954	- 18	4,046	2,588	-	1,170	15,930	10,928
- Debt instruments	-	-	-	-	-	-	-	-	-
C. Total	- 762	- 22,954	- 18	4,046	2,588	-	1,170	15,930	10,928

The "Reversals of impairment losses (2) Individual A" column includes default interest of €225 thousand collected on non-performing loans and reversals of impairment losses on discounted interest as follows:

- on substandard/past due loans €1,492 thousand, of which €1,478 thousand has been collected;

- on non-performing loans €2,328 thousand, of which €1,981 thousand has been collected.

The "Reversals of impairment losses (2) Individual B" column includes reversals on non-performing loans of €852 thousand and unrealised reversals of €37 thousand and realised reversals of €980 thousand and unrealised reversals of €719 thousand on substandard/past due loans.

### 8.2 Net impairment losses on AFS financial assets: breakdown

	Impairment losses (1)		Reversals of impairment losses (2)		2014	2013
	Individual		Individual			
	Derecognition	Other	A	B	(3) = (1)-(2)	(3) = (1)-(2)
A. Debt instruments	-	-	-	-	-	-
B. Equity instruments	-	- 2	-	-	-	-
C. OEIC units	-	-	-	-	-	-
D. Financing to banks	-	-	-	-	-	-
E. Financing to customers	-	-	-	-	-	-
F. Total	-	- 2	-	-	-	-

#### **8.4 Net impairment losses on other financial transactions: breakdown**

	Impairment losses (1)			Reversals of impairment losses (2)				2014	2013
	Individual		Collective	Individual		Collective			
	Derecognition	Other		A	B	A	B		
A. Guarantees given	- 389	-	-	-	-	-	-	389	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	- 389	-	-	-	-	-	-	389	-

The “Impairment losses (1) – Individual – Derecognition” column includes €389 thousand paid by the bank for Interbank Deposit Protection Fund’s assistance provided to Banca TERCAS S.p.A. during the year.

## Section 9 - Administrative expenses - Caption 150

### 9.1 Personnel expense: breakdown

	2014	2013
<b>1) Employees</b>	- <b>28,280</b>	<b>27,842</b>
a) wages and salaries	- 19,836	19,420
b) social security charges	- 5,081	5,133
c) post-employment benefits	- 1,017	1,038
d) pension costs	- -	-
e) accrual for post-employment benefits	- 252	241
f) accrual for pension and similar provisions:	- 313	328
- defined contribution plans	- -	-
- defined benefit plans	- 313	328
g) payments to external supplementary pension funds	- 736	761
- defined contribution plans	- 736	761
- defined benefit plans	- -	-
h) costs of share-based payment plans	- -	-
i) other employee benefits	- 1,045	921
<b>2) Other personnel</b>	- -	-
<b>3) Directors and statutory auditors</b>	- <b>1,004</b>	<b>995</b>
<b>4) Retired personnel</b>	- -	-
<b>5) Cost recoveries for personnel seconded to other companies</b>	- -	-
<b>6) Cost reimbursements for personnel seconded to the bank</b>	- -	-
<b>Total</b>	- <b>29,284</b>	<b>28,837</b>

Item 3 of the table includes the statutory auditors' fees and the directors' insurance premiums.

### 9.2 Average number of employees per category

	31/12/2014	2014 average	31/12/2013
<b>• Employees</b>	<b>379</b>	<b>377</b>	<b>401</b>
a) managers	2	2	2
b) junior managers	98	100	102
- including: 3rd and 4th level	42	42	42
c) other employees (including cleaning staff)	279	275	297
- including: 3rd professional group	275	270	291
- including: 2nd professional group	3	4	5
- including: cleaning staff	1	1	1
<b>• Other personnel</b>	<b>13</b>	<b>13</b>	<b>13</b>



The average was calculated considering the part-time personnel for 50%.

### **9.3 Internal defined benefit pension plans**

	2014	2013
Remuneration on supplementary pension fund - Interest Cost	313	328

### **9.4 Other employee benefits**

	2014	2013
Other employee benefits	- 1,045 -	921

This caption mainly comprises training costs of €108 thousand, life, accident and health insurance policies of €376 thousand and lunch vouchers of €482 thousand.

**9.5 Other administrative expenses: breakdown**

	2014	2013
1 - credit collection legal fees	- 1,602	1,608
2 - sundry and technical legal consultancy	- 802	1,113
3 - maintenance, repairs, conversions	- 1,056	1,252
4 - lease of premises	- 1,168	1,207
5 - cleaning services	- 545	533
6 - rental of machinery and data transmission lines	- 1,279	1,257
7 - security and security transportation	- 532	582
8 - lighting and heating	- 640	682
9 - stationery and printed matter	- 183	151
10 - postal, telegraph, telex, telephone	- 359	470
11 - insurance	- 384	373
12 - advertising	- 633	536
13 - subscriptions and purchases of publications	- 85	101
14 - third party service costs	- 3,273	3,157
15 - transportation and relocation	- 224	221
16 - membership fees	- 226	190
17 - other	- 971	996
<b>Subtotal of other administrative expenses</b>	<b>- 13,962</b>	<b>14,429</b>
<b>Indirect taxes and duties</b>		
1 - stamp duty	- 3,847	3,496
2 - local property tax	- 358	352
3 - other	- 509	516
<b>Total indirect taxes and duties</b>	<b>- 4,714</b>	<b>4,364</b>
<b>Total other administrative expenses</b>	<b>- 18,676</b>	<b>18,793</b>

“Maintenance, repairs, conversions” relate to work performed to make the buildings usable. Therefore, they have been expensed even when the amounts involved were significant.

Total fees due to the independent auditors are as follows:

- legally-required audit of the annual financial statements € 107,945;
- preparation of the financial statements in English € 12,200;
- signing of the tax returns 4,929;

Moreover, fees paid to other KPMG network entities are as follows:

- K Studio Associato for legal and tax consultancy services - €19,984;
- KPMG Advisory S.p.A. for business continuity management advisory and assistance services - €43,920.

These fees include VAT.

## **Section 10 - Net accruals to provisions for risks and charges - Caption 160**

### **10.1 Net accruals to provisions for risks and charges: breakdown**

	2014
1 - accrual for legal disputes	- 1,163
2 - accrual for claw-back claims	- 26
3 - other	-
<b>Total accruals</b>	<b>- 1,189</b>
4 - Utilisation to settle legal disputes	1,131
<b>Total utilisations</b>	<b>1,131</b>
<b>Net accruals</b>	<b>- 58</b>

Utilisation of these provisions for €1,131 thousand referred to the settlement of legal disputes recognised in caption 160 of the income statement, net of accruals of €1,189 thousand.

## **Section 11 - Depreciation and net impairment losses on property, equipment and investment property - Caption 170**

### **11.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown**

	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b - c)
A. Property, equipment and investment property				
A.1 Owned	- 1,510	-	-	- 1,510
- operating assets	- 1,510	-	-	- 1,510
- investment property	-	-	-	-
A.2 Acquired under finance lease	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
<b>Total</b>	<b>- 1,510</b>	<b>-</b>	<b>-</b>	<b>- 1,510</b>

## Section 12 - Amortisation and net impairment losses on intangible assets

### - Caption 180

#### *12.1 Amortisation and net impairment losses/reversals of impairment losses on intangible assets: breakdown*

	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Intangible assets				
A.1 Owned	- 79	-	-	- 79
- Generated internally	-	-	-	-
- Other	- 79	-	-	- 79
A.2 Acquired under finance lease	-	-	-	-
<b>Total</b>	<b>- 79</b>	<b>-</b>	<b>-</b>	<b>- 79</b>

## Section 13 - Net other operating income - Caption 190

#### *13.1 Other operating expense: breakdown*

	2014
1 - Charitable donations	- 19
2 - Contributions to bodies and municipalities receiving treasury services	- 93
3 - Amortisation of leasehold improvements	- 245
4 - Losses for robbery	- 1
5 - Other	- 224
<b>Total</b>	<b>- 582</b>

The contributions in item 2 are based on the scores assigned to the participants in the tenders for the treasury services.

Item "5 - Other" includes prior year losses (€216 thousand) and discounted contributions (€8 thousand).

In turn, prior year losses comprise settlements for claw-back claims (€20 thousand); settlements of legal disputes (€121 thousand) and labour dispute rulings (€19 thousand).

### 13.2 Other operating income: breakdown

	2014
1 - Recoveries of administrative expenses	5,337
2 - Security box fees	50
3 - Lease income	419
4 - Other income	655
<b>Total other operating income</b>	<b>6,461</b>
<b>Total</b>	<b>5,879</b>

Item "4 - Other income" includes:

- the contribution to the Banks and Insurance Companies' Fund (FBA) of €163 thousand;
- recovery of fines and fees on current accounts and deposits of €234 thousand;
- prior year income of €258 thousand.

## Section 17 - Net gains on sales of investments - Caption 240

### 17.1 Net gains on sales of investments: breakdown

	2014	2013
<b>A. Property</b>	<b>98</b>	<b>-</b>
- Gains on sales	300	-
- Losses on sales	202	-
<b>B. Other assets</b>	<b>7</b>	<b>8</b>
- Gains on sales	8	10
- Losses on sales	1	2
<b>Net gains on sales of investments</b>	<b>105</b>	<b>8</b>

## Section 18 - Income taxes - Caption 260

### 18.1 Income taxes: breakdown

	2014	2013
1. Current taxes (-)	- 6,728	- 8,611
2. Change in current taxes from previous years (+/-)	-	-
3. Decrease in current taxes for the year (+)	-	-
3 bis. Decrease in current taxes for the year due to tax assets as per Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	2,764	2,928
5. Change in deferred tax liabilities (+/-)	-	-
6. Tax expense for the year (-)(-1+/-2+3+/-4+/-5)	- 3,964	- 5,683

## 18.2 Reconciliation between the theoretical and effective tax expense

		Amount
<b>Pre-tax profit for the year</b>	8,048	
Effective IRES tax rate	27.50%	
<b>Theoretical tax expense</b>		2,213
<b>Permanent and temporary differences for IRES purposes</b>		2,375
a) dividends	- 1,509	
b) other	10,145	
<b>IRES tax</b>		<b>4,588</b>
<b>Additional tax base for IRES purposes</b>	-	
Additional IRES rate	0.00%	
<b>Theoretical tax expense</b>		-
<b>Pre-tax profit for the year</b>	8,048	
Effective IRAP tax rate	5.49%	
<b>Theoretical tax expense</b>		442
<b>Permanent differences for IRAP purposes</b>	-	1,698
a) non-deductible personnel expense	18,559	
b) impairment losses/reversals of impairment losses on loans and receivables	10,559	
c) other	1,817	
<b>IRAP tax</b>		<b>2,140</b>
<b>Income tax expense</b>		<b>6,728</b>

Item “b) Other” includes net increases to the tax base. It comprises impairment losses on loans and receivables exceeding the deductible portion, equal to one fifth of the total losses and impairment losses for the year.

## Section 21 – Earnings per share

### 21.1 Average number of ordinary shares with dilutive effect

	Totale 31/12/2014	Totale 31/12/2013
Media ponderata azioni (numero)	759.750	759.750
Risultato attribuibile alle categorie di azioni (euro)	3.062.996	3.039.000
Utile base per azione (basic EPS) - (euro)	4,03	4,00
Risultato diluito per azione ordinaria (euro)	4,03	4,00

Pursuant to IAS 33.10/33:

a) basic EPS are calculated by dividing the profit for the year attributable to the holders of ordinary shares by the weighted average number of shares outstanding in the year;

b) diluted EPS are calculated by dividing the profit for the year by the average number of ordinary shares outstanding in the year, adjusted to reflect the diluting effects of options.

At the reporting date, the bank decided to distribute dividends of €4.00 to the holders of ordinary shares.

Therefore and in accordance with article 25 of the by-laws, the profit for the year has been allocated as follows:

1. €408,400 to the ordinary reserve, as per article 25 of the by-laws;
2. €612,599 to the extraordinary reserve, as per article 25 of the by-laws;
3. €23,996 to the extraordinary reserve, as decided by the board of directors.

The numerator used to calculate the basic EPS is €3,063 thousand. With respect to the denominator, the weighted average number of the ordinary shares outstanding is unchanged at 759,750.

The bank has not repurchased treasury shares. It has not issued nor does it have shares with dilutive effects.

Therefore, the basic and diluted EPS are the same.



## **PART D**

### **Segment reporting**



## BREAKDOWN OF COMPREHENSIVE INCOME

		Gross amount	Income tax	Net amount
10.	Profit for the year			4,084
	<b>Items that will not be reclassified subsequently to profit or loss</b>			
20.	Property, equipment and investment property	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	- 2,165	595	- 1,570
50.	Non-current assets held for sale	-	-	-
60.	Portion of valuation reserves of equity-accounted investees	-	-	-
	<b>Items that will be reclassified subsequently to profit or loss</b>			
70.	Hedges of investments in foreign operations	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
80.	Exchange rate gains (losses):	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
90.	Cash flow hedges:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
100.	Available-for-sale financial assets:	6,457	- 2,167	4,290
	a) fair value gains (losses)	8,610	- 1,457	
	b) reclassification to profit or loss	- 2,153	- 710	
	- impairment losses	-	-	
	- gains/losses on sales	- 2,153	- 710	
	c) other changes	-	-	
110.	Non-current assets held for sale:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
120.	Share of valuation reserves of equity-accounted investees	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	- impairment losses	-	-	-
	- gains/losses on sales	-	-	-
	c) other changes	-	-	-
130.	<b>Total other comprehensive income (expense)</b>	<b>4,292</b>	<b>- 1,572</b>	<b>2,720</b>
140.	<b>Comprehensive income (captions 10 + 130)</b>			<b>6,804</b>



## **PART E**

# **Risks and related hedging policies**



## Introduction

Risk management (monitoring, management and measurement) is a fundamental creator of value for the bank and its stakeholders. Accordingly, the bank's control units (the Inspection and Internal Audit Office, the Risk Governance Office and the Compliance and AML Unit) are given complete independence and operating powers to ensure the correct and full presentation of risks to the board of directors, the board of statutory auditors, the shareholders and all those who have direct and indirect interests in the bank's equity.

In compliance with the principle of proportionality, risks are managed using methods and processes appropriate for the bank's operations.

The Risk Management Unit of the Risk Governance Office is in charge of monitoring and managing risks. Specifically, it has the following duties:

- proposing methods, tools and procedures to identify, measure, monitor and manage the most important types of risks to management;
- measuring and assessing the bank's exposure to large risks and reporting thereon;
- checking that bank's risk profiles are in line with the strategies decided by the board of directors;
- regularly reviewing the models and methods used, reporting any weaknesses and proposing the suitable modifications;
- checking compliance with operating limits defined by both external and internal regulations, proposing adjustments if necessary to the latter;
- working with the IT outsourcer and teams that work on risk management projects;
- monitoring the production and filing of methodological documentation about risk management and control;
- processing analyses and assessments required by the ICAAP (internal capital adequacy assessment process);
- preparing the data necessary for part E of the notes to the financial statements together with other units;
- checking the quality of the performing loans portfolio;
- regularly preparing reports on trends and risk appetites of the bank's customers;
- preparing the reports on large exposures which includes a list of monitored positions and data from the CPC tool and rating; checking that the regulatory limits are complied with and, if not, informing the relevant units so as to remedy the situation;
- checking compliance with the prudent regulatory limits as per Banca d'Italia circular no. 263/06, section V, chapter 5 - Annex A (Related party transactions) every quarter.

Once a year, the Risk Management Unit prepares a report for the market when the annual report is published, which includes the "... information about capital adequacy, exposure to risks and the general characteristics of the systems in place to identify, measure and manage such risks" in the "Pillar 3, Market disclosures, situation at 31/12/2014" document, posted in the financial reporting section of the bank's internet site [www.carifermo.it](http://www.carifermo.it).

Following the issue of the fifteenth update to Circular no. 263/06 on the "Internal controls, IT system and business continuity" (2 July 2013) by Banca d'Italia, all banks are required to strengthen their ability to manage business risks starting from 1 July 2014.

Pursuant to the Circular, the board of directors approved a resolution on 24 June 2014 to:

- define a RAF (Risk Appetite Framework), identifying the risk objectives;
- define the internal controls, specifying the roles and responsibilities of the internal bodies and units and preparing the related internal regulation;
- define the criteria to identify the more significant transactions to be approved in advance by the Risk Management Unit.

The new system of internal controls strengthens the role of the control units and, especially, that of the Risk Management Unit which is actively involved in monitoring credit exposure.

The bank and its bodies encourage the circulation and development of a cross-the-board risk culture and employee training about the issue. Accordingly, it provided the internal bodies with

information about new legislation that affects the bank's operations, showing the bank's compliance and any necessary actions.



## **SECTION 1 - CREDIT RISK**

### **Qualitative disclosure**

#### **1. General aspects**

The bank's lending policies, set out in its "Credit policy - guidelines for credit risk assumption and management" approved by the board of directors on 24 June 2014, are aimed at obtaining a satisfactory risk/return ratio with the careful and efficient control over risks inherent in the banking sector.

In line with its mission, the bank focuses on extending credit to households and SMEs, with products designed to help develop production activities. Its natural inclination towards promoting loans to small businesses is of great importance for its partnership with the underwriting syndicates. Although it privileges its local social and economic environment, the bank also builds up its customer portfolio in areas where it has a smaller base, partly to mitigate its risks.

The bank is careful when granting and monitoring credit that it does not build up risk concentrations in one sector or industry or, with respect to households, in certain age brackets.

It tends to privilege individuals intending mostly to buy residential property in the long-term segment.

The bank has a policy of ongoing improvement to safeguard both the debtors and their families as well as itself, covering product efficiency, insurance policies for pure risk with cover for death, invalidity and dismissals.

