GruppoBancaIFIS

BASEL 2 – THIRD PILLAR

DISCLOSURE TO THE PUBLIC

as of 31st December 2013

Banca IFIS S.p.A.
Register of Banks no.: 5508
Parent company of the Banca IFIS Banking Group, enrolled in the Register of Banking Groups
Share Capital: 53.811.095 Euros fully paid-in
Tax Code and registration number in the Business Registry of Venice: 02505630109; VAT no.: 02992620274
Member of the Interbank Deposit Protection Fund, of the Italian Banking Association, of the Italian Factoring Association, of Factors Chain International

Registered and administrative office
Via Terraglio, 63 - 30174 Mestre - Venice
Website: www.bancaifis.it

Branches
Ancona, Via Sandro Totti 3
Avellino, Contrada Chiaire 13/A int. 3
Bari, Via Lucera 4
Bergamo, Viale Papa Giovanni XXIII 94/E
Bologna, Via dell'Industria 33
Brescia, Via Malta 7/c - Torre Kennedy
Cagliari, Viale Bonaria 62
Catania, Via Teseo 13 int.15
Cuneo, Corso IV Novembre 12
Florence, Largo Guido Novello 1 - Scala C
Genoa, Via C.R.Ceccardi 3 int.3/A
Milan - Assago, Milanofiori Strada 1/ palazzo F1
Milan - Cologno Monzese, Via A. Volta 16
Naples, Via G. Porzio 4 - Centro Dir. Isola E7
Padua, Viale dell'Industria 60
Palermo, Viale Regione Siciliana Nord Ovest 7275
Pescara, Piazza E. Troilo 27 - Edificio A Scala A1 int. 2/N
Pisa, Via Mezzanina 18
Pordenone, Via De Paoli 28/D
Rome, Via B. Cavaceppi 113
Salerno, Via dei Principati 74
Turin, Corso Francia 325
Turin - Moncalieri, Corso Roma 13/bis 1
Treviso - Silea, Via G. Galilei 1
Varese - Gallarate, Largo Buffoni c/o Torre di Ghiaccio int.2/G
Venice - Mestre, Via Gatta 11
Vercelli - Santhià, Via Gramsci 48 int.B1
Verona - Via Enrico Fermi 2
Vicenza - Monteviale, Via Biron 102/5/d

Agency offices
Romania, Bucharest, Str.Avirg, no. 12, sect. 2
Romania, Timisoara, Str. Nicolae Paulescu, no. 1
Hungary, Budapest, Bajza U. 50 II/6

Head offices of the other Banking Group companies
IFIS Finance Sp. Z o.o.- Poland, Warsaw, Ul. Wspólna 62

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Introduction

With the issuing of the “New prudential supervisory provisions for Banks” (Circular 263 dated 27th December 2006 as subsequently amended), Bank of Italy has transposed Community Directives 2006/48/EC and 2006/49/EC as well as the document “International convergence of capital measurement and capital standards. A Revised Framework” issued by the Basel Committee on Banking Supervision’s (“Basel II”).

The prudential regulatory structure is based on “three pillars”:

- The first pillar introduces a capital requirement to manage the typical risks of banking and financial activity: to this end, it uses alternative methodologies to calculate capital requirement;
- The second pillar requires banks to equip themselves with a strategy and a process for controlling current and future capital adequacy;
- The third pillar introduces obligations of disclosure to the public aimed at allowing market operators to carry out a more accurate assessment of the capital solidity and exposure to risks of the banks.

In particular, with regards to the “third pillar” (Pillar 3), for the purpose of strengthening market discipline, Circular 263/06 of Bank of Italy has set forth certain obligations, aimed at banks and banking groups, to publish information concerning capital adequacy, risk exposure and the general characteristics of the systems used to identify, measure, and manage said risks. This information is of a qualitative and quantitative nature, and they are organized according to the subdivision in synoptic boards (“tables”) defined in Title IV, Chapter 1, Annex A of Circular 263/06, provided here below:

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(*) not applicable to banks that, like the Banca IFIS Banking Group, use standardized methods
(**) The Banca IFIS Banking Group uses no credit risk mitigation techniques.
(***) The chapter dedicated to Table 1 explains the reasons for not filling out the section pertaining to the characteristics of securitization transactions currently being carried out w ithin the Group.

Bank of Italy's Circular 263/06 requires banks to formalize the strategies and procedures aimed at ensuring compliance with the disclosure requirements, also evaluating their adequacy in terms of methods and frequency of the diffusion of information, with the goal of ensuring the completeness, accuracy and truthfulness of the published information.

To this end, the Board of Directors of Banca IFIS S.p.A. has approved a specific "Pillar 3 Disclosure process".

The Process requires, among other things, that the disclosure:

- given its public relevance, be approved by the Board of Directors before it is distributed;
- be published at least once a year, within the terms set for publication of the financial statements and consequently within thirty days from the data on which the financial statements are approved by the Shareholders' Meeting;
- be subjected to the certification of the Corporate Reporting Officer pursuant to art. 154-*bis* of Italian Lgs. Decree 58/1998 (Consolidated Law on Financial Intermediation).

This document was drawn up on the basis of accounting information pertaining to the 2013 period, and consequently it is still organized in compliance with the "New prudential supervisory provisions for banks" issued by Bank of Italy (Circular no. 263 of 27th December 2006 as subsequently amended).

Unless otherwise specified, the figures shown in this Disclosure are in thousands of Euros. Banca IFIS Group publishes this disclosure to the public as well as any subsequent updates on its website, at the address *www.bancaifis.it*, in section *Institutional Investors - Risk Management*.

1. General disclosure requirement (Table 1)

Introduction

With Circular 263 dated 27th December 2006 - “New prudential supervisory provisions for banks” as amended, prudential regulation has equipped itself with a system of rules and incentives that allow a more effective pursuit of the objectives of a more accurate measurement of the risks associated with banking and financial activity, as well as the maintenance of a capital structure that is more closely commensurate with the actual degree of risk exposure of each intermediary.

Within the scope of the second pillar, we find the ICAAP (*Internal Capital Adequacy Assessment Process*), in connection to which the banks carry out a self-assessment of their own current and future capital adequacy in relation to the assumed risks.

Mission and corporate responsibility

The Banking Group’s activity currently develops in the following areas of operation:

- acquisition/financing and management of trade receivables *(factoring)*, in Italy and abroad; the activities abroad are carried out through both the Parent company’s internal departments (International Area) and the subsidiary IFIS Finance; the financial support and credit management offer is mainly aimed at the Small and Medium Enterprises segment, whilst the permanent purchase is mainly aimed at counterparties belonging to the Public Administration;
- acquisition and management of *non-performing loans* generated for the most part by *retail* counterparties;
- acquisition and management of tax receivables;
- *online* funding through the *rendimax* savings account and the contomax current account; although these instruments do not represent a specific business line for the Bank, due to the type of activity involved and the significant size achieved, they rightfully fall within the Bank’s segments of operation.

Activities associated with the Treasury Department are complementary to said activities and, although their contents at certain times are particularly significant, they do not change the mission of the Banking Group, which continues to be aimed at providing financial and credit management support.

With the goal of safeguarding its business, the Banca IFIS Group draws upon adherence with the basic principles of correctness and consistency in order to achieve the best economic result while observing the company’s ethical principles and in compliance with regulations on the subject of administrative responsibility as per Italian Lgs. Decree 231/2001.

The Banca IFIS Banking Group

As of 31st December 2013, the Banca IFIS Banking Group consisted of the Parent company and the Polish subsidiary IFIS Finance Sp. Z o.o. The wholly owned-subsidiary TF Sec S.r.l. was liquidated during the course of 2013.

Strategic governance, management and control bodies

The overall risk management and control process involves, with different roles, the administrative and control bodies of the Group’s subsidiaries as well as the Parent company’s General Management and the operational units of the entire Group. In the model adopted by the Parent company, Banca IFIS S.p.A.:

- strategic supervision is performed by the Board of Directors;
- management is performed by the C.E.O., assisted by the General Manager;
- control is performed by the Board of Statutory Auditors.

The Parent company's Board of Directors plays a crucial role in the corporate organization as it is the body responsible for determining the guidelines and strategic company objectives and for verifying their implementation, application of industrial plans and strategic transactions, also dictating the principles of the activity of direction and coordination of the Banca IFIS Group's subsidiaries, in the interest of the Shareholders. It carries out a supervisory function with regards to the achievement of the strategic objectives of the Bank and of the Group as a whole.

