BANCA PROMOS

Financial Statement at 31 December 2013

33° year

Contents

Call of Ordinary Meeting

BANCA PROMOS S.p.A.

Registered Office in Naples, Viale Gramsci 19

Share Capital € 7,740,000.00 fully paid up - Economic and Administrative Index no. 329424

Shareholders are hereby convened at the shareholders' ordinary meeting to be held at Grand Hotel Santa Lucia, Via Partenope 46 in Naples, on first call on **29 April 2014** at 5:30 pm and, if necessary, on second call on 30 April 2013 at 8:00 am, with the following agenda:

AGENDA

1. Approval of the financial statements at 31 December 2013, Directors' Report on Operations, report of the Board of Statutory Auditors and subsequent resolutions according to law provisions;
2. Renewal of the Board of Directors and determination of remuneration;
3. Remuneration policies: disclosure;
4. Any other business.

The procedures for attendance at the Shareholders' Meeting are governed by law and the by-laws.

The Chairman of the Board of Directors
Ugo Malasomma

(Translation from the original issued in Italian)

Management and Independent Auditors

Board of Directors

Ugo Malasomma *(Chairman)*

Tiziana Carano *(CEO)*

Stefano de Stefano

Umberto De Gregorio

Federico Cosentino

Board of Statutory Auditors

Ugo Mangia *(Chairman)*

Settimio Briglia

Sergio Vilone

Independent Auditors

Deloitte & Touche S.p.A.

Financial Highlights

Financial Figures	31/12/2013	31/12/2012
Total assets	**67,171,964**	**54,288,068**
Total loans, of which:	**57,831,711**	**45,107,993**
Loans to customers	32,139,992	27,594,417
Receivables from banks	12,917,096	3,326,495
Financial assets	12,774,623	14,187,081
Total fundraising, of which:	**47,499,229**	**34,775,681**
Payables to banks	6,239,325	4,390,977
Direct fund raising, of which:	41,259,904	30,384,704
Trade payables	32,554,236	26,136,168
Outstanding securities	8,705,668	4,248,536

Economic Figures	31/12/2013	31/12/2012
Interest margin	1,159,732	983,930
Net commissions	(331,398)	(521,605)
Net profit (loss) from trading	4,248,900	7,177,789
Brokerage margin	**5,077,234**	**7,640,114**
Total costs, of which:	**(4.882.058)**	**(5,871,783)**
Administrative expenses	(4,075,087)	(4,762,775)
Other operating income/expenses	(26,347)	(66,875)
Net adjustments to receivables	(290,396)	(579,759)
Allocations for liabilities and charges	(15,000)	(1,193)
Net adjustments to fixed assets	(475,228)	(461,181)
Profits from sales of investments	0	0
Gross result	**195,176**	**1,768,331**
Taxes	(105,834)	(600,856)
Net result	**89,342**	**1,167,475**

Structure Data	31/12/2013	31/12/2012
Number of employees at the end of the period	41	48
Number of branches	3	3

Figures per share	31/12/2013	31/12/2012
Number of shares	7,740,000	7,740,000
Net result of financial operations per share	0.62	0.91
Result of ordinary operations per share	0.03	0.23
Net result per share	0.01	0.15
Net equity per share	1.96	2.00

Ratios	31/12/2013	31/12/2012
Overall adjustments to receivables/gross loans (hedging ratio)	3.78%	3.43%
Interest margin/total assets	1.73%	1.81%
Net result of financial operations/total assets	7.13%	13.01%
Interest margin/brokerage margin	22.84%	12.88%
Administrative expenses/brokerage margin	80.26%	62.34%
Profit for the year/total assets	0.13%	2.15%
Profit for the year/net equity (profit excluded)	0.59%	8.17%
Gross non-performing loans/loans to customers	4.23%	2.92%
Net non-performing loans/loans to customers	1.22%	0.40%
Loans to customers/total assets	47.85%	50.83%
Direct fundraising/total assets	61.42%	55.97%
ROE – Return on equity	0.59%	7.55%
ROA – Return on asset	0.29%	3.26%
Cost to income ratio	90.44%	69.27%

Directors' Report

Dear Shareholders,

In 2013 the Bank operated in a local context characterised by a further gradual slowdown in economic growth, a sharp rise in unemployment rates and a significant squeeze on both family spending and the solvency of businesses.

In this difficult situation, the Bank achieved important results in terms of the amount of funds managed, which exceeded € 100 million, with a 36% rise in direct deposits.

As regards loans, the Bank continued to provide strong support for the local economy (with a 16% rise in loans to customers), nonetheless taking a particularly selective approach to granting loans and adopting a prudent loan evaluation policy.

On the other hand, financial assets were conditioned during the year by a number of events that led to a significant squeeze on profits.

For this reason, despite an 18% rise in net interest income, gross profit fell to € 195,176, a significant drop compared to 2012.

Before presenting a more in-depth analysis of the balance sheet and income statement figures for 2013, it is useful to take a look at the macroeconomic scenario in which the results for the period were recorded.

The economic scenario and financial markets

During 2013, the international macroeconomic scenario showed signs of progress. The pace of growth was reasonably good, and – despite significant differences between the various geographical areas – a widespread improvement was evident.

With reference to the advanced economies, for example, in the second half of the year the USA saw a rise in GDP, reflecting a rise in consumption and an increase in inventories. Growth also kept up at a good pace in the UK, thanks to the positive impact of domestic demand. In Japan,

following the significant expansion of the economy during the preceding periods, GDP slowed down as a result of the brake on consumption and exports.
With regard to emerging markets, on the other hand, significant differences were observed. In China the economy grew at an impressive pace, following the measures adopted during the year in support of investments and exports, as well as a wide-ranging programme of reforms aimed at strengthening the market economy. In areas such as India and Brazil, the rise in GDP was more moderate, while in Russia stagnation continued.
Other macroeconomic indicators also paint a more positive picture than in previous years. According to the figures available at the time this report was drafted, worldwide trade has strengthened; the Brent index has remained largely stable; gold has paid the price of the renewed optimism by losing ground (approx. -28%); in the advanced economies, inflation has stayed low.
As regards monetary policy, different approaches were adopted from country to country, in line with growth and inflation rates. The Federal Reserve, the Bank of England and the Bank of Japan adopted an expansive attitude, as indeed did the European Central Bank, intervening twice during the year, bringing the MRO rate down to a record low of 0.25%, while the central banks of the emerging countries increased the main reference rates.

Europe in general also experienced a modest rise in GDP and low inflation, while consumption, although slightly on the rise, was held back by low domestic demand, only partially offset by the positive trend in exports. Significant differences remain, however, between the various countries.
In Italy, family spending remained weak, as a result of the persistent difficulties affecting the employment market and sluggish income, together with a desire to bring savings back up following the erosion that has characterised recent years.
Here in Italy the real economy is finding it difficult to recover, and the crisis very much continues to hold businesses back. This phenomenon of course varies from one geographical area to another, depending also on the type and size of companies. Those worst affected are small and medium businesses that concentrate mainly on the domestic market, while the situation is better for those businesses that export more.

On financial markets, tensions slackened regarding sovereign debt in the Euro area. The spread between Italy and Germany has narrowed to acceptable levels, appreciated by the market.
At the end of 2012, there was a 316 point spread between ten-year Bund and BTP (German and Italian treasury bonds), while by the end of 2013 this had fallen to about 215 points, with a 4.1 % yield on the ten-year Italian bonds.

This has undoubtedly brought benefits to the market, with the placement of government securities becoming easier and thus relieving the tension that had weighed heavily on the banking system in the preceding months.

The analysis of the final results shows it has been a positive year for both fixed income – with a significant increase in trading – and stock markets, with a rise in indexes all over the world, in some cases a very sharp rise, such as on the Nikkei in Japan, which, with a 57% increase, shot back up to 2007 levels, partly thanks to the support policy implemented by the present government and by the Bank of Japan. A similar situation was observed in the USA, where the S&P500 index rose by 30%, the Dow Jones by over 26% and the Nasdaq by 38%. This was also mirrored in Europe, with the Dax in Frankfurt recovering around 25% to reach record levels, followed by the markets in Madrid (+21%), Paris (+17%) and London (+14%).
As regards Italy, the main stock market index, the Ftse Mib, rose by 16.5% to 18,967.71 points, with other indicators showing the support stock market activity has received in the last 12 months: Total capitalisation of listed companies rose by approx. 20%, there was a rise in trading in securities and many new companies made their debut on the market.

The banking sector in Italy

The banking sector in Italy benefitted to an extent from the more positive climate internationally; a number of critical aspects remain, however. For example, there were from improvements with regard to banks' deposits and capitals, although profits have remained limited.
Largely as a result of sluggish domestic demand, as mentioned before, the situation regarding loans remained negative, with reference to both companies (especially those smaller in size) and families. Loans were affected not only by demand, but also by the cost of credit, which is higher on average in Italy than in the rest of the Eurozone.
Regarding the loan sector, however, the most significant aspect is the rise in non-performing loans, partly caused by the huge number of firms going bankrupt. The most recent figures available, updated to November 2013, reflect an increase of approx. 20% in NPLs on an annual basis, accounting for about 4% of total loans.

The situation in Campania

The situation in southern Italy and in the Campania region is in line with the situation in the rest of the country, although the negative trends appear more marked as a result of the particular aspects that characterise the area.
The signs of recovery coming from Europe and from financial markets have yet to make an impact on the real economy in this region, where the local entrepreneurial fabric still appears in serious difficulty, with a large number of firms in crisis, a rise in bankruptcies and unemployment and a decrease in the savings of families.

Linked with a cyclical evolution that remains uncertain, the demand for loans in the South has registered a sharper fall than in other regions. The drop in the application for funds to be used for productive investments, evident for some years now in all areas, is joined by weak demand due to the need to hedge net working capital.

With regard to mortgage loans for families and consumer credit, the regional market – the benchmark for Banca Promos – continued to appear weak in terms of both supply and demand, in contrast to the situation in the North of the country, where signs of improvement – albeit modest – were observed.

(Sources: Banca d'Italia: Regional Economies no. 23, November 2013)

Banca Promos core operations

The modest result recorded in the year that has just come to a close is not entirely attributable to the difficult economic situation. An unfortunate event also affected the bank, partially explaining the low profits for the FY.

Towards the end of the year, five members of staff from the trading office resigned at the same time. It subsequently emerged that these former employees appear to have been persuaded to resign after being contacted by another company operating in the investment services sector, with an offer to do the same job as they were doing in the Bank. These contacts, which began at the end of 2012, conditioned the Bank's activity, because the employees concerned, once they had decided to move over to the competition, significantly reduced their performance, with a severely negative impact on operations in the trading office of the Bank.

Therefore, the Bank suffered an attack aimed at severely eroding its core business, which can in all probability be considered as unfair competition and customer diversion.

The Bank reacted promptly, acting upon organisation and the training of the staff responsible for the service, by making the most of the remaining employees and introducing new ones, as well as taking the appropriate legal and compensatory action.

Initially, the situation was dealt with by reassigning the employees available and redistributing responsibilities, in order to guarantee continuity and a professional service. At the same time, the process of selecting and recruiting new employees for the finance sector – already under way for some time – was intensified.

In addition, from a strategic point of view, studies are under way regarding the possibility of opening up new lines of business in collaboration with professional partners, with a view to strengthening commercial development.

Consequently, budget forecasts for 2014 have been revised downwards in the light of the events described above.

Trading volumes slightly exceeded € 24 billion, going back to the 2011 levels, down 19%. A sharper drop was recorded in trading revenues, down 41%.
Although operating costs fell by 13%, this decrease was proportionally lower than the drop in revenues, leading to a 92% drop in net profit compared to 2012.

Banking activities performed satisfactorily on the other hand, with double-figure growth in both deposits and loans, a significant rise in funds managed and a general expansion in operations connected with banking services.

Among the significant events of 2013, mention must be made of the inspection on the part of Banca d’Italia, which began on 29 November 2013 and was completed on 7 February 2014. The inspection regarded all the sectors of the company: operative, supporting, management and control. The outcome of the inspection did not result in any measures or sanctions being applied to your Bank, and was part of the ordinary activities the Supervisory Body is called upon to carry out.

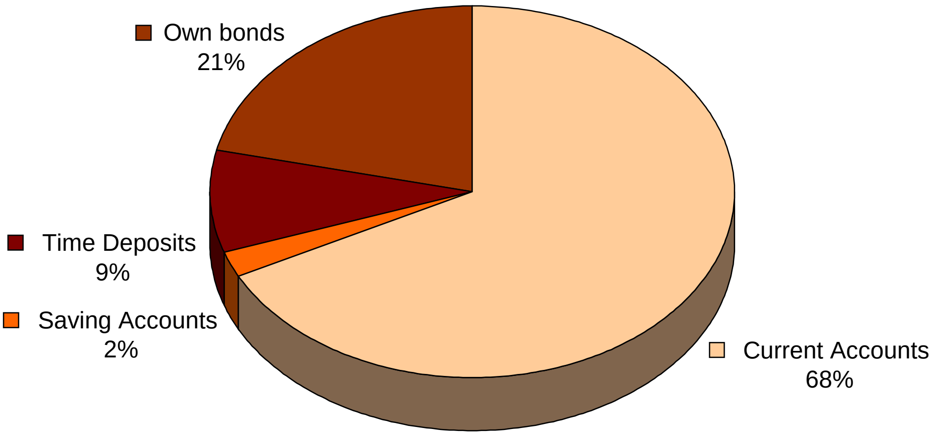
Balance Sheet

Funding

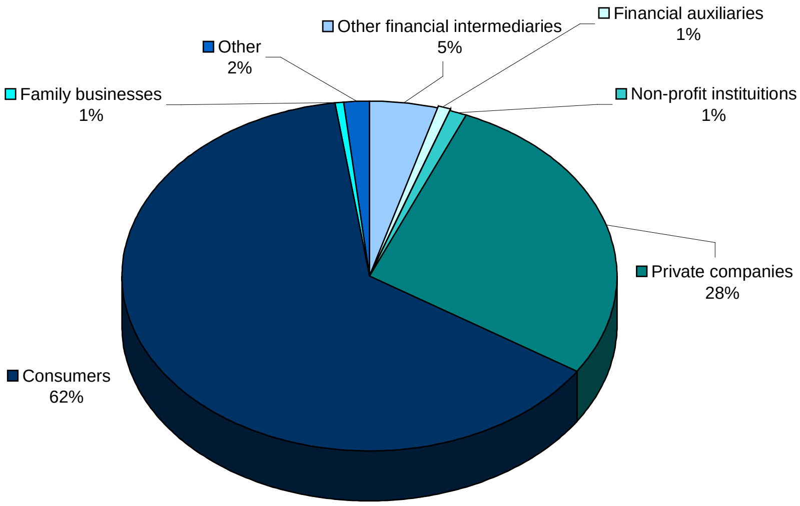
Total funding exceeded € 47 million, up 37% compared to 2012. In particular, direct deposits from customers amounted to € 41,259,904 (+36%), mostly represented by short-term deposits (79% of the total). Medium-term funding, (21%) amounting to € 8,705,668, is related to the bank's currently outstanding securities, which almost doubled compared to last year due to the placement of a bond issue.
As part of the actions in support of direct funding, on 12 April 2013 the bank issued a new three-year maturity bond, with a 3.50% annual fixed rate and semi-annual coupon. This issue was successful, with customers taking up 83% of the overall issue.

Also for this year, the breakdown by technical form showed a preference for current accounts (68% of the total). Time deposits – almost all of them lasting more than 6 months (98% of active time deposits) – accounted for 9% of fundraising. As already mentioned, the bank’s securities accounted for 21%, whereas the remaining 2% refers to savings accounts.
Current accounts, considering the breakdown by business area, reflected a slight drop in the retail clients segment (62%, against 65% of the previous FY), in favour of the business customers’ segment.

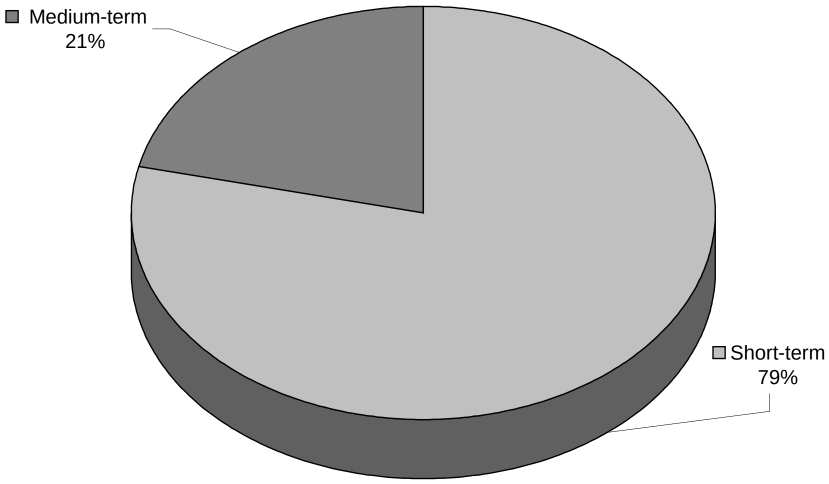
2013 Fundraising – Technical Form



2013 Fundraising – Business Area



2013 Fundraising – Duration



Loans

In line with its strategic plans, during the financial year the bank continued to develop the loans to customers segment, obtaining very satisfactory results.

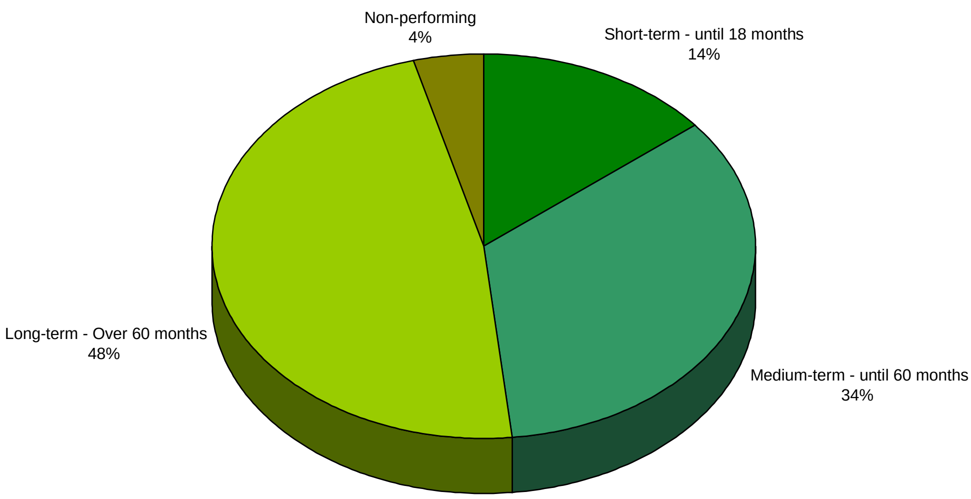
As already mentioned, at regional level, the economy continued to be marked by considerable complexity. Bearing in mind the criticalities of the target market, the bank applied more stringent criteria in the selection of customers applying for loans and in monitoring those already in the loan portfolio, trying to identify high-quality transactions through detailed analyses aimed at selecting companies with acceptable risk profiles.

At 31 December 2013, loans to customers amounted to € 32,139,992, up 16.5% compared to the figure for the previous FY.

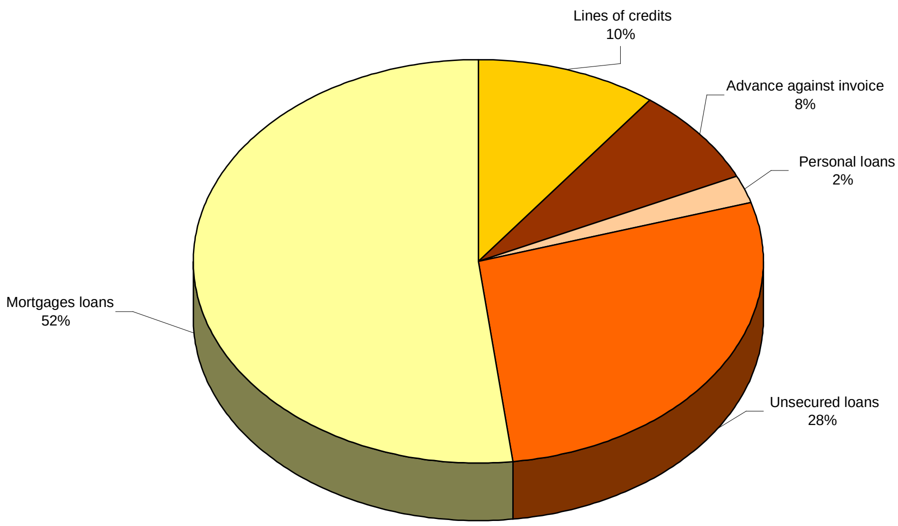
New credit facilities approved in 2013 amounted to approximately €16 million for 106 customers, a clear sign of the increased pace of growth in the industry, which in 2012 had recorded new loans of just over €5 million on 55 positions.

The characteristics of the loan portfolio are summarised in the graphs.

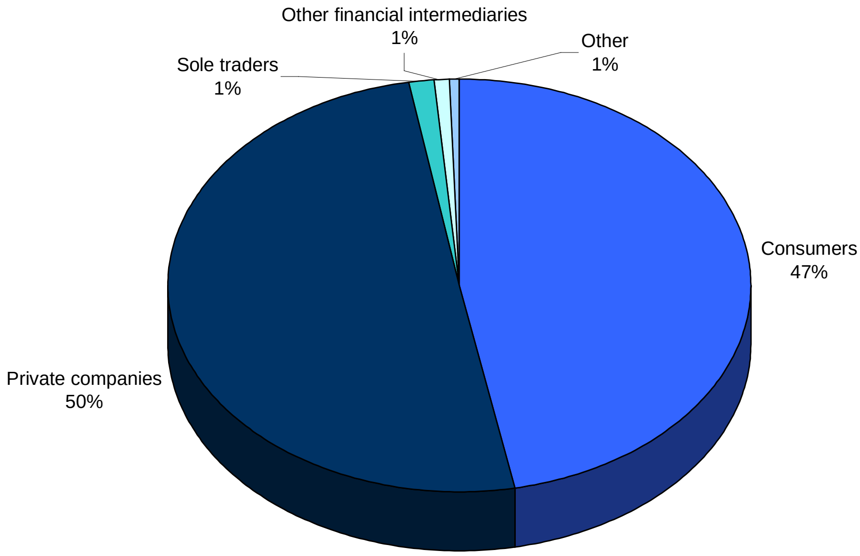
2013 Loans – Duration



2013 Loans – Technical Form



2013 Loans – Business Area



The analysis by type confirms the prevalence of loans secured by mortgages, accounting for 52% of loans, although the share of unsecured loans (which increased to 28% of the total, from 14% in 2012) registered a strong increase compared to last year.

This was mainly due to the bank opening up more to corporate customers, which, as can be seen, accounted for 52% of customers this year, compared to 36% in 2012. Nevertheless, the share of loans to consumers was still a sizable 47%.

The breakdown by maturity shows a substantial balance between long-term loans, 48% of which were mortgage loans, and short and medium-term loans, accounting for 48% of the total (14% up to 18 months and 34% up to 60 months).

Gross NPLs accounted for 4% of total Loans and, in line with the national trend, the figure increased significantly compared to 2012, despite the meticulous analyses and stringent monitoring of anomalous loans conducted carefully and thoroughly, as usual, during the year.

57% of gross NPLs are attributable to overdraft facilities and 43% to term loans. The ratio of net non-performing Loans to total Loans was 1.22%, a slight rise, but well below the levels shown by the banking system.

New non-performing loans in the year amounted to € 554 thousand, to which € 213 thousand should be added for additional impaired loans in the problem and past-due loan categories.

During the year, net impairment losses were recognised for a total of € 290 thousand.

Total impairments of total loans amounted to € 1,263 thousand, with a coverage ratio of 3.78%, while the coverage ratio for impaired loans only amounted to 38.02%.

The chart below outlines the overall picture of adjustments made to loans.

Loans to customers	Gross exposure	Adjustments	Net value
a) Non-performing	1,360	968	392
b) Problem	1,417	95	1,322
c) Past-due exposures	24	2	22
d) Restructured exposures	-	-	-
Total impaired positions	2,801	1,065	1,736
e) Performing	30,602	198	30,404
Total loans to customers	33,403	1,263	32,140

With reference to the performing portfolio, the Bank carried out the appropriate collective impairments, in order to also take into account the risk of loss inherent in loans performing regularly. For these adjustments, as in previous years, the Bank—not having adequate proprietary time series-–adopted a criterion based on the experiences of a group of banks chosen from those most similar to Banca Promos in terms of size, location and type of business.

In particular, we determined the average rate applied by banks in the group for these types of impairment, based on the most recent approved financial statements, which was equal to 0.67%. This percentage was applied to write down the performing portfolio, without further adjustments.

The same procedure was used to determine the write-down percentage rate to be applied to past due/overlimit loans, amounting to 7.297%.