#### **2. Credit risk management policies**

##### **2.1 Organisational aspects**

Credit risk is the most significant risk for the bank and is the risk of losses due to the non-payment or partial payment of principal, interest or other amounts by the debtor (ordinary and institutional customers). Credit risk includes counterparty risk, i.e., the risk that the counterparty to a transaction involving certain financial instruments defaults before the transaction is settled.

The structure which decides and organises the granting of credit has different operating powers, depending on whether it is located at the branches (split by size) or the head office (board of directors, managing director, deputy general manager, department, division and office heads). Each level is defined considering the overall risk assessment of each customer and potential associated customers, the type of credit, the direct and indirect exposure and type of guarantee.

The lending procedure also includes policies and controls for risk management carried out by the following head office units:

- **Loans office:** assists the branches with the preliminary investigations stage, assesses credit facility applications approved by the relevant branch bodies, checks compliance with their powers and monitors existing credit facilities and that the branches renew them.
- **Risk control office:** regularly monitors business risk irregularities using data provided by special computerised procedures and the Inspection and Internal Audit Unit; proposes classification of positions in temporary difficulties as "substandard", encouraging the branches to have them return to a "performing" status and coordinating the related

activities; monitors and checks “restructured” positions; prepares a quarterly report for senior management on the situation and changes in reported positions.

- **Risk Management:** assesses and develops credit risk measurement methodologies in line with best practices; carries out static and dynamic analyses of the loan portfolio’s risk profile and reports thereon every month to senior management and bank risk monitoring units.
- **Compliance office:** analyses credit lending procedures and processes and related contracts to check aspects subject to potential legal risk and non-compliance with current legislation.

## **2.2 Management, measuring and control systems**

In order to identify any deterioration in customers’ credit standing in advance and to analyse trends, the bank focuses on checking its relationships with its ordinary customers, including by using the information available in the central risk database, which identifies irregularities with a potential negative impact on risk.

It uses a specific early warning procedure, the Credit Position Control (CPC), which gives each borrower a score for their credit riskiness. The CPC is used to monitor customers’ behaviour in order to assess repayment trends and identify any loan deterioration on a timely basis using specific diagnostic tools.

The Risk Management Unit prepares regular reports for management, the branches and relevant internal units. Quarterly reports analysing the entire portfolio’s risk and additional in-depth analyses by business and geographical segment are prepared for the board of directors. This report assesses compliance with the main internal limits, monitors the capital absorption of risks assumed and analyses large exposures.

The Risk Management Unit uses an internal rating system of the SARa (automatic rating system) application to regularly estimate defaults over one year on the bank’s loan portfolio and these results are considered when determining the collective impairment losses on performing loans. The rating system, used solely for management monitoring purposes, divides customers into three main segments (Corporate, SME retail and Retail) and classifies counterparties using a scale of 10 classes, consisting of nine for performing counterparties (AAA, AA, A, BBB, BB, B CCC, CC and C) and one for defaulting counterparties (D). The system has two different methods to measure probability of default (PD), one for businesses and one for individuals.

The Risk Management Unit checks compliance with the limits and ceilings introduced by the Credit Policy for credit quality, counterparty concentration and concentration by product every quarter.

The Risk Management Unit also performs stress tests on credit and counterparty risk, including quantification of sensitivity to three risk factors:

1. counterparty credit worthiness
2. loan deterioration rate
3. appropriateness of use of the credit risk mitigation tools.

The stress test results are included in the quarterly reports.

## **2.3 Credit risk mitigation techniques**

The bank uses credit risk mitigation techniques and tools, the classification and utilisation of which are set out in the “Credit risk mitigation policies” document approved by the board of directors on 20 May 2008 and revised subsequently. The document requires that:

- ❖ The bank obtains qualifiable and acceptable guarantees, such as CRM tools, for its credit exposure on a preferential basis, without waiving those without these requirements as additional protection of credit.
- ❖ “Collateral or personal guarantees, regardless of their acceptability as CRM tools, are considered to be ancillary compared to the credit transaction and cannot replace or make less effective the assessment of the debtor’s repayment ability or be included in the assessment of the counterparty’s credit standing or the riskiness of the transaction”.

Highly mitigating factors are collateral, consisting of pledges of highly liquid financial assets and mortgages on residential property. Other mitigating guarantees are mortgages on non-residential property, personal guarantees depending on the guarantor’s standing and pledges of financial assets other than government bonds.

The concentration level of these guarantees is acceptable given the concentration level of the bank’s loan portfolio (modest).

The credit risk mitigation factors are assessed using a hierarchical classification system for the credit types, based on the intrinsic loss given default (LGD), and the guarantees, based on their potential risk mitigation potential. Each risk category is given a weighing factor which estimates the total risk level when applied to the counterparty’s overall credit.

With respect to financial collateral acceptable as CRM, the bank complies with the supervisory regulation.

In accordance with the above supervisory regulations and with respect to exposures guaranteed by property, the bank has systems which monitor the property’s value on a statistical basis and operating procedures to check its actual value. It has also introduced a rule for the assessment of buildings which sets out the general criteria for property evaluations by experts.

The bank uses standard contracts for guarantees. If they are inadequate, the relevant offices prepare ad hoc contracts which are checked by the Compliance Office and, if necessary, external experts.

The bank did not have credit derivatives at the reporting date.

## **2.4 Impaired financial assets**

The Risk Control Office and Legal Affairs Office manage non-performing loans.

Based on the information obtained from internal reports on loan performance and irregularities (monitoring of trends, identification of unpaid instalments and suspect cheques, items to be fixed, past due and/or overdue loans, reports from branches, inspection reports, etc.) and external sources (central risk database, CAI, external provider reports on injurious positions, etc.), the Risk Control Office assesses whether to adopt measures to contain risk and proposes classification of loans in temporary/financial difficulties as “substandard” or “non-performing”, if necessary. If this is the case, it provides the Legal Affairs and Litigation Office with all the information necessary to commence the procedures to recover the loan. The Risk Control Office manages the restructured loans as well and prepares a quarterly report for senior management on the status and developments of loans, especially substandard ones.

Classification of loans as substandard is proposed and decided by reference to the objective criteria defined by Banca d’Italia, including communication to the risk database and registration of injurious positions.

After identifying positions that meet the objective requirements for classification as substandard, the Risk Control Office manager recognises positions with credit facilities of not more than €50 thousand as substandard; the amount is increased to €100 thousand for mortgage loans. The manager obtains senior management's approval for positions with higher credit facilities.

Responsibility for monitoring the substandard positions remains with the branch, assisted by the Risk Control Office. The branch manager regularly updates the latter Office about any developments and the outcome of the related actions taken.

The Risk Control office manager requests the relevant branch officer to provide a periodic report on the position and examines the customer's financial statements and/or assets and income, to assess and decide whether to:

- maintain the position as substandard;
- ask the branch to propose to head office that the credit facilities be withdrawn and the customer declared to be defaulting;
- propose the positions be reclassified as performing, when the original difficulties are overcome;
- classify the position as non-performing or to propose the position be classified as non-performing if it exceeds the amount of their proxies.

The Risk Control Office prepares a monthly report for senior management on all substandard positions with a breakdown of new entries and positions reclassified as performing as well as trends therein.

With respect to the requirements for preparation of annual and interim financial reports, the Risk Control Office checks all positions classified as substandard, overdue by more than 270 days and past due impaired loans. Based on a review of the customers' financial position and their guarantees, the Office calculates the percentages to be used to determine the impairment losses and the recoverable amount.

## Quantitative disclosure

### A. Credit quality

#### A.1 Impaired and performing loans: carrying amount, impairment losses, performance, business and geographical breakdown

##### A.1.1 Breakdown of loans by portfolio and credit quality (carrying amount)

	Non-performing loans	Substandard loans	Restructured loans	Past due loans impaired	Unimpaired past due loans	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	297,032	297,032
2. Available-for-sale financial assets	-	-	-	-	-	343,150	343,150
3. Held-to-maturity investments	-	-	-	-	-	5,015	5,015
4. Loans and receivables with banks	-	-	-	-	-	46,592	46,592
5. Loans and receivables with customers	38,225	52,654	-	3,130	111,714	760,696	966,419
6. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
<b>2014</b>	<b>38,225</b>	<b>52,654</b>	<b>-</b>	<b>3,130</b>	<b>111,714</b>	<b>1,452,485</b>	<b>1,658,208</b>
<b>2013</b>	<b>34,965</b>	<b>48,409</b>	<b>-</b>	<b>3,596</b>	<b>118,891</b>	<b>1,392,232</b>	<b>1,598,093</b>

##### A.1.2 Breakdown of loans by portfolio and credit quality (gross amount and carrying amount)

	Impaired assets			Performing			Total (carrying amount)
	Gross amount	Individual impairment	Carrying amount	Gross amount	Collective impairment	Carrying amount	
1. Financial assets held for trading	-	-	-	297,032	-	297,032	297,032
2. Available-for-sale financial assets	-	-	-	343,150	-	343,150	343,150
3. Held-to-maturity investments	-	-	-	5,015	-	5,015	5,015
4. Loans and receivables with banks	-	-	-	46,592	-	46,592	46,592
5. Loans and receivables with customers	153,339	59,331	94,008	882,391	9,980	872,411	966,419
6. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
<b>2014</b>	<b>153,339</b>	<b>59,331</b>	<b>94,008</b>	<b>1,574,180</b>	<b>9,980</b>	<b>1,564,200</b>	<b>1,658,208</b>
<b>2013</b>	<b>130,103</b>	<b>43,133</b>	<b>86,970</b>	<b>1,522,273</b>	<b>11,150</b>	<b>1,511,123</b>	<b>1,598,093</b>

No impaired loans were partially derecognised in 2014.

At the reporting date, there were six loans under deed of arrangement for €7,556 thousand, including three under deed of arrangement with rights reserved to file ancillary documents at a later date. They are classified as substandard.

During 2014, 14 loans under deed of arrangement for €1,646 thousand were classified as non-performing while a debt restructuring agreement as per article 182-bis of the Bankruptcy Law was finalised for another position which is currently classified as substandard.

**A.1.2.1 Breakdown of performing loans by portfolio (gross amount and carrying amount)**

	Gross amount	Collective impairment	Carrying amount
1. Financial assets held for trading	297,032	-	297,032
2. Available-for-sale financial assets	343,150	-	343,150
3. Held-to-maturity investments	5,015	-	5,015
4. Loans and receivables with banks	46,592	-	46,592
5. Loans and receivables with customers	876,693	9,892	866,801
6. Negotiated loans to customers as part of collective agreements	5,698	88	5,610
7. Financial assets at fair value through profit or loss	-	-	-
8. Financial assets held for sale	-	-	-
9. Hedging derivatives	-	-	-
<b>Total at 31/12/2014</b>	<b>1,574,180</b>	<b>9,980</b>	<b>1,564,200</b>

The above table shows performing loans that have been renegotiated as part of the collective ABI-MEF agreements provided for by Banca d'Italia communication no. 0169844/11 of 24 February 2011. The amount for Carifermo S.p.A. is €5,698 thousand.

**A.1.2.2 Breakdown of performing loans by portfolio and due date**

	Renegotiated loans to customers as part of collective agreements					Other loans				
	Not yet due	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year	Not yet due	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
1. Financial assets held for trading	-	-	-	-	-	-	-	-	297,032	-
2. Available-for-sale financial assets	-	-	-	-	-	-	-	-	343,150	-
3. Held-to-maturity investments	-	-	-	-	-	-	-	-	5,015	-
4. Loans and receivables with banks	-	-	-	-	-	-	-	-	46,592	-
5. Loans and receivables with customers	-	-	-	-	-	757,925	101,557	3,709	3,610	-
6. Negotiated loans to customers as part of collective agreements	2,772	2,838	-	-	-	-	-	-	-	-
7. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
8. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-
9. Hedging derivatives	-	-	-	-	-	-	-	-	-	-
<b>Total at 31/12/2014</b>	<b>2,772</b>	<b>2,838</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>757,925</b>	<b>101,557</b>	<b>3,709</b>	<b>695,399</b>	<b>-</b>

The table shows that outstanding receivables related to loans renegotiated as part of the collective ABI-MEF agreements are mostly included in the "Not yet due" or "Up to 3 months" categories.

**A.1.3 Loans and receivables with banks on and off-statement of financial position: gross amounts and carrying amounts**

	Gross amount	Individual impairment	Collective impairment	Carrying amount
<b>A. ON STATEMENT OF FINANCIAL POSITION</b>				
a) Non-performing loans	-	-		-
b) Substandard loans	-	-		-
c) Restructured loans	-	-		-
d) Past due loans	-	-		-
e) Other assets	83,591		-	83,591
<b>TOTAL A</b>	<b>83,591</b>	<b>-</b>	<b>-</b>	<b>83,591</b>
<b>B. OFF-STATEMENT OF FINANCIAL POSITION</b>				
a) Impaired	-	-		-
b) Other	2,878		-	2,878
<b>TOTAL B</b>	<b>2,878</b>	<b>-</b>	<b>-</b>	<b>2,878</b>
<b>TOTAL A + B</b>	<b>86,469</b>	<b>-</b>	<b>-</b>	<b>86,469</b>

The amount shown in item B "OFF-STATEMENT OF FINANCIAL POSITION - b) Other" is broken down in the next table for its better presentation:

	Gross amount	Individual impairment	Collective impairment	Carrying amount
<b>B. OFF-STATEMENT OF FINANCIAL POSITION</b>				
<b>a) Impaired</b>	-	-	-	-
	-	-	-	-
<b>b) Other</b>	<b>2,878</b>	<b>-</b>	<b>-</b>	<b>2,878</b>
b.1) Deposits for repos	-	-	-	-
b.2) Interbank Deposit Protection Fund (FITD)	2,437	-	-	2,437
b.3) Commitment with CC.OO to issue securities issued by II.CC.	6	-	-	6
b.4) Interest rate derivatives	128	-	-	128
b.5) Currency forwards	307	-	-	307
<b>TOTAL B</b>	<b>2,878</b>	<b>-</b>	<b>-</b>	<b>2,878</b>

**A.1.4 On-statement of financial position loans and receivables with banks: gross impaired positions**

The bank does not have any impaired loans and receivables with banks.

**A.1.5 On-statement of financial position loans and receivables with banks: changes in impaired positions**

The bank has not undertaken this type of transaction (see point A.1.4.).

**A.1.6 Loans and receivables with customers on and off-statement of financial position: gross amounts and carrying amounts**

	Gross amount	Individual impairment	Collective impairment	Carrying amount
<b>A. ON-STATEMENT OF FINANCIAL POSITION</b>				
a) Non-performing loans	82,920	44,696		38,224
b) Substandard loans	66,981	14,327		52,654
c) Restructured loans	-	-		-
d) Past due loans	3,438	308		3,130
f) Other assets	1,490,106		9,980	1,480,126
<b>TOTAL A</b>	<b>1,643,445</b>	<b>59,331</b>	<b>9,980</b>	<b>1,574,134</b>
<b>B. OFF-STATEMENT OF FINANCIAL POSITION</b>				
a) Impaired	1,125	-		1,125
b) Other	48,661		-	48,661
<b>TOTAL B</b>	<b>49,786</b>	<b>-</b>	<b>-</b>	<b>49,786</b>
<b>TOTAL A + B</b>	<b>1,693,231</b>	<b>59,331</b>	<b>9,980</b>	<b>1,623,920</b>

Loans and receivables with customers include the balances of captions 20 and 40 (financial assets held for trading and available-for-sale) and 70 (loans and receivables with customers) less loans and receivables with banks consisting of securities included in table A.1.3.

The amounts shown in item “B. OFF-STATEMENT OF FINANCIAL POSITION - a) Impaired” and “b) Other” are broken down in the next table for their better presentation:

	Gross amount	Individual impairment	Collective impairment	Carrying amount
<b>B. OFF-STATEMENT OF FINANCIAL POSITION</b>				
<b>a) Impaired</b>	<b>1,125</b>	<b>-</b>	<b>-</b>	<b>1,125</b>
a.1) Commercial endorsement credits	1,125	-	-	1,125
<b>b) Other</b>	<b>48,661</b>	<b>-</b>	<b>-</b>	<b>48,661</b>
b.1) Financial endorsement credits	42	-	-	42
b.2) Commercial endorsement credits	20,489	-	-	20,489
b.3) Commitments of uncertain use	27,780	-	-	27,780
b.4) Financing for repos	150	-	-	150
b.5) Commitment with II.CC to purchase securities issued by CC.OO.	150	-	-	150
b.6) Interest rate derivatives and forwards	37	-	-	37
b.7) Currency forwards	10	-	-	10
b.8) Risks associated with SFTs (repos)	3	-	-	3
<b>TOTAL B</b>	<b>49,786</b>	<b>-</b>	<b>-</b>	<b>49,786</b>



**A.1.7 On-statement of financial position loans and receivables with customers: gross impaired positions**

	Non-performing loans	Substandard loans	Restructured loans	Past due loans
<b>A. Gross opening balance</b>	<b>68,846</b>	<b>57,388</b>	<b>-</b>	<b>3,869</b>
- including: positions transferred but not derecognised	-	-	-	-
<b>B. Increases</b>	<b>19,575</b>	<b>43,654</b>	<b>-</b>	<b>4,559</b>
B.1 transfers from performing loans	6,094	32,552	-	3,207
B.2 transfers from other impaired loan categories	11,654	2,056	-	20
B.3 other increases	1,827	9,046	-	1,332
<b>C. Decreases</b>	<b>5,501</b>	<b>34,061</b>	<b>-</b>	<b>4,990</b>
C.1 transfers to performing loans	-	4,831	-	123
C.2 derecognitions	1,304	-	-	-
C.3 collections	4,197	17,734	-	2,623
C.4 losses on sales	-	-	-	-
C.4-bis losses on sales	-	-	-	-
C.5 transfers to other impaired loan categories	-	11,496	-	2,235
C.6 other decreases	-	-	-	9
<b>D. Gross closing balance</b>	<b>82,920</b>	<b>66,981</b>	<b>-</b>	<b>3,438</b>
- including: positions transferred but not derecognised	-	-	-	-

**A.1.8 On-statement of financial position loans and receivables with customers: changes in impaired positions**

	Non-performing loans	Substandard loans	Restructured loans	Past due loans
<b>A. Opening balance</b>	<b>33,881</b>	<b>8,978</b>	<b>-</b>	<b>273</b>
- including: positions transferred but not derecognised	-	-	-	-
<b>B. Increases</b>	<b>14,663</b>	<b>10,281</b>	<b>-</b>	<b>306</b>
B.1. impairment losses	12,442	10,209	-	302
B.1-bis losses on sales	-	-	-	-
B.2 transfers from other impaired loan categories	1,936	72	-	4
B.3 other increases	285	-	-	-
<b>C. Decreases</b>	<b>3,848</b>	<b>4,932</b>	<b>-</b>	<b>271</b>
C.1. fair value gains	385	726	-	8
C.2. reversals of impairment losses due to collections	2,832	2,275	-	182
C.2-bis gains on sales	-	-	-	-
C.3 derecognitions	631	-	-	-
C.4 transfers to other impaired loan categories	-	1,931	-	81
C.5 other decreases	-	-	-	-
<b>D. Closing balance</b>	<b>44,696</b>	<b>14,327</b>	<b>-</b>	<b>308</b>
- including: positions transferred but not derecognised	-	-	-	-

## **A.2 Classification of exposures using external and internal ratings**

### ***A.2.1 Breakdown of credit exposure on and off-statement of financial position by external rating classes***

Moody's provides the external ratings in accordance with the ECAI used to calculate the capital requirements for credit risk.