The Body with Management Function is responsible for implementing the strategic trends and guidelines defined by the Board of Directors, to which it directly reports in that regard. It also defines the risk management, control and mitigation processes.

The Board of Statutory Auditors watches over compliance with the law and with the Articles of Association, observance of the principles of proper management and, in particular, the adequacy of the organizational structure. Moreover, it performs the control tasks entrusted to it by the law, checking the correctness of accounting procedures and assessing the degree of efficiency and adequacy of the Internal Audit System.

Internal audit system

The objective of the Banca IFIS Group's Internal Audit System is to ensure proper disclosure and suitable control coverage of all activities and, in particular, in the areas featuring greater corporate risk.

As part of the assessments carried out during the drafting of the last ICAAP (*Internal Capital Adequacy Assessment Process*) Report and in application of the "Second Pillar" regulations, the most significant risks were deemed to be the credit risk, the operational risk, the liquidity risk and the reputational risk. Moreover, the interest rate, concentration and market risks and, more generally speaking, all the main regulatory and economic risks, are constantly monitored.

The Internal Audit System of the Banca IFIS Group consists of rules, procedures and organizational units that aim at ensuring the observance of corporate strategies and the achievement of the following goals:

- effectiveness and efficiency of company processes (administration, production, distribution, etc.);
- safeguarding the value of assets and protecting against losses;
- reliability and integrity of accounting and managerial information;
- compliance of transactions with the legislation and supervisory regulations as well as with the internal policies, plans, regulations and procedures, and with the Codes (Code of Ethics, Corporate Governance Code, etc.) adopted for internal application by the Bank.

The controls involve, with different roles, the Corporate Bodies of the Group's subsidiaries, the Parent Company's General Managers and the Group's entire personnel. Some of these controls are highlighted here below:

- *line controls*, aimed at ensuring that operations are properly carried out. These controls are carried out by the operational units themselves or incorporated in procedures or in back-office activities;
- *risk management control*, which contribute to defining methods for measuring risks, verifying compliance with the limits assigned to the various operational areas and checking the consistency of the activities carried out by the individual operational units with the assigned risk-reward objectives. These controls are entrusted to units other than the operational ones;
- *internal audit activity*, aimed at identifying anomalous trends and violations of procedures and regulations, as well as at appraising the functioning of the overall internal audit system. This

activity is carried out on a continuous basis, periodically or for exceptions, by an independent unit other than the operational ones, also through on-the-spot audits.

Corporate Bodies foster a corporate culture that sets value on the control function: all personnel within the organization must be aware of the role assigned to them in the internal audit system and must be fully involved.

The Parent company's Board of Directors is assigned the following tasks: approving the strategic guidelines and the risk management policies; approving the Bank's organizational structure; establishing the guidelines of the internal audit system of the Bank and of its subsidiary; and checking that the internal audit system is set up in a way that is consistent with the selected risk propensity.

The Parent company's Board of Directors also ensures that a proper, complete and timely disclosure system is defined, and that the functionality, efficiency and effectiveness of the IAS is ensured. It also carries out periodical assessments and, if necessary, adopts suitable corrective measures.

One of the main players of the internal audit system that carries out a primary role is the Parent company's Control and Risk Committee, consisting of non-executive members directors (mainly independent), whose task is to support, through a suitable preliminary inquiry phase, the assessments and decisions taken by the Board of Directors with regards to the Internal audit and risk management system, we well as those related to the approval of periodical financial reports.

The Parent company's Board of Directors has also identified the C.E.O. to be the executive director in charge of overseeing the functioning of the internal audit system. The C.E.O., availing himself in particular of the General Manager and of the Head of the Internal Audit Department, ensures effective management of operations and associated risks; he constantly verifies the overall functionality, effectiveness and efficiency of the IAS, adjusting it if necessary; he identifies and assesses risk factors, and defines the tasks of the control units and the relevant information flows.

Banca IFIS, sensitive to the need to ensure conditions of transparency and fairness in conducting its business, in order to safeguard its institutional role and image, the expectations of shareholders and of those who work for and with the Bank, has deemed it consistent with its corporate policies to implement the Organizational & Management Model envisaged by Italian Lgs. Decree 231/2001. In said area, the Bank has thus set up the Supervisory Body, consisting of members of the Board of Directors and of the Head of the Internal Audit Department.

The *Internal* Audit Department carries out its control activity on both the Parent company and on the Subsidiaries, so that the main risks pertaining to said organizations are properly identified, as well as suitably measured, managed and monitored for the purpose of healthy and efficient Group management. The *Internal Audit* Department is aimed, on the one hand, at checking from the standpoint of third-level controls, including with on-the-spot checks, the proper trend of operations and the evolution of risks and, on the other, at evaluating the completeness, adequacy, functionality and reliability of the organizational structure and of the other components of the internal control system, bringing possible improvements to the attention of the Parent company's and Subsidiaries' Corporate bodies.

The *Risk Management* Department is separate from the *Internal Audit* Department and from the *Compliance and Anti-money laundering Department* from an organizational standpoint. Moreover, it is not involved in risk assumption processes. As from January 2014, the Head of the Risk Management Department (the *Chief Risk Officer*) hierarchically reports to the C.E.O. In any event, said figure has direct access to the Board of Directors and to the Board of Statutory Auditors, and communicates with them with no restrictions or intermediations. The mission of the Parent Company's *Risk Management* Department is to:

- identify the significant risks to which the Parent company and the Subsidiaries are exposed;
- measure/evaluate and monitor significant risks;
- guarantee a holistic and integrated vision of the risks which the Group as a whole and the Subsidiaries that are part of said Group are exposed to, and to ensure proper information to the governance bodies.

Second-level controls are completed by the Parent company's *Compliance and Anti-money laundering* Department, whose mission is to oversee, according to a *risk-based* approach, the management of non-conformity risk in connection with the entire company activity, and to prevent and contrast any money-laundering and terrorism financing transactions. This is done by evaluating the adequacy of internal procedures in terms of preventing the violation of external rules (laws and regulations) and self-regulation rules (for example, codes of conduct and codes of ethics) applicable to the Group companies (including Banca IFIS). During the performance of its assigned activities, the Parent Company's *Compliance and Anti-money laundering* Department operates within a perimeter that includes regulations which have an impact on banking operations. As from January 2014, the Head of the *Compliance and Anti-money laundering* Department hierarchically reports to the C.E.O. In any event, said figure has direct access to the Board of Directors and to the Board of Statutory Auditors, and communicates with them with no restrictions or intermediations.

Moreover, Banca IFIS has adopted specific measures aimed at monitoring the risk of incorrect financial disclosure: the provisions in the Articles of Association concerning the "Corporate Accounting Reporting Officer"; the appointment of the "Accounting Reporting Officer" and the "Regulations of the Corporate Accounting Reporting Officer", approved by the Board of Directors, represent, together with the central body of administrative-accounting procedures, the overall set of said measures.

The sections that follow contain the results, in terms of management policies and objectives, of the mapping process of significant risks (quantifiable and non-quantifiable) according to the instructions set forth in Title IV, Chapter 1, Annex A of Circular 263/06.

Qualitative information

For each risk category (including those considered in the following tables), banks shall disclose risk management objectives and policies, including:

a) the strategies and processes for managing such risks;
b) the structure and organization of the relevant risk management function;
c) the scope and nature of risk measurement and reporting systems;
d) the policies for hedging and mitigating risk and strategies and processes for the continuous monitoring of their effectiveness.

Credit risk

It represents the risk of loss due to the insolvency or credit rating worsening of the counterparty's assigned by the Bank.

The Banking Group currently operates in the fields described above (section "Mission and corporate responsibility").

The acquisition and management of trade receivables (*factoring*) is characterized by the direct assumption of risk related to granting advances and loans, as well as guarantees, if necessary, on trade receivables mainly in favour of small- and medium-sized enterprises, according to the expansion strategies defined and pursued by the Group.

The traditional factoring activity is joined by the acquisition of receivables of a financial nature (Distressed Retail Loans or Non-performing Loans) as well as commercial and fiscal receivables difficult to collect. The sellers are typically banks, financial institutes, insolvency proceedings and businesses.