Tangible fixed assets

Item 110, related to Tangible Assets, was up 4%, due to additions to the bank's real estate properties. In Q1 2013, following a resolution by the Board of Directors, the Bank bought the building in Via Manzoni in Naples, where the Branch is currently located and which was formerly leased.

As a result of this transaction, tangible fixed assets went from € 6,762,856 to € 7,041,290.

Financial assets

The bank's trading book at year-end amounted to € 12,774,623, down 10% compared to 2012 On the other hand, loans to banks more than tripled, rising to € 12,917,096, as a result of Treasury decisions aimed at maintaining greater liquidity.

During the year, the performance of financial markets, and the bond market in particular, was affected by the prospects of the U.S. monetary policy, and improved significantly at the end of

2013, reflecting less drastic measures than expected. This resulted in safer market conditions and the resumption of purchases of government securities, including those of peripheral countries. The spread between the Bund and BTP stabilised at around 200 basis points, moving away from the high volatility of the preceding period.
Net of capital losses of € 20 thousand, capital gains came to € 115 thousand.

A breakdown of the portfolio shows adequate diversification in terms both of issuers and type of interest rate. 63% of the portfolio is made up of Italian Treasury issues, up compared to 2012; short/medium term bonds issued by banks accounted for 35%, while the remaining 2% was made up of energy securities.
Furthermore, in order to limit exposure to risks arising from market fluctuations, the share of floating-rate securities (79% of the total) was further stepped up compared to the fixed rate, which accounted for 21% of the total. Geographically, there is a clear majority of domestic bonds.

The nominal value of the portfolio at the end of December 2013 was approximately 12.6 million, excluding treasury bonds; portfolio management was focused on the negative risk-return trade-off. The total return of the portfolio at maturity was 3.23%.

Market risk indicators (Value at Risk, which estimates the maximum potential loss, calculated using the Monte Carlo method with a confidence interval of 99%) as a percentage of the portfolio's market value at 31 December, equal to € 12,682,257, amounted to 0.98% over a 1-month period and 1.66% over a 3-month period.
The maximum potential loss was approximately € 124 thousand at 1 month and approximately € 211 thousand at 3 months.
The stress tests carried out on the assumption of a sudden, parallel 100 bps shift in the swap rate curve, either upward or downward, also showed a limited impact in percentage terms on the book's composition and market value. In particular, a sudden upward or downward shift in interest rates would result in capital gains and losses equal to 0.95% (around € 121 thousand) and -0.77% (around €98 thousand) respectively of the book's market value.
The amount of securities rated below investment grade was €1.51 million.

Provisions for liabilities and charges

Item 120 of Liabilities, Provisions for liabilities and charges, amounted to € 32,546, combining € 17,546 for potential charges relating to long-term compensation payable to personnel, on the one hand, and a provision of € 15,000 as deductible under the insurance coverage activated by the bank for the loss of cash caused by Ipervigile Srl, on the other. The above company, which the bank was using for the transport and custody of cash and securities and for the management and handling of cash, was suspended from business as a result of an inspection by Banca d'Italia,

which detected serious anomalies in the management of its cash handling activities. For Banca Promos, these anomalies resulted in a cash shortage due to the difference between internal accounting records and the physical stock of cash in the vault of Ipervigile.
The bank activated its insurance coverage and the outcome of the procedure is currently pending.

Equity

Share capital remained unchanged during the year, consisting of 7,740,000 shares with a par value of € 1 each.
Total reserves at 31 December 2013 equalled € 7.307 million, due to the allocation of profits and reserves of previous FYs (€ 6.256 million), the share premium account (€ 1.071 million) and the valuation reserve (€ -19,278).
Total reserves were up 11% compared to 2012. However, due to the 2012 dividends, shareholders' equity registered a slight decline this year, 2.11%, still remaining well above € 15 million.
In this regard, in line with a profit distribution policy constantly based on conservative criteria with a view to protect shareholders' equity and also taking account of the difficult situation we are currently experiencing, the bank will not distribute dividends to shareholders in 2013.

The TIER 1 Capital Ratio equalled 33.88%. This indicator expresses the ratio between core capital and risk-weighted assets and, despite being slightly down compared to the previous year when it stood at 36.54%, it was nevertheless higher than the minimum regulatory capital, and the capital surplus also remained high (€ 11,540 million). The higher capital requirement is due to the increased capital requirement related to credit risk, in line with the rise in lending.
The solvency ratio also remained well above the minimum 8% requirement, despite falling to 48.25% from 67.26% in the previous year.
Please refer to Part H of the Notes for detailed information on shareholders' equity. The following is merely a table providing quantitative information on the regulatory capital.

Categories/amounts	Unweighted amounts		Weighted amounts	
	2013	2012	2013	2012
A. Risk assets				
A.1 Credit and counterparty risk	59,169	39,770	31,325	22,325
1. Standardised method	59,169	39,770	31,325	22,325
2. Internal rating based method	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. Regulatory capital requirements				
B.1 Credit and counterparty risk	-	-	2,506	1,786
B.2 Market risk	-	-	90	425
1. Standard method	-	-	90	425
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.3 Operational risk	-	-	973	1,076
1. Base method	-	-	973	1,076
2. Standardised method	-	-	-	-
3. Advanced method	-	-	-	-
B.4 Other prudential requirements	-	-	-	-
B.5 Other elements in the calculation	-	-	-	-
B.6 Total prudential requirements	**-**	**-**	**3,569**	**3,287**
C. Risk assets and regulatory ratios				
C.1 Risk-weighted assets			44,613	41,088
C.2 Tier 1 capital/Risk-weighted assets (Tier 1 Capital ratio)			33.88%	36.54%
C.3 Regulatory capital including Tier 3/Risk-weighted assets (Total capital ratio)			33.88%	36.54%

Income Statement

Gross profit for the year stood at € 195,176. The effective tax rate stood at 54%, determining income taxes of € 105,834. Therefore, net profit stood at € 89,342.

Net interest income increased by 18%, reaching € 1,159,732, primarily due to the increase in loans to customers, which generated a significant increase in interest income. With regard to interest expense, the average cost of funding showed a decrease due to the prevalence of short term funding characterised by lower interest rates.

The various components of net interest income are shown in the following table.

Breakdown of interest	31.12.2013	31.12.2012
Interest income	**1,735**	**1,555**
On securities portfolio	355	354
On loans to customers	1,315	1,111
On receivables from banks	65	90
Interest expense	**575**	**571**
On payables to banks	49	44
On payables to central banks	19	34
On customer accounts	241	348
On securities in issue	266	145
Interest margin	**1,160**	**984**

Gross income fell by about a third from 2012, amounting to € 5,077,234.

An analysis of commission income (down 4%) shows an increase in revenues from banking services (collection and payment +10%, current accounts management +3%); this was insufficient, however, to offset the decrease in commissions on investment services and the distribution of third party products. Fees and commissions payable, including variable fees paid to the sales network, reflected the decrease in revenue reduction.

Breakdown of fees and commissions	31.12.2013	31.12.2012
Commission income, of which	**453**	**474**
Trading of financial instruments	15	27
Placing	21	20
Receipt and transmission of orders	22	47
Distribution of third-party products	5	33
Collection and payment services	190	171
Current accounts management	168	163
Guarantees	24	8
Other	8	5
Commissions expense	**-784**	**-996**
Net fees and commissions	**-331**	**-522**

The slowdown in trading activities was reflected in the decrease in net profit from trading activities (item 80), which fell by 41%,

while net income from financial activities, item 140, showed a more modest decrease (-32%), also due to the fewer impairment losses of the loan portfolio, equal to € 290,396.

Compared to 2012, operating costs recorded a reduction of 13%, reaching € 4,591,662, after absorbing the further increase in VAT, which rose to 22% in 2013.

Personnel costs amounted to € 2,477,223, down 20% compared to the previous FY. This item includes fixed and variable employee remuneration, costs for professional training and the remuneration paid to directors and members of the Board of Statutory Auditors, reflecting the internal staff dynamics mentioned above. In this regard, it should be noted that in light of the fall in revenues and the persistently adverse macro-economic scenario, the Shareholders' Meeting approved a redetermination of the fixed annual remuneration of the Board of Directors, with a 30% reduction.

As is customary, in compliance with the applicable supervisory regulations concerning remuneration policies, a specific disclosure was drawn up that is submitted to the Shareholders' Meeting separately.

The cash flow statement reported incoming cash flows in line with outflows, absorbing cash of approximately € 9,000.

Cash and cash equivalents were sufficient to meet funding requirements.

In order to provide useful tools to analyse the bank's overall performance and financial position, a number of financial ratios are provided below. The ratios reflect the decline in revenues but, despite the evident downsizing of activities, are on the whole satisfactory. Specifically:

- The ratio between direct fundraising and total assets stands at 61% (56% in 2012);
- The ratio between loans to customers and total assets stands at 48% (51% in 2012);
- The impact of the interest margin on total assets fell to 1.73% (from 1.81% recorded in 2012);
- The impact of the interest margin on the brokerage margin showed a strong improvement, going to 23% (from the previous 13%);
- due to the decrease in profits, ROE went down to 0.59%.

Operations

Volumes in the banking business continued to grow in percentage terms. In general, given the difficult period, marketing activities achieved satisfactory results, as is shown in the following summary of the main operation indicators:

- the number of accounts was up in the various categories, e.g. current accounts increased by 31% and saving accounts increased by 23%;
- transactions on current accounts were up 22% compared to 2012, with total volume increasing by 29%;
- in more detail, payment services recorded a significant increase in the number of transactions and the total corresponding volume. More specifically, transfers made at the counter increased by 20%; those carried out via home banking by 36%, while the number of inter-bank corporate banking (CBI) orders more than doubled. The flow of incoming payments also showed significant progress, with transfers received increasing by 30% and orders from abroad rising by 7% compared to last year;
- the number of payment cards in issue (+57%) grew strongly, as did cash withdrawals from our ATMs (20%).

In the month of February, the project to renew the Bank's website was completed. The new website's design was developed with the goal of expanding content and providing more comprehensive information and services, also by means of more modern, eye-catching graphics. While maintaining the traditional organisation of content divided up by type of customer, the website is now more user-friendly and intuitive, and more advanced technical solutions have been adopted.

Once again, the goal is to focus visitors' attention on the products and services offered by the bank, thus making the website a valuable marketing tool.

With regard to organisational activities, 2013 was again characterised by an intense activity to update existing Regulations and Policies.

Specifically, the on-going process to update and revise internal regulations continued, with a view to improving existing monitoring measures and increasing the level of detail of the analysis carried out, in order to provide users with operational guidelines and tools. This activity included the updating of the Credit Regulations and the Manual of Internal Procedures.

In order to avoid inadvertently taking risks, during the year the bank also adopted a new Operating Manual exclusively dedicated to regulating and managing the various procedural issues on money laundering and anti-terrorism. In accordance with the applicable laws, the Bank prepared a single document that on the one hand includes the relevant legislation, and on the other hand comprises all existing operational procedures, appropriately supplemented.

The specific objective is to inform staff regarding corporate obligations and responsibilities, as well as to provide all employees with a consistent set of behavioural guidelines.

In the light of the entry into force of the SEPA (Single Euro Payments Area), the objective of which is to promote integrated payment services in Europe in terms of safety, efficiency and economic conditions, the bank made the necessary adjustments to the relevant contracts (Current Account and Payment Services), also implementing, where necessary, the new technical procedures for the exchange of flows (transfers, payments, etc.) with the banking system, in cooperation with the outsourcer.

The adjustments to new regulations also included the study and the activities carried out in relation to the Tobin Tax, i.e. the new indirect tax on the transfer of shares and other equity instruments issued by companies resident in Italy, introduced by Law no. 229 of 24/12/2012 ("Stability Law 2013") and regulated by the Decree of the Ministry of Economy and Finance of 24/02/2013.

The EMIR (European Market Infrastructure Regulation) should also be mentioned: introduced by EU Regulation no. 648/2012, it came into force on 16/08/2013, incorporated into Italian legislation by Law no. 97/2013. The new regulation envisages, inter alia, new requirements for reporting to ESMA (European Security Market Authority) for operators dealing with financial derivatives. Accordingly, the Bank adjusted the technological infrastructure involved in reporting and satisfied the necessary prerequisites for this activity, including the LEI (Legal Entity Identifier) code, the unique identification code issued in Italy by Unioncamere, upon designation by the Bank of Italy and Consob.

In the corporate governance area, the bank carried out a review of "remuneration policies", on the basis of the relevant information received from the Supervisory Bodies, and of the "Organisation, Management and Control Model pursuant to law 231". The latter document was updated to reflect changes in the regulations that have included new types of offences that may give rise to corporate liability, such as environmental crimes and offences related to corruption among private entities.

With regard to risk management, the "liquidity risk management and governance policy" was reviewed, with particular reference to the type of indicators to be used and their value. Both internal short-term indicators and the set of external indicators used to identify systemic crises were therefore reviewed and updated.

Activities in the finance area also included an update of the "strategy for order execution and transmission", designed to further clarify bond trading methods with market counterparties who have asked to be treated as "professional clients" pursuant to MIFID regulations.

The ordinary review of internal regulations included the updates to the Process of Business Continuity Management, and the Business Continuity Plan.

Finally, we should mention the complex activities carried out in relation to the 15th update of Banca d'Italia Memorandum no. 263/2006 which, as is well known, introduced important innovations in the field of internal controls compared to the existing framework and required a thorough analysis to identify the necessary corrective measures.

In addition to other requirements, the regulation required that a gap analysis be carried out, specifying the departure of the bank's situation from the requirements imposed by the new legislation and the measures that the Bank intends to adopt, with the relevant deadlines (Master Plan).

In order to comply with these requests, a working group was set up, composed of the heads of Compliance and Internal Audit and the Head of the Credit Department and Internal Services, assisted by two advisors. The group carried out its assessments based on the proportionality principle, therefore designing the future internal control system in keeping with the bank's current and prospective size and complexity.

The activity in question continued and will continue well beyond the end of 2013; the departments involved are currently still engaged in the completion of the related activities.

Once again this year, the internal IT department completed a number of development projects, mainly designed to optimise the exchange of information between the various systems in use and to provide the control and support operational units with more effective and efficient instruments and improved reporting.

- *New Trading Platform development*

A new trading platform was developed, which complies with the Italian Stock Exchange standards for the new MIT and GTP protocols.

It allows for direct trading on the markets managed by BorsaItaliana / London Stock Exchange (MOT - MTA - SeDeX - ETFPlus.)

- *Securities Back Office applications*

Several applications were implemented to support the processing operations carried out by the Securities Back Office, with a view to increasing process automation. More specifically, the new applications enable the automatic preparation of "InterestClaims" to be sent to the counterparties involved in transactions not settled within the value date, and the automatic handling of reports produced by the clearing house Euroclear, including the reporting of any errors and/or unmatched transactions.

- *Trading*

As part of the Finance Department reorganisation, a software was developed that facilitates matching between sellers and assigned counterparties based on the new breakdown of counterparties by geographical area.

In order to provide additional tools to the control functions, an automatic daily reporting system (Book Compliance checker) was also implemented to shows when the limits set by the Regulation on trading on one’s own account are exceeded.

- Personnel

With regard to staff management, a specific tool was implemented to facilitate the exchange of information with the dedicated software.

Finally, an additional application allows traders to independently indicate active alternates on their books in case of prolonged absence.

Again in 2013, the Bank was among the partners of the I.P.E.'s Specialization School ("Institute for research and educational activities", a non-profit organization operating under the supervision of the Ministry of Education) with a contribution intended to cover students' costs for participating in the specialised master courses organised by the Institute).

Also as part of our collaboration with IPE and our participation in managerial training programmes, two students of the Master in Advanced Finance carried out a Project Work at our bank, focused on activities designed to hedge market risk.

Workforce

At the end of the year, the bank had 41 employees, a decrease of 7, due to 12 employees leaving the bank and 5 new ones.

As mentioned in other sections of these notes, staff turnover during the year was higher than normal, especially in the Finance Department, as a result of a major reorganisation of that area.

A quantitative and qualitative analysis of the characteristics of our current staff shows, as in previous years, a slight majority of women, who accounted for 23 out of a total of 41 employees. Most of the staff have a University Degree (61%), especially the new employees.

In line with corporate ethics, the two employees on fixed-term contracts in existence at the end of 2012, due to expire in 2013, were confirmed and converted to permanent employment contracts. New hires were employed under fixed-term contracts. In any case, it should be stressed that permanent employment contracts make up 90% of total employment contracts.

From an organisational point of view, an analysis of the workforce by departments shows that employees were equally divided between the operational areas and the support and control areas. The tables provide a more detailed analysis of the staff.

Turnover	Balances at 01/01/2013	Engagement/ transformation	Resignation/ retirement/ termination/ transformation	Balances at 31/12/2013
Permanent contracts, of which:	**46**	**3**	**12**	**37**
Managers	**0**	0	0	**0**
Middle management	**5**	0	0	**5**
White-collar personnel	**39**	3	11	**31**
Blue-collar personnel	**2**	0	1	**1**
Temporary contracts, of which:	**2**	4	2	**4**
White-collar personnel	**2**	2	2	**2**
Blue-collar personnel	**0**	2	0	**2**
TOTAL	**48**	**7**	**14**	**41**

Breakdown	Managers	Middle management	White-collar personnel	Blue-collar personnel	Totals
Men	**0**	**2**	**14**	**2**	**18**
Women	**0**	**3**	**19**	**1**	**23**
Average age	0	49	39	40	40
Average length of service	0	8	8	4	8
Permanent contracts	0	5	31	1	37
Temporary contracts	0	0	2	2	4
Apprenticeship contracts	0	0	0	0	0
Qualification – University	0	2	23	0	25
Qualification – High School	0	3	9	0	12
Qualification – Middle School	0	0	1	3	4

Related parties

Transactions with entities identified as related parties pursuant to IAS provisions were regularly performed during the year and were carried out on an arm's length basis. Please refer to Part H of the Notes, where in compliance with applicable regulations, we provide the relevant details, as well as the information required by regulations on relations with the Bank's directors and statutory auditors.

At 31 December 2013 Banca Promos held no equity investments.

Disclosures required by Banca d'Italia /Consob/Isvap documents no.2 of 6 February 2009 and no. 4 of March 2010

As is known, the documents jointly issued in recent years by Banca d'Italia, Consob and ISVAP instruct Directors to include in the financial statements adequate information detailing the impact of the crisis on the company.

While in the notes and in other sections of this report the subjects in question are described in detail, a summary is provided below of the information required which may have a material impact on the bank.

Going concern assumption

The financial statements for the year 2013, presented herein, were drawn up on a going concern basis taking into account all the assets and liabilities of the company. The resulting financial and operating indicators are positive and constitute grounds for stating that the financial statements have been prepared on a going concern basis and that the bank will continue operating for the foreseeable future. The historical and current financial statements and the budgets included in the strategic business plans show positive cash flows and operating profits. Moreover, the funding available is adequate to cover current and future needs.

Financial risks

Part E of the notes contains qualitative and quantitative information on key risks, including risks of a financial nature, to which the Bank is normally exposed: credit risk, market risk and liquidity risk. This report also provides additional information on risks.

Impairment tests

The Directors carefully assessed all Assets reported in the financial statements and did not identify any impairment of said assets. In particular, there are no available-for-sale securities, and no goodwill is recognised in the financial statements. At 31 December 2013 the Bank held no equity investments.

In addition, a sworn appraisal was carried out on the building in which the Head Office and the branch of Via Tommaso Campanella are located, purchased in 2009 and is located in Viale Gramsci; the appraisal confirmed the carrying amount of the building.

Uncertainties associated with the use of estimates

With particular reference to loans, positions were evaluated in accordance with the ordinary policies used for non-performing loans. In this segment, therefore, the uncertainty is that inherent in the system and the current economic situation.

Financial assets are carried at fair value. The methods for measuring fair value are formalised in the policy summarized in the Notes - Part A.

Fair value hierarchy

In compliance with IFRS 13, which recently regulated the so-called "fair value hierarchy", for the purposes of identifying the different fair value levels, the bank has drawn up the policy included in the Notes which explains the basic methods used for measuring and classifying fair value.

Other information

Dear Shareholders,

Additional information is provided below regarding your bank's activities. At the close of FY 2013:

- the bank did not, either directly or indirectly, hold treasury shares in the portfolio and no treasury shares were sold or purchased during the year;
- the bank was not a member of any banking group;
- the bank did not carry out research and development;
- the Supervisory Body as per Legislative Decree 231 carried out its activity in accordance with the annual plan prepared by the body itself;
- the "Business Continuity Plan"—drawn up to ensure continuity of vital business operations and the resumption of normal operations within a reasonable time—was updated according to the events that occurred during the period.

Internal audit

The internal audit system is structured according to principles that ensure sound and prudent management. It consists of rules, procedures and organisational structures that on the one hand aim to ensure compliance with corporate strategies and on the other allow us to achieve the following objectives:

- Effectiveness and efficiency of business processes (administration, production, distribution, etc.);
- Safeguarding of assets and protection against losses;
- Reliability and integrity of accounting and management information;
- Compliance of operations and activities with the law, with supervisory regulations and with company policies and internal regulations and procedures.

The system consists of three different levels, responsibility for which is assigned to different structures and units: operating managers are in charge of first-level controls; Risk Management, Compliance and Credit Control functions are in charge of second-level controls while third-level controls are the responsibility of the Internal Audit Department, which reports to the Board of Directors.
Internal audit activities are conducted on a continuous basis, periodically or by way of exceptions, including through on-site checks.

Results of audit activities
During the year audits were carried out in compliance with the "Plan of Activities" approved by the Board of Directors.
In addition to periodic audits, specific audits focused on particular areas were also carried out.
More specifically, periodic audit activities regarded the banking and financial sectors. With reference to the banking sector, audits were carried out on money laundering, transparency of banking transactions and services, cash management and related cash transactions and credit management process. With reference to the financial sector, the audits concerned various investment services (trading on own account, execution of customers' orders, receipt and transmission of orders, placement of financial instruments).
These audit activities, conducted on a process basis, were also carried out through on-site checks at the Branches.

During the year 14 ordinary audits were carried out at the Branches, plus 2 targeted inspections relating to particular events that occurred during the year.
A routine inspection was also carried out in the Financial Advisors' Office in Florence and an inspection at the service company to which cash handling activities had been outsourced, following a suspension order related to cash recirculation activities imposed by the Central Bank, which resulted, inter alia, in the replacement of said outsourcer.
Specific audits were conducted regarding the ICAAP process, the Business Continuity Plan, the liquidity management process, the remuneration policies, the management of related-party transactions, and the management of equity investments in non-financial companies. Furthermore,

in accordance with the provisions of the legislation in force, the adequacy and effectiveness of the Compliance function and the Anti-money laundering function were assessed.

Risk management

Risk management is one of the major areas on which the bank focuses its attention, since it is well aware that the development of adequate control measures in the various identified risk areas is the best guarantee of sound and prudent management.

Section E of the Notes summarises and breaks down the information on risks and the related hedging policies. However, it is worth noting that several years ago the risk management process was defined in a specific document ("Risk Management System") that describes the role, duties and responsibilities of the Bodies with administrative, management and control functions and of the various business functions, as well as the activities comprised in the "Risk management process". The latter defines risk management methods and is divided into several stages, namely:

1. Mapping
2. Protecting measures
3. Estimate
4. Assessment and corrective measures
5. Monitoring and reporting

Mapping

Through Risk mapping, the Bank has identified the risks to which it is exposed. Based on the knowledge of the Bank's organisation, the market in which it operates, the regulatory framework, as well as the strategic and operational objectives and the related threats and opportunities, all the risks associated with providing both banking and financial services were identified, i.e.:

- *Credit risk (*counterparty included)
- Market risk (associated with proprietary trading)
  - Position risk
  - Settlement risk
  - Concentration risk
  - Exchange rate risk
- Market risk (associated with trading on behalf of third parties)
  - Settlement risk
  - Concentration risk
  - Counterparty risk
- *Operational risk*
  - Legal risk

- Organisation risk
- Risk linked to human resources
- IT risk
- Risk related to external events

- *Concentration risk*
- *Interest rate risk*
- *Liquidity risk*
- *Strategic risk*
- *Reputational risk*
- *Residual risk*

Protective measures

Protective measures refer to the process of selecting and implementing the tools necessary to control, mitigate and, where possible, eliminate and/or transfer risks.

For each significant identified risk, the Bank has put in place related mitigating measures, in order to contain exposure to risk within the limits that meet sound and prudent management criteria.

Estimate

The assessment of risks requires a number of preliminary tasks: first, an analysis of each risk is performed in order to define those factors in the operating business, the so-called "Typical Events", which, as they may cause losses, represent a "threat" to the Bank.

Once the "Typical Events" have been identified, an estimate is made taking into account the corrective measures already in place, in order to identify the risks to which the Bank appears to be most exposed.

The estimation process is based on two elements: the probability of the "Typical Events" occurring and their possible impact. To this end, specific qualitative scales (low/medium/high) were used to evaluate both the likelihood and the impact.

In particular, for probability, we consider the likelihood of a given event occurring, i.e. the relative frequency represented by the number of times the event may occur in a given time horizon; for the impact, we consider the consequences arising from the occurrence of the risk.