The exposure with externally-rated ordinary customers on and off-statement of financial position is negligible.

The exposure with institutional and banking counterparties has the ratings shown in the next table:

	External rating class						Unrated	Total
	AAA/AA-	A+/A-	BBB+/BBB	BB+/BB-	B+/B-	Below B		
<b>A. On-statement of financial position</b>	-	-	391.616	-	-	-	1.266.110	1.657.726
<b>B. Derivatives</b>	-	-	-	-	-	-	482	482
B.1 Financial derivatives	-	-	-	-	-	-	482	482
B.2 Credit derivatives	-	-	-	-	-	-	-	-
<b>C. Guarantees issued</b>	-	-	-	-	-	-	24.092	24.092
<b>D. Commitments to disburse funds</b>	-	-	-	-	-	-	28.086	28.086
<b>E. Other</b>	-	-	-	-	-	-	3	3
<b>Total</b>	-	-	391.616	-	-	-	1.318.773	1.710.389

### ***A.2.2 Breakdown of credit exposure on and off-statement of financial position by internal rating classes***

The bank has decided not to use internal rating systems.

**A.3 Breakdown of guaranteed exposure by type of guarantee**
**A.3.2 Guaranteed loans and receivables with customers**

	Net amount	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement credits				
		Mortgaged property	Property under finance lease	Securities	Other collateral	CLN	Other derivatives				Government and central banks	Other gov. agencies	Banks	Other	
							Government and central banks	Other gov. agencies	Banks	Other					
1. Guaranteed loans:	778,222	1,456,823	-	16,525	13,109	-	-	-	-	-	416	3,182	412	218,889	1,709,356
1.1. Fully guaranteed	749,957	1,456,823	-	14,805	11,321	-	-	-	-	-	408	3,182	402	204,838	1,691,779
- including: impaired	80,257	192,882	-	1,231	1,467	-	-	-	-	-	73	569	98	17,411	213,731
1.2. Partly guaranteed	28,265	-	-	1,720	1,788	-	-	-	-	-	8	-	10	14,051	17,577
- including: impaired	2,246	-	-	-	12	-	-	-	-	-	-	-	-	1,696	1,708
2. Off-statement of financial position guaranteed loans:	20,094	14,628	-	1,667	1,482	-	-	-	-	-	-	-	-	7,296	25,073
2.1. Fully guaranteed	16,052	14,628	-	601	1,221	-	-	-	-	-	-	-	-	7,224	23,674
- including: impaired	1,073	-	-	58	476	-	-	-	-	-	-	-	-	540	1,074
2.2. Partly guaranteed	4,042	-	-	1,066	261	-	-	-	-	-	-	-	-	72	1,399
- including: impaired	22	-	-	-	-	-	-	-	-	-	-	-	-	-	-

## B. Breakdown and concentration of credit exposure

### B.1 Breakdown of loans and receivables with customers on and off-statement of financial position by business segment (carrying amount)

	Governments			Other government agencies		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
<b>A. On-statement of financial position</b>						
A.1 Non-performing loans	-	-		-	-	
A.2 Substandard loans	-	-		-	-	
A.3 Restructured loans	-	-		-	-	
A.4 Past due loans	-	-		-	-	
A.5 Other	607,102		-	2,972		-
<b>Total A</b>	<b>607,102</b>	<b>-</b>	<b>-</b>	<b>2,972</b>	<b>-</b>	<b>-</b>
<b>B. Off-statement of financial position</b>						
B.1 Non-performing loans	-	-		-	-	
B.2 Substandard loans	-	-		-	-	
B.3 Other impaired assets	-	-		-	-	
B.4 Other	150		-	18,807		-
<b>Total B</b>	<b>150</b>	<b>-</b>	<b>-</b>	<b>18,807</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2014</b>	<b>607,252</b>	<b>-</b>	<b>-</b>	<b>21,779</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2013</b>	<b>474,343</b>	<b>-</b>	<b>-</b>	<b>22,460</b>	<b>-</b>	<b>-</b>

	Financial companies			Insurance companies		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
<b>A. On-statement of financial position</b>						
A.1 Non-performing loans	15	14		-	-	
A.2 Substandard loans	75	15		-	-	
A.3 Restructured loans	-	-		-	-	
A.4 Past due loans	4	1		-	-	
A.5 Other	10,149		35	-		-
<b>Total A</b>	<b>10,243</b>	<b>30</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>B. Off-statement of financial position</b>						
B.1 Non-performing loans	-	-		-	-	
B.2 Substandard loans	-	-		-	-	
B.3 Other impaired assets	-	-		-	-	
B.4 Other	1,747		-	-		-
<b>Total B</b>	<b>1,747</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2014</b>	<b>11,990</b>	<b>30</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2013</b>	<b>13,138</b>	<b>21</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>-</b>

	Non-financial companies			Other		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
<b>A. On-statement of financial position</b>						
A.1 Non-performing loans	28,790	37,741		9,420	6,940	
A.2 Substandard loans	37,597	12,341		14,982	1,971	
A.3 Restructured loans	-	-		-	-	
A.4 Past due loans	1,897	165		1,229	143	
A.5 Other	587,285		8,612	273,532		1,333
<b>Total A</b>	<b>655,569</b>	<b>50,247</b>	<b>8,612</b>	<b>299,163</b>	<b>9,054</b>	<b>1,333</b>
<b>B. Off-statement of financial position</b>						
B.1 Non-performing loans	-	-		-	-	
B.2 Substandard loans	1,125	-		-	-	
B.3 Other impaired assets	-	-		-	-	
B.4 Other	22,798		-	5,156		-
<b>Total B</b>	<b>23,923</b>	<b>-</b>	<b>-</b>	<b>5,156</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2014</b>	<b>679,492</b>	<b>50,247</b>	<b>8,612</b>	<b>304,319</b>	<b>9,054</b>	<b>1,333</b>
<b>Total (A+B) at 31/12/2013</b>	<b>743,530</b>	<b>35,982</b>	<b>9,863</b>	<b>305,897</b>	<b>7,131</b>	<b>1,243</b>

Item “A.5 Other” in the “Net amount” column for “Other government agencies” includes debt securities issued by local bodies (€614 thousand).

Table “B.2 Breakdown of loans to resident non-financial companies” has been eliminated by Banca d’Italia’s communication no. 4855 of 2 January 2009.

Moreover, the credit concentration risk is analysed in the directors’ report.

**B.2 Breakdown of loans and receivables with customers on and off-statement of financial position by geographical segment (carrying amount)**

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
<b>A. On-statement of financial position</b>										
A.1 Non-performing loans	38,225	44,695	-	-	-	-	-	-	-	-
A.2 Substandard loans	52,654	14,327	-	-	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-
A.4 Past due loans	3,130	309	-	-	-	-	-	-	-	-
A.5 Other	1,479,954	9,977	865	3	-	-	221	1	-	-
<b>Total A</b>	<b>1,573,963</b>	<b>69,308</b>	<b>865</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>221</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>B. Off-statement of financial position</b>										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	1,125	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other	48,658	-	-	-	-	-	-	-	-	-
<b>Total B</b>	<b>49,783</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2014</b>	<b>1,623,746</b>	<b>69,308</b>	<b>865</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>221</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2013</b>	<b>1,558,193</b>	<b>54,273</b>	<b>933</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>241</b>	<b>1</b>	<b>-</b>	<b>-</b>

**B.2.1 Breakdown of loans and receivables with customers on and off-statement of financial position by geographical segment (carrying amount)**

	North-west ITALY		North-east ITALY		Central ITALY		South ITALY and islands	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
<b>A. On-statement of financial position</b>								
A.1 Non-performing loans	2,213	4,272	61	91	34,446	37,787	1,504	2,544
A.2 Substandard loans	13	3	229	55	50,675	14,096	1,737	173
A.3 Restructured loans	-	-	-	-	-	-	-	-
A.4 Past due loans	-	-	-	-	3,069	300	60	9
A.5 Other	14,894	202	6,759	124	1,408,127	9,231	50,174	420
<b>Total A</b>	<b>17,120</b>	<b>4,477</b>	<b>7,049</b>	<b>270</b>	<b>1,496,317</b>	<b>61,414</b>	<b>53,475</b>	<b>3,146</b>
<b>B. Off-statement of financial position</b>								
B.1 Non-performing loans	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	1,125	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Other	101	-	486	-	47,132	-	939	-
<b>Total B</b>	<b>101</b>	<b>-</b>	<b>486</b>	<b>-</b>	<b>48,257</b>	<b>-</b>	<b>939</b>	<b>-</b>
<b>Total (A+B) at 31/12/2014</b>	<b>17,221</b>	<b>4,477</b>	<b>7,535</b>	<b>270</b>	<b>1,544,574</b>	<b>61,414</b>	<b>54,414</b>	<b>3,146</b>
<b>Total (A+B) at 31/12/2013</b>	<b>22,496</b>	<b>3,302</b>	<b>6,070</b>	<b>177</b>	<b>1,473,711</b>	<b>48,205</b>	<b>55,915</b>	<b>2,592</b>

**B.3 Breakdown of loans and receivables with banks on and off-statement of financial position by geographical segment (carrying amount)**

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
<b>A. On-statement of financial position</b>										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-
A.4 Past due loans	-	-	-	-	-	-	-	-	-	-
A.5 Other	82,927	-	104	-	530	-	29	-	-	-
<b>Total A</b>	<b>82,927</b>	<b>-</b>	<b>104</b>	<b>-</b>	<b>530</b>	<b>-</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>B. Off-statement of financial position</b>										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other	2,878	-	-	-	-	-	-	-	-	-
<b>Total B</b>	<b>2,878</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2014</b>	<b>85,805</b>	<b>-</b>	<b>104</b>	<b>-</b>	<b>530</b>	<b>-</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2013</b>	<b>113,770</b>	<b>-</b>	<b>127</b>	<b>-</b>	<b>600</b>	<b>-</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>-</b>

**B.3.1 Breakdown of loans and receivables with banks on and off-statement of financial position by geographical segment (carrying amount)**

	North-west ITALY		North-east ITALY		Central ITALY		South ITALY and islands	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
<b>A. On-statement of financial position</b>								
A.1 Non-performing loans	-	-	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-
A.4 Past due loans	-	-	-	-	-	-	-	-
A.5 Other	52,603	-	5,380	-	24,944	-	-	-
<b>Total A</b>	<b>52,603</b>	<b>-</b>	<b>5,380</b>	<b>-</b>	<b>24,944</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>B. Off-statement of financial position</b>								
B.1 Non-performing loans	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Other	435	-	-	-	2,443	-	-	-
<b>Total B</b>	<b>435</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,443</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2014</b>	<b>53,038</b>	<b>-</b>	<b>5,380</b>	<b>-</b>	<b>27,387</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) at 31/12/2013</b>	<b>56,597</b>	<b>-</b>	<b>443</b>	<b>-</b>	<b>56,730</b>	<b>-</b>	<b>-</b>	<b>-</b>

**B.4 Large exposures**

	31/12/2014	31/12/2013
a) Carrying amount	708,291	579,084
b) Weighted amount	64,232	60,321
c) Number	5	5

As provided for by the sixth update of circular no. 263 of the “New prudential reporting instructions for banks” of 27 December 2010, which revised the prudential regulations for risk concentration, and with reference to communication no. 0206253/11 of 7 March 2011 issued by Banca d’Italia, the above table shows both the weighted value of the large exposures and their carrying amount. These positions are unchanged from the previous year in number, even though the nominal amount has increased due to greater purchases of government bonds; in fact, one of the counterparties is the Italian government.

The weighted amount, up from €60,321 thousand to €64,232 thousand at 31 December 2014 includes exposure to banks (€47,345 thousand) and to companies.



## E. Transfers

### A. FINANCIAL ASSETS TRANSFERRED AND NOT DERECOGNISED

#### Qualitative disclosure

The amounts shown in this section refer to repurchase agreements.

#### Quantitative disclosure

#### E.1 Financial assets transferred and not derecognised: carrying amount and entire amount

	Financial assets held for trading			Financial assets at fair value through profit or loss			Available-for-sale financial assets			Total	
	A	B	C	A	B	C	A	B	C	31/12/2014	31/12/2013
<b>A. Assets</b>	1,378	-	-	-	-	-	-	-	-	1,378	8,646
1. Debt instruments	1,378	-	-	-	-	-	-	-	-	1,378	8,646
2. Equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Total 31/12/2014</b>	1,378	-	-	-	-	-	-	-	-	1,378	-
<b>- including: impaired</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Total 31/12/2013</b>	8,646	-	-	-	-	-	-	-	-	-	8,646
<b>- including: impaired</b>	-	-	-	-	-	-	-	-	-	-	-

	Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			Total	
	A	B	C	A	B	C	A	B	C	31/12/2014	31/12/2013
<b>A. Assets</b>	-	-	-	-	-	-	-	-	-	-	-
1. Debt instruments	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Total 31/12/2014</b>	-	-	-	-	-	-	-	-	-	-	-
<b>- including: impaired</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Total 31/12/2013</b>	-	-	-	-	-	-	-	-	-	-	-
<b>- including: impaired</b>	-	-	-	-	-	-	-	-	-	-	-

#### KEY:

- A = transferred financial assets recognised in full (carrying amount)
- B = transferred financial assets recognised in part (carrying amount)
- C = transferred financial assets recognised in part (entire amount)

**E.2 Financial liabilities for financial assets transferred but not derecognised**

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
<b>1. Due to customers</b>	1,375	-	-	-	-	-	1,375
a) for fully recognised assets	1,375	-	-	-	-	-	1,375
b) for partly recognised assets	-	-	-	-	-	-	-
<b>2. Due to banks</b>	-	-	-	-	-	-	-
a) for fully recognised assets	-	-	-	-	-	-	-
b) for partly recognised assets	-	-	-	-	-	-	-
<b>Total 31/12/2014</b>	1,375	-	-	-	-	-	1,375
<b>Total 31/12/2013</b>	8,608	-	-	-	-	-	8,608

## **SECTION 2 - MARKET RISK**

### **2.1 Interest rate and price risks - supervisory trading book**

#### **Qualitative disclosure**

##### **A. General aspects**

The securities portfolio was almost entirely comprised of securities issued by governments or banks at floating rates in 2014, like in 2013, also used in repurchase agreements with customers in order to minimise interest rate risks. The bank also pledged bank and government bonds from different portfolios as security with the ECB to obtain the required financing, pursuant to the Banca d'Italia instructions.

Other interest rate swaps include specular contracts for corporate customers, hedged specifically with institutional counterparties. As a result, derivatives do not entail the bank's taking on of risk.

Therefore, the bank's policy for trading on its own behalf consists of short-term repurchase transactions, monitoring the performance and risk profiles, in order to achieve returns on a portfolio mainly composed of floating rate securities.

As part of its ordinary trading activities, the bank undertook transactions directly for government bonds and bonds, mostly issued by banks. It also managed the organised trades system for its own bonds.

The bank solely traded in long-term interest rate derivatives using unlisted derivatives as interest rate options and swaps.

**B. Management and measurement of interest rate and price risks**

Internal control regulations establish that the banking book's exposure to risk is checked by the Risk Management Unit using the VaR method.

The VaR measurement is based on a variance-covariance type parametric model with a confidence interval of 99% and a time frame of 10 days. It has a reliability factor of 99% and measures the maximum loss that the book could incur in the ten days after the analysis date.

Since 1 January 2013, the bank has measured VaR using the new Prometeia Ermas application model approved by the board of directors on 28 February 2013. The model's innovative features include calculation of the specific risk for bonds and shares using the new indexation curves and the change to how cash flows of indexed transactions are mapped. The model is able to estimate potential losses for all financial instruments due to generic risk (market, interest rate, currency) and specific risk (risk of losses due to an unfavourable change in the price of a traded financial instrument due to factors related to the issuer's situation). This new Ermas model also provides a sensitivity analysis for each security in the bank's portfolio measuring variations in value of financial instruments (present value) caused by a variation in the interest rate curve, assuming a parallel change in the curve of 1 bp. Adoption of the new VaR model required the board of directors to revise the internal limits.

The calculation of the VaR of the banking book includes financial instruments, comprising shares, bonds and OICR units in Euros and foreign currencies of the HFT, AFS and HTM portfolios, excluding foreign currency swaps and futures and derivatives.

The objective is to constantly check the acceptability of the total risk and maintain its level within the internal regulations' limits by estimating the VaR component (VaRC) of each HFT, AFS and HTM portfolio.