Given the particular business of the Group's companies, credit risk is the most important element to consider as far as the general risks assumed by the Group are concerned. The maintenance of effective credit risk management is a strategic objective for the Banca IFIS Group, pursued through the adoption of integrated tools and processes that ensure correct credit risk management in all its phases (preparation, lending, monitoring and management, intervening on problem loans).

Vis-à-vis surplus liquidity, if any, Banca IFIS Group carries out operations involving very short-term deposits with highly creditworthy banking counterparties. Given the characteristics of the counterparties, the short time frames and the modest amounts involved, the credit risk associated with this activity is particularly low.

During 2013, the Group continued to purchase bonds classified as "*Available for Sale*" or "*Held to Maturity*". These financial assets, which due to their classification are included within the scope of the *banking book* even though they are not involved in the Bank's traditional lending activity, represent a source of credit risk. Said risk lies in the issuer's inability to pay, in part or in full, its obligations on maturity. Besides, the bods held by the Banca IFIS Group consist almost exclusively of Italian Government bonds and, to a lesser extent, bank bonds. The residual life of the overall portfolio is approximately twenty-three months, while the maximum duration per individual asset is less than five years.

The further growth in bond purchases does not represent a change in the Group's strategic direction. The nature of the bond portfolio, originally held to hedge the liquidity risk arising from the potential volatility of the online funding introduced with the rendimax product and the potential instability observed on the traditional interbank market in recent years, has gradually changed over time. This was the result of both the size and composition of the online funding, which has grown remarkably in size and has been strongly stabilized by the growing fixed-term component, and the greater funding possibilities resulting from the extraordinary measures decided by the monetary authorities in recent years which, without taking any resources away from the main area of business lending, offer interesting profit opportunities. The establishment of a cash-equivalents portfolio also meets the need to act ahead of the increasingly strict prudential regulation in relation to the governance and management of liquidity risk (Basel 3).

The Group does not carry out any activity involving credit derivatives.

Credit risk management policies: organizational aspects.

Credit risks in the factoring activity directly arise from financing the business customers and guaranteeing them, when requested, against the account debtor's default. Credit risk management takes place during two specific phases of the credit process: the initial credit assessment phase and, in case of positive outcome, during the entire relationship with the seller/debtor counterparties. In order to increase the quality of its credit portfolio, Banca IFIS deemed it appropriate to concentrate the main phases related to risk assumption and control within the factoring activity in the Bank's Head Office, allowing for a high degree of homogeneity in lending and to strictly monitor individual positions through the specialisation of resources and separation of functions at all decision-making levels. This is also true for the subsidiary IFIS Finance, whose decisions are taken within the operational and organisational limits defined by the Parent Company, Banca IFIS.

In the first phase of the risk management process, the organisational structure responsible for such activities shall assess the creditworthiness of the seller and debtor counterparties, the nature of the commercial relationship between them and the quality of the receivables factored. A multi-level system of delegations and decision-making powers allows the most senior analysts to assume increasingly growing, but still modest, risks. Greater risks can be taken on by service and area managers. As for higher amounts, powers are attributed solely to the General Manager, the Chief Executive Officer, the Credit Committee, and the Board of Directors.

The Bank's branches do not have decision-making powers as for the assumption of credit risk. Rather, they have the responsibility of doing business in the local area and managing relationships with customers. Therefore, within the limits and formalities established by the Head Office's competent bodies, branches manage ordinary operations with customers under constant monitoring by the Head Office.

Qualified and specialised staff follow all the stages of a relationship: from the sale of the receivables to the granting of advances, from the administrative management of receivables to their collection, from the identification of anomalies, if any, to the verification and definition of the most appropriate initiatives for debt recovery, including with support of the Legal Department, if necessary.

As specified above, the Banca IFIS Group also operates in the acquisition of non-performing loans in the following business areas:

- tax receivables usually acquired from insolvency proceedings and due from tax authorities;
- financial receivables acquired from consumer credit companies, banks and leasing companies;
- trade receivables acquired from insolvency proceedings and companies.

The acquisition phase of the different types of receivables represents an initial basic aspect of the credit process, and it is preceded by an in-depth due diligence activity carried out by highly qualified personnel, aimed at evaluating the quality of the portfolio being transferred as well as organizational aspects. After the due diligence phase, the economic offer/purchase conditions of the receivables portfolio are set and the internal management methods (analytical or aggregate method) are defined, with the relevant impact on the operational units.

In order to collect Distressed Retail Loans (DRLs), the Banca IFIS Group relies on an in-house legal office and a widespread and proven network of credit collection companies operating throughout Italy, as well as on a network of agents. This structure, together with numerous lawyers domiciled at the relevant Courts, ensures the utmost flexibility and effective and timely action to recover all categories of debt.

The Banca IFIS Group especially focuses on the concentration of the credit risk in reference to all Group subsidiaries, at both the individual and consolidated level. The Board of Directors of Banca IFIS has committed Top Management to take actions aimed at containing major risks. In line with the Board's instructions, the accounts at risk that, albeit below 10% of the regulatory capital, commit the Group to a significant extent are also systematically monitored.

Management, measurement, control and reporting systems.

The operational procedure that governs Banca IFIS Group's credit process within the traditional factoring activity, audited during the course of the period, expressly requires a thorough and analytical assessment of all the counterparties (both the seller and the account debtor) involved in the factoring relationship.

Within the factoring activity, credit risk is constantly monitored by means of procedures and instruments allowing to quickly detect particularly anomalous positions.

The thorough risk analysis conducted by teams of qualified specialists joins is also accompanied by the use of summary evaluations expressed by the Internal Rating System (IRS). In fact, during the evaluation phase the IRS can be used to assign to transferors and debtors a summary financial statements and central credit register score that summarizes their potential riskiness, as well as to verify any protests or prejudicial events. Once the evaluation phase has been successfully completed, the IRS, constantly fed by selected databases, allows to monitor the credit risk associated with the acquired counterparties.

Protests, prejudicial events or signs of non-performing loans automatically lead to suspension of operations. The ensuing analysis aims at assessing the seriousness of the anomalies and whether the problems are permanent or temporary, so as to decide whether to maintain the relationship or to terminate the reported exposures.

At present, due to the type of databases used (Central Credit Register, protests and prejudicial events, etc.), the IRS is fully operational in both the assessment and monitoring phases for domestic counterparties or those with Italian offices. For the other counterparties, only the financial statement analysis form is use and, in case the counterparty has relationships with other Italian banks, the Central Credit Register form is used.

With reference to activities pertaining to the *Distressed Retail Loan* business and the purchase of tax receivables from bankruptcy proceeding, for the purpose of ensuring an increasingly control of the transactions carried out, additional investments were made in information systems used to monitor said portfolios.

The purchases of non-performing loans, classified from their time of purchase under impaired assets, are particularly significant. Since these are financial receivables (purchased from consumer credit companies, banks and leasing companies) and, to a lesser extent, trade receivables (acquired from insolvency proceedings and companies) which, in light of the characteristics of the receivable and the invoice seller, are duly classified in portfolios homogeneous in terms of management and collection methods (judicial and non-judicial). In particular, the Bank implements the following methods:

- mass management, characterized by out-of-court collection operations carried out mainly by specialist collection agencies;

- analytical management, characterized by court collection operations carried out mainly with the help of specialized external law firms.

In reference to said loans, systematic monitoring activities are in place for cash flows generated by collection activities, which are also used for the purpose of backtesting the expected cash flows simulation model, or the analytical forecasts formulated by the operators of the individual accounts.

As for the credit risk associated with the bond portfolio, reminding that it is made up mainly of Italian government bonds and to a lower extent of short-term bank bonds, the Banca IFIS Group constantly monitors the credit quality of the bond issuers. The Risk Management Department periodically reports to the Bank's Board of Directors and to Top Management on the composition of the bond portfolio.

As part of Basel 2 principles for determining the capital requirement in view of first-pillar credit risks, the Bank has chosen to adopt the Standardized Method.

Credit risk mitigation techniques

Within the scope of the factoring activity, when the type and/or quality of factored receivables do not fully satisfy requirements or, more generally, the invoice seller is not sufficiently creditworthy, the Bank’s established practice is to hedge the credit risk assumed by the Group by obtaining additional surety bonds from the shareholders or directors of the invoice seller.