Assessment and corrective measures

The risk assessment step is of crucial importance to preserve the Bank's asset and financial integrity and to implement corporate strategies.

This assessment is based on the analysis of the so-called "Probability - Impact - Matrix" which is set for each probability/impact pair associated with each "Typical Event" obtained from the previous estimate.

A score, in terms of significance, is subsequently assigned, allowing for a comparison of the estimated risks, by establishing their relative importance and identifying the most relevant ones.
Each score assesses a risk exposure through qualitative scales (low/medium/high), enabling the definition of risk acceptance levels, and consequently, the corrective measures to be taken, if any.

Monitoring and reporting

Monitoring aims to determine, for each significant risk identified, on the one hand, the effectiveness of the protective measures adopted by the Bank and, on the other, the long-term appropriateness of the limits set.
For this purpose, a "control System", was set up, already described in the relevant section of this report; this system is integrated and structured in such a way as to avoid multiple audits of the operating structures. In this system each entity must perform its supervisory activities and report the results of the audits.

The ICAAP process and Capital Adequacy

In compliance with the provisions on the prudential supervision of banks (Banca d'Italia Memorandum no. 263 of 27 December 2006 as amended), the Bank prepared the "ICAAP Report" at 31 December 2013.
The document is a comprehensive, documented assessment of the key features of the internal process used by the Bank to determine capital adequacy, the overall exposure to banking and financial risks, as well as any capital deemed adequate to cope with those risks, both from a current and prospective standpoint, and both in normal conditions and in stress situations, the so-called "Total internal capital".
In preparing the above Report, all risks, both "measurable" and "non-measurable", identified as a result of the mapping activity, were taken into account.

In order to determine the "internal capital" in relation to each of the "measurable" risks, the Bank measured its exposure to them. In this sense, as provided for banks belonging to Class 3 and in accordance with the principle of proportionality, the following techniques were deemed most appropriate and, therefore used as a reference:

- For Pillar I risks (*credit, market and operating risks*), the quantitative measurement techniques as provided for by regulations for capital requirements calculations, using the standardised approach;
- For Pillar II "measurable" risks (concentration and interest rate risks), the simplified quantitative measurement methods as provided for by the Supervisory regulations.

With regard to liquidity risk, although it does not require additional capital for the time being, for the purpose of its estimate the Bank has adopted the guidelines laid down by the Supervisory regulations, on the basis of which it has established specific measurement and control procedures and systems.

With reference to market risk related to trading on behalf of third parties, although no specific capital requirement is envisaged, the Bank uses special IT tools through which it can evaluate the exposure in question at all times.

In parallel, however, with reference to the other "non-measurable" risks (Strategic, reputational and residual risks), which are difficult to quantify due to their intrinsic characteristics, the estimate of the bank's exposure is based on subjective assessments carried out on the basis of mainly qualitative methods defined in relation to the nature of each risk.

To better assess its capital adequacy, the Bank has carried out stress tests that consist of testing the effects of specific events on the risks to which it is exposed. The Bank therefore performed sensitivity analyses aimed at verifying the impact on the bank's balance sheet of "extreme", yet plausible, changes in the following risks (individually assessed):

- Credit
- Concentration
- Interest rate
- Liquidity

The approach defined allows for an assessment of both the impact of predefined stress tests, based on standard methodological practices, and of customised tests, based on portfolio characteristics or the economic situation.

Consistent with the Supervisory regulations, we calculated the internal capital against Pillar I risks and Pillar II measurable risks which require capital for regulatory purposes. These values were used as the starting point for defining the "Total Internal Capital", by applying a building blocks approach, consisting of an algebraical sum of the internal capital related to each type of risk.

Finally, the connection was made between the Bank's Regulatory Capital and the different types of "total internal capital" (relating to actual and budgeted data, stressed and non-stressed data), in order to verify its adequacy.

The results of this analysis showed that, under all tested conditions, despite the required increase in capital resulting from calculation on actual data in a stress situation and prospective data in both normal and stress conditions, the Bank's capital is such as to guarantee a significant capital surplus.

Public disclosure

According to the above-mentioned Memorandum 263/2006 of Banca d'Italia, capital adequacy, risk exposure and the general features of the systems used to identify, measure and manage those risks are to be disclosed (i.e. Pillar III).

The document, available to the public on the Bank's website (www.bancapromos.it), provides information on the level of business risk, the methods used by the bank to quantify and manage its risks, in relation to the size of existing and future capital resources.

Events subsequent to 31 December 2013

After the reporting period ended 31 December 2013 and until the date on which this report was drafted, no material events or facts occurred that might affect the bank's financial and profit and loss position.

Business outlook

In the first two months of the year, your Bank recorded a drop in volumes and revenues in the financial segment compared to the same period of 2013. However, some signs of improvement were evident: since the beginning of the year there has been a considerable increase in new accounts opened by the trading room (twice those opened in the corresponding period of 2013). Recruitment activities for sales staff to be allocated in the Finance Department also continued at a steady pace.

The lending sector continued to show signs of growth.

Proposed allocation of profit

Dear Shareholders, the Board of Directors submits the financial statements for 2013 for your approval, together with the attached reports of the Independent Auditors, Deloitte & Touche SpA, and the Statutory Auditors. The Board of Directors also proposes to allocate part of the profit for the year to the statutory reserve and to carry forward the remaining part without distributing dividends, in the light of the sharp decline in business revenue and the persistently adverse macro-economic scenario.

Therefore, the Meeting, after acknowledging the Balance Sheet, Income Statement, Statement of Comprehensive Income, statements of changes in Net Equity, Cash Flow Statement and the Notes, as well as the Directors' Report, the Report of the Board of Statutory Auditors and the Report of the Auditing Firm, shall resolve upon the following:

a) approval of the 2013 Financial Statements, showing a net profit of € 89,342;

b) allocation of the profit for the year as follows:

- € 4,467 to the Legal Reserve;
- the residual € 84,875 carried forward.

Acknowledgements

Dear Shareholders,

In a challenging situation, such as the one described in this report, we would like to extend our special thanks to all our shareholders and all our customers who support us in our daily activity, showing trust and appreciation.

A heartfelt thank you to all those who work for the Bank in their respective roles and responsibilities. We are referring to all personnel, at all levels, to whom we would like to express our appreciation for their professionalism, commitment and sense of responsibility.

Finally, thanks also go to the Supervisory Bodies and the auditing firm Deloitte & Touche for their collaboration.

The Board of Directors

BANCA PROMOS SPA
REGISTERED OFFICE: NAPLES – VIALE GRAMSCI 19
TEL. 081 0170111 – 081 7142222

BOARD OF STATUTORY AUDITORS' REPORT

TO THE SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 2429, PARAGRAPH 2, ITALIAN CIVIL CODE

To the Shareholders of the Company Banca Promos Spa:

During the FY that closed on 31 December 2013, our activity was based upon the regulations contained in the law provisions and in the Code of Ethics of the Board of Statutory Auditors as issued by the Consigli Nazionali dei Dottori Commercialisti e degli Esperti Contabili (National Accounting Board).

Supervisory Activity

- We supervised compliance with the law and the corporate by-laws, as well as with the principles of correct administration.
- We participated in the Shareholders' Meetings and in the meetings of the Board of Directors, and in this regard, according to the information available, we found no infringements of either the law or the corporate by-laws, or transactions deemed to be careless or unwarrantedly risky, in potential conflict of interests or such as to endanger the share capital of the company.
- During the meetings we obtained the following information: information on general management operations and their outlook, as well as on any operations of special significance, due to their size or characteristics, carried out by the company, and based upon said information, we do not have any noteworthy remarks to submit except for the sudden resignation of a significant group of operators from the Trading department with methods and timing such as to induce the Board of Directors to take legal action and to claim damages from those presumably responsible. The Board also set forth measures to significantly boost the Company's business, thereby ensuring a balanced income statement. Following the above facts and the general economic situation, there was a significant profit squeeze.
- We have met the entity in charge of audit (Deloitte), and no significant data or information has emerged that need be illustrated in this report.

- We have met the person in charge of internal audit, and no significant data or information has emerged that need be illustrated in this report.
- We have met the Supervisory Board and no critical issues have emerged with regard to the proper implementation of the organisational model that need be mentioned in this report.
- As far as we were concerned, we obtained information and performed monitoring activities on the suitability and the operation of the organisational structure of the company, also by collecting information from the relevant company officials and, in this regard, we do not have any noteworthy observations to submit.
- Furthermore, as far as we were concerned, we obtained information on and monitored the suitability and the operation of the management and accounting systems, as well as the reliability of the latter in terms of correctly reporting the information concerning the operations of the company, by obtaining information from the relevant company officials, the body in charge of audit and examining the company's documents; we do not have any noteworthy observations to submit in this regard.
- We have performed specific inspections and controls, and, on the basis of the information obtained, we found no infringements of the law, corporate by-laws or principles of proper administration or wrongful acts or irregularities.
- We monitored compliance with "Data Protection" and '"Money Laundering" regulations.

We received no claims pursuant to article 2408 of the Italian Civil Code.

In the course of our monitoring activities, as described above, no other significant facts arose requiring a mention in this report.

Financial Statements

We examined the draft financial statements closed at 31/12/2013, which were made available to us in accordance with the provisions of article 2429 of the Italian Civil Code, regarding which we provide the information below.

The financial statements are summarised as follows (amounts in euro):

BALANCE SHEET		
Total Assets		**67,171,964,00**
Total Liabilities	**67,171,964,00**	
of which		
- Shareholders’ equity	15,136,329	
- Employee severance indemnity	863,801	

- Payables	51,139,288
- Provisions for liabilities and charges	32,546
Profit for the year	**89,342**

INCOME STATEMENT

Interest margin	1,159,732
Net fees and commissions	(331,398)
Brokerage margin	5,077,234
Net result of financial operations	4,786,838
Operating costs	**(4,591,662)**
Pre-tax result	195,176
Taxes for the year	(105,834)
Profit (loss) for the year	**89,342**

The Board of Statutory Auditors acknowledges that during the year the directors prepared the semi-annual and quarterly reports, which were also examined by said Board; during the year the Board of Statutory Auditors periodically monitored the Bank's accounts and the branches' budgets, as well as the performance of operations by analysing the evolution over time of funding and lending, and the level of average rates and key performance indicators.

The Board received no complaints as per article 2408 of the Italian Civil Code or complaints of any other nature.

The Directors' Report and the Notes provide detailed information on the events that occurred in 2013 and those that occurred after year end.

Since it was no tour task to audit the financial statements, we have monitored the overall approach applied to them, their overall compliance with the law in terms of their composition and structure, and in this regard we do not have any noteworthy remarks to submit.

We have verified compliance with the legal regulations regarding the drafting of the Directors' Report and, in this regard, we do not have any noteworthy observations to submit.

To the best of our knowledge, Directors made no exceptions to the legal provisions in drafting the financial statements, in accordance with Article 2423, paragraph 4 of the Italian Civil Code.

Conclusions

Also considering the audit results included in the independent auditors' report submitted to us on 14/04/2014, along with the annual confirmation of their independence and the communication of the services other than auditing they have provided, pursuant to art. 17, paragraph 9, letter a), of Legislative Decree 239/2010, the Board of Statutory Auditors expresses a favourable opinion with regard to the approval of the financial statements for the year that ended on 31/12/2013, the Directors' Report and the proposed allocation of profit for the year.

Napoli 14 Aprile 2014

Il Collegio Sindacale

Dr. Ugo Mangia ------------------------------

Rag. Settimio Briglia ------------------------------

Dr Sergio Vilone ------------------------------

Financial Statements at 31 December 2013

Translation from the Italian original which remains the definitive version. The Financial Statements are the English translations of the Italian Financial Statements prepared for and used in Italy. The Financial Statements were prepared using International Financial reporting Standards (IAS/IFRS); therefore they are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices other than IAS/IFRS"

Balance sheet

(in Euros)

Assets	31/12/13		31/12/12	
10. Cash and cash equivalents		582,677		591,605
20. Financial assets held for trading		12,774,623		14,187,081
30. Financial assets valued at fair value		-		-
40. Available-for-sale financial assets		-		-
50. Held-to-maturity financial assets		-		-
60. Loans and advances to banks		12,917,096		3,326,495
70. Loans and advances to customers		32,139,992		27,594,417
80. Hedging derivatives		-		-
90. Adjustments for changes in the value of hedged financial assets (+/-)		-		-
100. Equity Investments		-		-
110. Property, plant and equipment		7,041,290		6,762,856
120. Intangible assets, of which:		40,131		51,437
- goodwill	-		-	
130. Tax assets		691,397		916,020
a) current	*448,911*		*656,147*	
b) deferred	*242,486*		*259,873*	
- as per Law no. 214/2011	*196,232*		*215,874*	
140. Non-current assets and disposal groups held for sale		-		-
150. Other assets		984,758		858,157
Total assets		**67,171,964**		**54,288,068**

Liabilities and equity	31/12/13		31/12/12	
10. Deposits by banks		6,239,325		4,390,977
20. Customer accounts		32,554,236		26,136,168
30. Outstanding Securities		8,705,668		4,248,536
40. Financial liabilities held for trading		-		-
50. Financial liabilities at fair value		-		-
60. Hedging derivatives		-		-
70. Adjustments for changes in the value				
of hedged financial assets (+/-)		-		-
80. Tax liabilities		1,173,776		2,008,944
a) current	145,889		923,614	
b) deferred	1,027,887		1,085,330	
90. Liabilities included in disposal groups held for sale		-		-
100. Other liabilities		2,466,283		1,156,739
110. Staff termination benefits		863,801		869,023
120. Provisions for risk and charges		32,546		21,572
a) pension funds and similar commitments	-		-	
b) other provisions	32,546		21,572	
130. Valuation reserve		(19,278)		(74,556)
140. Redeemable shares		-		-
150. Equity instruments		-		-
160. Reserves		6,255,353		5,552,278
170. Share premium account		1,070,912		1,070,912
180. Share capital		7,740,000		7,740,000
190. Treasury shares (-)		-		-
200. Profit/ (loss) for the year (+/-)		89,342		1,167,475
Total liabilities and equity		**67,171,964**		**54,288,068**

Income Statement

(in Euros)

	31/12/13		31/12/12	
10. Interest income and similar revenues		1,735,213		1,555,161
20. Interest expense and similar charges		(575,481)		(571,231)
30. Net interest income		**1,159,732**		**983,930**
40. Fees and commissions receivables		453,082		473,659
50. Fees and commissions payable		(784,480)		(995,264)
60. Net fees and commissions		**(331,398)**		**(521,605)**
70. Dividends and similar revenues		-		-
80. Net profit/ (loss) from trading activities		4,248,900		7,177,789
90. Net profit/ (loss) from hedging activities		-		-
100. Profits/ (losses) on sale or repurchase of:		-		-
a) loans and advances	-		-	
b) available-for-sale financial assets	-		-	
c) held-to-maturity financial assets	-		-	
d) financial liabilities	-		-	
110. Net profit/ (loss) from financial assets and liabilities at fair value		-		-
120. Gross income		**5,077,234**		**7,640,114**
130. Impairment losses/recoveries on:		(290,396)		(579,759)
a) loans and advances	(290,396)		(579,759)	
b) available-for-sale financial assets	-		-	
c) held-to-maturity financial assets		-		-
d) other financial transactions		-		-
140. Net income from financial activities		**4,786,838**		**7,060,355**
150. Administrative expenses		(4,075,087)		(4,762,775)
a) staff costs	(2,477,223)		(3,111,512)	
b) other administrative expenses	(1,597,864)		(1,651,263)	
160. Net provisions for risk and charges		(15,000)		(1,193)
170. Adjustments to property, plant and equipment		(448,404)		(436,199)
180. Adjustments to intangible assets		(26,824)		(24,982)
190. Other operating costs/income		(26,347)		(66,875)
200. Operating costs		**(4,591,662)**		**(5,292,024)**
210. Profits/(Losses) on investments		-		-
220. Fair value gains/ (losses) on property, plant and equipment and intangible assets		-		-
230. Goodwill impairment		-		-
240. Profits/ (losses) on sale of investments		-		-
250. Profit/ (loss) from current operations before tax		**195,176**		**1,768,331**
260. Taxation on profit from continuing operations		(105,834)		(600,856)
270. Profit/ (loss) from continuing operations after tax		**89,342**		**1,167,475**
280. Profit/ (loss) from disposal groups held for sale after tax		**-**		**-**
290. Profit/ (loss) for the year		**89,342**		**1,167,475**

Statement of Comprehensive Income

	Items	2013	2012
10.	**Profit (loss) for the year**	**89**	**1,167**
	Other income items not reversed to income statement	**-**	**-**
20.	Tangible fixed assets	**-**	**-**
30.	Intangible fixed assets	**-**	**-**
40.	Defined-benefit plans	55	(91)
50.	Non-current discontinuing operations	**-**	**-**
60.	Share of valuation reserves for equity investments carried at equity	**-**	**-**
	Other income items reversed to income statement	**-**	**-**
70.	Foreign investment hedging	**-**	**-**
80.	Exchange rate differences	**-**	**-**
90.	Cash flow hedging	**-**	**-**
100.	Financial assets available for sale	**-**	**-**
110.	Non-current discontinuing operations	**-**	**-**
120.	Share of valuation reserves for equity investments carried at equity	**-**	**-**
130.	**Total of other income items**	**55**	**(91)**
140.	**Comprehensive income (Item 10+130)**	**144**	**1,076**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31/12/2013

	Balance at 31.12.12	Change in opening balances	Balance at 01.01.13	Allocation of profit for prior year		Changing during the year								Shareholders' Equity at 31.12.13
							Equity-related transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Share buybacks	Payment of extraordinary dividends	Changes in equity instruments	Derivatives on own shares	Stock options	Statement of comprehensive income at 31.12.13	
Share Capital:	7,740	-	7,740	-	-	-	-	-	-	-	-	-	-	7,740
a) ordinary shares	7,740	-	7,740	-	-	-	-	-	-	-	-	-	-	7,740
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium account	1,071	-	1,071	-	-	-	-	-	-	-	-	-	-	1,071
Reserves:	5,553	-	5,553	703	-	-	-	-	-	-	-	-	-	6,256
a) revenues	5,553	-	5,553	703	-	-	-	-	-	-	-	-	-	6,256
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	(75)	-	(75)	-	-	-	-	-	-	-	-	-	55	(20)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit/ (loss) for the year	1,167	-	1,167	(703)	(464)	-	-	-	-	-	-	-	89	89
Equity	15,456	-	15,456	-	(464)	-	-	-	-	-	-	-	144	15,136

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31/12/2012

	Balance at 31.12.11	Change in opening balances	Balance at 01.01.12	Allocation of profit for prior year		Changing during the year								Shareholders' Equity at 31.12.12
							Equity-related transactions						Statement of comprehensive income at 31.12.12	
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Share buybacks	Payment of extraordinary dividends	Changes in equity instruments	Derivatives on own shares	Stock options		
Share Capital:	7,740	-	7,740	-	-	-	-	-	-	-	-	-	-	7,740
a) ordinary shares	7,740	-	7,740	-	-	-	-	-	-	-	-	-	-	7,740
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium account	1,071	-	1,071	-	-	-	-	-	-	-	-	-	-	1,071
Reserves:	5,249	-	5,249	304	-	-	-	-	-	-	-	-	-	5,553
a) revenues	5,249	-	5,249	304	-	-	-	-	-	-	-	-	-	5,553
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	16	-	16	-	-	-	-	-	-	-	-	-	(91)	(75)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit/ (loss) for the year	768	-	768	(304)	(464)	-	-	-	-	-	-	-	1,167	1,167
Equity	14,844	-	14,844	-	(464)	-	-	-	-	-	-	-	1,076	15,456

		Cash flow statement (Indirect Method)	2013	2012
A.		**OPERATING ACTIVITIES**		
1.		**Operations**	**1,111**	**2,900**
	-	profit for the year	89	1,167
	-	gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	(115)	(320)
	-	gains/losses on hedging activities	-	-
	-	impairment losses/recoveries	290	580
	-	net impairment losses/recoveries on property, plant and equipment and intangible assets	475	461
	-	net provisions for risk and charges and other costs and income	214	253
	-	unpaid taxes	106	733
	-	net impairment losses/recoveries on disposal groups held for sale, net of tax	-	-
	-	other adjustments	52	26
2.		**Cash generated by/used for financial assets**	**(12,855)**	**(4,196)**
	-	financial assets held for trading	1,527	(4,987)
	-	financial assets at fair value	-	-
	-	available-for-sale financial assets	-	-
	-	loans and advances to banks: on demand	(9,591)	2,303
	-	loans and advances to banks: other	-	-
	-	loans and advances to customer	(4,825)	(1,602)
	-	other assets	34	90
3.		**Cash generated by/used for financial liabilities**	**12,942**	**2,128**
	-	deposits by banks: on demand	1,848	4,391
	-	deposits by banks: other	-	-
	-	customer accounts	6,418	1,316
	-	outstanding securities	4,457	(3,361)
	-	financial liabilities held for trading	-	-
	-	financial liabilities at fair value	-	-
	-	other liabilities	219	(218)
Net cash flows from/for operating activities			**1,198**	**832**
B.		**INVESTING ACTIVITIES**		
1.		**Cash generated by**	**-**	**-**
	-	sale of investments	-	-
	-	dividends received from investments	-	-
	-	sale of held to maturity financial assets	-	-
	-	sale of property, plant and equipment	-	-
	-	sale of intangible assets	-	-
	-	sale of business units	-	-
2.		**Cash used for**	**(743)**	**(44)**
	-	purchase of investments	-	-
	-	purchase of held to maturity financial assets	-	-
	-	purchase of property, plant and equipment	(727)	(11)
	-	purchase of intangible assets	(16)	(33)
	-	purchase of business units	-	-
Net cash flows from investing activities			**(743)**	**(44)**
C.		**FINANCING ACTIVITIES**		
	-	issue/purchase of own shares	-	-
	-	issue/purchase of equity instruments	-	-
	-	payment of dividends and other transactions	(464)	(464)
Net cash flows from/for financing activities			**(464)**	**(464)**
NET INCREASE/DECREASE IN CASH			**(9)**	**324**

Reconciliation		
Item	2013	2012
Cash and cash equivalents at beginning of year	592	268
Net increase/Decrease in cash	(9)	324
Cash and cash equivalents: effects of exchange rate fluctuations	-	-
Cash and cash equivalents at end of year	583	592

Notes

"Translation from the Italian original which remains the definitive version. The Financial Statements are the English translations of the Italian Financial Statements prepared for and used in Italy. The Financial Statements were prepared using International Financial reporting Standards (IAS/IFRS); therefore they are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices other thanIAS/IFRS."

Part A – Accounting Policies

A.1 GENERAL SECTION

Section 1 Statement of compliance with International Accounting Standards

These financial statements were drafted in accordance with the International Accounting Standards - IAS and International Financial Reporting Standards IFRS issued by the International Accounting Standard Board (IASB) as endorsed by the European Commission through to the end of 2005, pursuant to EC Regulation 1606 dated 19 July 2002.

In interpreting and applying the new accounting standards, reference has been made to the following documents:

- Framework for the Preparation and Presentation of Financial Statements of the International Accounting Standards Board (IASB);
- Implementation Guidance, Basis for Conclusions and any other document drafted by IASB or IFRIC to complete the accounting standards issued.

Interpretation also took account of the documents regarding the adoption of IAS/IFRS in Italy prepared by the Italian Accounting Standard Body (OIC) and the Italian Banking Association (ABI).

Section 2 General drafting principles

The financial statements have been prepared on the basis of the instructions of Banca d'Italia's Circular 262 of 22 December 2005 entitled "Banks' financial statements: formats and drafting instructions", in its updated version issued by Banca d'Italia by Provision of 21 January 2014.

These financial statements consist of balance sheet, income statement, statement of comprehensive income, statement of changes in net equity, cash flow statement and notes. They are also accompanied by the directors' report on the Bank's operations and situation.

The financial statements are clear and provide a true and correct representation of the financial position and economic results for the period.

The financial statements were drafted on a going concern basis, applying the accrual accounting method and complying with the principle of providing relevant, significant information and preferring substance over form, with the aim of facilitating consistency with future presentations.

The offsetting of assets and liabilities or of income and costs has not been carried out, unless expressly required or allowed by an accounting standard or an interpretation, or where required by the above Circular.

These financial statements were prepared in Euro.

The data, in the notes, unless otherwise stated, are shown in thousands of Euro.

Section 3 Events subsequent to the reporting period

Where appropriate, amounts reported in these financial statements have been adjusted to reflect events after the balance sheet date, which, pursuant to IAS 10, require an adjustment to be made. Subsequent events not requiring an adjustment and reflecting circumstances occurring after the balance sheet date have been reported in the directors' report where relevant and therefore capable of influencing the economic decisions of those using these financial statements. No significant events occurred after the balance sheet date except for those disclosed in the directors' report.

Section 4 Other aspects

Disclosure of Audit and Non-Audit Fees

In order to comply with the amendments introduced by Legislative Decree 39/2010 (the "Decree") with regard to the disclosure of legal audit and audit fees paid, the following table shows the fees paid in 2013 to Deloitte & Touche SpA, entrusted with audit through the shareholders' resolution dated 28 April 2010 for 2010/2018 FYs.