In order to avoid taking on excessive risk and to ensure compliance with the established limits, the VaR monitoring is performed daily and the Risk Management Unit prepares a monthly summary of the daily results for the board of directors.

At present, the VaR model is solely used for management and internal control purposes. The backtesting procedure of the VaR DEaR (one-day) is performed daily to check the calculation model's reliability.

With respect to price risk, the bank's operations in price risk sensitive financial instruments (equity instruments, OEIC units, derivatives on OEIC units, equity instruments, share indexes, precious metals, commodities and other assets) is minimal and has a completely negligible risk level.

## Quantitative disclosure

### 1. Supervisory trading book: breakdown by residual maturity (repricing date) of on-statement of financial position financial assets and liabilities and derivatives

**Currency: Euro**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	-	123,012	138,560	145	15,222	19,149	-	-
1.1 Debt instruments	-	123,012	138,560	145	15,222	19,149	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	123,012	138,560	145	15,222	19,149	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>	-	1,155	220	-	-	-	-	-
2.1 Repurchase agreements	-	1,155	220	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	4,291	3,282	1,541	96,962	422,825	233,697	-
3.1 With underlying security	-	315	300	5	10	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	315	300	5	10	-	-	-
+ long positions	-	159	150	-	6	-	-	-
+ short positions	-	156	150	5	4	-	-	-
3.2 Without underlying security	-	3,976	2,982	1,536	96,952	422,825	233,697	-
- Options	-	-	-	286	96,782	422,669	233,685	-
+ long positions	-	-	-	143	48,384	211,340	116,844	-
+ short positions	-	-	-	143	48,398	211,329	116,841	-
- Other derivatives	-	3,976	2,982	1,250	170	156	12	-
+ long positions	-	1,978	1,491	625	85	78	6	-
+ short positions	-	1,998	1,491	625	85	78	6	-

The amounts shown in item 3.2 “Financial derivatives without underlying security - Options” of the above table include data about the remaining term of the cap options, calculated as a series of forward rate agreement options equal in number to the options for which the bank receives (pays) the fixed rate and pays (receives) the fair value of the indexed reference rate. These options are implicitly included in the loans granted to customers and are tied to the variability of interest rates.

**Currency: US dollar (USD)**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	-	-	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	3,512	2,628	1,116	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	3,512	2,628	1,116	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	3,512	2,628	1,116	-	-	-	-
+ long positions	-	1,744	1,314	558	-	-	-	-
+ short positions	-	1,768	1,314	558	-	-	-	-

**Currency: Pound sterling (GBP)**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	-	-	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

**Currency: Swiss franc (CHF)**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	-	-	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	12	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	12	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	12	-	-	-	-	-	-
+ long positions	-	12	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

**Currency: Japanese yen (JPY)**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	-	-	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	40	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	40	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	40	-	-	-	-	-	-
+ long positions	-	24	-	-	-	-	-	-
+ short positions	-	16	-	-	-	-	-	-

**Currency: Canadian dollar (CAD)**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	-	-	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

**Currency: other**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	-	-	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	26	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	26	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	26	-	-	-	-	-	-
+ long positions	-	25	-	-	-	-	-	-
+ short positions	-	1	-	-	-	-	-	-



## 2. Supervisory trading book: breakdown of exposure in equity instruments and share indexes by main stock exchange

	Listed						Unlisted
	ITALY	USA	UK	Switzerland	Germany	Other	
<b>A. Equity instruments</b>	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
<b>B. Unsettled transactions involving equity instruments</b>	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
<b>C. Other derivatives on equity instruments</b>	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
<b>D. Derivatives on share indexes</b>	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-

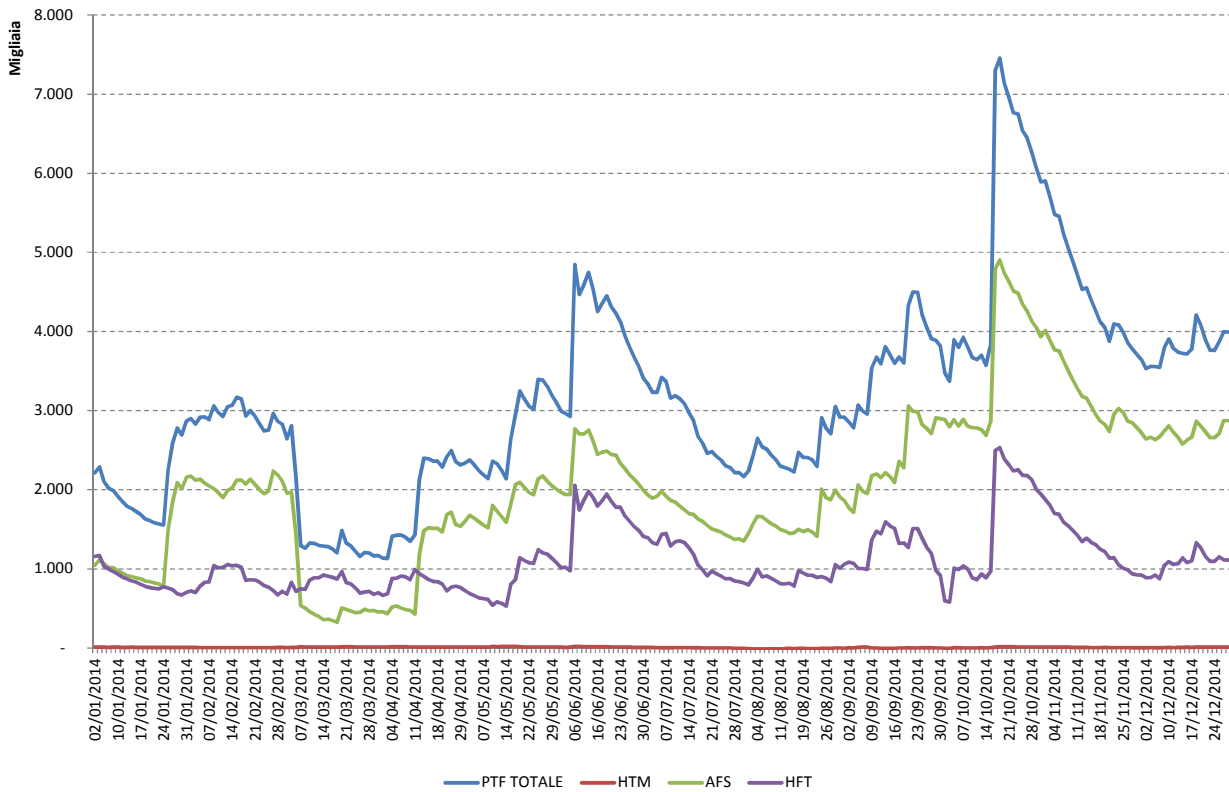
## 3. Supervisory trading book: internal models and other methodologies used to analyse sensitivity

The following table shows the information provided by the VaR calculation model about the shares and bonds in the trading book.

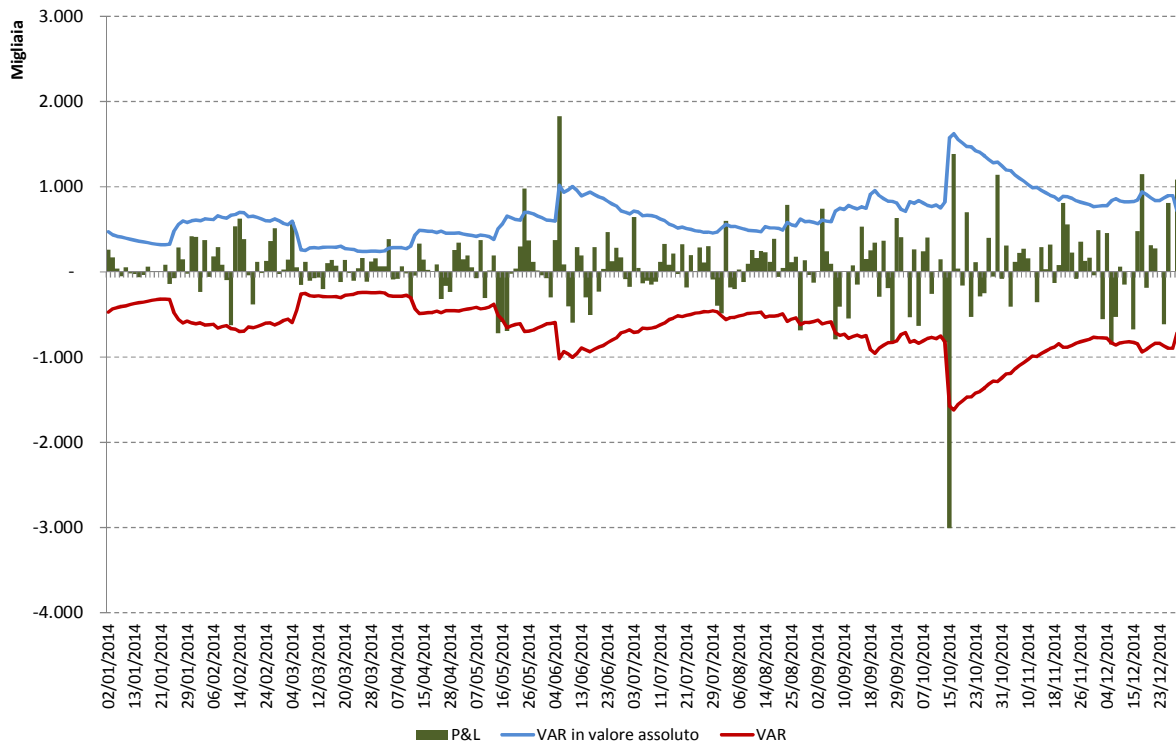
The graphs show the 10-day VaR trend from 1 January to 31 December 2014 and the results of the backtesting of the 1-day portfolio VaR. Losses (P&L series in the graph) exceeded VaR on four days.

<b>VaR (HFT)</b>	<b>From 1 January 2014 to 31 December 2014 - in Euro)</b>
Minimum	528,965
Maximum	2,533,496
Average	1,093,838
Period end	1,111,291

### 10-day VaR, 99% confidence interval



### Backtesting on 1-day VaR, 99% confidence interval



The backtesting is used to check how accurately the VaR model reflects real changes in value of the securities portfolio being analysed. It compares the results (profits or losses) for a certain period directly observed by the bank with the VaR results. The backtesting shows how often losses incurred are greater than those estimated using the VaR model. Actual losses should be higher than the VaR with a frequency in line with that defined by the 99% confidence level, i.e., 1% (2.5 days out of 250 trading days a year, which is the observation period recommended by the Basel Committee).

The table above presents 1-day VaR and the related profits or losses for the last year (250 business days), showing that the losses were higher than those estimated by the VaR model on nine days but the difference between the actual and VaR losses was modest except in two cases.

## **2.2 Interest rate and price risk - banking book**

### **Qualitative disclosure**

#### **A. General aspects, management and measurement of interest rate and price risks**

The banking book includes all financial assets and liabilities not included in the trading book.

The Risk Management Unit measures the banking book's interest rate risk every three months using the A2 matrix data, applying the methodology required by the prudential supervisory instructions (Banca d'Italia Circular no. 285/2013).

The model breaks down the assets and liabilities by maturity or interest rate review date and considers annual changes in daily interest rates recorded over an observation period of six years to determine internal capital in ordinary conditions, considering 1% (downward) and 99% (upward) trend.

In stress conditions, the model assumes a 200 bp change in the interest rates and quantifies the change in the total economic value of the instruments included in the banking book, on which the supervisory test is performed compared to the bank's own funds.

For management and monitoring purposes only, the bank's interest rate risk is subjected to additional monthly analyses to assess the impact of changes in interest rates on profit (repricing gap) and the economic value of the bank's assets and liabilities (duration gap) using the Ermas application. The analyses include on-demand items and assessing the stickiness effect (i.e., how long it takes to adapt to changes in interest rates) and the beta effect (how changes in market rates are absorbed by rates applied to on-demand products).

In order to ensure the proper monitoring of the banking book's interest rate risk, it is measured every month while monthly and quarterly reports are prepared for the managing director and the board of directors, respectively.

Price risk, i.e., the risk that the book's value decreases due to changes in demand and offer on the reference market, is negligible for the banking book.

#### **B. Fair value hedges**

The bank has not agreed fair value hedges.

#### **C. Cash flow hedges**

The bank has not agreed cash flow hedges.

#### **D. Hedges of investments in foreign operations**

No such transactions have taken place.



**Quantitative disclosure**
**1. Banking book: breakdown by residual maturity (by repricing date) of financial assets and liabilities**
**Currency: Euro**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	<b>355,822</b>	<b>480,910</b>	<b>65,725</b>	<b>33,631</b>	<b>262,882</b>	<b>139,206</b>	<b>17,908</b>	-
1.1 Debt instruments	-	15,818	48,614	5,015	175,452	96,502	6,764	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	15,818	48,614	5,015	175,452	96,502	6,764	-
1.2 Financing to banks	35,549	7,286	-	-	-	-	-	-
1.3 Financing to customers	<b>320,273</b>	<b>457,806</b>	<b>17,111</b>	<b>28,616</b>	<b>87,430</b>	<b>42,704</b>	<b>11,144</b>	-
- current account	242,055	708	219	2,491	3,519	1,235	-	-
- other financing	78,218	457,098	16,892	26,125	83,911	41,469	11,144	-
- with early repayment option	16,813	414,478	12,439	17,554	72,782	31,481	11,144	-
- other	61,405	42,620	4,453	8,571	11,129	9,988	-	-
<b>2. Liabilities</b>	<b>949,639</b>	<b>180,365</b>	<b>31,976</b>	<b>36,907</b>	<b>297,602</b>	-	-	-
2.1 Due to customers	948,305	7,914	7,331	-	-	-	-	-
- current account	847,139	-	-	-	-	-	-	-
- other payables	101,166	7,914	7,331	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	101,166	7,914	7,331	-	-	-	-	-
2.2 Due to banks	-	150,000	-	-	60,000	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	150,000	-	-	60,000	-	-	-
2.3 Debt instruments	1,334	22,451	24,645	36,907	237,602	-	-	-
- with early repayment option	-	22,411	19,477	25,393	20,924	-	-	-
- other	1,334	40	5,168	11,514	216,678	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	<b>62,767</b>	<b>21,885</b>	<b>7,585</b>	<b>52,496</b>	<b>16,580</b>	<b>8,115</b>	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	62,767	21,885	7,585	52,496	16,580	8,115	-
- <b>Options</b>	-	<b>62,767</b>	<b>21,885</b>	<b>7,585</b>	<b>52,496</b>	<b>16,580</b>	<b>8,115</b>	-
+ long positions	-	2,670	3,944	7,466	51,323	13,522	5,789	-
+ short positions	-	60,097	17,941	119	1,173	3,058	2,326	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
<b>4. Other off-statement of financial position transactions</b>	<b>46,524</b>	<b>8,941</b>	-	-	-	-	-	-
+ long positions	18,744	8,848	-	-	-	-	-	-
+ short positions	27,780	93	-	-	-	-	-	-

**Currency: US dollar (USD)**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	<b>1,389</b>	<b>2,197</b>	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	631	1,647	-	-	-	-	-	-
1.3 Financing to customers	<b>758</b>	<b>550</b>	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other financing	758	550	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	758	550	-	-	-	-	-	-
<b>2. Liabilities</b>	<b>3,603</b>	-	-	-	-	-	-	-
2.1 Due to customers	3,603	-	-	-	-	-	-	-
- current account	3,603	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
<b>4. Other off-statement of financial position transactions</b>	-	<b>114</b>	-	-	-	-	-	-
+ long positions	-	57	-	-	-	-	-	-
+ short positions	-	57	-	-	-	-	-	-

**Currency: Pound sterling (GBP)**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	<b>185</b>	<b>2</b>	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	185	-	-	-	-	-	-	-
1.3 Financing to customers	-	<b>2</b>	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other financing	-	2	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	2	-	-	-	-	-	-
<b>2. Liabilities</b>	<b>112</b>	<b>128</b>	-	-	-	-	-	-
2.1 Due to customers	112	-	-	-	-	-	-	-
- current account	112	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	128	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	128	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
<b>4. Other off-statement of financial position transactions</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

**Currency: Swiss franc (CHF)**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	<b>402</b>	-	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	402	-	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>	<b>415</b>	-	-	-	-	-	-	-
2.1 Due to customers	415	-	-	-	-	-	-	-
- current account	414	-	-	-	-	-	-	-
- other payables	1	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	1	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
<b>4. Other off-statement of financial position transactions</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-



**Currency: Japanese yen (JPY)**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	<b>45</b>	<b>10</b>	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	29	-	-	-	-	-	-	-
1.3 Financing to customers	<b>16</b>	<b>10</b>	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other financing	16	10	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	16	10	-	-	-	-	-	-
<b>2. Liabilities</b>	-	<b>69</b>	-	-	-	-	-	-
2.1 Due to customers	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	69	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	69	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
<b>4. Other off-statement of financial position transactions</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

**Currency: Canadian dollar (CAD)**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	<b>46</b>	<b>284</b>	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	46	284	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>	<b>337</b>	-	-	-	-	-	-	-
2.1 Due to customers	337	-	-	-	-	-	-	-
- current account	337	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
<b>4. Other off-statement of financial position transactions</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

**Currency: other**

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
<b>1. Assets</b>	<b>388</b>	<b>144</b>	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	388	144	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>	<b>483</b>	-	-	-	-	-	-	-
2.1 Due to customers	483	-	-	-	-	-	-	-
- current account	483	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- <b>Options</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- <b>Other derivatives</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
<b>4. Other off-statement of financial position transactions</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

## 2. Banking book: internal models and other methodologies for sensitivity analyses

The impact on interest income of a 1% increase or decrease (thus including the trading portfolio) in interest rates is calculated using the Ermas software for management purposes, assuming that the maturity dates do not change for a year.