As for the account debtors in factoring relationships, wherever the Bank believes that the elements available for evaluating the account debtor do not allow to properly measure/assume the related credit risk, or the proposed amount of risk exceeds the limits identified during the debtor’s assessment, the Bank shall properly hedge the risk of default of the account debtor. Guarantees issued by correspondent factors and/or insurance policies underwritten with specialised operators are the main hedge against non-domestic account debtors in operations without recourse.

As regards operations in non-performing loans (*Distressed Retail Loans* and purchase of tax receivables from bankruptcy proceedings), and to the relevant business model, no action is generally taken to hedge the credit risks.

Impaired assets

With reference to factoring activities, relationships with customers are constantly monitored by the competent Head Office’s department, based both on detected trends and monitoring instruments implemented for counterparties at risk (Central Credit Register, protests and prejudicial events, etc.). Should anomalous trends and/or prejudicial elements arise concerning the counterparty, the situation is placed under watch, and the Head Office’s Credit Management Area directly supervises the branch’s handling of the relationship until the anomalies have been resolved.

Should the situation deteriorate and/or become critical, the relationships are taken over by the “Credit Management Area - Monitored Positions Service (Watch List Office)” which decides, on the basis of the appropriate evaluations on merit and opportunities, to maintain the relationship until the problems have been overcome or to reduce the exposure. Based on available information, it also considers whether to classify the counterparty under non-performing loans or subjective substandard loans.

Managing impaired positions, either substandard or non-performing loans, normally falls under the responsibility of the Credit Management Area – Monitored Positions Service (Watch List Office) which takes the most appropriate actions to hedge and recover debts, periodically reporting to the Top Management and the Board of Directors on the issue. If it is believed that the problems encountered by the seller and/or the debtor could be successfully overcome with the Bank adequately hedging the credit risk, the position may be restructured and placed, once again, under the management and monitoring of the Customer Area.

Analytical impairment losses or reversals, upon proposal by the Legal Department, are assessed by the Top Management and subjected to the approval of the Board of Directors.

A similar process is also implemented, generally speaking for IFIS Finance Sp. Z o.o. as well. Nonetheless, it should be noted that the subsidiary is only marginally exposed to impaired assets.

A significant portion of Distressed Retail Loans is classified among the impaired assets. The purchase of receivables at amounts well below their nominal value and cash flows generally higher than the price paid minimize the risk of losses.

In relation to purchased and yet to be collected distressed retail loans, the total nominal residual value of the portfolio is about 3,912 million Euros. These receivables, with historic nominal value as of the purchase date of approximately 4,260 million Euros, were purchased against a payment of approximately 124 million Euros, which corresponds to an average price of 2.9% of their historical nominal value. During the course of the 2013, approximately 464 million Euros were purchased at an average price of 4.57%. Of the total of 464 million, approximately 16.8 million are represented by receivables purchased with existing exchange plans signed by the debtor, for this type of receivables the average purchase price settled at 33.45%. The overall portfolio of purchased and yet to be collected distressed retail loans has a total weighted average maturity period of approximately 33 months with respect to their acquisition date. As a whole, the forecast collections are in line with the realized collections.

As regards the mass management (receivables handled out-of-court), the evolution of realized collections on an annual basis has posted an average negative deviation of approximately 8% compared to the cash-flows resulting from the forecast model (weighted average by amounts), and a positive average deviation of 21% compared to the collection forecasts carried out by the operator on the portfolio in analytical management (court cases). As a whole, the forecast collections are in line with the realized collections.

It should also be noted how, as a whole, at the end of the 2013 periods there are exchange plans falling due for approximately 112 million Euros.

In the case where the DRLs are classified as non-performing loans, or in case of objective losses in value, the changes of the amortized cost calculated by discounting the new cash flows at the actual original rate compared to the previous period’s amortized cost, Impairment losses or reversals/write-ups of receivables are recorded in item 130.

DRLs are recorded at their amortized cost; the forecast cash-flows on which the calculation of the amortized cost is based are estimated by using a statistical model whose parametric bases are a result of the historical series of ownership collection as regards mass management and the forecasts drawn up by the analyst as concerns analytical management.

Subsidiaries

The subsidiary IFIS Finance operates autonomously in compliance with the risk policies and general principles defined by the Parent Company, with the assigned operational autonomies as well as with the counterparty risk limits indicated by said Parent company, where applicable, at the consolidated and individual level.

The subsidiary may define a system of proxies of its own operational autonomies to be granted to both individuals within its organization and individuals of the Parent company involved in the operational processes of credit lending and utilization. The implementation of the subsidiary's system of proxies is subject to the preliminary approval of the Parent company's Board of Directors.

Counterparty risk

It represents the risk that the counterparty to a transaction involving financial instruments could default before the settlement of the transaction itself.

With the growth in size of the eligible bond securities portfolio, and of the related collateralized financing transactions, the business of sale repurchase agreement payables has remained at significant levels during the course of 2013 .

Said activity, as already witnessed during the 2012 period, has gradually shifted to the MTS platform and to refinancing transactions through the Eurosystem, with the resulting gradual contraction in terms of the impact of the counterparty risk due to the central nature of the regulatory systems (Clearing House and Central European Bank).

These dynamics, associated with the intrinsic characteristics of the securities granted as collateral and the short duration of the individual transactions, have contributed to the gradual reduction in the exposure to the counterparty risk.

Market risk

Market risk represents the risk of loss due to adverse movements in market prices (share prices, interest rates, foreign exchange rates, commodity prices, volatility of risk factors, and so on) in connection with the trading book for Supervisory purposes (position, settlement and concentration risks) and with the Bank's entire budget (exchange rate and position risk on commodities).

Generally speaking, the financial risk profile of the Banca IFIS Group basically originates from the Bank portfolio, as the Group does not usually carry out trading transactions involving financial instruments. The purchase of bonds that characterized the 2013 period, taking into account their classification among Financial assets available for sale and Financial assets held to maturity, fall within the perimeter of the banking book and, consequently, does not give rise to any new market risk.

At the end of 2013, the Group recognized an interest rate swap, included under the Group's financial liabilities, with a mark-to-market of approximately 130,000 Euros and a position on a currency swap, included among the Group's financial assets, with a mark-to-market of approximately 10,000 Euros. The classification of the two derivative under financial assets/liabilities held for trading does not reflect the aim of the transactions, which is to mitigate the impact of possible fluctuations in key interest and foreign currency rates.

Operational risk

Operational risk represents the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The definition includes, among other things, fraud, human errors, business interruptions, unavailability of the systems, contractual defaults, and natural disaster. The definition includes legal risk, but not strategic or reputational risks.

Operational risk represents the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The definition includes, among other things, fraud, human errors, business interruptions, unavailability of the systems, contractual defaults, and natural disasters. Managing operational risks requires the ability to identify the risks entailed by all significant products, activities, processes and systems that may jeopardize the Group's goals. Operational risks include the risks of judicial or administrative sanctions, significant financial losses or reputational damage following violations of mandatory legal provisions (laws and regulations, such as the laws on banking transparency, anti-money laundering, privacy and administrative liability of legal entities) or corporate governance provisions (for example, the Self-Governance Code for listed companies).

The proper management of operational risks is strictly connected to the presence of adequate organizational structures, operational procedures and IT support. Also the proper training of resources is extremely important. Indeed, Banca IFIS Group is constantly committed to the professional training and growth of its human resources.

During 2013 Banca IFIS continued to strengthen controls over operational risks also by progressively updating internal processes aimed at monitoring and identifying potential anomalous situations. Moreover, a gradual methodological strengthening process was begun in reference to the identification and measurement of operational risk, in line with the sector-specific market practices.

At present, the management of operational risks for the Polish subsidiary is guaranteed by the close involvement of the Parent company, which makes decisions in terms of strategies as well as risk management. Specifically, the most relevant organizational structures and operational processes are defined and approved by the Parent company.

Lastly, as far as Business Continuity is concerned, the Banca IFIS Group has adopted a Business Continuity Plan, in other words a set of initiatives and countermeasures aimed at limiting interruptions in operation and service within the limits allowed by continuity strategies. The Business Continuity Plan also includes a *Disaster Recovery* plan, drawn up to deal with events that entail the unavailability of company information systems.

Within the scope of Basel 2 principles for the determination of the capital requirement needed to deal with first-pillar operational risks, the Bank has chosen to avail itself of the Basic Method.