Type of service	Independent Auditors	Fees	Expenses	VAT
Auditing:	***Deloitte & Touche***			
- audit of the annual financial statements		*32*	*3*	*7*
- audit of the interim financial statements		*9*	*1*	*2*
- quarterly checks		*10*	*1*	*2*
- Preparation of tax declarations		*1*	*0*	*0*
Total		***52***	***5***	***12***

Adoption of new accounting standards and interpretations issued by the IASB

- On 20 December 2010, the IASB issued an amendment to IAS 12 - Income taxes - which requires an entity to measure the deferred tax relating to investment property measured at fair value based on the manner in which the carrying amount of the asset will be recovered (through use or through sale). Specifically, the amendment establishes a rebuttable presumption that the carrying amount of an investment property measured at fair value in accordance with IAS 40 is made entirely through the sale and that the measurement of deferred taxes in jurisdictions where tax rates are different reflects the rate on the sale. The adoption of this amendment had no impact on the determination of deferred taxes at 31 December 2013.
- On 16 December 2011, the IASB published a number of amendments to IFRS 32 – Financial Instruments: Presentation intended to clarify (but actually complicating) the application of a number of criteria for offsetting financial assets and financial liabilities in

IAS 32. The amendments are effective retrospectively from the financial years beginning on or after 1 January 2014.

- On 16 December 2011, the IASB published a number of amendments to IFRS 7 – Financial Instruments: additional disclosures. The amendment requires information on the effects or potential effects on an entity's financial position of netting arrangements regarding financial assets and liabilities. The amendments are applied to the financial years beginning on or after 1 January 2013. The information must be provided retrospectively. The application of the amendments had no impact on these financial statements.
- On 16 June 2011, the IASB issued an amendment to IAS 1 – Presentation of financial statements which requires entities to group together all the items presented under "Other comprehensive income/(loss)" statement depending on whether they are potentially reclassifiable to profit or loss subsequently. This amendment is applicable to the financial years beginning on or after 1 July 2012.
- On 16 June 2011, the IASB issued an amendment to IAS 19 - Employee benefits - which eliminates the option to defer the recognition of actuarial gains and losses with the corridor method, requiring that all actuarial gains or losses be recognised immediately in Other Comprehensive Income so that the full net amount of the defined benefit plans (net of the plan's assets) is recognised in the statement of financial position. The amendments also establish that changes from one year to the next in the defined benefit obligation and the plan assets must be broken down into three components: the cost components relating to the service provided in the period must be recognised in profit or loss as "service costs"; net interest calculated by applying the appropriate discount rate to the net defined benefit liability (assets) at the start of the period must be recognised in profit or loss as such; actuarial gains and losses from the remeasurement of assets and liabilities must be recognised in "Other comprehensive income". Moreover, the return on assets included in net interest expense (as mentioned above) shall be calculated on the basis of the liability discount rate rather than the expected return on assets. Finally, the amendment introduces new disclosure to be provided in the notes. The amendment is effective retrospectively from financial years beginning on or after 1 January 2013. This amendment had no impact on the Bank's financial statements.
- On 17 May 2012, the IASB published the document "Annual Improvements to IFRSs: 2009-2011 Cycle", which adopts these amendments to the standards as part of the annual improvement process, focusing on amendments considered necessary, but not urgent. Mentioned below are those that will result in a change to the presentation, recognition and measurement of the items in the financial statements; no mention is made of those

involving simple changes in terminology or wording that have minimal effects in terms of accounting:

- IAS 1 Presentation of financial statements - Comparative information: it is clarified that where additional comparative information is provided, it must be presented in accordance with IAS/IFRS. In addition, it is clarified that if an entity changes an accounting policy or makes a retrospective adjustment/reclassification, the entity should present an opening statement of financial position also for the comparative period ("third statement of financial position" in the financial statements) while no comparative disclosures for the "third statement" are required in the notes, apart from the items concerned.
- IAS 16 Property, Plant and Equipment - Classification of servicing equipment: it is clarified that servicing equipment should be classified as Property, plant and equipment when used for more than one year, and as inventory if used for only one year.
- IAS 32 Financial instruments: presentation - Direct taxes on distributions to holders of equity instruments and transaction costs on equity instruments: it is clarified that direct taxes relating to these instruments follow the rules of IAS 12.
- IAS 34 Interim Financial Reporting - Total assets for a reportable segment: it is clarified that total assets in interim financial statements should only be reported if this information is regularly provided to the chief operating decision maker of the entity and there has been a material change in the total assets of the segment compared to the amount disclosed in the last annual financial statements.

The effective date of the proposed amendments is for annual periods beginning on or after 1 January 2013, with earlier application permitted.

- **On 29 May 2013, the IASB issued amendments to IAS 36 - Impairment of assets - Recoverable Amount Disclosures for Non-Financial Assets.** The amendments are intended to clarify that the additional disclosures to be provided regarding the recoverable amount of assets (including goodwill) or cash-generating units, in the event that their recoverable amount is based on fair value less costs of disposal, only concern assets or cash-generating units for which an impairment has been recognised or reversed during the financial year. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014.
- On 12 November 2009 the IASB published IFRS 9 – Financial instruments; the same standard was subsequently amended on 28 October 2010. The standard, applicable from 1 January 2015, retrospectively, is the first part of a multi-step process that aims to fully

replace IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities. Specifically, with regard to financial assets, the new standard uses a unified approach based on how an entity manages its financial instruments and the characteristics of contractual cash flows of the financial assets to determine the measurement criteria, replacing the different rules provided for in IAS 39. For financial liabilities, the main change introduced concerns the accounting treatment of changes in fair value of a financial liability designated as a financial liability at fair value through profit or loss, if these changes are due to a variation in the creditworthiness of the liability itself. According to the new standard these changes should be recognised in the "Other comprehensive income and loss" statement and no longer through profit or loss.

Steps two and three of the project on financial instruments, respectively related to the impairment of financial assets and to hedge accounting, are still in progress. The IASB is also considering limited improvements to IFRS 9 for the part relating to the Classification and measurement of financial assets.

IFRS 13 - Fair Value Measurement

IFRS 13 Financial instruments measurement applies to annual periods beginning on or after 1 January 2013. The application of the standard is prospective (i.e. an entity is not required to calculate the effects on previous year balances included in the financial statements for comparative purposes).

IFRS 13 is applicable whenever a Standard requires fair value measurement of an asset or liability or disclosures regarding the fair value of an asset or liability, subject to certain specific exemptions.

The new accounting standard IFRS 13, issued by the IASB (together with the FASB) on 12 May 2011 to bring about international convergence on fair value measurement and disclosures, is applicable in all cases where another International Accounting Standard requires fair value to be applied. The new standard does not extend the scope of fair value measurements, but provides guidance on how to measure the fair value of financial instruments and non-financial assets and liabilities already required or permitted by other standards. The new standard provides a single framework for measuring fair value, unifying the various rules previously included in different standards, sometimes even containing conflicting guidance. Although many of the concepts in IFRS 13 are consistent with current practice, the main aspect of the new standard is the clarification given of the measurement of default risk when determining the fair value of derivatives. This risk includes any changes in the creditworthiness of both the counterparty and the issuer (Credit Value Adjustment, CVA, and Debit Value Adjustment, DVA).

A.2 THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

The accounting standards adopted in the preparation of the financial statements for the year that ended on 31 December 2013 are described below.
The presentation of the accounting standards adopted by Banca Promos SpA was carried out referring to the stages of initial recognition, classification, measurement and derecognition of the different items of assets and liabilities. For each of these stages, the description of the related financial impact is also provided.

Section 1 Financial assets held for trading

Classification criteria

This category includes debt and equity instruments acquired mainly in order to obtain short-term profits.

Recognition criteria

Financial assets are initially recognised at the transaction date for debt and equity instruments, and at the subscription date for derivative financial instruments.
On initial recognition, financial assets held for trading are recognised at their fair value, which usually corresponds to the price paid, without considering transaction costs or gains directly attributable to the instrument itself.

Valuation and recognition criteria of Income Statement items

After initial recognition, financial assets held for trading are measured at fair value, with relevant gains or losses recognised in the income statement under “Net profit/(loss) from trading activities”. Interest is recognised under “Interest income”.
The fair value of financial instruments listed on active (regulated or OTC) markets is determined according to the market prices quoted on the last business day of the FY. In the absence of an active market, fair value is determined by estimates taking into account all the risk factors related to the instruments, based upon data available on the market.

Derecognition criteria

Financial assets are derecognised when the contractual rights on cash flows from the assets expire or when a financial asset is disposed of, basically transferring all the pertinent risks/benefits.

Section 4 Receivables

Classification criteria

Receivables include loans to customers and banks, whether directly disbursed or acquired from third parties, with fixed or foreseeable payments, that are not listed on an active market and are not initially classified as available-for-sale financial assets. Receivables also include reverse repurchase agreements.

Recognition criteria

Recognition only occurs when the loan is unconditional and the creditor acquires a contractual right to the payment of the sums agreed upon.

Loans are initially recognised at the disbursement date and at the amount disbursed, including costs/income directly attributable to the individual loan and determinable at origin, even where settled at a later date. Costs that - despite having the above characteristics - are repaid by the debtor or can be classified as ordinary administrative expenses are excluded. The fair value of loans that may be subject to conditions different from market conditions is determined though appropriate valuation techniques. The difference related to the amount disbursed or to the subscription price is recognised directly in the income statement.

Any repurchase agreements with the obligation to resell at maturity are recorded as loan transactions for the spot amount paid.

Valuation and recognition criteria of Income Statement items

After initial recognition, loans are accounted for at amortised cost, i.e. the initially recognised amount less/plus any principal repayments, impairment losses/reversals and amortisation – calculated using the actual interest method – of the difference between the amount disbursed and the amount repayable at maturity, generally corresponding to costs/income directly attributable to the individual loan. The actual interest rate is determined by calculating the rate that equates the current value of future cash flows from the loan, for principal and interest, to the amount disbursed, including the costs/income attributable to the loan. This accounting method, using a financial logic, allows for the distribution of the financial effect of the costs/income over the presumed remaining life of the loan. The amortised cost method is not used for short-term loans, as the effect of discounting to current value is deemed to be negligible. These loans are measured at historical cost and the costs/income attributable to them are recognised in the income statement. The same method is applied to loans without a defined maturity or repayable on demand.

For loans without a defined maturity or repayable on demand, the costs and income are recognised in the income statement.

At the end of each annual or interim reporting period, loans are assessed in order to determine whether there is any objective evidence that a loan is impaired as a result of circumstances occurring after initial recognition. This category includes non-performing,

doubtful, restructured or overdue loans as defined by Banca d'Italia's regulations in force and consistent with IAS rules.
These impaired loans, and specifically non-performing, doubtful and restructured loans, are analytically measured and the impairment loss for each loan corresponds to the difference between the carrying amount at the time of measurement (amortised cost) and the current value of estimated future cash flows, calculated by applying the actual interest rate at the time the loan was classified as an impaired loan.

The expected cash flows take into account the expected recovery period, the estimated realisable value, any existing guarantees and the costs likely to be incurred in order to recover the loan. Cash flows related to loans that are expected to be recovered in the short term are not discounted. The impairment loss is recognised in the income statement. The impairment component resulting from cash flow discounting is released on an accruals basis in accordance with the actual interest method and recognised in the income statement under "Impairment losses/reversals due to loan impairment". The original carrying amount of loans is reinstated in future FYs if the circumstances that resulted in the impairment no longer exist, provided that this assessment is objectively linked to an event that took place after the impairment was recognised. The resulting write-back is recognised in the income statement and may not exceed the amortised cost of the loan had no impairment been recognised.
Loans for which there is no objective evidence of impairment attributable to individual loans, generally consisting of performing loans, including loans to counterparties resident in countries at risk, are collectively evaluated for impairment. This assessment is based on homogeneous loan categories in terms of credit risk, and the related loss percentages are estimated on the basis of time series, based on elements detectable at the assessment date, which allows for an estimate of the latent loss for each loan category. The same applies to loans that have been overdue or overdrawn for more than 90 days, for which, although identified by law as impaired loans, a collective write-down is considered adequate, in line with the impairment methods applied to performing loans, with an additional percentage write-down, as they are in any event viewed as more risky.
Collectively assessed impairment losses are recognised in the income statement. At the end of each annual or interim reporting period, any additional impairment losses or reversals are recalculated on a differential basis with reference to the entire performing portfolio at that date.
At the end of the current reporting period, since there were no significant historical losses and in accordance with paragraph AG89 of IAS 39, the collective impairment test on performing loans was carried out using "a similar-group experience for comparable groups of financial assets".

Derecognition criteria

Loans disposed of are derecognised only if the sale entailed the transfer of all the risks and benefits associated with the loans. Vice versa, if the risks and benefits related to the loans sold are retained, those loans continue to be recognised as an asset in the financial statements, even though their legal title has actually been transferred. When it is not possible to ascertain the substantial transfer of the risks and benefits of the loans, they are derecognised, provided that the bank has not retained any kind of control over them. Otherwise, when even partial control is retained, loans continue to be recognised in the financial statements to the extent of their residual involvement, which is measured through the bank's exposure to changes in the value of the loans sold and to changes in the related cash flows. Finally, the loans disposed of are derecognised when the contractual rights to the related cash flows are retained but at the same time a contractual obligation to pay precisely those cash flows to third parties is assumed.

Section 8 Tangible fixed assets

Classification criteria

Tangible fixed assets include land, operating properties, investment property, plants, furniture and fittings, and all other types of equipment. These assets are owned to be used for the production or the provision of goods and services, to be leased to others, or for administrative purposes and expected to be used for more than one period. This item also includes assets held under finance lease, even though the lessor maintains legal title to the assets.

“Operating assets” are assets either owned by the Bank or held under finance lease, which are used for the production and provision of services or for administrative purposes. These assets have useful lives of more than one financial year.

“Investment assets” are owned by the Bank or held under finance lease, with the aim of collecting lease rentals and/or earning a capital gain on the invested capital.

Recognition criteria

Tangible assets are initially recorded at cost, which includes, in addition to the purchase price, any incidental costs directly attributable to the purchase and incurred to make the asset operative. Non-routine maintenance expenses, resulting in an increase in future economic benefits, are recognised as an increase in the value of the asset, whilst routine maintenance costs are recognised in the income statement.

Valuation and recognition criteria of Income Statement items

Tangible fixed assets, including investment property, are carried at cost, after deducting any depreciation and impairment. Assets are systematically depreciated over their useful life using the straight-line method, except for:

land, whether purchased separately or incorporated in the value of the buildings, as it has an indefinite useful life. If the value of the land is included in that of the building, under the components approach, land can be accounted for separately from the building; the allocation between the value of the land and the value of the building is carried out on the basis of independent expert appraisals only for entire buildings;
works of art, since their useful lives cannot be estimated and their value is normally not expected to decline over time.
At the end of each annual or interim period, if there is any indication that an asset may have been impaired, the bank compares the carrying value of the asset and its recoverable value, equal to the higher between the fair value, net of any selling costs, and the value in use, intended as the current value of future cash flows generated by the asset. Any adjustments are recognised in the Income Statement. When the reasons that led to the recognition of the loss no longer exist, the impairment is reversed; the value after write-back cannot exceed the carrying amount, net of depreciation, that would have been determined had no impairment loss been recognised.

Derecognition criteria

Tangible assets are derecognised when disposed of or when they have been decommissioned and no future economic benefits are expected from their disposal.

Section 9 Intangible fixed assets

Classification criteria

Intangible assets are identifiable non-monetary assets, without physical substance, which are held in order to be used over a number of years. They basically include goodwill, which represents the positive difference between the purchase price and the fair value of assets and liabilities acquired. Other intangible assets are recognised as such if they are identifiable and arise from legal or contractual rights.
Based on the provisions of Banca d'Italia Circular 262, the costs for renovating buildings owned by the Bank without any functional autonomy are classified in other assets, since they do not qualify as being without physical substance, as required by IAS 38 for recognition as an intangible asset.

Recognition criteria of Income Statement items

Intangible assets are stated at cost, adjusted by any incidental charges, only when the future economic benefits attributable to the assets are likely to be realised and if the cost of the asset can be measured reliably. Otherwise the cost of the intangible asset is expensed as incurred. The cost of intangible assets is amortised on a straight-line basis over their useful life. Intangible assets with indefinite useful lives are not amortised, but are simply periodically tested for impairment. At the end of each annual or interim reporting period, if there is evidence of impairment, the asset's recoverable value is estimated. The amount of the loss, which is recognised in the income statement, corresponds to the difference between the asset's carrying amount and recoverable amount.

An intangible asset can be recorded as goodwill when the positive difference between the fair value of assets acquired and the acquisition cost of the equity investment or the cash generating unit acquired (including any incidental charges) is representative of the future earning capacity of the investment or the cash generating unit acquired (goodwill). If this difference is negative (badwill) or in the event that goodwill is not justified by the future earning capacity of the investee company or the cash generating unit, the difference is recognised directly in the income statement. Goodwill is tested for impairment at least once a year (or whenever there is evidence of impairment). To this end, the cash generating unit to which goodwill can be attributed is identified. The amount of any impairment is determined on the basis of the difference between the carrying value of goodwill and its recoverable value, if lower. This recoverable value is the greater between the fair value of the cash generating unit, net of any selling costs, and its pertinent value in use. The consequent adjustments are recognised in the Income Statement.

Derecognition criteria

An intangible asset is derecognised upon disposal or when no future economic benefits are expected.

Section 11 Current and deferred taxes

Classification criteria

These items include current and deferred tax assets and liabilities.

Current tax items include advances paid (current assets) and debt obligations to be fulfilled (current liabilities) in relation to the income taxes for the period.

Vice versa, deferred tax items comprise income taxes recoverable in the future for “temporary deductible differences” (deferred assets) and income taxes payable in future periods for “temporary taxable differences” (deferred liabilities). "Temporary taxable differences" are those that in future periods will determine taxable amounts and "temporary deductible differences" are those that in future years will determine deductible amounts.

The current tax assets and liabilities shall be paid by the Bank on a net basis, as there is a legal right to offset, and their net balance is shown in the balance sheet when balances are settled.

Valuation criteria

Deferred taxation is determined on the basis of the so-called balance sheet liability method, taking into account the tax effect related to temporary differences between the carrying amounts of assets and liabilities and their tax value, which will determine taxable or deductible amounts in future periods. Deferred taxation is calculated by applying the tax rates established by the law provisions applicable to taxable temporary differences and deductible temporary differences that are likely to be recovered in future periods.

Recognition criteria of Income Statement items

If the deferred tax assets and liabilities relate to items affecting the income statement, the contra item is income taxes. When deferred tax assets and liabilities regard transactions recognised directly under equity, with no impact on the income statement (such as the measurement of available-for-sale financial assets or of staff termination benefits), they are recognised in separate equity reserves.

Income taxes, calculated in compliance with national tax laws, are recognised as an expense according to the accrual basis, consistent with the recognition in the financial statements of the costs and revenues that generated them. Therefore, they represent the balance of current and deferred income taxes for the period.

Section 12 Provisions for liabilities and charges

Recognition criteria

The provisions for liabilities and charges consist of liabilities with uncertain timing or amount, which are recognised in the financial statements if:

- there is a current (legal or implicit) obligation as a consequence of a past event;
- the utilisation of resources for economic benefits is likely to be used to comply with the obligation;
- a reliable estimate of the presumed future outlay can be made.

The sub-item "other provisions" includes the amounts set aside to cover the estimated losses on lawsuits, including revocatory actions, estimated outlays for customer complaints in connection with the bank's brokerage services and other payments for estimated legal or constructive obligations existing at year end.

No provisions are made for liabilities that are merely potential but not probable, although a description of the nature of the liability is provided in the notes.

The sub-item "Provision for pensions and similar obligations" include provisions recognised pursuant to IAS 19 "Employee benefits" in order to cover the technical deficit of the fund set up to pay pensions. Determination of the current values, as required by the standard referred to above, is carried out by an independent actuary, using the “projected unit credit method”.

Classification criteria

This item includes provisions for liabilities and charges pursuant to IAS 37. These provisions include allocations made to cover the estimated losses on lawsuits, including revocatory actions.

Valuation criteria

Where the effect of timing differences is material with regard to the future charge, the Bank calculates the provisions and allocations in an amount equal to the current value of the expenses likely to be incurred to settle the obligations.

Where provisions are discounted to current value, the amount of the provisions recognised in the financial statements will increase in each period to reflect the passage of time.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Section 13 Payables, outstanding securities and subordinated liabilities

Classification criteria

The items "Payables to Banks", "Trade Payables", "Outstanding Securities" and "Subordinated Liabilities" include the various forms of interbank funding, funding from customers and fundraising through certificates of deposit and bonds outstanding, net, therefore, of any repurchased amounts. They also include payables recognised by the lessee under finance lease, and repurchase agreements.

Recognition criteria

Financial liabilities are initially recognised on receipt of the money raised or issue of debt securities. Liabilities are initially recognised at fair value, which is normally the amount collected or the issue price, plus any additional costs/income directly attributable to individual funding or issue transactions and not reimbursed by the creditor. This item does not include internal administrative expenses.

The fair value of any financial liabilities issued at less favourable conditions than those available on the market is specifically estimated solely on the basis of observable market data and the difference compared to market value is recognised in the income statement.

Any repurchase agreements with the obligation to repurchase at maturity are recognised as funding transactions for the spot amount paid.

Recognition criteria of Income Statement items

After initial recognition, financial liabilities are measured at amortised cost using the actual interest rate method. Short-term liabilities, for which the time factor is negligible, are excluded from this method and are recognised at the amount collected and any costs charged are recognised in the income statement.

Derecognition criteria

Financial liabilities are derecognised when they expire or are extinguished. Derecognition also occurs when securities previously issued are repurchased. The difference between the liability's carrying amount and the amount paid to repurchase it is recognised in the income statement. Securities previously repurchased and placed back on the market are considered as a new issue and are recognised at the new issue price, with no effect on the income statement.

Section 16 Transactions in foreign currencies

Recognition criteria

Upon initial recognition, foreign currency transactions are recorded in the reporting currency, converting the foreign currency amount using the exchange rate applicable at the transaction date.

Measurement and recognition criteria of Income Statement items

At each balance sheet date or interim situation, any foreign currency amounts are measured as follows:

- Monetary items are converted using the year-end rate;
- Non-monetary items carried at historical cost are converted using the rate applicable at the transaction date;
- Non-monetary items carried at fair value are converted using the rate ruling at the year end.

Exchange differences arising from the settlement of monetary items or from the conversion of either monetary items at rates other than the initially used ones, or of the previous financial statements, are recognised in the income statement of the period when they arise.

When a gain or a loss relating to a monetary item is recognised in net equity, the exchange difference relating to that element is also recorded in net equity. Conversely, when a gain or a loss is recognised in the income statement, the related exchange difference is also recorded in the income statement.

Section 17 Other information

Employee benefits

In accordance with Law no. 296 of 27 December 2006 (2007 Budget Act), companies with a minimum of 50 employees are obliged to pay on a monthly basis – and in accordance with the employee's wishes – the Employee Severance Indemnity accrued after 1 January 2007 to the supplementary pension scheme as per Legislative Decree 252/05 or to a special Fund managed by INPS for the payment of employee severance indemnity to private sector employees pursuant to article 2120 of the Italian Civil Code (hereinafter the Treasury Fund).

The following options are therefore available:

a) the severance indemnity being accrued is paid to supplementary pension schemes;
b) the severance indemnity being accrued is kept in the company (for companies with less than 50 employees);
c) the severance indemnity being accrued is transferred to INPS Treasury Fund (for those who, despite having chosen not to allocate the severance indemnity to supplementary pension schemes, work in companies with at least 50 employees).

In the cases referred to in b), which specifically apply to the bank, the total severance indemnity liability shall be assessed pursuant to IAS; the actuarial valuation shall be carried out according to the usual criteria set out in IAS 19, except for the exclusion of the pro rata relating to employees who decided to transfer their entire accrued amount to supplementary pension schemes, in order to preserve methodological consistency as indicated by the Board of Actuaries with regard to other pension schemes.

The Employee severance indemnity (TFR) is recognised on the basis of its actuarial value.

Discounting is conducted using the "projected unit credit" method, which involves projecting future payments based on historical, statistical and demographic analysis and discounting these flows based on the market interest rate at year end with maturity equal to the average maturity of the liability.

The actuarial analysis is conducted annually by an independent actuarial and statistics consulting firm.

The cost for the severance indemnity accrued during the year and recognised in the income statement as staff costs is the sum of the current value of employee benefits accrued during the year, and the annual interest accrued on the current value of existing liabilities at the beginning of the year. Gains or losses resulting from changes in actuarial assumptions compared to previous year estimates are charged to a separate reserve in equity.

The amendment to IAS 19 issued on 16 June 2011 did not result in any significant effects for the Bank.

Treasury shares

Any treasury shares held are entered as a reduction of net equity.