Two models are used: the contractual model, which does not include the modelling of on-demand items, and the behavioural model, which includes the modelling of the on-demand items and valuation of the stickiness effect (i.e., how long it takes to adapt to changes in interest rates) and the beta effect (how changes in market rates are absorbed by rates applied to on demand products).

### *Analysis of net interest income delta - Shock +100bp, -100bp*

#### *Contractual model (without modelling on-demand items)*

*in Euros*

31/12/2014	REPRICING DELTA MI SHOCK +100bp	REPRICING DELTA MI SHOCK -100bp
<b>Assets</b>	<b>10,872,956</b>	<b>-2,078,294</b>
Other assets	4,890	-1,632
Assets / Cash	138,146	-22,686
Loans and receivables with banks	425,495	-85,358
Loans and receivables with customers	7,747,665	-1,345,219
Equity investments	109,307	-17,950
Securities portfolio	2,447,453	-605,449
<b>Off-statement of financial position</b>	<b>-6</b>	<b>-113</b>
Outrights	-6	-113
<b>Liabilities</b>	<b>-11,622,977</b>	<b>1,961,519</b>
Securities issued	-451,193	78,633
Due to banks	-1,360,023	249,180
Due to customers	-9,811,761	1,633,705
<b>Total</b>	<b>-750,028</b>	<b>-116,888</b>

**Analysis of net interest income delta - Shock +100bp, -100bp**
**Behavioural model – stickiness effect**
**in Euros**

<b>31/12/2014</b>	<b>REPRICING DELTA MI SHOCK 1</b>	<b>REPRICING DELTA MI SHOCK 2</b>
<b>Assets</b>	<b>10,540,968</b>	<b>-2,060,955</b>
Other assets	4,890	-1,632
Assets/Cash	138,146	-22,686
Loans and receivables with banks	425,495	-85,358
Loans and receivables with customers	7,415,677	-1,327,879
Equity investments	109,307	-17,950
Securities portfolio	2,447,453	-605,449
<b>Off-statement of financial position</b>	<b>-6</b>	<b>-113</b>
Outrights	-6	-113
<b>Liabilities</b>	<b>-9,573,776</b>	<b>1,449,980</b>
Securities issued	-451,193	78,633
Due to banks	-1,360,023	249,180
Due to customers	-7,762,560	1,122,166
<b>Total</b>	<b>967,186</b>	<b>-611,087</b>

**Analysis of net interest income delta - Shock +100bp, -100bp**
**Behavioural model – stickiness and beta effects**
**in Euros**

<b>31/12/2014</b>	<b>BETA REPRICING DELTA MI - SHOCK 1</b>	<b>BETA REPRICING DELTA MI - SHOCK 2</b>
<b>Assets</b>	<b>10,404,058</b>	<b>-2,036,356</b>
Other assets	4,890	-1,632
Assets/Cash	138,146	-22,686
Loans and receivables with banks	425,495	-85,358
Loans and receivables with customers	7,278,767	-1,303,280
Equity investments	109,307	-17,950
Securities portfolio	2,447,453	-605,449
<b>Off-statement of financial position</b>	<b>-6</b>	<b>-113</b>
Outrights	-6	-113
<b>Liabilities</b>	<b>-5,600,320</b>	<b>746,756</b>
Securities issued	-451,193	78,633
Due to banks	-1,360,023	249,180
Due to customers	-3,789,104	418,942
<b>Total</b>	<b>4,803,732</b>	<b>-1,289,713</b>

## 2.3 Currency risk

### Qualitative disclosure

#### A. General aspects, management and measurement of currency risk

Currency risk is the risk that the bank may incur losses due to adverse changes in foreign exchange rates affecting its positions.

The bank's foreign currency activities solely comprise spot and repurchase agreements for customers, which are concurrently matched on the market by agreeing very short term short/long positions that give rise to immaterial price risk.

Internal models to calculate the capital requirements for market risk are not used.

#### B. Currency hedges

The bank does not agree specific currency hedges.

### Quantitative disclosure

#### 1. Breakdown of assets, liabilities and derivatives by currency

	Currency					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other currencies
<b>A.1 Financial assets</b>	<b>3,587</b>	<b>187</b>	<b>55</b>	<b>331</b>	<b>402</b>	<b>532</b>
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	-
A.3 Financing to banks	2,279	185	29	331	402	532
A.4 Financing to customers	1,308	2	26	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
<b>B. Other assets</b>	<b>64</b>	<b>72</b>	<b>7</b>	<b>2</b>	<b>1</b>	<b>27</b>
<b>C. Financial liabilities</b>	<b>3,603</b>	<b>240</b>	<b>69</b>	<b>337</b>	<b>415</b>	<b>483</b>
C.1 Due to banks	-	128	69	-	-	-
C.2 Due to customers	3,603	112	-	337	415	483
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
<b>D. Other liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>E. Financial derivatives</b>	<b>7,256</b>	<b>-</b>	<b>40</b>	<b>-</b>	<b>12</b>	<b>26</b>
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	7,256	-	40	-	12	26
+ long positions	3,616	-	24	-	12	25
+ short positions	3,640	-	16	-	-	1
<b>Total assets</b>	<b>7,267</b>	<b>259</b>	<b>86</b>	<b>333</b>	<b>415</b>	<b>584</b>
<b>Total liabilities</b>	<b>7,243</b>	<b>240</b>	<b>85</b>	<b>337</b>	<b>415</b>	<b>484</b>
<b>Difference (+/-)</b>	<b>24</b>	<b>19</b>	<b>1</b>	<b>- 4</b>	<b>-</b>	<b>100</b>

## 2. Internal models and other methodologies for sensitivity analyses

The bank does not use internal models to measure currency risk or other methodologies for sensitivity analyses.

## 2.4 Derivatives

### A. Financial derivatives

The banking book is not subject to price risk.

#### A.1 Supervisory trading book: notional amounts at the reporting date and average amounts

	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>1. Debt instruments and interest rates</b>	<b>43,559</b>	<b>-</b>	<b>49,422</b>	<b>-</b>
a) Options	42,952	-	48,554	-
b) IRS	607	-	868	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equity instruments and share indexes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currencies and gold</b>	<b>7,085</b>	<b>-</b>	<b>11,909</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	7,085	-	11,909	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>5. Other underlying assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>50,644</b>	<b>-</b>	<b>61,331</b>	<b>-</b>
<b>Average amounts</b>	<b>54,719</b>	<b>-</b>	<b>75,149</b>	<b>-</b>

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

	Positive fair value			
	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>A. Supervisory trading book</b>	<b>483</b>	<b>-</b>	<b>732</b>	<b>-</b>
a) Options	128	-	523	-
b) Interest rate swaps	37	-	40	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	318	-	169	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>B. Banking book - hedging</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>C. Banking book - other derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>Total</b>	<b>483</b>	<b>-</b>	<b>732</b>	<b>-</b>



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

	Negative fair value			
	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>A. Supervisory trading book</b>	<b>481</b>	<b>-</b>	<b>727</b>	<b>-</b>
a) Options	127	-	523	-
b) Interest rate swaps	37	-	40	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	317	-	164	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>B. Banking book - hedging</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>C. Banking book - other derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>Total</b>	<b>481</b>	<b>-</b>	<b>727</b>	<b>-</b>

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

	Government and central banks	Other government agencies	Banks	Financial companies	Insurance companies	Non-financial companies	Other
<b>1. Debt instruments and interest rates</b>	-	-	22,071	213	-	10,672	11,139
- notional amount	-	-	21,701	212	-	10,627	11,020
- positive fair value	-	-	128	-	-	3	33
- negative fair value	-	-	37	1	-	42	84
- future exposure	-	-	205	-	-	-	2
<b>2. Equity instruments and share indexes</b>	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>3. Currencies and gold</b>	-	-	3,878	-	-	3,793	118
- notional amount	-	-	3,526	-	-	3,452	107
- positive fair value	-	-	307	-	-	-	10
- negative fair value	-	-	10	-	-	306	-
- future exposure	-	-	35	-	-	35	1
<b>4. Other assets</b>	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

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

	Up to 1 year	From 1 to 5 years	After 5 years	Total
<b>A. Supervisory trading book</b>	12,402	16,271	21,972	50,645
A.1 Financial derivatives on debt instruments and interest rates	5,317	16,271	21,972	43,560
A.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	7,085	-	-	7,085
A.4 Financial derivatives on other assets	-	-	-	-
<b>B. Banking book</b>	-	-	-	-
B.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
B.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other assets	-	-	-	-
<b>Total 31/12/2014</b>	12,402	16,271	21,972	50,645
<b>Total 31/12/2013</b>	16,662	17,881	26,788	61,331

**B. Credit derivatives**

The bank has not agreed credit derivatives.

## **SECTION 3 - LIQUIDITY RISK**

### **Qualitative disclosure**

#### **A. General aspects, management and measurement of liquidity risk**

Liquidity risk is the risk that the bank is unable to meet its payment commitments due to its inability to raise funds on the market (funding liquidity risk) and/or to disinvest its assets (market liquidity risk), thus jeopardising daily operations or its financial position.

The bank's liquidity risk management strategy is based on ensuring a steady flow of liquidity, as required by the supervisory regulations and its healthy and prudent management policies. The "Liquidity risk governance and management policy", approved by the board of directors in 2011, formalises this policy and sets out the emergency plan for any liquidity crises.

The Finance Unit Head is in charge of managing liquidity, including by investing any surplus on the interbank deposit market. The Risk Management Unit regularly monitors the liquidity conditions and reports to the general manager.

Regular risk monitoring requires the monthly check that the limits set by regulations and in the RAF by the board of directors are complied with in respect of short-term and structural liquidity and the ordinary customers' lending/liquidity ratio.

The Prometeia Ermas application and the matrix data feed the internal risk assessment model, which has differentiated weighing ratios depending on the type of asset and liability and classifies them considering their residual maturity (maturity ladder) as per the relevant regulations. Any differences and certain synthetic indexes are used to assess the structural liquidity situation over the entire timeframe.

In 2013, the bank activated the Ermas module for calculation of the regulatory operating liquidity ratio (LCR - liquidity coverage ratio, which measures its ability to cover its forecast net cash outflows over 30 days, and the structural liquidity ratio (net stable funding ratio) which estimates the degree of coverage of medium-term funding through stable forms of funding. Both ratios were always considerably higher than the regulatory and internal limits in 2014.

The Risk Management Unit also performs monthly stress tests and the results are used to define ex ante limits and ex-post assessments of their adequacy, to plan and undertake transactions to remedy any differences and to define and periodically overview the liquidity risk mitigation systems.

The bank uses a judgement-based approach to estimate cash flows, based on subjective forecasts based on past experience and the guidance received from the supervisory authorities. Identification of appropriate risk factors is essential for the suitability of the stress tests. Given the bank's operations and related vulnerabilities, the main risk factors relate to:

- the bank's ability to fund itself on interbank and retail markets;
- requests for liquidity to cover on demand liabilities;
- the use of credit facilities granted and usability of those received;
- losses due to non-repayment of large positions;
- the degree of liquidability of the bank's assets.

Based on these factors, the Risk Management Unit uses stress tests that include increases in the haircuts of highly liquid assets and cash outflows of the maturity ladder based on scenarios that it intends to analyse (increase in withdrawals by customers, greater use of current account credit facilities).

Given the bank's operations and related vulnerabilities, the main risk factors relate to its capacity to fund itself on the interbank and retail markets, to cover on demand liabilities, the

use of credit facilities granted and the usability of those received, losses due to non-repayment of large positions and the degree of liquidability of its assets.

## Quantitative disclosure

The following table shows the data of the structural liquidity analysis models which show substantial financial balance at the reporting date:

*in Euros*

Time bracket	Asset/ availability	Liability/ commitment	Difference	Total difference	Balancing ratio
Highly liquid assets	403,785,290				
On demand or revocation	3,478,120	164,760,419	242,502,991	242,502,991	2.47
Up to 1 month	86,035,504	50,393,725	35,641,779	278,144,770	2.29
From 1 to 3 months	54,048,893	139,357,231	-85,308,338	192,836,432	1.54
From 3 to 6 months	32,585,410	32,904,590	-319,180	192,517,252	1.50
From 6 to 12 months	43,361,915	36,703,500	6,658,415	199,175,667	1.47
From 1 to 2 years	74,531,295	104,843,500	-30,312,205	168,863,462	1.32
From 2 to 3 years	63,926,885	95,283,500	-31,356,615	137,506,847	1.22
From 3 to 4 years	53,752,915	100,312,000	-46,559,085	90,947,762	1.13
From 4 to 5 years	45,596,369	-	45,596,369	136,544,131	1.19
From 5 to 7 years	74,017,498	-	74,017,498	210,561,629	1.29
From 7 to 10 years	82,911,779	-	82,911,779	293,473,408	1.41
From 10 to 15 years	62,208,253	-	62,208,253	355,681,661	1.49
From 15 to 20 years	15,004,916	-	15,004,916	370,686,577	1.51
After 20 years	3,833,191	-	3,833,191	374,519,768	1.52
<b>TOTAL</b>	<b>1,099,078,233</b>	<b>724,558,465</b>	<b>374,519,768</b>		

Activities on the interbank deposit market are undertaken to invest surplus liquidity in short-term products so as to ensure fast liquidity.

# 1. Breakdown of financial assets and liabilities by residual contractual maturity

The following breakdown of foreign currency financial assets and liabilities shows the overall balance of deposits/financing and spot/forward exchange rate items.

Therefore, currency risks are very immaterial thanks to the bank's careful management of foreign currency.

## Currency: all currencies

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
<b>Assets</b>	<b>348,486</b>	<b>4,190</b>	<b>7,762</b>	<b>21,402</b>	<b>52,935</b>	<b>56,326</b>	<b>118,703</b>	<b>613,946</b>	<b>442,734</b>	<b>7,286</b>
A.1 Government bonds	73	-	-	55	3,155	18,348	53,695	330,818	187,960	-
A.2 Other debt instruments	-	-	-	-	8,863	59	20	27,133	2,516	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	348,413	4,190	7,762	21,347	40,917	37,919	64,988	255,995	252,258	7,286
- Banks	37,230	1,647	-	428	-	-	-	-	-	7,286
- Customers	311,183	2,543	7,762	20,919	40,917	37,919	64,988	255,995	252,258	-
<b>Liabilities</b>	<b>954,719</b>	<b>1,111</b>	<b>2,627</b>	<b>37,370</b>	<b>140,752</b>	<b>32,435</b>	<b>36,966</b>	<b>294,590</b>	<b>-</b>	<b>-</b>
B.1 Deposits and current accounts	951,623	320	350	1,611	5,830	7,329	25	-	-	-
- Banks	-	-	-	69	129	-	-	-	-	-
- Customers	951,623	320	350	1,542	5,701	7,329	25	-	-	-
B.2 Debt instruments	1,488	791	2,277	5,759	13,767	24,886	36,941	234,590	-	-
B.3 Other liabilities	1,608	-	-	30,000	121,155	220	-	60,000	-	-
<b>Off-statement of financial position transactions</b>	<b>46,855</b>	<b>1,441</b>	<b>824</b>	<b>1,416</b>	<b>4,114</b>	<b>5,556</b>	<b>2,235</b>	<b>10</b>	<b>8,755</b>	<b>-</b>
C.1 Financial derivatives with exchange of principal	-	1,141	824	1,416	4,114	5,556	2,235	10	-	-
- Long positions	-	572	412	708	2,057	2,778	1,115	6	-	-
- Short positions	-	569	412	708	2,057	2,778	1,120	4	-	-
C.2 Financial derivatives without exchange of principal	<b>328</b>	-	-	-	-	-	-	-	-	-
- Long positions	164	-	-	-	-	-	-	-	-	-
- Short positions	164	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	<b>46,524</b>	<b>300</b>	-	-	-	-	-	-	<b>8,755</b>	<b>-</b>
- Long positions	18,744	150	-	-	-	-	-	-	8,755	-
- Short positions	27,780	150	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	3	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

At the reporting date, the bank had received guarantees of €18,826 thousand which are not shown in the above table as there is no evidence to reasonably suggest that they will be enforced or when they will be used. Guarantees enforced in the last four years are as follows:

2011: 1 position for a total of €25 thousand;

2012: 5 positions for a total of €61 thousand;

2013: 7 positions for a total of €542 thousand;

2014: 15 positions for a total of €399 thousand.