Concentration risk

Risk resulting from exposures to counterparties, groups of related counterparties and counterparties of the same economic sector or that perform the same activities or that belong to the same geographical area.

With reference to the *factoring* activities, The Banca IFIS Group pays particular attention to the concentration of credit risk. The Board of Directors of the Bank has committed Top Management to act to contain the large risks of the Group, for prudential purposes, within limits that are significantly more stringent than what is permitted by the rules of supervision. In line with the directives of the Council, those positions that are also at risk are subject to systematic monitoring that, while not constituting 10% of the regulatory capital, engage the Group to a considerable extent. The concentration of the loan portfolio is the subject of detailed analysis and periodic reporting to the Board of Directors of the Bank within the framework of the quarterly Dashboard prepared by the Risk Management Department.

The granularity and the type of risk positions originating from the acquisition of non-performing loans being considered, the risk of concentration resulting from these is negligible.

For the tax receivables, reference should be made to what is stated in the other parts of this report regarding credit risk in relation to the Italian State.

Finally the risk of an excessive immobilization of the assets resulting from equity investments in financial and non-financial companies appears limited. The Banca IFIS Banking Group is not affected by the issue of indirect investments in equity.

Interest rate risk

Risk arising from potential fluctuations in interest rates, in connection to activities other than trading.

Generally speaking, the Banca IFIS Group does not assume significant interest rate risks, as it obtains funds mainly from interbank deposits (collateralized and non-collateralized) and from *retail* customers through the rendimax bank account. Interbank funding operations are mainly at a fixed rate and very short term. Customer deposits on the *rendimax* and *contomax* accounts are at a fixed rate for the fixed-term part, while demand and call deposits are at non-indexed floating rate which the Bank can unilaterally revise in compliance with the laws and contracts. Loans to customers are usually revocable and at a floating rate. Interest rates applied to traditional customers for *factoring* relationships are normally indexed (mainly at the 3-month *Euribor* rate) with automatic adjustment to monetary trends. In some cases, the interest rates are not indexed, but they can be unilaterally changed by the Bank, in compliance with laws and contracts in this case too.

As part of the Distressed Retail Loans business, characterized by a business model focused on the acquisition of receivables below par value, we acknowledge a potential interest rate risk connected to the uncertainty about collection times. The variability in the term of the loan, which to all intents and purposes can be considered at a fixed rate, is particularly important in reference to tax receivables, which are characterized by a high likelihood of collection of the overall nominal value, although in the medium/long term. In this situation and in order to effectively mitigate the interest rate risk, it is particularly important to correctly assess the operation during the initial acquisition stage. Taking into account the impact of the purchase of non-performing loans, the contribution in terms of interest rate risk to Banca IFIS Group's overall position, though it exists, cannot be considered significant.

As of 31st December 2013, approximately thirty-seven percent of the bond portfolio consisted of bonds indexed to market rates and nine percent of inflation-indexed bonds. The remainder consisted of fixed-rate, short-term bonds. The average maturity period of the overall portfolio was just a little less than under eight months.

The interest rate risk connected to the funding activities carried out by the Parent Company's Treasury Department is assumed according to the limits and policies set by the Board of Directors, with precise delegations of power limiting the autonomy of those authorized to operate within the Bank's Treasury Department.

The company departments responsible for guaranteeing the correct management of interest rate risks are: the Treasury Department, which directly manages funding and the bond portfolio; the *Risk Management Department*, responsible for selecting the most appropriate risk indicators and for monitoring the trend of assets and liabilities with reference to preset limits; and, lastly, the Top Management, which every year shall make proposals to the Board regarding policies on lending, funding and the management of the interest rate risk, as well as suggest appropriate interventions during the year in order to ensure that operations are conducted in compliance with the risk policies approved by the Bank.

Within the scope of current operations, on the basis of indications on collection provided by the Treasury department, on interest rate forecasts and on evaluations of lending trends, Top Management instructs the Treasury on how to use the available credit lines for the purpose of seizing opportunities represented by the rate dynamics on very short-term maturity dates and of monitoring the trend of the interest rate associated with the physiological mismatching between receivables and payables.

In order to monitor the interest rate risk, Top Management receives a daily summary on the overall cash position. Furthermore, the Risk Management Department periodically reports to the Bank's Board of Directors on the interest rate risk position through a quarterly Dashboard prepared for the Bank's top management. The Integrated Treasury and Risk Management System (SIT) provides further tools for assessing and monitoring the main interest rate-sensitive assets and liabilities.

According to the ICAAP Report for the 2013 period, sent to the Supervisory Body during the month of April 2014, the Interest Rate Risk is allocated among second-pillar risks. In the final document forwarded to the Supervisory Body, the Interest Rate Risk was specifically measured in terms of equity absorption. Against a warning threshold equal to 20% of the Regulatory Capital, the Group's risk indicator value thus determined settled at 9.7% as of 31st December 2013.

Considering the low level of the assumed risk, the Banca IFIS Group does not usually hedge the interest rate risk.

As regards the price risk, the Group mainly carries out its activity in the area of financing working capital of small and medium-size businesses, as a result it does not usually take on price fluctuation risks on financial instruments.

In connection with the bonds held, the classification of a portion of said bonds among Assets available for sale introduces the oscillation risk of the Group's equity reserves as a consequence of the change in the fair value of the bonds, which is in any event limited given the high credit standing of the issuers and the short average financial duration of the portfolio.

The monitoring of the price risk taken on by the Group as part of its activity falls within the tasks assigned to the Risk Management Department. The Integrated Treasury and Risk Management System (SIT), which is the main tool used to monitor and evaluate activities associated with the Group's treasury, provides suitable price risk assessment tools. In particular, the SIT system can also be used to:

- manage traditional Treasury activities (securities, exchanges, money markets, derivatives);
- measure and control exposure to the individual types of market risk;
- continuously set and monitor any limits assigned to the various operational departments.

Liquidity risk

This represents the situation of difficulty or inability of a company to punctually meet its own balance sheet loan commitments. This can be caused by the inability to raise funds (funding liquidity risk) or by the presence of limits on mobilisation of the assets (market liquidity risk).

The financial sources are represented by the capital, the online funding from retail customers, and the funding carried out on the domestic and interbank market, as well as on the Eurosystem. Considering the Group's asset composition, the type of business carried out and the strategies defined by the Board of Directors which limit *factoring* transactions to short or very short-term trade receivables (usually not longer than 6 months, with the exception of receivables due from the Public Administration, whose average collection times are usually up to 12 months), the liquidity risk for the Banca IFIS Group, under normal financial market conditions, does not represent a critical element.

In reference to the activities carried out by the Group in the segment of Distressed Retail Loans and purchase of tax receivables from bankruptcy proceedings, the characteristics of the business model imply a high level of variability both in terms of the amount and the date of actual collection. Therefore, the timely and careful management of cash flows is particularly important. Due to the limited amount of Distressed Retail Loans compared to the total assets of the Banca IFIS Group, the overall impact on the balancing of maturities of consolidated assets and liabilities is considered marginal. In order to ensure a proper assessment of the expected cash flows, also from the standpoint of correct *pricing* of the transactions undertaken, the trend in receipts compared to forecast flows is carefully monitored.

Thanks to the breadth and diversification of interbank relationships, the issuing of state-backed bonds which allowed the generation of securities eligible with the Eurosystem, to the online funding which was very well received by the market, to the establishment of a portfolio of eligible bonds that can be used for financing repurchase agreements, as well as to the type and quality of its assets, the Banca IFIS Group has always managed to find enough financial resources to fully meet its needs.

During the year, the Bank pursued particularly prudent financial policies aimed at favouring funding stability, securing financial resources sometimes exceeding immediate operational needs: as a result, it firmly established itself as a lender on the interbank markets, albeit only for very short-term maturities. This policy, which sacrifices economic efficiency in treasury management, in terms of the rate spread between interbank funding and lending, in favour of certain and stable liquidity, is adequately supported by the revenue the Group obtains from its business.

Presently, the available financial resources are suited to current and future business volumes. The Group is nevertheless constantly committed to the harmonious development of its financial resources, from the standpoint of size and costs.

The Parent Company's business departments responsible for ensuring that liquidity policies are properly implemented are: the Treasury Department, which directly manages liquidity; the Risk Management Department, responsible for selecting the most appropriate risk indicators and monitoring their trend with reference to preset limits; and Top Management, which every year is required to make proposals to the Bank's Board of Directors regarding policies on funding and the management of liquidity risk, as well as to suggest appropriate measures during the year in order to ensure that operations are conducted in compliance with the risk policies approved by the Group.