Likewise, their original cost and the gains or losses resulting from their subsequent sale are recognised as changes in equity.

Leasehold improvements and incremental capital expenditures

These costs were recognised as "Other assets", as the conditions for their classification as "tangible assets", as provided for by Banca d’Italia regulations, are not met.

The related depreciation was recognised in "Other operating expenses/income".

Accruals and deferrals

Accruals and deferrals that include income and expenses accrued during the period on assets and liabilities are recognised as adjustments to the assets and liabilities to which they relate.

Dividends and recognition of revenues

Revenues are recognised when received or when benefits are likely to be received and these benefits can be reliably measured.

Dividends are recognised in the income statement when the resolution to distribute them is passed, except for those paid by investee companies accounted for at equity. The relating accounting treatment is described in the section on equity investments.

Revenues from securities brokerage or issuing, resulting from the difference between the transaction price and the instrument's fair value, are recognised in the income statement on recognition of the transaction if the fair value can be determined with reference to parameters or recent transactions observed in the same market where the instrument is traded; otherwise, they are spread over time, taking into account the maturity and nature of the instrument.

Income relating to financial instruments that cannot be measured as above flows into the income statement over the term of the transaction.

A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

The bank has not carried out any transfers between portfolios of financial assets.

A.4 FAIR VALUE REPORTING

Qualitative information

In December 2012, by Commission Regulation (EU) No. 1255/2012, the European Commission approved the new IFRS 13 "Fair Value Measurement", in force since 1 January 2013.

IFRS 13 defines fair value as: "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". For financial instruments, this definition of fair value replaces the previous version in IAS 39 Financial Instruments: Recognition and Measurement.

Therefore, according to the new fair value definition laid down in IFRS 13, the fair value of financial liabilities is the value that would be paid for the transfer of that liability (exit price), rather than the amounts necessary to settle it (definition as per IAS 39). This leads to a strengthening of the issue

concerning the recognition of the fair value adjustments of financial liabilities, compared to the provisions established in IAS 39. With regard to the fair value measurement of OTC derivatives in the balance sheet assets, IFRS 13 confirmed the rule that requires the adjustment to be applied for counterparty risk (Credit Valuation Adjustment - CVA). With regard to financial liabilities consisting of OTC derivatives, IFRS 13 introduces the Debit Valuation Adjustment + -
(DVA), which is a fair value adjustment designed to reflect an entity's own default risk on these instruments, an issue not explicitly addressed by IAS 39.

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

For assets and liabilities measured at fair value on a recurring basis, for which directly observable prices in active markets are not available, fair value has to be determined based on the "Comparable Approach" and the "Valuation Model." It should be noted that the only Bank items that are measured at fair value on a recurring basis are financial assets and liabilities, as shown below in more detail.

Financial instruments listed on active markets

Therefore, the Fair Value measurement process begins by verifying whether an active market exists from which quoted prices can be obtained regularly.

Regulated markets are usually considered as active markets except for any regulated markets that Risk Management should identify as "not active". With reference to non-regulated markets (OTC markets) the presence of active contributors is assessed.

If, as a result of this process, the existence of an active market for the listed instruments is established, the fair value of the instrument coincides with the price quoted on the valuation date (Mark to Market).

Given the specific liquidity prevailing on regulated markets, the official price published by the market operator is taken as the reference price.

In general, the application of the Mark to Market process based on price sources is carried out as follows:

a) for prices quoted in regulated markets, in particular in the Italian market, the price is determined on the basis of the price quoted on the Italian Stock Exchange for each financial instrument in the portfolio;
b) in the case of prices quoted in unregulated markets, the price is determined by identifying the prices quoted by other Information Providers .

Financial instruments recognised using the methods in point b), are classified in Level 2 of the fair value hierarchy.

Financial instruments not listed on active markets

In the absence of an active market for a particular financial instrument, an internal valuation technique is used.

For the purposes of fair value determination, the Bank has chosen to apply the discounted cash flow method, mainly based on observable market parameters, for instruments that can be measured by discounting the related cash flows (including debt securities).

Should we consider financial instruments other than debt securities, alternative valuation techniques, also based on non-observable market parameters, shall be taken into account.

In general, through the DCF method, the fair value of financial instruments can be determined by discounting the future contractual cash flows (or those deemed most likely) at an established interest rate.

First, the interest rate risk must be taken into account; in the usual practice, reference is made to well accepted and recognised rates, such as the Euribor and/or the Swap rates. In this case, the interest rates used reflect an 'interbank' risk, which is limited, albeit usually higher than government risk. There are, however, other components besides interest rate risk that determine market risk. The premium for all these other components can be summarised in a "spread" to be added to the "Risk Free" curve, for each reference maturity, to obtain a curve that can be used to discount the future cash flows generated by the asset being measured. The Bank calculates the aforesaid "Spread" with reference to the "Credit Default Swaps" quoted for the issuer of the security in question, or, if unavailable, for other issuers of similar size and sector or industry averages.

Therefore, the elements useful for the DCF calculation are:

- Timing, maturity and amount (certain or estimated) of the instrument's future cash flows;
- Appropriate discount rate (depending on the credit risk associated with the debtor);
- Currency in which the instrument's cash flows are to be paid.

The pricing models for the fair value calculation are based on market parameters.

The main market parameters used in valuation techniques for measuring financial instruments not listed on active markets are:

- the interest rate curves;
- credit risk.

The main curves used are the Euribor rates and Swap rates curves.

The curves reflecting the issuer's creditworthiness are obtained by adding the zero coupon yield curve (or risk-free rates) to a "Spread" that shows the issuer's creditworthiness; these curves are generally used to evaluate bonds not listed on active markets.

To this end, the operator should use the following hierarchy of information:

- credit spreads derived from Credit Default Swaps (CDS);

- curves for homogeneous sector/rating classes

The instruments measured using the Mark to Model technique will be classified in Level 3 of the fair value hierarchy.

A.4.2 Processes and sensitivity analyses

The techniques and parameters used for measuring fair value and the criteria for assigning the fair value hierarchy have been defined and formalised in a specific policy adopted by the bank; the policy governs the determination of financial instruments' fair value in accordance with the provisions of applicable international accounting standards IFRS issued by the International Accounting Standards Board (IASB), taking into account the interpretations issued by the Financial Reporting Interpretations Committee (IFRIC) and the provisions of Circular 262 of Banca d'Italia.

The sensitivity analysis of receivables from and payables to bank (level 2 of the fair value hierarchy), considering the models used to determine their fair value, primarily based on year-end balance-sheet data, is not relevant because it cannot be directly attributed to changes in external parameters.

The fair value of the portfolio of loans to customers (level 3 of the fair value hierarchy) is only affected by the market parameters necessary to discount the future cash flows appropriately adjusted to take account of counterparty risk.

In relation to the fair value of the securities portfolio (level 2 and 3), no quantitative analysis was performed on the sensitivity of the fair value to changes in unobservable inputs, as the fair value was either derived from third party sources without making any adjustment, or is the result of a model with specific inputs and it is not reasonable to expect alternative values.

A.4.3 Hierarchy of Fair Value

The fair value hierarchy, based on IFRS 13, must be applied to all financial instruments that are measured at fair value in the balance sheet. In this regard, for these instruments the highest priority is given to official quoted prices in active markets and the lowest priority to the use of unobservable inputs, as they are more discretionary. As a result, fair value is determined by using prices obtained from financial markets, in the case of instruments quoted on active markets, or, for the other financial instruments, by using valuation techniques whose objective is to estimate fair value (exit price). The levels used for the classifications shown in the following notes are as follows:

* "Level 1": the fair value of financial instruments is determined on the basis of quoted prices observable in active markets (unadjusted) and accessible at the measurement date;
* "Level 2": the fair value of financial instruments is determined on the basis of quoted inputs, directly or indirectly observable for that asset or liability, also using valuation techniques;

* "Level 3": the fair value of financial instruments is determined on the basis of unobservable inputs for that asset or liability, including the use of valuation techniques.

A quoted price in an active market provides the most reliable evidence of fair value and, when available, should be used with no adjustments to measure fair value.
Where quoted prices in active markets are not available, financial instruments must be classified in Levels 2 or 3.
The classification in Level 2 or Level 3 is determined on the basis of the market observability of the relevant inputs used to measure fair value.
Level 2 inputs include:
· quoted prices for similar assets or liabilities in active markets;
· quoted prices for identical or similar assets or liabilities in markets that are not active;
· inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads);
· market-corroborated inputs.
All other variables used in valuation techniques that cannot be substantiated on the basis of observable market data are considered unobservable.
If the fair value of a financial instrument is not determined by the price recorded in an active market ("Level 1"), the total fair value may consist of different levels due to the impact generated by observable or unobservable inputs used in the measurements (impact is intended as the contribution, in terms of significance, that each input used in the evaluation makes to the total fair value of the instrument). However, the level attributed must be unique and referred to the total fair value of the instrument as a whole; thus, the single level assigned reflects the lowest level of input with a significant impact on the instrument's fair value measurement.
In order for unobservable market data to have a significant impact on the instrument's overall fair value measurement, their overall impact is assessed in such a way as to make the overall assessment uncertain (i.e. it cannot be ascertained through market data); in cases where the weight of unobservable data is prevalent with respect to the overall evaluation, the level assigned is "3".

Therefore, the bank classified its financial assets and liabilities in the different fair value levels on the basis of the following principles:

- *Level 1: instrument measured at market price obtained from prices listed on active markets;*
- *Level 2: measurement based on prices quoted by reliable infoproviders*;
- *Level 3: measurement based on internal evaluation techniques.*

Quantitative information

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

Items	2013			2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets/liabilities carried at fair value						
1. Financial assets held for trading	10,732	2,043	-	10,758	3,429	-
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Financial assets available for sale	-	-	-	-	-	-
4. Hedging derivatives	-	-	-	-	-	-
5 Property, land and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**10,732**	**2,043**	**-**	**10,758**	**3,429**	**-**
1. Financial liabilities held for trading	-	-	-	-	-	-
2 Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	-	-	-	-	-

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 levels

Items	2013				2012			
	VB	Level 1	Level 2	Level 3	VB	Level 1	Level 2	Level 3
Assets and liabilities not carried at fair value or carried at fair value on a non-recurring base: breakdown by fair value levels								
1. Financial assets held to maturity	-	-	-	-	-	-	-	-
2. Receivables from banks	12,917	-	12,917	-	3,326	-	3,326	-
3. Loans to customers	32,140	-	-	34,027	27,595	-	-	28,618
5. Tangible assets held as investment	-	-	-	-	-	-	-	-
6. Non-current assets and disposal groups	-	-	-	-	-	-	-	-
Total	**45,057**	**-**	**12,917**	**34,027**	**30,921**	**-**	**3,326**	**28,618**
1. Payables to banks	6,239	-	6,239	-	4,391	-	4,391	-
2. Trade payables	32,555	-	-	32,554	26,136	-	-	26,136
3. Outstanding securities	8,706	-	8,826	-	4,249	-	4,339	-
4. Liabilities related to discontinuing operations	-	-	-	-	-	-	-	-
Total	**47,500**	**-**	**15,065**	**32,554**	**34,776**	**-**	**8,730**	**26,136**

A.5 Information on "Day one profit/loss"

As at 31/12/2013 the Bank had not entered into any transactions for which, at the time of initial recognition of a financial instrument, a difference had arisen between the transaction price and the value of the instrument obtained through an internal evaluation technique.

Part B
Information on the Balance Sheet

Assets

Section 1 – Item 10 – Cash and cash equivalents

1.1 Cash and cash equivalents: breakdown

	Total	
	2013	2012
a) Cash	497	384
b) Demand deposits at Central Banks	86	208
Total	**583**	**592**

The amounts in sub-item "Cash" are entirely in euros.
The sub-item "Demand deposits at central banks" refers to deposits held with Banca d'Italia.
The amount does not include the mandatory Reserve, which is included in Assets in item 60 "Loans and advances to banks".

Section 2 – Item 20 – Financial assets held for trading

2.1 Financial assets held for trading: commodity breakdown

This item includes all financial assets allocated to the trading book.

Items/Amounts	Total					
	2013			2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1 Debt securities	10,732	2,043	-	10,758	3,429	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	10,732	2,043	-	10,758	3,429	-
2 Equity instruments	-	-	-	-	-	-
3 Units of mutual investment funds	-	-	-	-	-	-
4 Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**10,732**	**2,043**	**-**	**10,758**	**3,429**	**-**
B. Derivative instruments						
1 Financial derivatives:	-	-	-	-	-	-
1.1 trading	-	-	-	-	-	-
1.2 connected with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2 Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 connected with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	-	-	-	-	-	-
Total (A+B)	**10,732**	**2,043**	**-**	**10,758**	**3,429**	**-**

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

Items/Amounts	Total	
	2013	2012
A. Cash assets		
1 Debt securities	**12,775**	**14,187**
a) Governments and central banks	7,993	7,455
b) Other public entities	-	-
c) Banks	4,530	5,137
d) Other issuers	252	1,595
2 Equity instruments	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3 Units of mutual investment funds	-	-
4 Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**12,775**	**14,187**
B. Derivative instruments		
a) Banks	-	-
b) Customers	-	-
Total B	-	-
Total (A+B)	**12,775**	**14,187**

The breakdown of financial assets by issuers' industry was made according to the classification criteria established by Banca d'Italia.

2.3 Financial assets in cash held for trading: year-on-year changes

	Debt securities	Equity instruments	Units of mutual investment funds	Loans	Total
A Opening balances	**14,187**	-	-	-	**14,187**
B Increases	**12,091,706**	**-**	**-**	**-**	**12,091,706**
B1 Purchases	12,087,315	-	-	-	12,087,315
B2 Positive changes in fair value	135	-	-	-	135
B3 Other changes	4,256	-	-	-	4,256
C Decreases	**12,093,118**	**-**	**-**	**-**	**12,093,118**
C1 Sales	12,086,629	-	-	-	12,086,629
C2 Redemptions	6,328	-	-	-	6,328
C3 Negative changes in fair value	20	-	-	-	20
C4 Transfers to other portfolios	-	-	-	-	-
C5 Other changes	141	-	**-**	**-**	141
D Closing balances	**12,775**	**-**	**-**	**-**	**12,775**

Positive changes in fair value include capital gains on valuation for € 135 thousand.
The other increases include € 4,256 thousand on trading profits.
Negative changes in fair value include capital losses on valuation for € 20 thousand.
Other decreases include trading losses for € 141 thousand.

Section 6 – Item 60 – Receivables from banks

6.1 Receivables from banks: commodity breakdown

Type of transaction/Values	Total 2013				Total 2012			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Receivables from Central Banks	-	-	-	-	-	-	-	-
1. Term deposits	-	-	-	-	-	-	-	-
2. Mandatory reserve	-	-	-	-	-	-	-	-
3. Repos	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-
B. Receivables from banks	-	-	-	-	-	-	-	-
1. Loans	**12,917**	-	**12,917**	-	**3,326**	-	**3,326**	-
1.1 Current accounts and demand deposits	12,704	-	12,704	-	3,162	-	3,162	-
1.2 Term deposits	213	-	213	-	164	-	164	-
1.3 Other loans	-	-	-	-	-	-	-	-
- Repos	-	-	-	-	-	-	-	-
- Finance lease	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-
Total	**12,917**	-	**12,917**	-	**3,326**	-	**3,326**	-

The mandatory reserve requirement is met via the Istituto Centrale delle Banche Popolari Italiane; the amount, therefore, is presented in item B.1.2, Term deposits.
As these are entirely short-term and/or variable rate loans, fair value is assumed to be equal to the amortised cost.

Section 7 – Item 70 – Trade receivables

7.1 Loans to customers: commodity breakdown

Type of transaction/Values	Total 2013						Total 2012					
	Book value			Fair value			Book value			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans												
1. Current accounts	2,684	-	593				2,502	-	418			
2. Repos	-	-	-				-	-	-			
3. Mortgages	23,261	-	964				17,388	-	462			
4. Credit cards, personal loans and pension- and salary-backed loans	822	-	178				881	-	298			
5. Finance lease	-	-	-				-	-	-			
6. Factoring	-	-	-				-	-	-			
7. Other loans	3,637	-	1				5,645	-	-			
Debt securities	-	-	-				-	-	-			
8. Structured securities	-	-	-				-	-	-			
9. Other debt securities	-	-	-				-	-	-			
Total	**30,404**	**-**	**1,736**			**34,027**	**26,416**	**-**	**1,178**			**28,618**

Loans to customers are entered net of amendments for write-downs.

For performing exposures, the write-downs were carried out on the basis of the experiences of a group of banks chosen from those most similar to Banca Promos in terms of size, location and type of business In particular, we determined the average rate applied by banks in the group for these types of impairment, based on the most recent approved financial statements, which was equal to 0.67%.
The same procedure was used to determine the write-down percentage rate to be applied to past due/overlimit loans, amounting to 7.297%.
At 31/12/2013 total non-performing loans for € 1,360 thousand, net of analytical impairments for € 968 thousand resulted in net non-performing loans recognised in the financial statements for € 392 thousand.

The amount and breakdown of the impairments are shown in Part E of these Notes.

The sub-item 7 “Other loans” includes:

	Total 2013
Advances subject to collection	2,321
Trade discount	78
Deposits at Organismi di compensazione e garanzia (Clearing Bodies)	1,043
Security deposits	26
Other loans to businesses	169
Total	**3,637**

7.2 Loans to customers: breakdown by debtor/issuer

Types of transaction/Amounts	Total 2013 Performing	Total 2013 Impaired Purchased	Total 2013 Impaired Other	Total 2012 Performing	Total 2012 Impaired Purchased	Total 2012 Impaired Other
1 Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2 Loans to:	**30,404**	**-**	**1,736**	**26,416**	**-**	**1,178**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	30,404	-	1,736	26,416	-	1,178
- non-financial companies	15,363	-	521	8,188	-	477
- financial companies	-	-	220	-	-	220
- insurance companies	-	-	-	-	-	-
- other	15,041	-	995	18,228	-	481
Total	**30,404**	**-**	**1,736**	**26,416**	**-**	**1,178**

The breakdown of financial assets by issuers' industry was made according to the classification criteria established by Banca d'Italia.

Section 10 – Item 100 – Investments

At 31/12/2013 the Bank held no investments.

Section 11 – Item 110 – Property, land and equipment

11.1 Property, land and equipment: breakdown of assets carried at cost

Assets/values	Total 2013	Total 2012
1. Owned assets	**7,041**	**6,763**
a) land	-	-
b) buildings	6,655	6,263
c) furniture	287	349
d) electronic systems	47	66
e) other	52	85
2. Assets acquired on finance lease	-	-
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**7,041**	**6,763**

11.5 Functional tangible fixed assets: year-on-year changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A Gross opening balances	**-**	**7,175**	**585**	**359**	**246**	**8,365**
A.1 Total net reductions	-	912	236	293	162	1,603
A.2 Net opening balances	**-**	**6,263**	**349**	**66**	**84**	**6,762**
B Increases	**-**	**718**	**-**	**18**	**-**	**736**
B.1 Purchases	-	718	-	9	-	727
B.2 Capitalised improvements	-	-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) the income statement	-	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	-	9	-	9
C Decreases:	**-**	**326**	**62**	**37**	**32**	**457**
C.1 Sales	-	-	-	9	-	9
C.2 Depreciation	-	326	62	28	32	448
C.3 Impairments recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) the income statement	-	-	-	-	-	-
C.4 Reductions in fair value recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) the income statement	-	-	-	-	-	-
C.5 Foreign exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment assets	-	-	-	-	-	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D Net closing balances	**-**	**6,655**	**287**	**47**	**52**	**7,041**
D.1 Total net reductions	-	1,662	297	312	195	2,466
D.2 Gross closing balances	**-**	**8,317**	**584**	**359**	**247**	**9,507**
E Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

The building where the Via Manzoni branch in Naples is located was bought on 13/03/2013. Accordingly, the item Buildings increased by the value of the building, i.e. € 718 thousand, before depreciation for the period.
The depreciation of properties was determined on the basis of their useful life, in accordance with the rules laid down in IAS 16.
In addition, a technical sworn appraisal was carried out on the building in which the Head Office of Viale Gramsci and the Via T. Campanella branch are located, which showed a value equal to the current carrying amount in the financial statements.
The depreciation rate for furniture is 12%; for electronic systems and other components it is 20%.
Total accumulated depreciation is reported in Lines A.1 and D.1-Total net reductions.
No amounts are reported in Sub-item E – Measurement at cost – as this item is intended only for tangible assets measured at fair value, which the Bank does not own.

Section 12 – Item 120 – Intangible assets

12.1 Intangible assets: breakdown by type of asset

Assets/Amounts	Total			
	2013		2012	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	-	-	-	-
A.2 Other intangible assets	**40**	**-**	**51**	**-**
A.2.1 Assets measured at cost:	40	-	51	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	40	-	51	-
A.2.2 Assets at fair value:	**-**	**-**	**-**	**-**
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**40**	**-**	**51**	**-**

The other intangible assets with a finite life are software costs and licenses purchased entirely from third parties and amortised on a straight-line basis over their estimated 5 year useful life. There are no internally generated intangible assets.

12.2 Intangible assets: year-on-year changes

	Goodwill	Other intangible assets: Internally generated		Other intangible assets: Other		Total
		DET	INDET	DET	INDET	
A Gross opening balances	**-**	**-**	**-**	**456**	**-**	**456**
A.1 Total net reductions	-	-	-	405	-	405
A.2 Net opening balances	**-**	**-**	**-**	**51**	**-**	**51**
B Increases	**-**	**-**	**-**	**16**	**-**	**16**
B.1 Purchases	-	-	-	16	-	16
B.2 Additions of internally generated intangible assets		-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) the income statement	-	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C Decreases	**-**	**-**	**-**	**27**	**-**	**27**
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	27	-	27
- Amortisation	-	-	-	27	-	27
- Impairments	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Reductions in fair value recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- the income statement	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Foreign exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D Net closing balances	**-**	**-**	**-**	**40**	**-**	**40**
D.1 Total net adjustments	-	-	-	432	-	432
E. Gross closing balances	**-**	**-**	**-**	**472**	**-**	**472**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

Key:
DET.: determined duration
UNDET.: undetermined duration

12.3 Other information

In accordance with the requirements of IAS 38, paragraphs 122 and 124, the Bank states that it has not:

- placed its intangible assets as collateral for its liabilities
- taken commitments to purchase intangible assets, as at the date of the financial statements
- purchased intangible assets through finance or operating leases.

Section 13 – Item 130 of assets and Item 80 of liabilities – Tax assets and liabilities

This item includes tax assets (current and deferred) and liabilities (current and deferred) recorded, respectively, in item 130 of the Assets and item 80 of the Liabilities.
Deferred tax assets and liabilities are accounted for in accordance with the accrual principle, in order to match costs and revenues that determine the result for the period.
Deferred tax assets were recognised on the assumption that the future taxable income likely to be achieved will be sufficient to absorb the costs resulting from the reversal of these assets.

13.1 Deferred tax assets: breakdown

	IRES	IRAP	Total
impairments of loans and advances to customers	162	34	196
other temporary differences	46	-	46
Total	**208**	**34**	**242**

13.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Totale
surplus provisions for staff termination benefits under IFRS	851	177	1,028
other temporary differences	-	-	-
Total	**851**	**177**	**1,028**

13.3 Change in prepaid taxes (offsetting entry to income statement)

	Total	
	2013	2012
1. Opening balance	**260**	**126**
2. Increases	**2**	**141**
2.1 Deferred tax assets recognised during the year	2	141
a) relating to previous years	-	-
b) due to change in accounting policies	-	-
c) recoveries	-	-
d) other	2	141
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**20**	**7**
3.1 Deferred tax assets derecognised during the year	20	7
a) reversals	-	-
b) impairments due to non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	20	7
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
a) amounts reclassified as tax credits pursuant to Law no. 214/2011	-	-
b) other	-	-
4. Closing balance	**242**	**260**

At end of the reporting period, the Bank reviewed its tax position and, in accordance with applicable accounting standards, it recognised "deferred tax assets" according to the probability of their recovery.
For IRES, a 27.5% rate was applied, whilst for IRAP the rate applied was 5.72%. The recognition was made in compliance with current tax laws.

The difference in deferred tax assets recognised/reversed during the year was posted to the income statement, in item 260 "Taxation on profit from continuing operations" for about € 17 thousand.

13.3.1 Change in deferred tax assets pursuant to Law n. 214/2011 (contra entry to the income statement)

	Total	
	2013	2012
1. Opening balance	**216**	**86**
2. Increases	**-**	**130**
3. Decreases	**20**	**-**
3.1 reversals	**-**	**-**
3.2 Amounts reclassified as tax credits	**-**	**-**
a) resulting from losses for the period	**-**	**-**
b) resulting from tax losses	**-**	**-**
2.2 New taxes or increases in tax rates	20	-
3.3 Other decreases	**196**	**216**
4. Closing balance	**-**	**-**

13.4 Change in deferred taxes (offsetting entry to income statement)

	Total	
	2013	2012
1. Opening balance	**1,085**	**1,143**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities recognised during the year	-	-
a) relating to previous years	-	-
b) due to change in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**57**	**58**
3.1 Deferred tax liabilities derecognised during the year	57	58
a) reversals	57	58
b) due to change in accounting policies	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,028**	**1,085**

"Deferred tax liabilities" are recognised for temporary differences between the carrying amount of an asset or liability and its tax value.
For IRES a 27.5% rate was applied, whilst for IRAP the rate applied was 5.72%. The recognition was made in compliance with current tax laws.
The reversal of deferred tax liabilities refers to taxes calculated on the depreciation charge for the period relating to the capital gain on the property.