**Currency: Euro**

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
<b>Assets</b>	<b>346,804</b>	<b>2,543</b>	<b>7,734</b>	<b>20,411</b>	<b>52,233</b>	<b>56,272</b>	<b>118,703</b>	<b>613,946</b>	<b>442,734</b>	<b>7,286</b>
A.1 Government bonds	73	-	-	55	3,155	18,348	53,695	330,818	187,960	-
A.2 Other debt instruments	-	-	-	-	8,863	59	20	27,133	2,516	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	346,731	2,543	7,734	20,356	40,215	37,865	64,988	255,995	252,258	7,286
- Banks	35,549	-	-	-	-	-	-	-	-	7,286
- Customers	311,182	2,543	7,734	20,356	40,215	37,865	64,988	255,995	252,258	-
<b>Liabilities</b>	<b>949,769</b>	<b>1,111</b>	<b>2,627</b>	<b>37,301</b>	<b>140,623</b>	<b>32,435</b>	<b>36,966</b>	<b>294,590</b>	-	-
B.1 Deposits and current accounts	946,674	320	350	1,542	5,701	7,329	25	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	946,674	320	350	1,542	5,701	7,329	25	-	-	-
B.2 Debt instruments	1,488	791	2,277	5,759	13,767	24,886	36,941	234,590	-	-
B.3 Other liabilities	1,607	-	-	30,000	121,155	220	-	60,000	-	-
<b>Off-statement of financial position transactions</b>	<b>46,855</b>	<b>914</b>	<b>412</b>	<b>709</b>	<b>2,058</b>	<b>2,928</b>	<b>1,121</b>	<b>10</b>	<b>8,755</b>	-
C.1 Financial derivatives with exchange of principal	-	728	412	709	2,058	2,928	1,121	10	-	-
- Long positions	-	339	206	371	1,029	1,464	558	6	-	-
- Short positions	-	389	206	338	1,029	1,464	563	4	-	-
C.2 Financial derivatives without exchange of principal	328	-	-	-	-	-	-	-	-	-
- Long positions	164	-	-	-	-	-	-	-	-	-
- Short positions	164	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	46,524	186	-	-	-	-	-	-	8,755	-
- Long positions	18,744	93	-	-	-	-	-	-	8,755	-
- Short positions	27,780	93	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	3	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

**Currency: US dollar (USD)**

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
<b>Assets</b>	<b>631</b>	<b>1,647</b>	-	<b>563</b>	<b>701</b>	<b>54</b>	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	631	1,647	-	563	701	54	-	-	-	-
- Banks	631	1,647	-	-	-	-	-	-	-	-
- Customers	-	-	-	563	701	54	-	-	-	-
<b>Liabilities</b>	<b>3,603</b>	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	3,603	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	3,603	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-statement of financial position transactions</b>	<b>-</b>	<b>449</b>	<b>412</b>	<b>709</b>	<b>2,058</b>	<b>2,628</b>	<b>1,116</b>	-	-	-
C.1 Financial derivatives with exchange of principal	-	335	412	709	2,058	2,628	1,116	-	-	-
- Long positions	-	172	206	338	1,029	1,314	558	-	-	-
- Short positions	-	163	206	371	1,029	1,314	558	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	114	-	-	-	-	-	-	-	-
- Long positions	-	57	-	-	-	-	-	-	-	-
- Short positions	-	57	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-



**Currency: Pound sterling (GBP)**

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
<b>Assets</b>	<b>185</b>	-	<b>2</b>	-	-	-	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	185	-	2	-	-	-	-	-	-	-
- Banks	185	-	-	-	-	-	-	-	-	-
- Customers	-	-	2	-	-	-	-	-	-	-
<b>Liabilities</b>	<b>112</b>	-	-	-	<b>129</b>	-	-	-	-	-
B.1 Deposits and current accounts	112	-	-	-	129	-	-	-	-	-
- Banks	-	-	-	-	129	-	-	-	-	-
- Customers	112	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-statement of financial position transactions</b>	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

**Currency: Swiss franc (CHF)**

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
<b>Assets</b>	<b>402</b>	-	-	-	-	-	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	402	-	-	-	-	-	-	-	-	-
- Banks	402	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
<b>Liabilities</b>	<b>415</b>	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	414	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	414	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1	-	-	-	-	-	-	-	-	-
<b>Off-statement of financial position transactions</b>	-	12	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	12	-	-	-	-	-	-	-	-
- Long positions	-	12	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

**Currency: Japanese yen (JPY)**

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
<b>Assets</b>	29	-	26	-	-	-	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	29	-	26	-	-	-	-	-	-	-
- Banks	29	-	-	-	-	-	-	-	-	-
- Customers	-	-	26	-	-	-	-	-	-	-
<b>Liabilities</b>	-	-	-	69	-	-	-	-	-	-
B.1 Deposits and current accounts	-	-	-	69	-	-	-	-	-	-
- Banks	-	-	-	69	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-statement of financial position transactions</b>	-	40	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	40	-	-	-	-	-	-	-	-
- Long positions	-	24	-	-	-	-	-	-	-	-
- Short positions	-	16	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

**Currency: Canadian dollar (CAD)**

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
<b>Assets</b>	<b>46</b>	-	-	<b>284</b>	-	-	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	46	-	-	284	-	-	-	-	-	-
- Banks	46	-	-	284	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
<b>Liabilities</b>	<b>337</b>	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	337	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	337	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-statement of financial position transactions</b>	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

**Currency: other**

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
<b>Assets</b>	<b>388</b>	-	-	<b>144</b>	-	-	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	388	-	-	144	-	-	-	-	-	-
- Banks	388	-	-	144	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
<b>Liabilities</b>	<b>483</b>	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	483	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	483	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-statement of financial position transactions</b>	-	<b>26</b>	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	26	-	-	-	-	-	-	-	-
- Long positions	-	25	-	-	-	-	-	-	-	-
- Short positions	-	1	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

**2. On-statement of financial position committed assets**

	Committed		Uncommitted		Total at 31/12/2014	Total at 31/12/2013
	CA	FV	CA	FV		
1. Cash and cash equivalents	-		15,412		15,412	14,353
2. Debt instruments	254,623	254,534	390,092	389,832	644,715	530,675
3. Equity instruments	-	-	12,077	12,077	12,077	10,937
4. Financing	29		1,012,982		1,013,011	1,066,687
5. Other financial assets	-		482		482	731
6. Non-financial assets	-		66,960		66,960	67,249
<b>Total at 31/12/2014</b>	<b>254,652</b>	<b>254,534</b>	<b>1,498,005</b>	<b>401,909</b>	<b>1,752,657</b>	
<b>Total at 31/12/2013</b>	<b>137,791</b>	<b>137,579</b>	<b>1,552,841</b>	<b>403,824</b>		<b>1,690,632</b>

The bank pledged its assets of €210,000 thousand, as described below table “2 Assets pledged as guarantee for liabilities and commitments” of the “Other information” section in Part B for the refinancing operations with the ECB.

**3. Off-statement of financial position committed assets**

	Committed	Uncommitted	Total at 31/12/2014	Total at 31/12/2013
<b>1. Financial assets</b>	-	28,613	28,613	88,858
- Securities	-	28,613	28,613	88,858
- Other	-	-	-	-
<b>2. Non-financial assets</b>	-	-	-	-
<b>Total at 31/12/2014</b>	-	28,613	28,613	
<b>Total at 31/12/2013</b>	70,000	18,858		88,858

## **SECTION 4 - OPERATIONAL RISKS**

### **Qualitative disclosure**

#### **A. General aspects, management and measurement of operational risk**

Operational risk is the risk of losses arising from errors or shortfalls in internal procedures, human resources or systems and external factors. This risk includes losses caused by fraud, human error, business discontinuity, system breakdowns, contractual defaults and natural disasters. It also comprises legal risk but not strategic or reputational risk.

In line with the proportionality principle, the bank uses the basic method (basic indicator approach of 15% of the average total income for the last three years) to measure its capital requirements to cover operational risk.

The Risk Management Unit was defined in the “Operational risk mitigation policy” approved by the board of directors on 24 June 2014. Specifically:

- the board of directors defines the guidelines to control and mitigate operational risk, regularly checking that they are correctly implemented and reflect the bank's operations as well as the transparent and appropriate allocation of duties and responsibilities;
- the managing director defines the operating rules and practices, activities, procedures and most appropriate units to manage the operational risk mitigation process assisted by the competent units and in line with the policies set by the board of directors; they also check their suitability over time in terms of the adequacy and functionality and ensures steps are taken to eliminate any weaknesses or dysfunctions;
- as a control body, the board of statutory auditors monitors the adequacy of the risk management and control system and internal controls;
- the Risk Management Unit designs and updates the methods to measure risks and assists the Organisation Office to assign the first and second level controls when new products, processes or activities are introduced, amendments are made to legislation and regulations, changes take place in the market conditions or other external factors;
- the Internal Audit Unit carries out regular audits of the operational risk management system; it works with the Risk Management Unit to develop, implement and maintain the operational risk management system; it liaises promptly with the board of directors on its findings when they identify effective weaknesses in the controls adopted to mitigate operational risks that would expose the bank to the risk of large losses.

With respect to the operational risk mitigation tools, the bank focused on the transfer of risk through the agreement of insurance policies, suitable for low frequency events with a high financial impact. These policies cover risks of losses from:

- fraud or misconduct;
- damage to third parties caused by errors made during banking operations;
- non-intentional violations of legal, regulatory and by-laws obligations by directors and specific employees;
- third-party fraud;
- damage to property and equipment as a result of natural or criminal events;
- accidents and slight or serious injuries to third parties inside the bank's premises.

## **Legal risks**

Situations that lead to legal risks principally relate to operations covered by the main special regulations such as, specifically, entities' administrative liability (Legislative decree no. 231/2001), occupational safety (Legislative decree no. 81/2008), building site regulations (Legislative decree no. 494/96), privacy (Legislative decree no. 196/2003), banking transparency, usury, anti-money laundering, investment services and tax regulations.

With respect to Legislative decree no. 231/01, the bank implemented the organisational model proposed by the ABI, approved by the Ministry for Justice, and set up a supervisory body to ensure the working and compliance of the models. Since March 2014, the board of statutory auditors has carried out the supervisory body's duties, with the assistance of the pro tempore heads of the bank's control units (Internal Audit, Risk Management, Compliance and AML).

The Compliance Unit is responsible for monitoring legal risks and the bank's compliance with external and internal rules and regulations. It also checks new products/services' compliance in order to identify any potential risks in advance and make the necessary amendments.

On 19 December 2014, the board of directors approved the "Compliance Unit's Regulation", which describes the risk of non-compliance and its management as well as the methods adopted by the unit to carry out its duties. Pursuant to the fifteenth update of Banca d'Italia Circular no. 263/06, the Regulation defines the scope of the Unit's duties and the specific controls, identifying a unit, which already had the relevant expertise, to perform the compliance checks.

During the year, in order to contain the risk of money laundering and financing of terrorism, the Anti-money Laundering Unit stepped up its controls and continued to encourage a culture of compliance, both internally and externally.

On 24 June 2014, the board of directors approved an amendment to the "Policy to combat money laundering and the financing of terrorism of Cassa di Risparmio di Fermo S.p.A.", designed to comply with Banca d'Italia's "Measure setting out instructions for the implementation of customer due diligences pursuant to article 7.2 of Legislative decree no. 231 of 21 November 2007" applicable from 1 January 2014.

With respect to the correct management and keeping of the centralised computer database, the Unit ensures the network is constantly monitored and kept aware of the issue, assisted by other general management units.

The main legal disputes are described below.

## **Compound interest disputes**

In line with the banking sector's general practice, the bank does not agree with the decision reiterated by the Supreme Court since 1999 which confirms the "negotiating" rather than the "regulatory" nature of the quarterly capitalisation clause for interest expense and, therefore, the illegality of its application to bank current accounts. The bank maintains its opinion in court as well.

The banks' position is supported by numerous merits rulings which emphasise different legal points, which are valid, and that may lead the Supreme Court to rethink its position in the future.

At present, the bank is obliged to make adequate provision for its ongoing disputes with customers about compound interest, based on the calculations made when the dispute arose.



**Claw-back claims**

The bank assesses individual requests for the return of amounts from the official receivers, estimating the inherent risks. It assesses the cost/benefits ratio only when it deems it more useful and proposes out-of-court settlements to the counterparties, which are often successful and avoid going to court.

Should a legal proceeding be commenced, the bank evaluates its possibility of losing, updates its risk estimates and defends itself suitably in court, also based on its understanding of the counterparty's insolvency. Once such legal proceedings commence, provision is made for the risks related to the amounts deemed re-obtainable based on internal assessments.

**Disputes involving securities**

Supported by a number of court rulings in its favour, the bank reviews each dispute and only makes adequate provision when it deems that it may effectively have to pay.

Moreover, the number of proceedings commenced against the bank for the acquisition of securities by customers (mostly Argentine and Parmalat bonds) is very modest compared to the number of transactions performed. The bank does not expect it to increase significantly.

**Tax regulations**

In 2012, the Italian Inland Revenue carried out an inspection of the bank with respect to the IRES and IRAP direct taxes as well as the main indirect taxes paid by the bank in 2009. The extremely comforting results confirmed that the bank's procedures were correctly used thus ensuring compliance with the sector regulations.



## **PART F**

### **Equity**



## **Section 1 - Equity**

### **A. Qualitative disclosure**

Regulation (EU) no. 575/2013 (CRR) and Directive no. 2013/36/EU (CRD IV) of 26 June 2013 covering banks and investment companies became effective on 1 January 2014. They transposed the supervisory standards for banks defined by the Basel Committee in the European Union.

On 19 December 2013, Banca d'Italia published Circular no. 285 "Prudential reporting instructions for banks", setting out guidance on how to implement CRD IV. The central bank subsequently issued Circular no. 286 "Instructions for preparing prudential reports for banks and investment companies", which regulates the prudent supervisory reports prepared on a separate and consolidated basis.

Equity management covers all the policies and decisions necessary to ensure that the bank's own funds are adequate to cover its assets and risks. The bank has to comply with capital adequacy requirements established by the above regulations.

Checks of compliance with the minimum prudential requirements are ongoing and consider possible changes in risks and the Risk Appetite Framework (RAF).

Moreover and in accordance with the ECB's recommendation of 28 January 2015, compliance with the minimum requirements is also ensured by observance of a pay out policy tied to attainment of the above-mentioned minimum capital requirements.

On 23 January 2014, the board of directors exercised the option envisaged by part 2, chapter 14, section II of the aforesaid Circular no. 285. This measure provides for the exclusion of unrealised profits or losses on positions with governments classified in the AFS portfolio from calculation of CET 1 (common equity tier 1) until IFRS 9 is adopted by the EU countries. This new standard includes new classification criteria for assets and liabilities, especially assets recognised as available for sale. Exercise of the option affected the regulatory capital reports starting from 31 March 2014.

The directors' report discloses and comments on the main financial statements indicators which include, in particular, the capitalisation ratios, useful to analyse the bank's equity on a qualitative basis.

Since 1 January 2014, the Italian banks are required to have a minimum CET 1 ratio of 4.5%, a TIER 1 ratio of 5.5% (6% from 2015) and a Total Capital Ratio of 8%. These minimum requirements have been supplemented by the following CET 1 buffers: Capital Conservation buffer of 2.5% from 1 January 2014 and Countercyclical buffer in periods of high credit growth and Systematic buffer for major international or local banks. Non-compliance with the sum of these buffers (Combined Requirement) leads to limits on distributions and the requirement to introduce a capital conservation plan.

## B. Quantitative disclosure

### B.1 Equity: breakdown

	31/12/2014	31/12/2013
<b>1. Share capital</b>	<b>39,241</b>	<b>39,241</b>
<b>2. Share premium</b>	<b>34,660</b>	<b>34,660</b>
<b>3. Reserves</b>	<b>67,230</b>	<b>62,122</b>
- income-related	61,100	55,992
<i>a) legal</i>	16,725	15,911
<i>b) statutory</i>	47,235	42,941
<i>c) treasury shares</i>	-	-
<i>d) other</i>	2,860	2,860
- other	6,130	6,130
<b>4. Equity instruments</b>	-	-
<b>5. (Treasury shares)</b>	-	-
<b>6. Valuation reserves</b>	<b>19,836</b>	<b>17,116</b>
- Available-for-sale financial assets	8,674	4,384
- Property, equipment and investment property	-	-
- Intangible assets	-	-
- Hedges of investments in foreign operations	-	-
- Cash flow hedges	-	-
- Exchange rate gains (losses)	-	-
- Non-current assets held for sale	-	-
- Net actuarial losses on defined benefit pension plans	3,960	2,390
- Share of valuation reserves of equity-accounted investees	-	-
- Special revaluation laws	15,122	15,122
<b>7. Profit for the year</b>	<b>4,084</b>	<b>8,148</b>
<b>Total</b>	<b>165,051</b>	<b>161,287</b>

Item "3. Reserves - d) Other" includes the IFRS FTA reserve of €2,860 thousand.

**B.2 Fair value reserves: breakdown**

	31/12/2014		31/12/2013	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	8,022	465	3,967	1,177
2. Equity instruments	1,117	-	1,611	17
3. OEIC units	-	-	-	-
4. Financing	-	-	-	-
<b>Total</b>	<b>9,139</b>	<b>465</b>	<b>5,578</b>	<b>1,194</b>

**B.3 Fair value reserves: changes**

	Debt instruments	Equity instruments	OEIC units	Financing
<b>1. Opening balance</b>	<b>2,790</b>	<b>1,594</b>	-	-
<b>2. Increase</b>	<b>9,825</b>	<b>213</b>	-	-
2.1 Fair value gains	9,778	26	-	-
2.2 Reclassification of fair value losses to profit or loss	47	-	-	-
- due to impairment	-	-	-	-
- on sale	47	-	-	-
2.3 Other increases	-	187	-	-
<b>3. Decrease</b>	<b>5,058</b>	<b>690</b>	-	-
3.1 Fair value losses	510	684	-	-
3.2 Impairment losses	-	-	-	-
3.3 Reclassification of fair value gains to profit or loss	2,200	-	-	-
3.4 Other decreases	2,348	6	-	-
<b>4. Closing balance</b>	<b>7,557</b>	<b>1,117</b>	-	-

**B.4 Actuarial reserve**

	Fip (pension fund)	Post-employment benefits
<b>1. Opening balance</b>	- <b>1,677</b>	- <b>713</b>
<b>2. Increase</b>	<b>364</b>	<b>231</b>
2.1 Actuarial gains	-	-
2.2 Deferred tax assets	364	231
<b>3. Decrease</b>	- <b>1,325</b>	- <b>840</b>
3.1 Actuarial losses	- 1,325	- 840
3.2 Deferred tax liabilities	-	-
<b>4. Total (negative reserve)</b>	- <b>2,638</b>	- <b>1,322</b>

## **Section 2 – Own funds and ratios**

### **2.1 Own funds**

#### **A. Qualitative disclosure**

The reforms of the Basel Committee agreements (Basel 3), aimed at strengthening banks' ability to absorb shocks caused by financial and economic tensions, became part of the EU legislation on 1 January 2014.

The Committee maintained the three-pillar approach at the base of the previous capital agreement (Basel 2), which it integrated and strengthened to improve the amount and quality of intermediaries' capital. It also introduced countercyclical supervisory tools and rules about liquidity risk management and financial leverage containment.