More specifically, as part of current operations, Top Management, on the basis of indications provided by the Treasury as well as the evaluations on the development of loans, established the policies for financing transactions that last longer than 3 months, for the purpose of providing support to the ordinary treasury activity in the short-very short term and of managing and monitoring the trend of the liquidity risk.

For its own direct operations, the Bank has adopted a model for analyzing and monitoring present and future liquidity positions as an additional instrument systematically supporting the Top Management's and the Board of Directors' decisions on liquidity. The periodic results are reported directly to the Supervisory Body, both with normal financial market conditions and in particularly stressed situations. In compliance with supervisory provisions, the Bank also has a *Contingency Funding Plan* aimed at protecting the banking Group from losses or threats arising from a potential liquidity crisis and guaranteeing business continuity even in the midst of a serious emergency arising from its own internal organization and/or the market situation.

Moreover, the liquidity risk position is also the object of periodical reporting to the Bank's Board of Directors, with the reports being prepared by the Risk Management Department for Top Management.

In reference to the Polish subsidiary, the Treasury activity is coordinated, within the Group's policies, by the Banca IFIS Treasury. Naturally, where necessary, the Bank may intervene directly in the subsidiary's favour.

Within the scope of the continuous adjustment process of internal procedures, and taking into account the evolution of the reference prudential supervisory provisions, the Bank also equipped itself of a governance and management system of the Group's liquidity risk.

Residual risk

This represents the risk that acknowledged techniques for credit risk mitigation used by the Bank may be less effective than expected.

The Bank does not usually avail itself of credit risk mitigation techniques. Consequently, it is not likely for the residual risk to manifest itself.

Securitization risk

This represents the risk that the economic aspect of the securitization transaction is not fully reflected in the risk assessment and management decisions.

In 2008, the Banca IFIS Group launched a *revolving* securitisation program that involved the reassignment by Banca IFIS, for loans without recourse and under the Law 130/99, of a portfolio of *performing* trade receivables to account debtors. The program has a term of five years and foresees the transfer of a trade receivables portfolio to identifiable account debtors identifiable in block form according to contractually defined criteria of eligibility. The securities issued by the SPV against the purchased receivables portfolio are rated *Standard & Poor's* A+ and *Moody's* A3 and are listed on the Dublin Stock Exchange. These securities were classified as "eligible" by the Central Bank of Ireland and were underwritten by Banca IFIS that can use them to refinance via the Eurosystem.

Please note that the revolving period of the securitization carried out in October 2008 with IFIS Collection Services S.r.l. ended during the month of October 2013. The amortization period, during which the securities issued by the vehicle company for a total of 328 million Euros were paid back in full, ended on 24th February 2014, date on which the termination letters were signed. The portfolio of receivables transferred to the vehicle company and not collected was bought back by the Bank on the same date.

During the course of 2011, the Board of Directors of Toscana Finanza decided to proceed with the realisation of a securitization operation of *non-performing* loans within the meaning of the Law 130/99 in order to optimise the operational and economic management of part of its portfolio of financial credit. The transaction focussed on *non-performing* loans of banking origin, identifiable in block form, mainly backed by mortgages. The securities issued by the SPV were fully subscribed by the incorporated company Toscana Finanza S.p.A., which was given a specific *sub-servicing* mandate for the collection and management of loans.

In compliance with the IAS/IFRS accounting principles, the securitization transactions in their state do not constitute substantial transfer of all the risks and benefits as they do not meet the requirements of IAS 39 regarding the so-called *derecognition*. Within the meaning of the Circular 263/06, the securitizations do not meet the minimum requirements and therefore are not recognised for prudential purposes.

The risk of securitization, within the meaning of the definition provided in the box, is not relevant because the two operations in progress produce risks solely in terms of *funding*, with impacts on liquidity risk, induced by contractual breaches or a worsening of the quality of the securitized loans portfolio.

As of the reference date, the Group holds no active positions on securitization transactions of third parties.

Strategic risk

This represents the current or prospective risk of a decline in profits or capital arising from changes in the operating context or from inappropriate management decisions, inadequate implementation of decisions or lack of responsiveness to changes in the competitive environment.

Protection against such risk is pursued by monitoring the objectives set by the industrial plan that actualises, from time to time, the guidelines for development in relation to the management trend. The protection is completed with verification of the effective implementation of risk policies and with monitoring of the indicators and thresholds related to said risks.

Reputational risk

This is the current or prospective risk of a decline in profits or capital as a result of a negative perception of the image of the Bank by customers, counterparties, bank shareholders, investors or Supervisory Authorities.

With reference to *factoring* activities, this risk takes on a lesser importance, also according to the substantial closure of relations with credit mediators. Characteristics and dynamics of development of *online* funding constitute a high reputational risk with regards to deposits from retail customers. The large number of borrowers related to operations in the field of Distressed Retail Loans and the involvement of parties outside the Group for recovery introduces a new factor that is potentially relevant in terms of reputation. Ultimately, this risk also becomes relevant with regards to bank counterparties as sources of financing, even if effectively mitigated by the development of direct working relations and by the professional nature of the counterparties themselves, as well as by a growing diversification of funding sources put in place by the Bank.

In a perspective of risk mitigation, the Banca IFIS Group pursues the objectives of high customer service quality and adopts, in respect of the market, the criteria of timely and transparent information, also in consideration of its status as a listed company.

Risk and conflict of interest activities with respect to related persons

This represents the risk that the proximity of certain subjects to the decision-making centres of the bank can compromise the objectivity and impartiality of the decisions relating to the granting of loans and other transactions with the same persons, with possible distortions in the process of allocation of resources, exposure of the bank to risks not adequately measured or protected against or potential damage to depositors and shareholders.

The Group has equipped itself with a "Procedure for transactions with related parties", which it reviews from time to time.

2. Scope of application (Table 2)

Qualitative information

(a) Name of the bank to which the disclosure requirements apply.

(b) Outline of the differences in the areas of consolidation relevant for accounting and prudential purposes, with a brief description of the entities within the group that:
i) are fully consolidated;
ii) are consolidated proportionally;
iii) are deducted from the regulatory capital;
iv) are neither consolidated nor deducted.

(c) Any legal or significant impediments, current or foreseeable, which may impede the rapid transfer of capital resources or funds within the group.

(d) For the groups, any reduction of the individual capital requirements applied to the parent company and to the Italian subsidiaries.

The disclosure requirements referred to in this document apply to Banca IFIS S.p.A., which is the Parent company of the Banca IFIS Banking Group, member of the Register of Banking Groups.

The consolidation area for prudential purposes is defined by Bank of Italy's Circular 155/91, while the consolidation area for financial statements purposes is defined on the basis of international accounting standards (IAS/IFRS) and, more specifically, by IAS 27.

For prudential purposes, the Banca Ifis Group has applied the consolidation methods described in Bank of Italy's Circular 155/91 - "Instructions for the preparation of regulatory reporting on shareholder's equity and capital ratios". In particular, the method of integral consolidation on the banking, financial and instrumental companies belonging to the banking group has been applied.

The same consolidation methods have also been applied for budgetary purposes**.** Therefore, no differences can be observed as of 31st December 2013 between the perimeter of consolidation used for the calculation of regulatory capital and consolidated capital ratios and the perimeter of the consolidated financial statements.

The consolidation area for prudential and financial statements purposes as of 31st December 2013 includes the Parent company Banca IFIS S.p.A., the Polish subsidiary IFIS Finance Sp. Z o. o. The company TF Sec S.r.l., in liquidation, was eliminated from the Business Resister on 5th September 2013.

Table 1 - Main information on the Group's subsidiaries

Company name	**Sector**	**Head Office**	**Type of relationship (*)**	**Shareholding percentage**	**Available votes**	**Treatment for financial statements purposes**	**Treatment for supervisory purposes**
BANCA IFIS S.p.A.	Banking activity	Mestre (Italy)	-	-	-	Full	Full
IFIS FINANCE Sp. Z.o.o.	Finance company	Warsaw (Poland)	1	100%	100%	Full	Full

(*) Type of relationship:
1 = majority of voting rights in the Ordinary Shareholders' Meeting
2 = dominant influence during the Ordinary Shareholders' Meeting
3 = agreements with other shareholders
4 = other forms of control
5 = unitary management as per art. 26, paragraph 1, of Italian Lgs. Decree 87/92
6 = unitary management as per art. 26, paragraph 2, of Italian Lgs. Decree 87/92
7 = joint control

Please note that there are no obstacles within the Group that might hinder the quick transfer of capital resources or funds.