13.5 Change in prepaid taxes (offsetting entry to net equity)

In the current year, no deferred tax assets were recognised directly in equity.

13.6 Change in deferred taxes (offsetting entry to net equity)

In the current year, no deferred tax liabilities were recognised directly in equity.

13.7 Other information

Current tax assets and liabilities refer to the following taxes payable to the Revenue Agency, net of advances paid and taxes withheld.

Current tax assets

Items/Amounts	2013	2012
IRES	260	419
IRAP	189	237
Indirect and other taxes	-	-
Total	**449**	**656**

Current tax liabilities

Items/Amounts	2013	2012
IRES	35	651
IRAP	111	273
Indirect and other taxes	-	-
Total	**146**	**924**

Section 14 – Item 140 – Non-current assets and disposal groups

14.1 Non-current assets and disposal groups: breakdown by type of asset

In the current year, the Bank did not recognise any non-current assets and disposal groups held for sale.

Section 15 – Item 150 – Other assets

15.1 Other assets: breakdown

	2013	2012
Non-current assets in progress and advances	27	-
Amounts to be charged to customers	217	227
Leasehold improvements	-	47
Sundry tax assets	448	335
Pending direct debits payable	64	118
Fees and commissions to be invoiced	-	-
other minor items	167	124
Accrued income and prepayments	62	7
Total	**985**	**858**

This section includes the residual accrued income and prepayments not attributable to specific balance sheet items. The most significant changes relate to temporary transactions, which are included in the item only for as long as necessary before processing and final recognition.

Liabilities

Section 1 – Item 10 – Payables to banks

1.1 Payables to banks: commodity breakdown

Types of transaction/Amounts	Total	
	2013	2012
1 Deposits by central banks	**4,001**	**4,034**
2 Deposits by banks	**2,238**	**357**
2.1 Current accounts and demand deposits	2,238	357
2.2 Term deposits	-	-
2.3 Loans	-	-
2.3.1 Repurchase agreements	-	-
2.3.2 Other	-	-
2.4 Liabilities deriving from commitments to repurchase own shares	-	-
2.5 Other payables	-	-
Total	**6,239**	**4,391**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**6,239**	**4,391**
Totale *fair value*	**6,239**	**4,391**

Payables to central banks is the debt owed to the European Central Bank for the three-month loan outstanding as at 31/12/2013 (due February 2014), at a rate of 0.25%, for a total of 4 million, which is part of the loans granted by the ECB against securities deposit.

Section 2 – Item 20 – Customer accounts

2.1 Customer accounts: commodity breakdown

Types of transaction/Amounts	Total	
	2013	2012
1 Current accounts and demand deposits	28,887	17,860
2 Term deposits	3,667	8,276
3 Loans	-	-
3.1 Repurchase agreements	-	-
3.2 Other	-	-
4 Liabilities deriving from commitments to repurchase own shares	-	-
5 Other payables	-	-
Total	**32,554**	**26,136**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**32,554**	**26,136**
Totale *fair value*	**32,554**	**26,136**

As this item includes only sight deposits (current accounts and demand deposits) and term deposits maturing within 12 months, fair value is assumed to be equal to the amortised cost.

Section 3 – Item 30 – Outstanding securities

3.1 Outstanding securities: commodity breakdown

Types of transaction/Amounts	Total 2013				Total 2012			
	Carrying amount	*Fair value*			Carrying amount	*Fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities	**8,706**	**-**	**8,826**	**-**	**4,249**	**-**	**4,339**	**-**
1. Bonds	8,706	-	8,826	-	4,249	-	4,339	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	8,706	-	8,826	-	4,249	-	4,339	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**8,706**	**-**	**8,826**	**-**	**4,249**	**-**	**4,339**	**-**

During the year the bank reimbursed the bond maturing in April 2013 for an amount of € 4 million. It issued a new three year maturity bond with an annual 3.50% fixed rate and semi-annual coupon, which was subscribed for € 8.3 million.
The fair value of the bonds issued, considered in chronological order of issue, amounts to € 673,211 and € 8,152,983 respectively.
In order to measure fair value, reference was made to the linearly interpolated swap rate curve at 31/12/2013, and the expected credit spreads for banks rated BBB (Senior).

Section 8 – Tax liabilities – Item 80

The breakdown and changes in deferred tax liabilities are included in the Assets section 13.

Section 10 – Item 100 – Other liabilities

10.1 Other liabilities: breakdown

	2013	2012
Subject to collection portfolio	133	259
Bank transfers awaiting clearance	1,201	7
Bankers' drafts issued	62	27
Amounts payable to tax authorities on behalf of customers and staff	362	249
Trade payables	235	352
Amounts payable to other entities	87	114
Accrued expenses	6	13
Remuneration payable to staff and related social security contributions	52	85
Amounts payable to customers	309	48
Other third-parties payables	19	3
Total	**2,466**	**1,157**

Section 11 – Item 110 – Staff termination benefits

11.1 Staff severance indemnity: year-on-year changes

	Total	
	2013	2012
A Opening balance	**869**	**647**
B Increases	**152**	**154**
B.1 Provisions for the year	152	154
B.2 Other changes	-	-
C Decreases	**157**	**(68)**
C.1 Benefits paid	102	23
C.2 Other changes	55	(91)
D Closing balance	**864**	**869**
Total	**864**	**869**

This item includes Provision for Staff Severance Indemnity (T.F.R.), recognised in accordance with the methodology provided for by the new IAS 19, as amended on 16/06/2011.
This standard requires the immediate recognition in the financial statements of all actuarial gains and losses and eliminates the option to defer the recognition of actuarial gains and losses using the corridor method.
This amendment did not affect the financial statements since the bank has elected to recognise actuarial gains and losses incurred in the year in a separate equity reserve.

In particular, it should be noted that the annual discount rate used to calculate the current value of Staff Severance Indemnity was determined in accordance with paragraph 78 of IAS 19, with reference to the IBoxx Eurozone Corporate AA index with a duration of over 10 years as quoted on 31/12/2013.

The new IAS 19 requires a series of additional disclosures for post-employment defined benefit plans such as:

a) sensitivity analysis for each significant actuarial assumption at the end of the financial year, showing the effects resulting from changes in actuarial assumptions that were reasonably possible at that date, in absolute terms;
b) disclosure of the contribution for the following year;
c) disclosure of the average maturity of the obligation for defined benefit plans;
d) payments under the plan.

The following table shows this information.

a)

Sensitivity analysis of the main evaluation parameters on the figures at 31 December 2013 DBO at 31.12.2013	
Inflation rate +0.25%	874,395.77
Inflation rate -0.25%	853,484.36
Discounting rate +0.25%	851,187.90
Discounting rate -0.25%	876,884.50
Turnover rate +1%	865,617.48

b)

Service Cost 2014	100,244.55

c)

Plan duration	9.9

d)

Years	Expected payments
1	300,205
2	75,303
3	76,550
4	77,148
5	77,194

The Staff Severance Indemnity accrued after 1 January 2007 continue to be kept in the company, as, at 31/12/2013, the Bank did not exceed the minimum threshold of 50 employees, as provided for by Law no. 296 of 27 December 2006.

Section 12 – Item 120 – Provisions for liabilities and charges

12.1 Provisions for liabilities and charges: breakdown

Items/Amounts	Total	
	2013	2012
1. Company pensions funds	**-**	**-**
2. Other provisions	**33**	**22**
2.1 litigation	-	9
2.2 staff costs	-	-
2.3 other	33	13
Total	**33**	**22**

The provision for liabilities and charges as at 31/12/2013 was related to:

- allocation of €15 thousand in relation to the deductible under the insurance coverage that was activated following a cash shortage caused by the company Ipervigile Srl, which provided cash transport and custody services to the Bank. The aforementioned company was suspended from business after an inspection by Banca d'Italia, which found serious anomalies in its cash handling practices. For Banca Promos, these anomalies consisted of a cash shortage of € 50 thousand due to the difference between internal accounting records and the physical stock of cash in the vault of Ipervigile.
- allocation for around € 18 thousand in charges relating to long-term benefits to be paid to "relevant personnel"; the charge accruing in the period was recognised in the income statement in the item "staff costs".

Finally, no updates are available concerning the on-going litigation with an Icelandic counterparty that requested the termination of a transaction completed in 2010 for a total amount of about € 300 thousand. In this respect, it was not considered necessary to make any allocation to the provision for risks and charges as, in similar processes, the court of Reykjavik considered that the transactions were normal business transactions and did not, therefore, agreed to their termination and also because, on the basis of the views expressed by legal experts hired by the bank, an assessment of the final outcome of the dispute was not possible.

It should also be noted that during the year, one of the labour disputes pending at the end of the previous year was concluded with an outlay equal to the amount set aside for about € 9 thousand.

12.2 Provisions for liabilities and charges: year-on-year changes

	Pension funds	Other provisions	Total
A Opening balances	**-**	**22**	**22**
B Increases	**-**	**20**	**20**
B.1 Provisions for the year	-	20	20
B.2 Changes due to the passage of time	-	-	-
B.3 Changes due to modification of discount rate	-	-	-
B.4 Other increases	-	-	-
C Decreases	**-**	**9**	**9**
C.1 Uses during the year	-	9	9
C.2 Changes due to modification of discount rate	-	-	-
C.3 Other decreases	-	-	-
D Closing balances	**-**	**33**	**33**

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

The section reports the composition of the Bank's capital and reserves.

14.1 Share capital and Treasury shares: breakdown

Items/Amounts	Total	
	2013	2012
1. Share capital	7,740	7,740
Total	**7,740**	**7,740**

At the date of these financial statements, the bank held no treasury shares.

14.2 Share capital – Number of shares: year-on-year changes

Items/Types	Ordinary	Other
A. Shares at beginning of year	**7,740,000**	**-**
- fully paid-up	7,740,000	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
B.2 Shares outstanding: opening balance	**-**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- rights issues:	-	-
- business combinations	-	-
- bond conversions	-	-
- exercise of warrants	-	-
- other	-	-
- scrip issues:	-	-
- to staff	-	-
- to Directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C Decreases	**-**	**-**
C.1 Cancellations	-	-
C.2 Share buybacks	-	-
C.3 Demergers	-	-
C.4 Other changes	-	-
D Shares outstanding: closing balance	**7,740,000**	**-**
D.1 Treasury shares (+)	-	-
D.2 Shares at end of year	7,740,000	-
- fully paid-up	7,740,000	**-**
- not fully paid-up	-	-

14.3 Share capital: other information

The share capital consists solely of no. 7,740,000 shares, with a par value of € 1.00 each. There are no rights, privileges or restrictions on the shares.
All subscribed shares are paid up and the company does not hold treasury shares.

14.4. Profit reserves: other information

Items/Components	Total	
	2013	2012
1. Legal reserve	791	733
2. FTA reserve:	115	115
3. Retained earnings	621	621
4.Profit for prior year	4,728	4,083
Total	**6,255**	**5,552**

Other information

1. Guarantees granted and commitments

Transaction	Total 2013	Total 2012
1. Financial guarantees provided	65	497
a) Banks	65	47
b) Customers	-	450
2. Commercial guarantees provided	1,088	-
a) Banks	-	-
b) Customers	1,088	-
3. Firm commitments to disburse funds	-	-
a) Banks	-	-
i) certain to be used	-	-
ii) not certain to be used	-	-
b) Customers	-	-
i) certain to be used	-	-
ii) not certain to be used	-	-
4. Commitments underlying credit derivatives: sale of protection	-	-
5. Assets pledged as security for third-party obligations	-	-
6. Other commitments	-	-
Total	**1,153**	**497**

2. Assets pledged as collateral for own liabilities and commitments.

	Total 2013	Total 2012
1. Financial assets held for trading	4,910	4,370
2. Financial assets valued at fair value	-	-
3. Available-for-sale financial assets	-	-
4. Held-to-maturity financial assets	-	-
5. Loans and advances to banks	-	-
6. Loans and advances to customers	1,068	3,152
7. Property, plant and equipment	-	-
Totale	**5,978**	**7,522**

The item “Assets held for trading” shows the securities used as collateral against the loan received from the European Central Bank.
The item Loans to customers shows security deposits and our commitment to Cassa di Compensazione e Garanzia (Clearing House).

4. Third-party management and brokerage

Types of service	Amount
1. Trading in financial instruments on behalf of third parties	
a) Purchases	6,970
1. settled	6,970
2. unsettled	-
b) Sales	6,566
1. settled	6,566
2. unsettled	-
2. Asset management	
a) individual	-
b) collective	-
3. Custody and administration of securities	
a) third-party securities held on deposit: linked to role as depositary bank (excluding asset management)	53,489
1. securities issued by the reporting bank	16,573
2. other securities	36,916
b) third-party securities held on deposit (excluding asset management): other	-
1. securities issued by the reporting bank	-
2. other securities	-
c) third-party securities deposited with third parties	53,489
d) proprietary securities deposited with third parties	12,662
4. Other transactions	

Part C
Information on the Income Statement

Section 1 – Items 10 and 20 – Interest

1.1 **Interest income and similar revenues: breakdown**

Items/Forms	Debt securities	Loans	Other transactions	Total 2013	Total 2012
1 Financial assets held for trading	355	-	-	355	354
2 Available-for-sale financial assets	-	-	-	-	-
3 Held-to-maturity financial assets	-	-	-	-	-
4 Loans and advances to banks	-	65	-	65	90
5 Loans and advances to customers	-	1,315	-	1,315	1,111
6 Financial assets at fair value	-	-	-	-	-
7 Hedging derivatives	-	-	-	-	-
8 Other assets	-	-	-	-	-
Total	**355**	**1,380**	**-**	**1,735**	**1,555**

Interest on "impaired loans" to customers amounted to € 28,737 and was totally written down.

1.3.1 Interest income on financial assets in foreign currency

Interest income on financial assets in foreign currency amounted to € 324.

1.4 Interest expense and similar charges: breakdown

Items/Forms	Deposits	Securities	Other transactions	Total 2013	Total 2012
1. Deposits by central banks	19	-	-	19	34
2. Deposits by banks	49	-	-	49	44
3. Customer accounts	241	-	-	241	348
4. Outstanding securities	-	266	-	266	145
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities at fair value	-	-	-	-	-
7. Other liabilities and provisions	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
Total	**309**	**266**	**-**	**575**	**571**

The item Payables to central banks include interest expense related to the loan from the European Central Bank.

1.6.1 Interest expense on financial liabilities in other currencies

Interest expense on financial liabilities in foreign currency amounted to € 24,070.

Section 2 – Items 40 and 50 – Fees and commissions

These items include income and expenses relating, respectively, to services provided and services received by the bank.
Income and expenses taken into account in the determination of the effective interest rate of financial assets and liabilities are excluded (as they are included in items 10 - Interest income and similar revenues and 20 - Interest expense and similar charges).

2.1 Fees and commissions receivable: breakdown

Types of service/Amounts	Total	
	2013	2012
a) guarantees issued	24	8
b) credit derivatives	-	-
c) management, brokerage and advisory services:	71	132
1. trading in financial instruments	15	27
2. foreign currency trading	1	-
3. asset management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. custody and administration of securities	7	5
5. depositary bank	-	-
6. securities placement	21	20
7. order collection	22	47
8. advisory services	-	-
8.1 regarding investment	-	-
8.2 regarding financial structure	-	-
9. distribution of third-party services	5	33
9.1 asset management	-	-
9.1.1. individual	-	-
9.1.2 collective	-	-
9.2 insurance products	-	-
9.3 other products	5	33
d) collection and payment services	190	171
e) servicing for securitisation transactions	-	-
f) factoring transactions	-	-
g) tax collection	-	-
h) management of multilateral trading systems	-	-
i) current account services	168	163
j) other services	-	-
Total	**453**	**474**

2.2 Fees and commissions receivable: distribution channels of products and services

Channels/Amounts	Total	
	2013	2012
a) through own branches:	**5**	**33**
1. asset management	-	-
2. securities placement	-	-
3. third-party services and products	5	33
b) door-to-door sales:	**21**	**20**
1. asset management	-	-
2. securities placement	21	20
3. third-party services and products	-	-
c) other distribution channels	**-**	**-**
1. asset management	-	-
2. securities placement	-	-
3. third-party services and products	-	-

2.3 Commission payable: breakdown

Services/Amounts	Total	
	2013	2012
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) management and brokerage services:	732	948
1. Trading in financial instruments	719	944
2. Foreign currency trading	-	-
3. Asset management	-	-
3.1 Own portfolio	-	-
3.2 Third-party portfolio	-	-
4. Custody and administration of securities	13	4
5. Placement of financial instruments	-	-
6. Door-to-door sales of financial instruments, products and services	-	-
d) Collection and payment services	38	34
e) Other services	14	13
Total	**784**	**995**

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

4.1 Net profit/(loss) from trading activities: breakdown

Transactions/Components of income	Gains A	Profits from trading B	Losses C	Losses from trading D	Net profit/(loss) [(A+B)-(C+D)]
1 Financial assets held for trading	**135**	**4,275**	**20**	**141**	**4,249**
1.1 Debt securities	135	4,256	20	141	4,230
1.2 Equity instruments	-	-	-	-	-
1.3 Units of mutual investment funds	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	19	-	-	19
2 Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
3 Financial assets and liabilities: exchange differences	**-**	**-**	**-**	**-**	-
4 Derivative instruments	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives	-	-	-	-	-
- on debt securities and interest rates	-	-	-	-	-
- on equity instruments and share indexes	-	-	-	-	-
- on foreign exchange and gold	-	-	-	-	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**135**	**4,275**	**20**	**141**	**4,249**

The item includes:

a) the balance between profits and losses on transactions classified as "financial assets held for trading" and "financial liabilities held for trading", including the results of the valuation of such transactions.
b) the balance between profits and losses on financial transactions in foreign currencies, including the results of the valuation of these transactions.
c) capital gains, amounting to € 135 thousand, and capital losses amounting to € 20 thousand, on securities in the portfolio as at 31/12/2013.

Section 8 – Item 130 – Net impairment losses/recoveries

8.1 Net impairment losses/recoveries: breakdown

Transactions/Components of income	Impairment losses			Recoveries				Total	
	Specific		Collective	Specific		Collective			
	Cancellations	Other		interest	other	interest	other		
				A	B	A	B	2013	2012
A. Loans and advances to banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans and advances to customers	(7)	(302)	(76)	-	95	-	-	(290)	(580)
Impaired loans purchased	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other	(7)	(302)	(76)	-	95	-	-	(290)	(580)
- Loans	(7)	(302)	(76)	-	95	-	-	(290)	(580)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(7)**	**(302)**	**(76)**	**-**	**95**	**-**	**-**	**(290)**	**(580)**

A = Interest
B = Other

Impairment losses in the column "Specifications - Cancellations" refer to the write-off of receivables that are no longer recoverable.

Impairment losses in the column "Specifications - other" refer to analytical impairments of receivables.

Impairment Losses in the "Collective" column refer to collective write-downs.

The item "recoveries" in the column "Specification" refers to:

- recoveries from collection
- reductions in doubtful loans, with utilisation of the existing provision
- recoveries from discounting to present value

Section 9 – Item 150 – Administrative expenses

9.1 Staff expenses: breakdown

Types of expense/Amounts	Total	
	2013	2012
1) Employees	2,068	2,602
a) wages and salaries	1,459	1,890
b) social security contributions	402	481
c) staff termination benefits paid	-	-
d) pension contributions	-	-
e) provisions for staff termination benefits	152	154
f) provisions for pension funds and similar commitments:	-	-
- defined-contribution	-	-
- defined-benefit	-	-
g) provisions for external supplementary pension funds:	-	-
- defined-contribution	-	-
- defined-benefit	-	-
h) cost of share-based payments	-	-
i) other employee benefits	55	77
2) Other staff	27	8
3) Directors and Statutory Auditors	382	502
4) Staff on leave	-	-
5) Recovery of expenses for employes seconded to other companies	-	-
6) Reimbursement of expenses for third-party employees seconded to the Bank	-	-
Total	**2,477**	**3,112**

Sub-item e) provision for staff severance indemnity - consists of:

- Current Service Cost for € 130 thousand
- Interest Cost for € 22 thousand

Item 3), directors, includes the remuneration paid to directors and statutory auditors, including social security contributions paid by the company.

9.2 Average number of staff by category

	2013
Employees	
a) Senior managers	-
b) Total middle managers	5
- of which: grades 3 and 4	2
c) Remaining employees	39
Other staff	-

The average number of employees is calculated in terms of weighted average, where the weight is the number of months worked by each person during the year. Part-time employees are accounted for at 50%.

9.5 Other administrative expenses: breakdown

	2013	2012
Other administrative costs:		
– indirect taxation and duties:	**18**	**26**
– other	18	26
– other:	**1,580**	**1,625**
– fees paid to external consultants	83	19
– auditors' fees	74	72
– lease rentals and running expenses	89	134
– IT services	776	724
– postage and telecommunications	134	143
– maintenance and repairs	52	44
– advertising and public relations	29	59
– energy and fuel	52	44
– insurance	25	24
– printing and stationery	39	38
– office cleaning	2	3
– transport and travel expenses	10	34
– lease rentals and hire charges	47	50
– legal and other consultants' fees	70	111
– membership dues and similar charges	62	93
– security	11	11
– other	25	22
Total	**1,598**	**1,651**

Section 10 – Item 160 – Net provisions for liabilities and charges

10. Net provisions for liabilities and charges: breakdown

	2013	2012
Provisions for risk and charges		
other provisions:	(15)	(5)
-for litigation	*(15)*	*(5)*
Recovery of provisions for risk and charges		
other provisions:	-	**4**
-for litigation	-	**4**
Total	**(15)**	**(1)**

At 31/12/2013 a provision amounting to € 15 thousand was set aside in the financial statements, as a precautionary measure following the cash shortage resulting from severe anomalies in the activity of the company to which the bank had outsourced cash handling and transport services.
It should also be noted that during the year, one of the labour disputes pending at the end of the previous year was concluded with an outlay equal to the amount set aside.

Section 11 - Item 170 - Net adjustments to property, plant and equipment

11.1 Net adjustments to property, plant and equipment: breakdown

Assets/Components of income	Depreciation (a)	Impairment losses (b)	Recoveries (c)	Net result (a+b-c)
A. Property, plant and equipment				
A.1 Owned by the Bank	(448)	-	-	(448)
- Operating assets	(448)	-	-	(448)
- Investment assets	-	-	-	-
A.2 Purchased under financial leases	-	-	-	-
- Operating assets	-	-	-	-
- Investment assets	-	-	-	-
Total	**(448)**	**-**	**-**	**(448)**

Depreciation on tangible fixed assets amounted to € 448 thousand and includes depreciation on the properties, recognised on the basis of their useful life.

Section 12 – Item 180 – Net adjustments to intangible assets

12.1 Net adjustments to intangible assets: breakdown

Assets/Components of income	Amortisation (a)	Impairment losses (b)	Recoveries (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned by the Bank	27	-	-	27
- Internally generated	-	-	-	-
- Other	27	-	-	27
A.2 Purchased under finance leases	-	-	-	-
Total	**27**	**-**	**-**	**27**

Section 13 – Item 190 – Other operating income and expenses

13.1 Other operating expenses: breakdown

	2013	2012
contingent liabilities	(25)	(39)
amortisation of Leasehold improvements	(47)	(98)
other	(11)	(6)
Total	**(83)**	**(143)**

13.2 Other operating income: breakdown

	2013	2012
Expense recoveries	54	54
Grant pursuant to Law 388/2000	-	-
Contingent assets	3	21
Other	-	1
Total	**57**	**76**

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

18.1 Income taxes for the year on current operations: breakdown

Income items/Values	Total	
	2013	2012
1. Current taxes	(146)	(924)
2. Changes in current taxes for previous years	-	131
3. Reduction in current taxes for the period	-	-
3Bis Reduction in current taxes for the year for tax credits as per law no. 214/2011	-	-
4. Change in prepaid taxes	(17)	134
5. Change in deferred taxes	57	58
6. Income taxes for the period	(106)	(601)

18.2 Reconciliation of notional and actual tax burden (IRES)

Components/Amounts	2013
Profit/(Loss) from continuing operations before tax (item 250 c/e)	**195**
Tax charge calculated at statutory rate of 27.50% for IRES	**54**
Tax on increases	165
Tax on reductions	(183)
Effective tax rate for IRES - 36,82%	**36**
IRAP	**110**
Current tax expense for the year	**146**

The increases are mainly determined by the directors' remuneration and the write-downs of loans.
The decreases primarily relate to recoveries resulting from the use of provisions.