The above EU laws were integrated by the instructions issued by Banca d'Italia in Circular no. 285 of 17 December 2013, which grouped the prudential supervisory regulations applicable to banks and Italian banking groups.

These regulations provided for a transitional period, generally until 2017, when only a percentage of some elements that will be included or deducted in full in Common Equity after the transitional period affect the Tier 1 capital. The remaining percentage compared to that applied is usually added to/deducted from the ATI and Tier 2 capital or included in the calculation of risk-weighted assets. At 31 December 2014, the capital ratios included the adjustments required for the transitional period in 2014.

#### **1. Common Equity Tier 1 – CET 1**

##### **A. Common Equity Tier 1 – CET 1**

This caption includes:

- fully paid-up instruments (share capital) €39,241 thousand;
- share premium €34,660 thousand;
- income-related reserves €63,961 thousand;
- reserves that are taxed upon distribution as per Law no. 218/90 €6,129 thousand;
- IFRS FTA reserve -€2,860 thousand;
- reserve for building revaluations as per Law no. 218/90 €15,122 thousand;
- the profit for the year of €4,084 thousand included in own funds as per article 26 of the CRR, net of dividends of €3,029 thousand;
- actuarial reserve under revised IAS 19 €5,833 thousand;
- fair value reserve of €8,674 thousand;

##### **D. Elements to be deducted from CET 1**

This caption includes:

- Intangible assets of €144 thousand;
- 80% of the unrealised losses on bank bonds classified in the AFS portfolio of €372 thousand.

##### **E. Transitional regime - Impact on CET 1 (+/-)**

This caption includes the following transitional adjustments:

- exclusion of unrealised gains/losses on AFS securities of -€8,767 thousand;



- positive filter on actuarial reserves (IAS 19) of €1,873 thousand.

## **2. Additional Tier 1 – AT 1**

This capital cannot be calculated due to the lack of elements.

## **3. Tier 2 – T2**

### ***O. Transitional regime - Impact on T2 (+/-)***

This caption includes:

- the national filter introduced by Banca d'Italia Circular no. 285 of 80% of 50% of the unrealised gains on AFS securities of €447 thousand.

**B. Quantitative disclosure**

	31/12/2014	31/12/2013
<b>A. Common Equity Tier 1 (CET1) before application of prudential filters</b>	<b>160,139</b>	<b>156,374</b>
<i>including CET 1 instruments covered by the transitional measures</i>	-	-
<b>B. CET1 prudential filters (+/-)</b>	-	-
<b>C. CET1 including the elements to be deducted and the effects of the transitional regime (A +/- B)</b>	<b>160,139</b>	<b>156,374</b>
<b>D. Elements to be deducted from CET1</b>	- 516	- 1,002
<b>E. Transitional regime - Impact on CET1 (+/-)</b>	- 6,894	- 2,739
<b>F. Total Common Equity Tier 1 (CET1) (C- D +/-E)</b>	<b>152,729</b>	<b>152,633</b>
<b>G. Additional Tier 1 (AT1) including the elements to be deducted and the effects of the transitional regime</b>	-	-
<i>including AT1 instruments covered by the transitional measures</i>	-	-
<b>H. Elements to be deducted from AT1</b>	-	-
<b>I. Transitional regime - Impacts on AT1 (+/-)</b>	-	-
<b>L. Total Additional Tier 1 (AT1) (G - H +/-I)</b>	-	-
<b>M. Tier 2 (T2) including the elements to be deducted and the effects of the transitional regime</b>	-	-
<i>including T2 instruments covered by the transitional measures</i>	-	-
<b>N. Elements to be deducted from T2</b>	-	-
<b>O. Transitional regime - Impact on T2 (+/-)</b>	<b>447</b>	<b>637</b>
<b>P. Total Tier 2 (T2) (M - N +/- O)</b>	<b>447</b>	<b>637</b>
<b>Q. Total own funds (F + L + P)</b>	<b>153,176</b>	<b>153,270</b>

The quantitative impact of application of the option envisaged by part 2, chapter 14, section II of Banca d'Italia circular no. 285 of 17 December 2013, which provides for the exclusion of unrealised gains or losses on positions with governments classified in the AFS portfolio, is equal to the reserve of €8,022 thousand.

## **2.2 Capital adequacy**

### **A. Qualitative disclosure**

As shown in the table on the bank's risk-weighted assets and capital ratios, it had a CET 1 Capital Ratio of 16.49%, a Tier 1 Capital Ratio of 16.49% and a Total Capital Ratio of 16.54% at 31 December 2014, well above the minimum mandatory requirements of CRR/CRD IV and Banca d'Italia's instructions in its Circular no. 285/2013.

The regulatory capital requirements of €74.1 million refer to credit, operational and market risk. Credit operations account for the most capital with credit risk requirements of €61.8 million.

Risk-weighted assets amount to €926 million. There has been an increase in such assets, mainly for credit risk, while market risks remain very modest although they did increase.

**B. Quantitative disclosure**

	Unweighted amounts		Weighted amounts/requirements	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
<b>A. EXPOSURES</b>				
<b>A.1 Credit and counterparty risk</b>	<b>1,476,905</b>	<b>1,473,973</b>	<b>772,349</b>	<b>893,575</b>
1. Standardised method	1,476,905	1,473,973	772,349	893,575
2. IRB approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
<b>B. CAPITAL REQUIREMENTS</b>				
<b>B.1 Credit and counterparty risk</b>			<b>61,788</b>	<b>71,486</b>
<b>B.2 Credit risk</b>			<b>40</b>	<b>-</b>
<b>B.3 Regulation risk</b>			<b>-</b>	<b>-</b>
<b>B.4 Market risk</b>			<b>1,583</b>	<b>1,268</b>
1. Standard method			1,583	1,268
2. Internal models			-	-
3. Concentration risk			-	-
<b>B.5 Operational risk</b>			<b>10,669</b>	<b>9,416</b>
1. Basic method			10,669	9,416
2. Standardised method			-	-
3. Advanced method			-	-
<b>B.6 Other calculation elements</b>			<b>-</b>	<b>-</b>
<b>B.7 Total prudential requirements</b>			<b>74,080</b>	<b>82,170</b>
<b>C. EXPOSURES AND CAPITAL RATIOS</b>				
<b>C.1 Risk-weighted assets</b>			<b>926,000</b>	<b>1,027,125</b>
<b>C.2 CET 1 capital /risk-weighted assets (CET1 capital ratio)</b>			<b>16.49%</b>	<b>14.86%</b>
<b>C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)</b>			<b>16.49%</b>	<b>14.86%</b>
<b>C.3 Total own funds/risk-weighted assets (Total capital ratio)</b>			<b>16.54%</b>	<b>14.92%</b>

## **PART H**

# **Related party transactions**



## General information

The bank's board of directors has identified the entities that qualify as related parties pursuant to IAS 24.

They are:

1. Fondazione Cassa di Risparmio di Fermo, which holds 66.67% of the bank's ordinary shares and controls it;
2. Banca Intesa Sanpaolo S.p.A., which holds 33.33% of the bank's ordinary shares and has significant influence thereover;
3. directors and managers, due to their strategic powers;
4. the statutory auditors, due to their control powers;
5. spouses and immediate descendants of the parties listed in points 3 and 4;
6. subsidiaries or companies over which the parties listed in points 3, 5 and 5 have significant influence.

The key managers' remuneration is given with separate mention of the directors' and statutory auditors' fees compared to the remuneration of directors which receive (as provided for by IAS 24.16) short-term benefits, which include direct and indirect costs, and termination benefits. All other forms of remuneration covered by the standard are excluded. Specifically, managers do not have incentive plans tied to profits, further to that provided for in the second level national labour contracts, or pension plans other than those existing for employees. There are no stock option plans.

Transactions undertaken by the bank with its related parties (as defined above) comply with the ruling legislation, are fair and take place at market prices.

The bank has not performed atypical or unusual transactions with related parties during the year, i.e., transactions that do not form part of its normal operations or that would have a significant impact on its financial position, results of operations and cash flows.

### 1. Key managers' remuneration (in Euros)

	31/12/2014
<b>C. Managers</b>	<b>580,541</b>
Short-term benefits	550,092
Current termination benefits	30,449
<i>Total termination benefits</i>	409,337
<b>A. Directors</b>	<b>725,767</b>
Fees	725,767
<b>B. Statutory auditors</b>	<b>127,779</b>
Fees	127,779

**2. Related party transactions (€'000)**

	Assets	Liabilities	Costs	Revenue	Guarantees received
A. Directors	1,052	5,034	65	59	1,476
B. Statutory auditors	-	158	1	1	43
C. Managers	14	190	-	1	84
D. Family members	117	2,886	16	13	226
E. Other related parties	38,584	12,808	231	122	11,745
<b>Total</b>	<b>39,767</b>	<b>21,076</b>	<b>313</b>	<b>196</b>	<b>13,574</b>



## **Annexes to the financial statements**



The annexes include:

- a) – a list of the sections and financial statements captions that have not been presented
- b) – a list of property;
- c) – a list of equity investments recognised in the AFS financial assets portfolio
- d) – a list of bonds issued at the reporting date;
- e) – treasury and cash services.



## Sections and tables not presented

This list shows the tables in the notes that have not been presented due to the lack of amounts/operating information:

### **PART A – FAIR VALUE**

#### **A3 – TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS**

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

A.3.3 Transfer of HfT financial assets

A.3.4 Effective interest rate and expected future cash flows from reclassified assets

#### **A.4 – FAIR VALUE DISCLOSURE**

- A.4.5.3 *Changes in liabilities measured at fair value on a recurring basis (level 3)*

#### **A.5 INFORMATION ON “DAY ONE PROFIT/LOSS”.**

### **PART B – NOTES TO THE STATEMENT OF FINANCIAL POSITION**

#### **Assets**

#### **SECTION 3 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 30**

- 3.1 Financial assets at fair value through profit or loss: breakdown by product
- 3.2 Financial assets at fair value through profit or loss: breakdown by debtor/issuer
- 3.3 Financial assets at fair value through profit or loss: changes

#### **SECTION 4 - AVAILABLE-FOR-SALE FINANCIAL ASSETS - CAPTION 40**

- 4.3 Specifically hedged available-for-sale financial assets

#### **SECTION 5 – HELD-TO-MATURITY INVESTMENTS - CAPTION 50**

- 5.3 Held-to-maturity investments: specifically hedged assets

#### **SECTION 6 - LOANS AND RECEIVABLES WITH BANKS - CAPTION 60**

- 6.2 Specifically hedged loans and receivables with banks
- 6.3 Finance leases

#### **SECTION 7 - LOANS AND RECEIVABLES WITH CUSTOMERS - CAPTION 70**

- 7.3 Loans and receivables with customers: specifically hedged assets
- 7.4 Finance leases

#### **SECTION 8 - HEDGING DERIVATIVES - CAPTION 80**

- 8.1 Hedging derivatives: breakdown by type and level
- 8.2 Hedging derivatives: breakdown by hedged item and type

#### **SECTION 9 - ADJUSTMENTS TO GENERICALLY HEDGED FINANCIAL ASSETS - CAPTION 90**

- 9.1 Adjustments to hedged assets: breakdown by hedged portfolio
- 9.2 Assets hedged generically against interest rate risk

#### **SECTION 10 - EQUITY INVESTMENTS - CAPTION 100**

- 10.1 Investments in subsidiaries and associates and interests in joint ventures
- 10.2 Investments in subsidiaries and associates and interests in joint ventures: accounting disclosures

- 10.3 Equity investments: changes
- 10.4 Commitments for investments in subsidiaries
- 10.5 Commitments for interests in jointly controlled entities
- 10.6 Commitments for investments in associates

**SECTION 11 - PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY - CAPTION 110**

- 11.2 Investment property: breakdown of assets measured at cost
- 11.3 Property and equipment: breakdown of revalued assets
- 11.4 Investment property: breakdown of assets at fair value;
- 11.6 Investment property: changes
- 11.7 Commitments for acquisitions of property, equipment and investment property (IAS 16.c)

**SECTION 12 - INTANGIBLE ASSETS - CAPTION 120**

- 12.3 Other information

**SECTION 14 - NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISPOSAL GROUPS AND ASSOCIATED LIABILITIES - CAPTION 140 OF ASSETS AND CAPTION 90 OF LIABILITIES**

- 14.1 Non-current assets classified as held for sale and disposal groups: breakdown by type
- 14.2 - Other information
- 14.3 Information about investments in associates not measured at equity

**Liabilities****SECTION 1 - DUE TO BANKS - CAPTION 10**

- 1.2 Caption 10 "Due to banks": subordinated debt
- 1.3 Caption 10 "Due to banks": structured debt
- 1.4 Due to banks: specifically hedged liabilities
- 1.5 Finance lease payables

**SECTION 20 - DUE TO CUSTOMERS - CAPTION 20**

- 2.2 Caption 20 "Due to customers": subordinated debt
- 2.3 Caption 20 "Due to customers": structured debt
- 2.4 Due to customers: specifically hedged liabilities
- 2.5 Finance lease payables;

**SECTION 3 - SECURITIES ISSUED - CAPTION 30**

- 3.2 Caption 30 "Securities issued": subordinated securities
- 3.3 Securities issued: specifically hedged securities

**SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING - CAPTION 40**

- 4.2 Caption 40 "Financial liabilities held for trading": subordinated liabilities"
- 4.3 Caption 40 "Financial liabilities held for trading": structured debt
- 4.4 On-statement of financial position financial liabilities held for trading (excluding "technical overdrafts"): changes

**SECTION 5 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 50**

- 5.1 Financial liabilities at fair value through profit or loss: breakdown by product

- 5.2 Caption 50 “Financial liabilities at fair value through profit or loss”: subordinated liabilities
- 5.3 Financial liabilities at fair value through profit or loss: changes

**SECTION 6 - HEDGING DERIVATIVES - CAPTION 60**

- 6.1 Hedging derivatives: type of contract and underlying asset
- 6.2 Hedging derivatives: breakdown by hedged item and type

**SECTION 7 - ADJUSTMENTS TO GENERICALLY HEDGED FINANCIAL LIABILITIES - CAPTION 70**

- 7.1 Adjustment to hedged liabilities
- 7.2 Liabilities hedged generically against interest rate risk: breakdown

**SECTION 9 - LIABILITIES ASSOCIATED WITH DISCONTINUED OPERATIONS - CAPTION 90****SECTION 12 - PROVISIONS FOR RISKS AND CHARGES - CAPTION 120**

- 12.4 Provisions for risks and charges - other provisions

**SECTION 13 - REDEEMABLE SHARES - CAPTION 140**

- 13.1 Redeemable shares: breakdown

**SECTION 14 - EQUITY - CAPTIONS 130, 150, 160, 170, 180, 190 AND 200**

- 14.3 Equity: other information
- 14.5 Equity instruments: breakdown and changes
- 14.6 - Other information

**OTHER DISCLOSURES**

- 3. Operating leases:
- 5. Offset financial assets or assets subject to master netting agreements or similar agreements
- 6. Offset financial liabilities or liabilities subject to master netting agreements or similar agreements

**PART C - NOTES TO THE INCOME STATEMENT****SECTION 1 - INTEREST - CAPTIONS 10 AND 20**

- 1.2 Interest and similar income: differences on hedging transactions
- 1.3.2 *Interest income on finance leases*
- 1.5 Interest and similar expense: differences on hedging transactions
- 1.6.2 Interest expense on finance lease payables

**SECTION 5 - NET HEDGING INCOME (EXPENSE) - CAPTION 90**

- 5.1 Net hedging income (expense): breakdown

**SECTION 7 - NET GAINS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 110**

- 7.1 Net gains (losses) on financial assets and liabilities at fair value through profit or loss: breakdown

**SECTION 8 - NET IMPAIRMENT LOSSES/REVERSALS OF IMPAIRMENT LOSSES - CAPTION 130**

- 8.3 Net impairment losses on held-to-maturity investments: breakdown

**SECTION 14 - GAINS (LOSSES) ON EQUITY INVESTMENTS - CAPTION 210**

- 14.1 Gains (losses) on equity investments: breakdown

SECTION 15 - FAIR VALUE GAINS (LOSSES) ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS - CAPTION 220

- 15.1 Net fair value gains (losses) or revaluation gains (losses) on property, equipment and investment property and intangible assets: breakdown

SECTION 16 - IMPAIRMENT LOSSES ON GOODWILL - CAPTION 230

- 16.1 Impairment losses on goodwill: breakdown

SECTION 19 - POST-TAX PROFIT (LOSS) FROM DISCONTINUED OPERATIONS - CAPTION 280

- 19.1 Post-tax profit (loss) from discontinued operations: breakdown
- 19.2 Income taxes on discontinued operations

SECTION 20 - OTHER INFORMATION

SECTION 21 - EARNINGS PER SHARE

- 21.2 - Other information

**PART E - RISKS AND RELATED HEDGING POLICIES**

**SECTION 1 - CREDIT RISK**

**A. Credit quality**

A.1 IMPAIRED AND PERFORMING LOANS: CARRYING AMOUNT, IMPAIRMENT LOSSES, PERFORMANCE, BUSINESS AND GEOGRAPHICAL DISTRIBUTION

- A.1.4 On-statement financial position loans and receivables with banks: gross impaired positions and country risk
- A.1.5 On-statement of financial position loans and receivables with banks: changes in impaired positions

A.2 CLASSIFICATION OF EXPOSURES USING EXTERNAL AND INTERNAL RATINGS

- A.2.2 Breakdown of credit exposure on and off-statement of financial position by internal rating classes