In compliance with the provisions set forth by the Regulatory body (Circular 263 dated 27th December 2006 - "New prudential supervisory provisions for banks" - Title II, Chapter 6, Section II) since the Parent company Bank has met the total capital requirement at the consolidated level, it benefits from a 25% reduction in individual capital requirements.

Quantitative information

Name of all subsidiaries not included in the consolidation and the aggregate amount of their capital deficiencies with respect to any mandatory capital requirements.

All subsidiaries are included in the perimeter of consolidation.

3. Composition of regulatory capital (Table 3)

Qualitative information

(a) Summary information on the main contractual characteristics of each capital element and of the relevant components, in particular innovative and non-innovative capital instruments (cf. Title I, Chapter 2, Section I, par. 3) as well as instruments to which safeguarding clauses are applied (e.g., grandfathering).

The regulatory capital is the first line of defence against the risks assumed by the Group and is the main benchmark of reference for the evaluation carried out by Bank of Italy on the soundness of the Bank.

The Banca IFIS Group assigns a priority role to the management and allocation of capital on the basis of the risks assumed for the purposes of the development of business within the context of value creation. The activities are divided into different phases of the process of planning and control of the Group and, in particular, into the processes of industrial planning and monitoring processes.

Capital management concerns all the policies necessary to define in current and prospective terms the size of the same capital, as well as the best combination of different alternative capitalisation instruments, in order to ensure adequate coverage of the risks assumed and in compliance with the ratios required by supervisory regulations. Evolution of the corporate capital, as well as duly accompanying the growth in size, thus represents a decisive element during the development stages.

The regulatory capital is calculated on the basis of the balance sheet values and income statement results determined with the application of the IAS/IFRS international accounting principles and taking into account the regulatory instructions issued by Bank of Italy (Circular no. 155/91 *"Instructions for preparing reports on regulatory capital and prudential ratios*"). The regulatory capital is calculated as the sum of positive and negative components, in relation to their asset quality. The positive components must be fully available to the Bank, such that they can be used without any limitation to cover the risks and any business losses.

Regulatory capital consists of Tier 1 and Tier 2 capital.

TIER 1 capital. The positive elements playing a part in the calculation of tier 1 capital are share capital, share premium accounts, reserves and the part of profit increasing the value of reserves. The negative elements include treasury shares held by the Bank at the end of the year, intangible assets, the goodwill resulting from the acquisition of the foreign subsidiary as well as the negative balance between positive and negative reserves related to debt securities classified as "available for sale financial assets". As allowed by the Measure of the Governor of Bank of Italy dated 18th May 2010 entitled "Regulatory capital prudential filters", the Banca IFIS Group has arranged for excluding from the calculation the valuation reserves related to securities issued by the Central Administrations of EU Member States, which amount to 15.5 million Euros as of 31st December 2013.

TIER 2 capital. Tier 2 capital is composed of negative elements stemming from negative exchange differences arising from the consolidation of the foreign subsidiary and of positive reserves on available for sale financial assets, specifically capital securities, net of the unreckonable quota.

TIER 3 capital. Tier 3 capital is not quantifiable due to the absence of elements.

Quantitative information

(b) Amount of Tier 1 capital, with the detail of the individual positive and negative elements, in particular of innovative and non-innovative capital instruments (cf. Title I, Chapter 2, Section I, par. 3) as well as those instruments to which safeguarding clauses are applied (e.g., grandfathering).

(c) Amount of Tier 2 and Tier 3 capital .

(d) Other negative elements of the regulatory capital, with the detail - for banks that adopt one of the IRB systems - of any negative differences between total impairment losses or reversals and expected loss.

(e) Amount of the regulatory capital.

Table 2 shows the composition of the regulatory capital.

Table 2 – Composition of regulatory capital

Positive elements of Tier 1 capital	
Share capital	53,811
Share premium reserve	75,560
Reserves	163,055
Profit for the period	54,786
Total positive elements of Tier 1 capital	**347,212**
Negative elements of Tier 1 capital	
Treasure shares or stocks	7,903
Goodwill	837
Other intangible assets	5,524
Other negative elements	76
Negative reserves AFS securities	21
Total negative elements of Tier 1 capital	**14,361**
Tier 1 capital including elements to be deducted	**332,851**
Elements to be deducted	-
TOTAL TIER 1 CAPITAL	**332,851**
Positive elements of Tier 2 capital	
Valuation reserves	449
Negative elements of Tier 2 capital	
Other negative elements	4,945
Prudential filters	224
TOTAL *TIER 2* CAPITAL	**-4,720**
TOTAL REGULATORY CAPITAL	**328,131**
TIER 3 CAPITAL	-
TOTAL REGULATORY AND TIER 3 CAPITAL	**328,131**

4. Capital adequacy (Table 4)

Qualitative information

(a) Summary description of the method adopted by the bank to evaluate its own internal capital in order to support current and future activities.

With the "New prudential supervisory provisions for banks" (*Circular no. 263/06 and Circular no. 285/13*), the Supervisory Authority intends to govern the capital adequacy self-assessment process carried out by the banks (*ICAAP - Internal Capital Adequacy Assessment Process*). In particular, Pillar 2 (Title III, Chapter 1) governs the prudential control process, organizing it into two integrated phases.

The **first phase** requires intermediaries to carry out an autonomous assessment of their capital adequacy, both current and future, in relation to the risks to which they are exposed and to their own strategic choices. The **second phase** (*SREP - Supervisory Review and Evaluation Process*), falling under the Supervisory Body's responsibility, requires a review of said self-assessment process and the formulation of an overall opinion on the same intermediaries.

In compliance with the principle of proportionality and in consideration of the size of the consolidated assets, the Group is placed in the category of Class 2 intermediaries. By virtue of this categorisation and in line with its operational characteristics, the Banca IFIS Group determines the entire internal capital adequacy by adopting simplified methodologies on the quantification of the requirement in relation to the risks of Pillar I and II and consequent aggregation of the same (*building block approach*). Internal capital adequacy means the internal capital referred to all the relevant risks assumed and which the intermediary considers necessary to cover the losses exceeding an expected given level, including the possible requirements of internal capital due to considerations of a strategic nature.

The following table indicates a summary of the methodologies used to measure the internal capital given the individual quantifiable Pillar I and Pillar II risks.

Table 3 – Methods used to measure internal capital

CATEGORY	**RISK TYPE**	**METHOD**
FIRST PILLAR RISKS	**Credit Risk**	Standardized Method
	Counterparty Risk	Standardized Method (exposure: CRM simplified method)
	Market Risk	Standardized Method
	Operational risk	Basic Method (*BIA*)
SECOND PILLAR RISKS	**Concentration risk**	GA Method - *Granularity Adjustment* (Annex B, Title III, Circular no. 263/06) ABI method to estimate the Geo-sector Concentration Risk
	Interest Rate Risk	Simplified Method (Annex C, Title III, Circular no. 263/06)

With regards to unquantifiable risks, on the other hand, the Banca IFIS Group has implemented appropriate internal control and mitigation measures, in compliance with the guidelines provided by Bank of Italy in the above-mentioned legislation. Within the context of measurement activities, stress tests are also defined and performed in terms of simplified analysis of sensitivity concerning the main risks assumed.

Moreover, during the 2013 period the monitoring of the Financial Leverage ratio was also introduced, as required by supervisory regulations. The automation process is also being completed as concerns the automation of the calculation of the LCR and NSFR liquidity indicators, in reference to the liquidity risk.

The prospective level is determined on an annual basis - during preparation of the ICAAP report - with reference to the end of the year in progress, taking into account the foreseeable development of the scope of application, the risks of the Group and operations. Any further assessments of the internal capital adequacy are also performed during the year in relation to any new or extraordinary events.