Section 21 – EPS

Earnings per share for the year 2013 amounted to € 0.01; as provided for by law, it is calculated by dividing the result for the period by the average number of shares outstanding during the year.

Part D
Comprehensive Income

	Items	Gross amount	Income tax	Net amount
10.	**Profit (loss) for the year**			**89**
	Other income items not reversed to income statement	-	-	55
20.	Tangible fixed assets	-	-	-
30.	Intangible fixed assets	-	-	-
40.	Defined-benefit plans	-	-	55
50.	Non-current discontinuing operations	-	-	-
60.	Share of valuation reserves for equity investments carried at equity	-	-	-
	Other income items reversed to income statement	-	-	-
70.	**Foreign investment hedging:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
80.	**Exchange rate differences:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
90.	**Cash flow hedging:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
100.	**Financial assets available for sale:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	- adjustments due to impairment	-	-	-
	- profits or losses on disposals	-	-	-
	c) other changes	-	-	-
110.	**Non-current discontinuing operations:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
120.	**Share of valuation reserves for equity investments carried at equity:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	- adjustments due to impairment	-	-	-
	- profits or losses on disposals	-	-	-
	c) other changes	-	-	-
130.	**Total of other income items**	**-**	**-**	**55**
140.	**Comprehensive income (Item 10+130)**	**-**	**-**	**144**

Part E
Information on risks and hedging policies

In compliance with the provisions of Banca d'Italia Circular no.263/2006 as amended (Heading IV, Chapter 1), the Bank hereby announces that the information concerning capital adequacy and risk exposure are published on the corporate website (www.bancapromos.it).

Section 1 – Credit risk

Credit risk, also known as counterparty risk, generally refers to the risk that the customer/counterparty does not perform its obligations in the manner and within the time provided for by the contract, due to lack of funds.
It is specifically the risk that the customer-debtor fails to fulfil even a part of their obligation in a loan transaction to reimburse principal and pay interest.
Credit risk, therefore, includes solvency, concentration and Country risks[1].

Qualitative information

1. General aspects
During 2013 the Bank continued to expand its core banking activities, such as deposit collection and lending, in line with its strategic objectives aimed at diversifying business.
In particular, loans, which increased by around 17% compared to the previous FY, were divided up as detailed below:
- a major component (52%) is represented by medium-long term real estate loans secured by mortgage;
- a significant portion of the bank's exposure consists of unsecured loans, i.e. medium-term loans not secured by mortgage (28%);
- a sizeable amount of the bank's exposure is represented by credit lines that are part of the ordinary cash lending business (10%);
- a residual part is represented by advances on invoices subject to collection (8%), through which companies are ensured immediate availability of cash against their trade receivables not yet due, and by personal loans (2%).

Loans were granted with a view to limiting and spreading risk on the basis of:
- a careful selection of individual counterparties through an appropriate prior creditworthiness assessment, i.e. during the credit approval process, and subsequent on-going monitoring of their ability to fulfil obligations;
- diversification of credit risk, by limiting the concentration of exposure on groups of related customers, business groups or individual sectors of the economy;
- performance monitoring of individual positions, carried out using our IT systems and through constant monitoring of relationships showing any irregularities.

[1] Country risk is the risk associated with international transactions, when the foreign customers-debtors do not fulfil their obligations, due to the macroeconomic conditions in the country in which they operate.

2. Credit risk management policies

2.1 Organisational issues
The Bank is aware that the risk of an adverse evolution is inherent in the lending business, and thus pays close attention to controlling this type of risk.
To this end, the Bank implements management policies and control systems aimed at minimising exposure to risk within the limits of sound and prudent management, by following the general guidelines established by the Board of Directors.
They respond to the twofold need of:
- regulating lending operations in accordance with specific business objectives in terms of risk/return;
- complying with the Supervisory Instructions laying down the minimum capital requirements the Bank must ensure as a safeguard against risk and which must be met at all times.

2.2 Management, measurement and control systems
The management of credit risk depends on lending policies. For this purpose, the Board of Directors establishes the general principles governing lending to customers, approves the strategic guidelines and policies for loan disbursement and risk management, through the definition of specific parameters (type of loans, percentage of funding to be used in lending).
Consistent with these policies, the Board of Directors has defined and approved the methods for measuring credit risk and monitoring performance.
The whole lending process, from the preliminary assessment to disbursement, as well as monitoring positions, reviewing credit lines and responding to abnormal situations, was formalised in the "Credit Regulations", approved by the Board of Directors and periodically audited.
The regulations cover: credit authorities, prudential limits, acceptable collateral, loans classification, credit monitoring, control and reporting system.
Proper management of the credit process also requires an adequate risk measurement and control system.
In order to verify the effectiveness of the measures adopted, the Bank uses a "Control System", which is organised differently at the various levels within the Bank; each person involved in the system is responsible both for the supervisory activities and for reporting on the results of their audits.

The system is organised into the three levels outlined below:
1) line controls or first-level controls, to ensure that operations are properly carried out; these are performed by the commercial staff;
2) second-level controls, which are the responsibility of:
   - the Credit Control and Litigation department, which, as part of its ordinary activities, carries out checks with regard to loan applications, granting and classification as well as audits on any unusual use of funds in the early stages of the loan and on loans performing in anomalous ways and therefore impaired;
   - the Risk Management department, which monitors the activity, verifying transactions carried out and performing an overall assessment of the risk to which the Bank is exposed, also in relation to loan performance;
   - the Compliance department, which verifies compliance with internal and external regulations.
3) third-level controls, carried out by Internal Audit, which, on the basis of a plan specifically set out for the purpose, verifies any anomalies or breaches of procedures and internal and external regulations, also assessing the functionality and adequacy of the overall internal control system.

Moreover, the following activities are carried out:
- preventive controls, which take place prior to granting the credit line and are specifically aimed at verifying compliance with credit authority limits, guarantee standards, the completeness and adequacy of all documents delivered to and/or signed by the customer.
- on-going controls, which take place after the loan has been granted and disbursed, involving monitoring of the positions in their various operating aspects, with particular reference to risk

management (unauthorised overdrafts, compliance with guarantee margins, etc.), in order to verify the recoverability of the loan at all times.

Finally, the Bank uses a management tool to carry out first-level controls through which the Credit Control Office and the branches can periodically monitor existing positions; this procedure uses historical internal databases and assigns a risk rating to each customer. Ratings are determined at the NDG level and any anomalies and data that contributed to their formulation are logged.

2.3 Credit risk mitigation techniques

Credit risk mitigation is pursued by granting loans only to reliable customers with sound financial positions and proven credit standing.
Where necessary, lending transactions are backed by various types of guarantees according to the type of loan granted:

- personal guarantees;
- collateral (mortgages and other collateral).

With regard to personal guarantees, sureties on first demand are accepted, issued by Italian and foreign banks or by natural or legal persons of proven solvency.
With regard to collateral, the Bank accepts the following guarantees:

- mortgages;
- pledge on deposits in euros or foreign currency;
- pledge on securities.

Credit lines for trading purposes must be backed by securities, which are evaluated according to their nature and riskiness and also taking into account the ratings assigned by specialised agencies. A discount on market value is applied to the securities pledged as collateral, to an extent related to the nature of the securities. The Bank may accept securities as collateral at its own discretion, and can apply higher discounts to the securities it deems riskier.
The guarantee may also consist of a cash balance, in which case no discount is applied.
Real estate mortgage loans are granted against first-time real estate mortgages.
The acquisition of guarantees requires careful evaluation, not only to determine the guarantees' value, on which the maximum amount of credit that can be extended is based, but also to verify any restrictions or impediments that might in some way limit their validity.

2.4 Impaired financial assets

With regard to the technical and organisational procedures and methods used in managing and controlling impaired assets, as determined by the internal "Credit Regulations", the method used to classify loans performing irregularly are described below:

- "overdue loans", i.e. loans that exceed the time limit criteria established by the Supervisory regulations;
- loans "under restructuring", i.e. those for which debt restructuring is in place or is being negotiated, which provides for remuneration below market rates;
- "doubtful" loans, i.e. loans to entities considered to be in a temporary and objectively difficult situation, which is expected to be resolved within a reasonable period of time, including through an efficient action by the Branches. Loans classified as "doubtful" do not necessarily lead to the next step of "non-performing" loans, as effective action vis-à-vis the customer may reverse this classification once the situation of temporary difficulty has been resolved.
- "non-performing" loans, i.e. loans to borrowers deemed to be in default or in substantially equivalent situations. Recoverability is assessed analytically based on a conservative assessment of the debtor and any guarantors, the progress of any legal action, and, where applicable, on a conservative appraisal of the realisable value of collateral.

All impaired loans (overdue, doubtful, in restructuring, non-performing loans) are evaluated analytically by the units involved in the lending process. Impaired (overdue) loans are subject to a flat-rate assessment, using the same methodology as for the impairment of "performing" receivables; if an actual loss is expected, a write-down of the individual account is carried out.

The CEO is responsible for classifying non-performing loans.
Accordingly, as at 31.12.2013, not all loans are classified as "performing".
In particular, with regard to impaired financial assets, the following should be noted:

- the presence of overdue loans to customers, accounting for 0.07% of total loans;
- the presence of doubtful loans to customers, accounting for 4.11% of total loans;
- the presence of non-performing loans to customers, accounting for 1.22 % of total loans.

Quantitative information

A. Credit quality

A.1. Impaired and performing exposures: amounts, adjustments, trend, financial and territorial distribution

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

Portfolio/Quality	Non-performing	Impaired loans	Restructured exposures	Impaired overdue	Non-impaired	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	12,775	12,775
2. Financial assets available for sale	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Receivables from banks	-	-	-	-	-	12,917	12,917
5. Loans to customers	392	1,322	-	22	-	30,404	32,140
6. Financial assets carried at fair value	-	-	-	-	-	-	-
7. Discontinuing operations	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 2013	**392**	**1,322**	**-**	**22**	**-**	**56,096**	**57,832**
Total 2012	112	680	-	386	-	43,929	45,107

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

Portfolio/Quality	Impaired assets			Performing assets			Total (net exposure
	Gross exposure	Specific impairments	Net exposure	Gross	Collective impairments	Net	
1. Financial assets held for trading	-	-	-	-	-	12,775	12,775
2. Available-for-sale financial assets	-	-	-	-	-	-	-
3. Held-to-maturity financial assets	-	-	-	-	-	-	-
4. Loans and advances to banks	-	-	-	12,917	-	12,917	12,917
5. Loans and advances to customers	2,801	1,065	1,736	30,602	198	30,404	32,140
6. Financial assets at fair value	-	-	-	-	-	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 2013	**2,801**	**1,065**	**1,736**	**43,519**	**198**	**56,096**	**57,832**
Total 2012	2,036	858	1,178	29,863	121	43,929	45,107

At 31/12/2013 there were no loans renegotiated as a result of collective agreements (framework agreements with ABI, the Ministry of the Economy and Finance and households).

A.1.3 Cash and off-balance sheet exposure with banks: gross and net values

Types of exposure/Amounts	Gross exposure	Specific impairments	Collective impairments	Net exposure
A. On-balance sheet exposures				
a) Non-performing	-	-	-	-
b) Problem	-	-	-	-
c) Restructured	-	-	-	-
d) Past-due	-	-	-	-
e) Other assets	17,447	-	-	17,447
Total A	**17,447**	**-**	**-**	**17,447**
B. Off-balance exposures				
a) Impaired	-	-	-	-
b) Other	65	-	-	65
Total B	**65**	**-**	**-**	**65**
Total A+B	**17,512**	**-**	**-**	**17,512**

A.1.6 Cash and off-balance sheet exposure with clients: gross and net values

Types of exposure/Amounts	Gross exposure	Specific impairments	Collective impairments	Net exposure
A. On-balance sheet exposures				
a) Non-performing	1,360	968	-	392
b) Problem	1,417	95	-	1,322
c) Restructured	-	-	-	-
d) Past-due	24	2	-	22
e) Other assets	38,847	-	198	38,649
Total A	**41,648**	**1,065**	**198**	**40,385**
B. Off-balance exposures				
a) Impaired	-	-	-	-
b) Other	1,088	-	-	1,088
Totale B	**1,088**	**-**	**-**	**1,088**

A.1.7 Cash exposures with clients: dynamics of gross impaired exposures

Reasons/Categories	Non-performing	Problem	Restructured	Past-due
A. Gross exposure at beginning of year	**807**	**829**	-	**400**
- of which: transferred assets not derecognised	-	-	-	-
B. Increases	**571**	**1,126**	**-**	**68**
B.1 transfers from performing loans	8	1,069	-	65
B.2 transfers from other categories of impaired asset	511	49	-	-
B.3 other increases	52	8	-	3
C. Decreases	**18**	**538**	**-**	**444**
C.1 transfers to performing loans	-	19	-	342
C.2 derecognition	7	-	-	-
C.3 collection	11	8	-	53
C.4 amounts realised on transfer	-	-	-	-
C.5 transfers to other categories of impaired asset	-	511	-	49
C.6 other decreases	-	-	-	-
D Gross exposure at end of year	**1,360**	**1,417**	**-**	**24**
- of which: transferred assets not derecognised	**-**	**-**	**-**	**-**

A.1.8 Cash exposures with clients: overall adjustment trend

Reasons/Categories	Non-performing	Problem	Restructured	Past-due
A. Gross exposure at beginning of year	**695**	**149**	**-**	**14**
- of which: transferred assets not derecognised	**-**	**-**	**-**	**-**
B. Increases	**303**	**108**	**-**	**5**
B.1 transfers from performing loans	121	62	-	-
B.1.bis perdite da cessione	-	-	-	-
B.2 transfers from other categories of impaired asset	160	2	-	-
B.3 other increases	22	44	-	5
C. Decreases	**30**	**162**	**-**	**17**
C.1 transfers to performing loans	14	-	-	-
C.2 derecognition	9	2	-	15
C.2.bis utili da cessione	-	-	-	-
C.3 collection	7	-	-	-
C.4 amounts realised on transfer	-	160	-	2
C.5 other decreases	-	-	-	-
D Gross exposure at end of year	**968**	**95**	**-**	**2**
- of which: transferred assets not derecognised	**-**	**-**	**-**	**-**

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

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

Exposures	Class of external rating						No rating	Total
	Aaa/Aa3	A1/A3	Baa1/ Baa3	Ba1/Ba3	B1/B3	Inferiore a B3		
A. On-balance sheet	**10**	**252**	**8,299**	**305**	**350**	**-**	**48,616**	**57,832**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Financial derivatives	-	-	-	-	-	-	-	-
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	-	-	-	-	-	**-**	**-**
D. Commitments to disburse funds	-	-	-	-	-	-	**-**	**-**
E. Other	-	-	-	-	-	-	**-**	**-**
Total	**10**	**252**	**8,299**	**305**	**350**	**-**	**48,616**	**57,832**

The risk classes for external ratings in this table refer to those used by the agency Moody's.

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

This table is not provided, since to date the Bank has not used internal rating models to manage credit risk.

A.3 Distribution of secured exposures by type of guarantee

A.3.1 Secured credit exposures with banks

This table is not provided, since to date the Bank has no secured cash exposures with banks.

A.3.2 Secured credit exposures with customers

	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1+2)
						Credit derivatives					Credit commitments				
							Altri derivati								
		Properties	Financial leasing	Securities	Other collateral	CLNs	Governm. and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	
1. Secured on-balance sheet exposures	**26,599**	**65,663**		**353**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**87**	**8,661**	**74,764**
1.1 fully secured	26,171	65,663		320	-	-	-	-	-	-	-	-	87	8,266	74,336
- of which impaired	1,194	2,184		30	-	-	-	-	-	-	-	-	-	-	2,214
1.2 partially secured	428	-		33	-	-	-	-	-	-	-	-	-	395	428
- of which impaired	33	-		33	-	-	-	-	-	-	-	-	-	-	33
2. Secured off-balance sheet exposures	**642**	**-**		**393**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**393**
2.1 fully secured	342	-		343	-	-	-	-	-	-	-	-	-	-	343
- of which impaired	-	-		-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	300	-		50	-	-	-	-	-	-	-	-	-	-	50
- of which impaired	-	-		-	-	-	-	-	-	-	-	-	-	-	-

B. Distribution and concentration of credit exposures

B.1 Distribution of cash and off-balance sheet exposures with clients by sector (book values) – <u>Part 1</u>

Exposures / Borrowers	Governments			Other public entities		
	Net exposure	Specific impairments	Collective impairments	Net exposure	Specific impairments	Collective impairments
A. On-balance sheet exposures						
A.1 Non-performing	-	-	-	-	-	-
A.2 Problem	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-
A.4 Past-due	-	-	-	-	-	-
A.5 Other	**7,993**	-	-	-	-	-
Total A	**7,993**	-	-	-	-	-
B. Off-balance sheet exposures						
B.1 Non-performing	-	-	-	-	-	-
B.2 Problem	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other	-	-	-	-	-	-
Total B	-	-	-	-	-	-
Total (A+B) 2013	**7,993**	-	-	-	-	-
Total (A+B) 2012	6,212	-	-	-	-	-

B.1 Distribution of cash and off-balance sheet exposures with clients by sector (book values) – <u>Part 2</u>

Exposures / Borrowers	Financial companies			Insurance companies		
	Net exposure	Specific impairments	Collective impairments	Net exposure	Specific impairments	Collective impairments
A. On-balance sheet exposures						
A.1 Non-performing	-	-	-	-	-	-
A.2 Problem	220	25	-	-	-	-
A.3 Restructured	-	-	-	-	-	-
A.4 Past-due	-	-	-	-	-	-
A.5 Other	-	-	-	-	-	-
Total A	**220**	**25**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing	-	-	-	-	-	-
B.2 Problem	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 2013	**220**	**25**	**-**	**-**	**-**	**-**
Total (A+B) 2012	913	25	-	-	-	-

B.1 Distribution of cash and off-balance sheet exposures with clients by sector (book values) – <u>Part 3</u>

Exposures / Borrowers	Non-financial companies			Other entities		
	Net exposure	Specific impairments	Collective impairments	Net exposure	Specific impairments	Collective impairments
A. On-balance sheet exposures						
A.1 Non-performing	80	714	-	312	254	-
A.2 Problem	431	63	-	671	7	-
A.3 Restructured	-	-	-	-	-	-
A.4 Past-due	11	1	-	11	1	-
A.5 Other	15,615	-	104	15,041	-	94
Total A	**16,137**	**778**	**104**	**16,035**	**262**	**94**
B. Off-balance sheet exposures						
B.1 Non-performing	-	-	-	-	-	-
B.2 Problem	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 2013	**16,137**	**778**	**104**	**16,035**	**262**	**94**
Total (A+B) 2012	11,260	664	43	18,709	169	79

B.2 Distribution of cash and off-balance sheet exposures with clients by territory (book values)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet exposures										
A.1 Non-performing	392	968	-	-	-	-	-	-	-	-
A.2 Problem	1,322	95	-	-	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-	-	-	-	-
A.4 Past-due	22	2	-	-	-	-	-	-	-	-
A.5 Other	38,600	198	49	-	-	-	-	-	-	-
Total A	**40,336**	**1,263**	**49**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing	-	-	-	-	-	-	-	-	-	-
B.2 Problem	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other	1,088	-	-	-	-	-	-	-	-	-
Total B	**1,088**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 2013	**41,424**	**1,263**	**49**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 2012	36,219	979	875	-	-	-	-	-	-	-

B.3 Distribution of cash and off-balance sheet exposures with banks by territory (book values)

Esposizione/aree geografiche	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net Exposures	Total impairments
A. On-balance sheet exposures										
A.1 Non-performing	-	-	-	-	-	-	-	-	-	-
A.2 Problem	-	-	-	-	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-	-	-	-	-
A.4 Past-due	-	-	-	-	-	-	-	-	-	-
A.5 Other	14,205	-	3,232	-	-	-	-	-	10	-
Total A	**14,205**	**-**	**3,232**	**-**	**-**	**-**	**-**	**-**	**10**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing	-	-	-	-	-	-	-	-	-	-
B.2 Problem	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other	65	-	-	-	-	-	-	-	-	-
Total B	**65**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 2013	**14,270**	**-**	**3,232**	**-**	**-**	**-**	**-**	**-**	**10**	**-**
Total 2012	7,103	-	1,407	-	-	-	-	-	-	-

B.4 Major risks

At 31.12.2013 there were risk positions representing a major risk for a nominal value of € 20,753 thousand. These positions include € 7,993 thousand in Italian government securities, which for supervisory purposes are included in the trading book, and € 12,760 thousand in interbank demand deposits. Therefore, in compliance with supervisory regulations, the weighted value of these exposures is € 12,760 thousand.

Section 2 – Market risks

Market risk is the general risk associated with the unpredictable performance of macro-economic variables.
Therefore, the development of operations on the financial markets and trading in securities and currencies may lead to increased risks associated with changes in market prices that result in:

- Interest rate risk
- Price/equity risk
- Exchange rate risk

Before analysing each risk category, please note that for the purposes of this Section, the quantitative and qualitative information is reported with reference to the "trading book" and the "banking book" as defined in the legislation governing supervisory reporting. In particular, the trading book comprises all the financial instruments subject to capital requirements for market risks.

Section 2.1 – Interest rate risk and price risk – Regulatory Trading Book

Qualitative information

A. General aspects

The regulatory trading book is composed exclusively of Euro-denominated debt securities of issuers from Zone A countries. Moreover, with reference to rating, the book is composed of securities with a rating falling into the so-called "investment grade" category, from Aaa to Baa3 (Moody's), except for a small part (5%) with a rating lower than the "investment grade" category and another part (28%) that has not been rated.
Furthermore, the Bank does not take speculative positions in derivatives and does not trade equities.

B. Measurement and management of market rate risk and price risk

Interest rate risk is the effect on price due to changes in interest rates on financial markets. This effect depends on the characteristics of the instrument, such as, for example, its residual life, the coupon rate and any early repayment options.
Therefore, the risk of a change in interest rates having an adverse impact on the Bank's financial situation is inherent in the trading business, as the Bank's performance is affected by the fluctuations in interest rates in Europe and in the other markets where it carries out its business.
In view of this and given the impossibility to fully predict changes to securities and currency prices and, in general, the evolution of markets, the Bank implements management policies and control systems which ensure sound and prudent management of market risks, in line with the general guidelines established by the Board of Directors.
They respond to the twofold need of:

- regulating operations in the financial markets area according to specific business objectives in terms of risk/return;
- complying with the directions given by Banca d'Italia, in terms of capital requirements.

In particular, in order to limit the risk of changes in interest rates and fluctuations in market prices, the activity on the regulatory trading book is governed by the operating limits established in the "Financial Markets Regulation", approved by the Board of Directors and regularly audited.

These limits were set with reference to the following control parameters, which are built into the Bank's IT system:

- "modified duration", an indicator generally used for bond-like instruments;
- "VAR", a model for evaluating the risk involved in a given financial portfolio;
- short sales;
- stop loss.

In order to verify the effectiveness of the measures adopted, the Bank uses a "Control System", which is organised differently at the various levels within the Bank; each person involved in the system is responsible both for the supervisory activities and for reporting on the results of their audits.

The system is organised into the three levels outlined below:

1. first-level controls or line checks, aimed at ensuring that operations are properly carried out; these controls are carried out directly by operating managers, who, during daily operations, verify compliance with the limits set into the system. Moreover, with particular reference to financial activities, first-level controls are ensured automatically through the IT system on the basis of the control parameters set into the system;
2. second-level controls, which are the responsibility of:
   - Back Office which, in the ordinary course of transaction processing, verifies compliance with the system of limits and the proper exercise of authorities. It identifies any transactions not completed due to non-compliance with one or more of the control parameters established and requests their approval by the persons in charge;
   - the Risk Management department, which monitors the activity, verifying transactions carried out and performing an overall assessment of the risk to which the Bank is exposed in relation to market trends, the nature of the instruments traded and the issuers and the counterparties involved;
3. third-level controls, carried out by Internal Audit, which, on the basis of a plan specifically set out for the purpose, verifies any anomalies or breaches of procedures and internal and external regulations, also assessing the functionality and adequacy of the overall internal control system.

Quantitative information

1. ***Regulatory trading book: breakdown of cash financial assets and liabilities and financial derivatives by residual term (repricing date)***
Currency: <u>EUR</u>

Type/Remaining term to maturity	on demand	3 months or less	after 3 but less than 6 months	after 6 months but less than 1 year	after 1 year but less than 5 years	after 5 but less than 10 years	over 10 years	indeter-minate term to maturity
1. On-balance sheet assets								
1.1 Debt securities	**-**	**4,615**	**6,942**	**1,059**	**159**	**-**	**-**	**-**
- callable	-	-	-	-	-	-	-	-
- other	-	4,615	6,942	1,059	159	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities								
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ short positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ short positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.2 Without underlying securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ short positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ short positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

1. ***Regulatory trading book: breakdown of cash financial assets and liabilities and financial derivatives by residual term (repricing date)***
Currency: <u>all</u>

Type/Remaining term to maturity	on demand	3 months or less	after 3 but less than 6 months	after 6 months but less than 1 year	after 1 year but less than 5 years	after 5 but less than 10 years	over 10 years	indeter-minate term to maturity
1. On-balance sheet assets								
1.1 Debt securities	**-**	**4,615**	**6,942**	**1,059**	**159**	**-**	**-**	**-**
- callable	-	-	-	-	-	-	-	-
- other	-	4,615	6,942	1,059	159	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities								
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

The Bank has assessed its vulnerability to adverse market scenarios through stress tests, by applying to the regulatory trading book an assumed shift of +/-100 bps in interest rates, in accordance with the regulations in force.
This scenario would determine for the bank, respectively, the following percentage changes:

- -8.46%/+10.48% on the interest margin;
- -109.78%/+136.01% on the result for the year;
- -0.65%/+0.80% on net equity.