A.3 Breakdown of guaranteed exposure by type of guarantee

- A.3.1 Guaranteed loans and receivables with banks

**C.1 Securitisations**

QUALITATIVE DISCLOSURE

QUANTITATIVE DISCLOSURE

C.1 EXPOSURES ARISING FROM SECURITISATIONS BROKEN DOWN BY QUALITY OF THE UNDERLYING ASSET

C.2 EXPOSURES ARISING FROM THE BANK'S SECURITISATIONS BROKEN DOWN BY TYPE OF SECURITISED ASSET AND EXPOSURE

C.3 EXPOSURES ARISING FROM THIRD PARTY SECURITISATIONS BROKEN DOWN BY TYPE OF SECURITISED ASSET AND EXPOSURE

C.4 EXPOSURES ARISING FROM SECURITISATIONS BROKEN DOWN BY PORTFOLIO AND PRODUCT

C.5 TOTAL AMOUNT OF SECURITISED ASSETS UNDERLYING JUNIOR BONDS OR OTHER FORMS OF CREDIT SUPPORT

C.6 INVESTMENTS IN SPVS

C.7 UNCONSOLIDATED SECURITISATIONS SPVS

C.8 SERVICER - COLLECTION OF SECURITISED POSITIONS AND REPAYMENT OF BONDS ISSUED BY THE SECURITISATION SPV



- A. Financial assets transferred and not fully derecognised
  - C.2.3 Transfers with associated liabilities having recourse on the transferred assets: fair value
- B. Financial assets transferred and fully derecognised with recognition of continuing involvement

#### **D. Disclosure on unconsolidated structured entities (other than securitisation SPVs)**

QUALITATIVE DISCLOSURE

QUANTITATIVE DISCLOSURE

#### **E. Transfers**

E.3 TRANSFERS WITH ASSOCIATED LIABILITIES HAVING RECOURSE ON THE TRANSFERRED ASSETS: FAIR VALUE

B. Financial assets transferred and fully derecognised with recognition of continuing involvement

QUALITATIVE DISCLOSURE

QUANTITATIVE DISCLOSURE

C.4 COVERED BOND TRANSACTIONS

#### **D. Credit risk measurement models**

### **SECTION 2 - MARKET RISK**

#### **2.1 INTEREST RATE AND PRICE RISK - SUPERVISORY TRADING BOOK**

- 2. Supervisory trading book: breakdown of exposure in equity instruments and share indexes by main stock exchange;
- 3. Supervisory trading book: internal models and other methodologies used to analyse sensitivity;

#### **2.2 INTEREST RATE AND PRICE RISK - BANKING BOOK**

- 2. Banking book: internal models and other methodologies for sensitivity analyses

#### **2.3 CURRENCY RISK**

- 2. Internal models and other methodologies for sensitivity analyses

#### **2.4 Derivatives**

- A. Financial derivatives
  - *A.2 Banking book: reporting date notional amounts and average amounts*
  - *A.6 OTC financial derivatives - supervisory trading book: notional amounts, gross fair value gains and losses by counterparty - contracts included in netting agreements*
  - *A.7 OTC financial derivatives - banking book: notional amounts, gross fair value gains and losses by counterparty - contracts not included in netting agreements*
  - *A.8 OTC financial derivatives - banking book: notional amounts, gross fair value gains and losses by counterparty - contracts included in netting agreements*
  - *A.10 OTC financial derivatives: counterparty/financial risk - Internal models*
- B. Credit derivatives;
- C. Financial and credit derivatives

**PART G - BUSINESS COMBINATIONS****Section 1 - Transactions carried out during the year****Section 2 - Transactions carried out after the reporting date****Section 3 - Retrospective adjustments****PART I - SHARE-BASED PAYMENTS**

A. Qualitative disclosure

B. Quantitative disclosure

**PART L - SEGMENT REPORTING**

## Property

PROPERTY	REVALUATION			GROSS AMOUNT	including value of land	including value of buildings	CARRYING AMOUNT BUILDINGS
	as per Law no. 72/83	as per Law no. 218/90	as per Law no. 413/91				
Fermo Via Don E. Ricci, 1	1,011,739.07	2,017,280.65	401,803.47	3,498,627.99	349,862.81	3,148,765.18	686,490.85
Fermo Campoleggio Corso Marconi, 19	103,291.38	274,755.07	42,865.92	432,750.15	43,275.02	389,475.13	88,616.22
Fermo Campoleggio - extension Corso Marconi, 19	-	-	1,549.37	19,039.38	1,903.94	17,135.44	2,950.87
Carassai Piazza Leopardi 8/9	25,822.84	24,273.47	11,362.05	66,563.76	8,653.29	57,910.47	9,610.91
Cupramarittima Via E. Ruzzi, 9	-	211,230.87	47,514.03	436,910.79	-	436,910.79	92,682.45
Grottazzolina Via Verdi, 5	51,645.69	32,020.33	25,306.39	124,894.81	-	124,894.81	17,771.30
Monte granaro P.zza Mazzini	175,595.35	47,867.29	41,501.96	200,509.38	-	200,509.38	27,704.43
Monterubbiano Piazza Calzecchi Onesti, 9	46,481.12	63,007.74	18,592.45	131,741.32	13,174.13	118,567.19	22,766.43
Monte San Pietrangeli Via S. Antonio, 6	-	64,040.66	4,131.66	140,636.48	-	140,636.48	43,597.36
Montottone Piazza Leopardi, 8	37,184.90	29,954.50	14,977.25	85,204.37	10,224.52	74,979.85	12,257.34
Monturano Via Gramsci, 32/A	232,405.60	583,079.84	129,114.22	1,058,503.84	158,775.58	899,728.26	203,579.13
Petritoli Via Mannocchi Tornabuoni, 25	28,405.13	88,314.13	12,911.42	135,285.44	13,528.54	121,756.90	28,241.96
Falerone fraz. Plane di Falerone Viale of Resistenza, 95	51,645.69	205,549.85	26,339.30	301,981.85	75,495.47	226,486.38	53,914.26
Porto S. Elpidio Via S. Giovanni Bosco, 10	180,759.91	203,484.02	76,952.08	487,019.99	97,404.00	389,615.99	69,548.13
Porto S. Elpidio - Restructuring Via Marina, 1	180,759.91	167,848.49	81,600.19	499,256.17	70,224.58	429,031.59	93,980.23
Porto S. Giorgio - head office Via Annibal Caro, 11	-	2,471,246.26	73,853.34	5,703,013.66	1,140,602.74	4,562,410.92	1,273,554.88
S.Elpidio a Mare Via Rome, 31	129,114.22	523,170.84	65,590.03	764,747.17	-	764,747.17	182,515.81
S.Elpidio a Mare 1981 extension Via Rome, 31	-	-	34,602.61	127,207.59	-	127,207.59	10,726.79
S.Elpidio a Mare 1983 extension Via Rome, 31	-	-	33,569.70	139,393.78	-	139,393.78	14,639.62
Fermo P.zza Mascagni, 4	154,937.07	211,747.33	66,106.48	455,484.95	-	455,484.95	87,793.47
Fermo - P.zza Mascagni 1984 extension	-	-	5,164.57	25,169.18	-	25,169.18	3,001.28
Fermo Via Ognissanti	-	11,878.51	4,648.11	29,035.21	3,484.22	25,550.99	4,508.48
Fermo Corso Cavour, 104	-	1,066,999.95	217,428.35	2,647,791.16	264,779.13	2,383,012.03	522,317.78
S.Elpidio a mare - Casette d'Ete C. Garibaldi, 3	-	203,484.02	83,149.56	678,504.31	33,925.22	644,579.09	121,641.32
Fermo V.le Trento, 182	-	3,083,247.69	601,672.29	7,454,739.36	1,490,947.88	5,963,791.48	1,315,389.21
S.Benedetto del Tronto Via Liberazione, 190	-	820,650.01	211,230.87	2,356,260.19	164,938.21	2,191,321.98	457,608.70

PROPERTY	REVALUATION			GROSS AMOUNT	including value of land	including value of buildings	CARRYING AMOUNT BUILDINGS
	as per Law no. 72/83	as per Law no. 218/90	as per Law no. 413/91				
Civitanova Marche Via cairolì, 22	-	388,375.59	30,987.41	804,859.80	-	804,859.80	203,246.98
Porto S. Elpidio - Restructuring Piazza Giovanni XXIII, 14	232,405.60	108,455.95	-	419,019.11	-	419,019.11	326,998.95
Fermo V.le Ciccolungo area	-	-	-	0.01	-	0.01	0.01
Grottazzolina Via Fonterotta	-	-	-	476,932.12	-	476,932.12	476,932.12
Pescara Piazza Duca d'Aosta, 30	-	-	-	1,908,478.18	-	1,908,478.18	648,882.51
Montegranaro Via Gramsci	-	-	-	465,720.02	-	465,720.02	249,160.22
Recanati Santacroce 34/E	-	-	-	301,285.46	60,257.09	241,028.37	128,950.21
Rome Via Puglie 15/21	-	-	-	2,932,724.03	-	2,932,724.03	2,008,915.97
Colli del Tronto Via Matteotti, 2	-	-	-	342,295.20	-	342,295.20	236,259.93
Porto S. Elpidio - Restructuring Via S. Giovanni Bosco, 10	-	-	-	497,084.46	99,416.89	397,667.57	272,402.26
Fermo - Loc. Molini Girola	-	-	-	30,250.00	6,050.00	24,200.00	18,692.08
Falerone fraz. Plane - Restructuring Viale of Resistenza, 95	-	-	-	111,836.61	-	111,836.61	91,694.83
Montegiorgio - Loc. Plane Via A. Einstein, 8	-	-	-	869,227.16	116,000.00	753,227.16	707,204.99
Fermo Via G. da Palestrina 13/19	-	-	-	418,945.49	-	418,945.49	392,426.25
Fermo Piazza del Popolo, 38	-	-	-	16,400.00	-	16,400.00	15,678.40
San Benedetto del Tronto Via Francesco Fisaletti	-	-	-	918,260.22	-	918,260.22	890,528.76
Recanati Via Villa Musone snc	-	-	-	306,356.00	-	306,356.00	304,732.31
<b>TOTAL</b>	<b>2,642,193.48</b>	<b>12,901,963.06</b>	<b>2,364,525.08</b>	<b>38,819,946.15</b>	<b>4,222,923.26</b>	<b>34,597,022.89</b>	<b>12,420,115.99</b>

## List of equity investments recognised in the AFS financial assets portfolio

OTHER INVESTMENTS	Carrying amount at 31.12.2013	Changes in 2014			Carrying amount at 31/12/2014	of which transfer revaluation	of which fair value
		(+) Purchases	(-) Sales	(+/-) Fair value			
SEDA -Soc. Elaborazione Dati S.p.A.	256,584.48	0.00	0.00	0.00	256,584.48	23,240.56	130,235.83
BANCA D'ITALIA	3,250,000.00	0.00	0.00	0.00	3,250,000.00	0.00	0.00
Centro Documentazione per le Imprese	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cartasi S.p.A.	266,219.94	0.00	0.00	0.00	266,219.94	0.00	232,283.31
Intesa Sanpaolo S.p.A.	72,351.95	0.00	0.00	25,886.61	98,238.56	0.00	2,112.98
SIA S.p.A.	161,770.00	0.00	0.00	0.00	161,770.00	0.00	139,703.54
Gruppo d'Azione Locale "Piceno" s.c.a.r.l.	2,065.84	0.00	0.00	-2,065.84	0.00	0.00	-2,065.84
Alipicene S.r.l.	2,582.00	0.00	0.00	0.00	2,582.00	0.00	0.00
S.W.I.F.T. - Brussels	2,529.08	0.00	0.00	0.00	2,529.08	0.00	0.00
Fermano Leader s.c.a.r.l.	3,000.00	0.00	0.00	0.00	3,000.00	0.00	0.00
CSE Consorzio Servizi Bancari S.r.l.	6,800,000.00	0.00	0.00	-684,000.00	6,116,000.00	0.00	1,036,000.00
CARICESE	20,000.00	0.00	0.00	0.00	20,000.00	0.00	0.00
CONFIDICOOP MARCHE	100,000.00	0.00	0.00	0.00	100,000.00	0.00	0.00
Italian Dream Factory S.r.l.	0.00	1,800,000.00	0.00	0.00	1,800,000.00	0.00	0.00
<b>TOTAL AS PER ACCOUNTING RECORDS</b>	<b>10,937,103.29</b>	<b>1,800,000.00</b>	<b>0.00</b>	<b>-660,179.23</b>	<b>12,076,924.06</b>	<b>23,240.56</b>	<b>1,538,269.82</b>



## List of bonds issued at the reporting date

Bond issue ISIN number	Issue date	Maturity date	Amount € '000
ISIN "IT 0004674146"	03/01/2011	03/01/2016	10,000
ISIN "IT 0004687858"	08/02/2011	08/02/2016	9,948
ISIN "IT 0004701972"	18/03/2011	18/03/2016	18,500
ISIN "IT 0004727845"	06/06/2011	06/06/2015	6,201
ISIN "IT 0004852171"	08/10/2012	08/10/2015	11,406
ISIN "IT 0004886005"	21/01/2013	21/01/2016	6,258
ISIN "IT 0004885999"	21/01/2013	21/01/2017	30,000
ISIN "IT 0004918279"	06/05/2013	06/05/2017	11,687
ISIN "IT 0004923980"	05/06/2013	05/06/2017	13,104
ISIN "IT 0004955461"	02/09/2013	02/03/2016	13,078
ISIN "IT 0004961196"	30/09/2013	30/09/2016	3,203
ISIN "IT 0004961238"	30/09/2013	30/09/2017	11,957
ISIN "IT 0004985948"	03/01/2014	03/01/2017	9,406
ISIN "IT 0004991029"	06/02/2014	06/02/2017	2,421
ISIN "IT 0004991037"	06/02/2014	06/02/2018	15,000
ISIN "IT 0004998883"	03/03/2014	03/03/2017	3,497
ISIN "IT 0004998891"	03/03/2014	03/03/2018	25,312
ISIN "IT 0005028656"	03/07/2014	03/07/2016	26,859
ISIN "IT 0005055014"	03/09/2014	03/09/2017	9,375
<b>Total</b>			<b>237,212</b>

During 2014, bond issues of €118,304 thousand matured, bonds of €70,000 were redeemed early while the bank placed new bonds of a nominal €91,870 thousand.

The bank has not issued bonus shares, bonds convertible into shares, subordinated bonds or securities or similar instruments.

Furthermore, the bank has not issued own bank drafts as it has entered into specific agreements for the issue of third party bank drafts.





## Treasury and cash services provided

Treasury services	
Body	Municipality
Municipality of Carassai	Carassai (AP)
Municipality of Fermo	FERMO
Municipality of Grottazzolina	Grottazzolina (FM)
Municipality of Lapedona	Lapedona (FM)
Municipality of M. Vidon Combatte	Monte Vidon Combatte (FM)
Municipality of M.S. Pietrangeli	Monte S. Pietrangeli (FM)
Municipality of Monsampietro Morico	Monsampietro Morico (FM)
Municipality of Monte Giberto	Monte Giberto (FM)
Municipality of Montefiore dell'Aso	Montefiore dell'Aso (AP)
Municipality of Monteleone	Monteleone di Fermo (FM)
Municipality of Monterubbiano	Monterubbiano (FM)
Municipality of Montottone	Montottone (FM)
Municipality of Moresco	Moresco (FM)
Municipality of Petritoli	Petritoli (FM)
Municipality of Ponzano di Fermo	Ponzano di Fermo (FM)
Municipality of Porto San Giorgio	Porto San Giorgio (FM)
Municipality of Rapagnano	Rapagnano (FM)
Municipality of Ripe San Ginesio	Ripe San Ginesio (MC)
Municipality of Sant'Elpidio a Mare	Sant'Elpidio a Mare (FM)
Municipality of Servigliano	Servigliano (FM)
Municipality of Torre San Patrizio	Torre S. Patrizio (FM)
Province of Fermo	FERMO

Cash services	
Body	Municipality
Camera di Commercio I.A.A. di FERMO	FERMO
Casa Riposo Sassatelli	FERMO
Camera di Commercio I.A.A. - AZ. FERMO PROMUOVE	FERMO
Cons.Intercom.Servizio Smaltimento Rifiuti Solidi Urbani T.S. Patrizio	Torre San Patrizio (FM)
Comunità di Capodarco	FERMO
Conservatorio Musicale "G.B. Pergolesi"	FERMO
Croce Rossa Italiana	FERMO
Istituto Comprensivo Statale Rodari Marconi	Porto Sant'Elpidio (FM)
Istituto Comprensivo Monte Urano	Monte Urano (FM)
Ente Regionale per l'Abitazione Pubblica	FERMO
Istituto Comprensivo "Da Vinci - Ungaretti"	FERMO
Istituto Comprensivo di Bellante Stazione	Bellante (TE)
Istituto Tecnico Industriale Statale "G. Montani"	FERMO
Liceo Ginnasio "Annibal Caro"	FERMO
Mercato Ittico	Porto San Giorgio (FM)
Opera Pia "G. Didari"	Francavilla D'Ete (FM)
Opera Pia Ric. Montegranaro	Montegranaro (FM)
Opere Pie Riunite	Monte S. Pietrangeli (FM)
Ospizio Marino	FERMO
Pia Casa "F. Falconi"	Sant'Elpidio a Mare (FM)



(Translation from the Italian original which remains the definitive version)

## Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of  
Cassa di Risparmio di Fermo S.p.A.

- 1 We have audited the financial statements of Cassa di Risparmio di Fermo S.p.A. as at and for the year ended 31 December 2014, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 10 April 2014 for our opinion on the prior year financial statements, which included the corresponding figure presented for comparative purposes.

- 3 In our opinion, the financial statements of Cassa di Risparmio di Fermo S.p.A. as at and for the year ended 31 December 2014 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of Cassa di Risparmio di Fermo S.p.A. as at 31 December 2014, the results of its operations and its cash flows for the year then ended.
- 4 The directors of Cassa di Risparmio di Fermo S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report with the financial statements to which it refers, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob.

In our opinion, the directors' report is consistent with the financial statements of Cassa di Risparmio di Fermo S.p.A. as at and for the year ended 31 December 2014.

Ancona, 16 March 2015

KPMG S.p.A.

(signed on the original)

Davide Stabellini  
Director of Audit