2. Regulatory trading book: breakdown of equity share and share index exposure by the major listing market countries

This table is not provided, since at the end of the reporting period the Bank did not hold equity instruments or equity indices.

Section 2.2 – Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, measurement and management of market rate risk and price risk

The risk of a change in interest rates having an adverse impact on the Bank's financial situation is inherent in the banking book.
The banking book consists mainly of:

- *receivables*
- *various forms of fundraising*

The Bank's exposure is measured by considering all assets and liabilities.
In particular, in order to limit exposure to this risk, the risk of changes in interest rates is monitored through maturity analysis.
This consists of a measurement system where asset and liability positions are broken down into maturity brackets according to the residual life until the interest rate renegotiation date, as required by the supervisory regulations. The various positions that fall into each maturity bracket are weighted on the basis of weights that approximate the positions' "financial duration". Within each bracket, assets are offset by liabilities, thus obtaining a net position.
This analysis provides the summary index envisaged by Banca d'Italia, i.e. the "risk index", which is expressed as the ratio of the "exposure to interest rate risk" to Regulatory Capital.

B. Fair value hedging

The Bank does not enter into accounting or economic fair value hedges.

C. Cash flow hedging

The Bank does not enter into cash flow hedges.

Quantitative information

1. **Banking book: breakdown of financial assets and liabilities by residual term (by date of repricing) – Part 1 – Currency: EUR**

Type / Remaining term to maturity	on demand	3 months or less	after 3 but less than 6 months	after 6 months but less than 1 year	after 1 year but less than 5 years	after 5 but less than 10 years	over 10 years	indeter-minate term to maturity
1 On-balance sheet assets								
1.1 Debt securities	-	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans and advances to banks	12,089	213	-	-	-	-	-	-
1.3 Loans and advances to customers	9,602	19,438	148	1,581	715	134	-	-
- current account overdrafts	3,181	-	-	-	-	-	-	-
- other loans	6,421	19,438	148	1,581	715	134	-	-
- callable	-	-	-	-	-	-	-	-
- other	6,421	19,438	148	1,581	715	134	-	-
2 On-balance sheet liabilities								
2.1 Customer accounts	28,396	1,998	444	664	562	-	-	-
- current account overdrafts	27,457	1,998	444	664	562	-	-	-
- other loans	939	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	939	-	-	-	-	-	-	-
2.2 Deposits by banks	2,238	4,001	-	-	-	-	-	-
- current accounts	2,238	-	-	-	-	-	-	-
- other	-	4,001	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	7,934	772	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	7,934	772	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3 Financial derivatives								
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4 Other off-balance sheet transactions								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1. **Banking book: breakdown of financial assets and liabilities by residual term (by date of repricing) – Part 2 – Currency: USD**

Type / Remaining term to maturity	on demand	3 months or less	after 3 but less than 6 months	after 6 months but less than 1 year	after 1 year but less than 5 years	after 5 but less than 10 years	over 10 years	indeter-minate term to maturity
1 On-balance sheet assets								
1.1 Debt securities	-	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans and advances to banks	615	-	-	-	-	-	-	-
1.3 Loans and advances to customers	1	-	-	-	-	-	-	-
- current account overdrafts	1	-	-	-	-	-	-	-
- other loans	-	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2 On-balance sheet liabilities								
2.1 Customer accounts	491	-	-	-	-	-	-	-
- current account overdrafts	491	-	-	-	-	-	-	-
- other loans	-	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Deposits by banks	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3 Financial derivatives								
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4 Other off-balance sheet transactions								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1. **Banking book: breakdown of financial assets and liabilities by residual term (by date of repricing) – Part 3 – Currency: all**

Type / Remaining term to maturity	on demand	3 months or less	after 3 but less than 6 months	after 6 months but less than 1 year	after 1 year but less than 5 years	after 5 but less than 10 years	over 10 years	indeter-minate term to maturity
1 On-balance sheet assets								
1.1 Debt securities	-	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans and advances to banks	12,704	213	-	-	-	-	-	-
1.3 Loans and advances to customers	9,603	19,438	148	1,581	715	134	-	-
- current account overdrafts	3,182	-	-	-	-	-	-	-
- other loans	6,421	19,438	148	1,581	715	134	-	-
- callable	-	-	-	-	-	-	-	-
- other	6,421	19,438	148	1,581	715	134	-	-
2 On-balance sheet liabilities								
2.1 Customer accounts	28,887	1,998	444	664	562	-	-	-
- current account overdrafts	27,948	1,998	444	664	562	-	-	-
- other loans	939	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	939	-	-	-	-	-	-	-
2.2 Deposits by banks	2,238	4,001	-	-	-	-	-	-
- current accounts	2,238	-	-	-	-	-	-	-
- other	-	4,001	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	7,934	772	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	7,934	772	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- callable	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3 Financial derivatives								
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4 Other off-balance sheet transactions								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

The Bank has assessed its vulnerability to adverse market scenarios through stress tests, by applying to the banking book an assumed shift of +/-100 bps in interest rates, in accordance with the regulatory rules in force. This scenario would determine for the bank, respectively, the following percentage changes:

- -56.01%/+49.00% on the interest margin;
- -727.06%/+636.12% on the result for the year;
- -4.29%/+3.75% on net equity.

Section 2.3 – Exchange rate risk

Exchange rate risk is the risk of a loss in the purchasing power of a currency held and of an impairment in receivables resulting from adverse changes to the foreign exchange rates.

Qualitative information

A. General aspects, management and measurement of exchange rate risk

The exchange rate risk to which the Bank is exposed is assessed with reference to the receivables and payables denominated in foreign currencies. Receivables in foreign currency consist exclusively of deposits with clearing houses and/or banks, made up of commissions generated from securities trading on OTC markets (Eurobonds), which takes place in the instrument's currency of denomination.
The main balances generally consist of cash deposits in U.S. dollars, which are considered as a strategic currency from the point of view of volumes.
In order to limit exchange rate risk, the Bank has management policies and control systems in place which ensure sound and prudent risk management, in line with the general guidelines established by the Board of Directors.
In particular, the "Financial Markets Regulations" lay down limitations on the assumption of foreign currency positions both in terms of currency and volume.
In addition, exposure to currency risk is measured through a method that reflects the requirements of the relevant supervisory regulations.
This is based on the calculation of the "net foreign exchange positions", i.e. the net balance of all assets and liabilities (on and off balance-sheet) for each currency.
The internal audit system previously described provides for the periodic verification of the adequacy of and compliance with the limits set by the Regulations.

B. Currency exchange hedge

At the reporting date of 31 December 2012 there were no outstanding foreign currency hedges.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currency					
	US dollar	Sterling	Yen	Canadian dollars	Swiss franc	Other
A. Financial assets	**616**	**-**	**-**	**-**	**-**	**-**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	-
A.3 Loans and advances to banks	615	-	-	-	-	-
A.4 Loans and advances to customers	1	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	-	-	-	-	-	-
C. Financial liabilities	**491**	**-**	**-**	**-**	**-**	**-**
C.1 Deposits by banks	-	-	-	-	-	-
C.2 Customer accounts	491	-	-	-	-	-
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	-	-	-	-	-	-
Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
other derivatives	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
Total assets	**616**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**491**	**-**	**-**	**-**	**-**	**-**
Balance	**125**	**-**	**-**	**-**	**-**	**-**

The amounts in the table relate to current accounts cash balances and deposits with banks for trading activity.
During the current year an overall foreign exchange loss was incurred amounting to € 19 thousand, which is due to the impact of exchange rates fluctuations on trading commissions.

Section 3 – Liquidity risk

It is the risk that:

- in relation to banking activities:
  - in a lending transaction, the customer-debtor fails to fulfil their monetary obligations within the agreed time limits;
  - the Bank is unable to fulfil its obligations as they fall due;

- in relation to financial brokerage activities, in a securities transaction, it is difficult to liquidate market positions within the desired time limits.

Qualitative information

A. General aspects, management and measurement of liquidity risk

Banks are naturally exposed to liquidity risk – or rather, the risk of not being able to fulfil their payment obligations due to the inability to gather funding in the market (funding liquidity risk) or to ensure asset disposal (market liquidity risk) – due to the transformation of maturities.

Having access to an adequate system for regulating and managing this risk plays a fundamental role in maintaining stability not only for the individual bank, but also for the market in general, considering that the imbalances of a single financial institute may have repercussions across the board.

In this respect, consistent with prudential Supervisory requirements, the Bank has adopted, on the one hand, a specific "Policy" (Liquidity risk management policy) for managing liquidity in the normal course of business and, on the other, a "Plan" (Contingency Funding Plan) setting out the objectives and describing processes and action strategies to be implemented under emergency conditions.

1. Liquidity Risk Governing Policy

In consideration of the size and complexity of operations, as well as the type of activities carried out and services provided, the “Policy” adopted by the Bank describes, inter alia:

- role, duties and responsibilities of the Corporate Bodies and audit functions involved;
- activities envisaged in the "liquidity risk management process".

With reference to the subjects involved in the governance and management of liquidity risk, on the one hand, responsibility rests, according to their respective duties, with the various Corporate Bodies, which must be fully aware of the level of the Bank's exposure to this risk.

On the other hand, in accordance with the general principles laid down by Supervisory provisions on organisation and internal audit, with specific reference to liquidity risk, the Bank has adopted formal procedures for collecting and processing data, according to adequate timetables and which ensure that reliable, timely information is provided by the bank's audit functions.

Vice versa, the liquidity risk management process is designed to ensure that a sufficient amount of liquid assets is maintained over time, even in the presence of stress scenarios relating to events affecting the bank and the market.

The process, since its aim is to evaluate the Bank's structural capacity to preserve a balance between cash inflows and outflows (both in normal conditions and in the event of external shocks), includes the following activities:

1. *Identifying and measuring liquidity risk*
2. *Conducting stress tests*
3. *Identifying tools for reducing liquidity risk*
4. *Control*
5. *Reporting.*

Reviews and updates of the "Liquidity risk management policy" are approved by the Board of Directors.

2. Contingency Funding Plan

In order to mitigate liquidity risk under stress conditions, the Bank has put in place a specific instrument, the so-called "Contingency Funding Plan."

The Plan's main objective is to protect the Bank's assets in situations of liquidity drain by putting in place crisis management strategies and procedures to obtain funding in the event of an emergency.

In particular, the CFP documents the management of any specific or systemic liquidity crisis in terms of mitigating actions available to the Bank and responsibilities assigned to the relevant corporate functions.

The Plan, therefore, responds to stress conditions, intended as situations other than ordinary business, in which the Bank is able to meet its liquidity requirements through its self-funding ability.

Reviews and updates of the Contingency Funding Plan are approved by resolution of the Board of Directors.

Quantitative information

1. Time distribution by residual contract term of financial assets and liabilities
Part 1 – Currency: EUR

Items/Time bands	on demand	after 1 day but less than 7 days	after 7 days but less than 15 days	after 15 days but less than 1 month	after 1 month but less than 3 months	after 3 months but less than 6 months	after 6 months but less than 1 year	after 1 year but less than 5 years	over 5 years	Indeterminate term to maturity
On-balance sheet assets										
A.1 Government securities	-	-	-	-	505	25	1,978	5,500	-	-
A.2 Other debt securities	-	-	-	516	1,252	707	1,050	974	24	-
A.3 Units of mutual investment funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	16,858	51	704	209	2,093	1,420	2,363	11,271	10,207	213
- Banks	12,317	-	-	-	-	-	-	-	-	213
- Customers	4,541	51	704	209	2,093	1,420	2,363	11,271	10,207	-
On-balance sheet liabilities										
B.1 Deposits and current accounts	30,676	460	460	20	1,035	433	654	560	-	-
- Banks	2,238	-	-	-	-	-	-	-	-	-
- Customers	28,438	460	460	20	1,035	433	654	560	-	-
B.2 Debt securities	-	-	-	-	-	71	79	8,110	770	-
B.3 Other liabilities	-	-	-	-	4,000	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. **Time distribution by residual contract term of financial assets and liabilities – Part 2 – Currency: USD**

Items/Time bands	on demand	after 1 day but less than 7 days	after 7 days but less than 15 days	after 15 days but less than 1 month	after 1 month but less than 3 months	after 3 months but less than 6 months	after 6 months but less than 1 year	after 1 year but less than 5 years	over 5 years	Indeterminate term to maturity
On-balance sheet assets										
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Units of mutual investment funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	616	-	-	-	-	-	-	-	-	-
- Banks	616	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
On-balance sheet liabilities										
B.1 Deposits and current accounts	491	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	491	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. Time distribution by residual contract term of financial assets and liabilities – Part 3 – Currency: all

Items/Time bands	on demand	after 1 day but less than 7 days	after 7 days but less than 15 days	after 15 days but less than 1 month	after 1 month but less than 3 months	after 3 months but less than 6 months	after 6 months but less than 1 year	after 1 year but less than 5 years	over 5 years	Indeterminate term to maturity
On-balance sheet assets										
A.1 Government securities	-	-	-	-	505	25	1,978	5,500	-	-
A.2 Other debt securities	-	-	-	516	1,252	707	1,050	974	24	-
A.3 Units of mutual investment funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	17,474	51	704	209	2,093	1,420	2,363	11,271	10,207	213
- Banks	12,933	-	-	-	-	-	-	-	-	213
- Customers	4,541	51	704	209	2,093	1,420	2,363	11,271	10,207	-
On-balance sheet liabilities										
B.1 Deposits and current accounts	31,167	460	460	20	1,035	433	654	560	-	-
- Banks	2,238	-	-	-	-	-	-	-	-	-
- Customers	28,929	460	460	20	1,035	433	654	560	-	-
B.2 Debt securities	-	-	-	-	-	71	79	8,110	770	-
B.3 Other liabilities	-	-	-	-	4,000	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

2. Information on encumbered assets recognised in the financial statements

Technical funding	Committed		Not committed		Total 2013	Total 2012
	VB	FV	VB	FV		
1. Cash and cash equivalents	-	-	583	-	**583**	**592**
2. Debt securities	4,910	4,910	7,865	7,865	**12,775**	**14,187**
3. Equity shares	-	-	-	-	**-**	**-**
4. Loans	1,068	-	43,989	-	**45,057**	**30,921**
5. Other financial assets	-	-	-	-	**-**	**-**
6. Non-financial assets	-	-	8,757	-	**8,757**	**8,588**
Total 2013	**5,978**	**4,910**	**61,194**	**7,865**	**67,172**	**-**
Total 2012	**7,522**	**4,370**	**46,766**	**9,817**	**-**	**54,288**

Section 4 – Operational risks

This is the risk of incurring unexpected losses resulting from inadequate or malfunctioning processes, human resources and information systems, caused by human error, technical failures and/or anomalies in procedures and controls, or external events.

Qualitative information

A. General aspects, management and measurement of operational risk

Operational risk, as such, is a pure risk as it is associated with events that have only adverse effects. It comprises all the anomalies that by affecting the company's output exclusively result in:

- financial loss;
- higher operating costs;
- lower revenues.

Because it is aware that operational risk is inherent in the banking business, the Bank pays close attention to controlling this type of risk.
For this purpose, the internal audit system that the company employs is based on principles of prudent and effective management. Furthermore, the system is periodically reviewed to determine whether it is adequate and functions properly in terms of efficacy (the system's capacity to achieve the goals) and efficiency (the system's capacity to achieve the above goals in terms of costs, risks and profitability consistent with those achieved by similar companies).
In this context, i.e. to ensure that risks are managed properly, the Bank has regulated every step of each process and established appropriate audit levels. It has also created specific units within its organisational structure in charge of overseeing these levels of control.
In order to evaluate risk exposure and the effects that adequate mitigation measures have on said exposure, qualitative and quantitative information must be appropriately combined. The qualitative component ("self-risk assessment") can be summarised as the assessment of the risk profile of each organisational unit, in terms of potential future losses, efficiency of the control system and appropriate management of risk mitigation techniques. The quantitative component, on the other hand, is based mainly on the statistical analysis of historical loss data. As the available information on losses, with reference to certain types of events, is not always relevant, internal data can be supplemented with system data.
In the event of a loss resulting from one of the above events, the Bank will supply the internal database of incurred operating losses, to be used in the future when applying its internal risk calculation model.
As part of business continuity, the Bank has adopted a "business continuity management process" which prescribes the methods for analysing the impact on business and the criteria for drawing up the "Business Continuity Plan", regularly updated every year.
The "Plan" explains how to deal with emergencies, in order to ensure, where appropriate, the continuity of the bank's vital operations and the return to normal operation within a reasonable time.
Both documents were approved by the Bank’s Board of Directors.

Quantitative information

Activities for monitoring operational risk events, conducted in 2013, showed that, with reference to the legal risk associated with pending legal proceedings against the Bank, a labour dispute was closed during the year with an outlay of € 9 thousand, equal to the provision recognised in the financial statements.
As regards the risk related to human resources, it should be noted that at year end, five employees from the Trading department simultaneously resigned.
More specifically, it was found that the former employees were allegedly induced to resign following contacts with another company operating in the investment services sector, to carry out the same activities carried out at our Bank.

These contacts, which began at the end of 2012, influenced our business performance as the traders in question, in view of the change in employer, sharply reduced their operations, thereby virtually destroying the Bank's "core business" and severely damaging the trading room operations at the head office, which resulted in a reduction of more than 40% in trading profits.
Finally, in October there was a cash shortage caused by Ipervigile Srl, a company to which the bank had outsourced the service for the transport and custody of cash and securities as well as cash handling services.
The shortage, amounting to € 50 thousand, due to the difference between the internal accounting records and the physical stock of cash in the vault of Ipervigile, was found as a result of an inspection by Banca d’Italia.
The checks carried out by the supervisory body revealed serious anomalies in cash handling activities, such as to cause the suspension of the above-mentioned company.
Following this event, the bank, on the one hand, activated its insurance coverage and, on the other hand, set aside a provision of € 15 thousand corresponding to the deductible payable by the insured party.

Part F
Information on Equity

<u>**Section 1 – Corporate equity**</u>

A. Qualitative Information
At 31 December 2013, equity totalled € 15,136 million.
The valuation reserves consist of the actuarial gains and losses relating to employee severance indemnities as provided for by law.

B. Quantitative Information

B.1 Corporate equity: breakdown

Items/Amounts	Amount	
	2012	2011
1. Share capital	7,740	7,740
2. Share premium account	1,071	1,071
3. Reserves	6,255	5,553
- revenue	6,255	5,553
a) legal	791	733
b) statutary	-	-
c) treasury shares	-	-
d) other	5,464	4,820
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves:	(19)	(75)
- Available-for-sale financial assets	-	-
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of foreign operations	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Non-current assets held for sale	-	-
- Actuarial gains/(losses) on defined benefit plans	(19)	(75)
- Share of valuation reserves for investments measured using the equity method	-	-
- Special revaluation laws	-	-
7. Profit/(Loss) for the year	89	1,167
Total	**15,136**	**15,456**

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

This table is not provided as the Bank holds no available-for-sale financial assets.

B.3 Valuation reserves of financial assets available for sale: year-on-year changes

This table is not provided as the Bank holds no available-for-sale financial assets.

Section 2 – Equity and regulatory ratios

2.1 Regulatory capital

A. Qualitative Information

The bank's regulatory capital at 31/12/2013 consisted exclusively of TIER 1 capital amounting to € 15,115 thousand.

1. Tier 1 capital
TIER 1 capital is made up of the following positive elements: share capital, profit reserves, including the proposal to allocate the profits of FY2013, totalling € 15,155 thousand; negative items for around € 40 thousand, represented by the other intangible fixed assets booked in the assets; thus, the net value of TIER 1 capital is € 15,115 thousand.

2. TIER 2 capital
During the current year no components of Tier 2 capital were recognised.

3. Tier 3 capital
During the current year no components of Tier 3 capital were recognised.

B. Quantitative Information

	2012	2011
A. Tier 1 capital (Basic Capital) before prudential filters	**15,115**	**15,015**
B. Prudential filters applied to Tier 1 capital	**-**	**-**
B.1 - Positive IFRS prudential filters	-	-
B.2 - Negative IFRS prudential filters	-	-
C. Tier 1 capital (Basic Capital) before deductions (A+B)	**15,115**	**15,015**
D. Deductions from Tier 1 capital (Basic Capital)	**-**	**-**
E. Total Tier 1 capital (C-D)	**15,115**	**15,015**
F. Tier 2 capital (Supplementary Capital) before prudential filters	**-**	**-**
G. Prudential filters applied to Tier 2 capital	**-**	**-**
G.1 - Positive IFRS prudential filters	-	-
G.2 - Negative IFRS prudential filters	-	-
H. Tier 2 capital before deductions (F+G)	**-**	**-**
I. Deductions from Tier 2 capital	**-**	**-**
L. Total Tier 2 capital (H-I)	**-**	**-**
M. Deductions from Tier 1 and Tier 2 capital	**-**	**-**
N. Regulatory capital (E+L-M)	**15,115**	**15,015**
O. Tier 3 capital	**-**	**-**
P. Regulatory capital including Tier 3 (N+O)	**15,115**	**15,015**

2.2 Capital adequacy

A. Qualitative Information

The Bank must comply with a solvency ratio of 8% of risk weighted assets, i.e. the regulatory capital must not be less than 8% of risky assets calculated according to the risk weighting system provided for by current legislation.
The solvency ratio resulting from data in the 2013 financial statements amounts to 48.25%. On the basis of this figure, along with estimates of Basel 2 indicators, the bank's capital is considered sufficient to support the investment programme envisaged in the Bank's strategic plans.
In any case, the sizeable capital of the Bank adequately covers the overall exposure to credit risk, market risk and operational risk, with a capital surplus that at the balance sheet date amounted to € 11,546 thousand.

B. Quantitative Information

Categories/Amounts	Unweighted amounts		Weighted amounts	
	2013	2012	2013	2012
A. Risk assets				
A.1 Credit and counterparty risk	59,169	39,770	31,325	22,325
1. Standardised method	59,169	39,770	31,325	22,325
2. Internal ratings based method	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. Regulatory capital requirements				
B.1 Credit and counterparty risk	-	-	2,506	1,786
B.2 Market risk	-	-	90	425
1. Standard method	-	-	90	425
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.3 Operational risk	-	-	973	1,076
1. Base method	-	-	973	1,076
2. Standardised method	-	-	-	-
3. Advanced method	-	-	-	-
B.4 Other prudential requirements	-	-	-	-
B.5 Other elements in the calculation	-	-	-	-
B.6 Total prudential requirements	**-**	**-**	**3,569**	**3,287**
C. Risk assets and regulatory ratios				
C.1 Risk weighted assets			44,613	41,088
C.2 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			33.88%	36.54%
C.3 Regulatory capital including Tier 3/Risk weighted assets (Total capital ratio)			33.88%	36.54%

The risk weighted amounts in Item A.1 are obtained by multiplying the amount of regulatory capital for credit risk and counterparty risk (item B.1) by the reciprocal of the minimum required ratio for credit risks; Item C.1 is determined by multiplying the total capital requirements (Item B.6) by the reciprocal of the minimum required ratio for risks.

Part H
Transactions with Related Parties

1. Information on the remuneration of managers with strategic responsibilities

The 2013 emoluments pertaining to managers with strategic responsibilities, also including directors and members of the statutory auditors, can be summarised as follows:

Nature of item	2013	2012
Directors	348	465
Members of Board of Statutory Auditors	37	37
Short-term employee benefits	-	77
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total	**385**	**579**

The values were determined as provided for in IAS 24 paragraph 16.

2. Information on transactions with related parties

Related parties were identified according to the definition provided in IAS 24. In particular, related parties can be summarised as subsidiaries and/or associates, directors, statutory auditors and key management personnel (members of the General Management), the immediate families of the above persons, and the subsidiaries and/or associates of any of the above entities. Immediate family includes the person's cohabiting partner and children, the partner's children and other dependants of the person or partner.

Nature of item	Assets	Liabilities	Costs	Income
Directors	8	98	-	-
Statutory Auditors	0	7	-	-
Key managers	-	-	-	-
Relatives	1	95	-	-
Other related parties	0	184	-	-

Relationships and transactions with related parties do not give rise to critical issues, were carried out as part of ordinary banking business, and developed during the year on the basis of contingent needs and benefits. The individual relationships or transactions with related parties were carried out on an arm's length basis.
Revenues and expenses corresponding to the disclosed assets and liabilities are not included in the table as they are below the minimum reportable figures.

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