In order to prospectively assess the level of internal capital adequacy, the Banca IFIS Group:

- uses the industrial Plan, adequately detailing it with respect to the need for assessment of the risks;
- identifies the parameters that affect the incidence of risk, also anticipating its future evolution also in view of the expected trends of the relevant market;
- defines the estimates of evolution of the risk factors consistent with their economic and strategic scenarios;
- verifies the forecasts on the basis of multi-annual planning;
- carries out an estimate of the evolution of the accounting items that constitute the identified capital base;
- also considers any needs of a strategic nature.

A To cover the current and prospective internal capital adequacy, the Banca IFIS Group uses a definition of capital adequacy that coincides with that of Total Capital, prospectively evaluated within the context of the strategic planning of the Group.

The current and perspective capital base is adequate with respect to the overall exposure to risks of the Banca IFIS Group, with reference both to the situation identified at 31st December 2013 and that estimated at 31st December 2014**.**

Quantitative information

(b) For banks that calculate the weighted exposures for credit risk using the standardised method, the capital requirement relating to each of the regulatory classes of activity.

(d) Capital requirement for the counterparty risk.

Table 4 – Credit and counterparty risk: capital requirement pertaining to each regulatory class

Regulatory classes (units in thousands of Euros)	**CREDIT RISK**		**COUNTERPARTY RISK**	
	Risk Weighted Asset (*RWA*)	**Capital requirement**	**Risk Weighted Asset (*RWA*)**	**Capital requirement**
Administrations and central banks	0	0	0	0
Local agencies	1,134	91	0	0
Non-profit organizations	3,706	296	0	0
Public sector agencies	126,805	10,144	0	0
Multilateral development banks	0	0	0	0
International organizations	0	0	0	0
Supervised Intermediaries	153,379	12,270	5	0

Companies and other entities	1,090,173	87,214	0	0
Retail exposures	187,971	15,038	0	0
Past due exposures	347,069	27,766	0	0
Other exposures	108,016	8,641	0	0
CAPITAL REQUIREMENT AGAINST CREDIT AND COUNTERPARTY RISK	**2,018,252**	**161,460**	**5**	**0**

Quantitative information

(e) Capital requirements against market risks separately for:

- the activities included in the trading book for supervisory purposes:
i) position risk, with evidence of the specific one for positions towards securitization;
ii) concentration risk;

- the consolidated financial statements:
iii) settlement risk;
iv) exchange rate risk;
v) commodities risk.

Table 5 – Market risk: capital requirement for assets included in the trading book for supervisory purposes and for the entire financial statements

Risk type (units in thousands of Euros)	**Equivalent risk weighted asset (*RWA*)**	**Capital requirement**
Trading book for supervisory purposes		
Position risk	0	0
Concentration risk	0	0
Entire financial statements		
Settlement risk	0	0
Exchange rate risk	29,164	2,333
Commodities risk	0	0
CAPITAL REQUIREMENT AGAINST MARKET RISK	**29,164**	**2,333**

Quantitative information

f) Capital requirement against operational risks.

Table 6 – Capital requirement against operational risks

(units in thousands of Euros)	Banca IFIS Group	Former Gruppo Toscana Finanza	Total
Net banking income December -2	121,453	-2,500	118,953
Net banking income December -1	244,916		244,916
Net banking income December	264,195		264,195
Average of Net banking income last 3 periods			209,355
Operational Risk Capital Requirement			**31,403**

Quantitative information

(g) Total and Tier-1 capital coefficients (Tier-1 ratio).

Table 7 – Capital coefficients and ratios

Total weighted risk assets	2,439,957
Total capital requirement	195,197
Tier 1 capital	332,851
Tier 1 capital/Weighted risk assets (TIER 1 capital ratio)	13.64%
Regulatory capital (including TIER 3)	328,131
Regulatory capital/Weighted risk assets (Total capital ratio)	13.45%

5. Credit risk: general information concerning all banks (Table 5)

Qualitative information

a) In addition to the general information shown in Table 1, with regards to exposure to credit risk and to dilution risk, the following information must be provided:
i) the definitions of "overdue" and "impaired" loans used for accounting purposes;
ii) a description of the methodologies adopted to determine the impairment losses or reversals.

Definition of "overdue" and "impaired" loans used for accounting purposes.

The definition of "overdue" and "impaired" loans adopted by the Banca IFIS Group for accounting purposes coincides with the one used for supervisory purposes. In particular, Circular no. 272 of 30th July 2008 as subsequently amended, "Matrix of accounts", within the context of the definition of parameters relating to credit quality, establishes:

"Impaired" financial assets are defined those that fall into the categories of non-performing loans, substandard loans, rescheduled loans or expired exposures and/or overrun exposures ….

Methodologies used to determine impairment losses or reversals.

At each closure of financial statements or interim financial statements, a reconnaissance of the loans is carried out to identify those that, following events occurring after their inscription, show objective evidence of a possible loss of value. Falling into this category are loans that have been classified as non-performing, substandard, rescheduled or overdue according to the current rules of Bank of Italy, consistent with the IAS regulations.

In the notes to financial statements, the impairment losses or reversals on impaired exposures are also classified as analytical in the stated income statement item when the calculation methodology is flat-rate/statistical.

With reference to the impaired exposures of the trade receivables sector, the assessment criteria are described below.

Non-performing loans undergo a process of analytical evaluation, and the amount of the adjustment in the value of each loan is equal to the difference between the book value of the same at the time of the evaluation (amortised cost) and the present value of the expected future cash flows, calculated by applying the actual rate of interest at the time of transition to non-performing debt. The expected cash flows take into account the expected recovery times on the basis of historical elements and other significant characteristics, as well as the presumable realisable value of any guarantees.

Any subsequent change in the amount or in the deadlines of the expected future cash flows, which produces a negative variation with respect to the initial estimates, determines the identification in the income statement of a value adjustment on loans.

If the quality of the impaired loan improves and there is a reasonable certainty of the timely recovery of the capital and interest, in accordance with the original contractual terms of the loan, a write-back of value, to a maximum limit of the amortised cost that would prevail in the absence of previous devaluations, is entered into the income statement .

Substandard loans are represented by exposures to borrowers in temporary difficulty, that is expected to be resolved within a reasonable period of time ("subjective substandard loans").

Substandard loans should also include, according to the definition provided by the current Bank of Italy, exposures not classified as non-performing and granted to borrowers other than Public

Administrations, for which both of the following conditions ("objective substandard loans") are satisfied):

- they are overdue and unpaid and/or overrun continuously for over 270 days;
- the total amount of the exposures referred to in the previous paragraph and the other portions overdue by less than 270 days with the same debtor is at least 10% of the entire exposure towards this debtor.

Within the scope of the factoring activity, the continuity of the expired loan must be determined as follows:

- in the case of transactions "without recourse" for each debtor granted, reference is made to the individual invoice that has the longest delay.
- in the case of transactions "with recourse", the following conditions must be met:
  - the deposit is for an amount equal to or greater than the total outstanding receivables due;
  - there is at least one invoice expired by more than 270 days and the total of overdue invoices exceeds 10% of the total outstanding receivables.

Subjective substandard loans for amounts greater than 100,000 Euros and objective substandard loans managed by the Distressed Retail Loans Area[1] for amounts greater than 100,000 Euros are analysed; the amount of value adjustment for each loan is equal to the difference between the carrying amount of the same at the time of valuation (amortised cost) and the present value of expected future cash flows, calculated using the original effective interest rate or, in the case of indexed ratios, the last contractually applied rate.

Subjective substandard loans for amounts lower than 100,000 Euros, substandard loans managed by the Distressed Retail Loans Area[1] for amounts lower than 100,000 Euros, as well as objective substandard loans whose management is assigned to other areas are subjected to collective assessment of loss of value.

Rescheduled exposures, represented by loans to counterparties with whom agreements have been concluded providing for the granting of a moratorium on debt repayment and the contemporaneous renegotiation of the conditions at lower rates than the original ones, are subjected to analytical evaluation.

Overdue exposures, as defined by the provisions of Bank of Italy, are subject to collective assessment of loss of value. This assessment takes place by homogeneous categories of loans in terms of credit risk and the relevant loss percentages are estimated by taking into account historical series, founded on elements that can be observed as of the evaluation date, which make it possible to estimate the value of latent loss in each loan category.

Performing loans are subjected to the collective evaluation of loss of value. This evaluation is carried out for the different categories of similar loans in terms of credit risk and the relative percentages of loss are estimated by taking into account historical series, based on observable elements at the date of the evaluation, which will make it possible to estimate the value of the latent loss in each category of loans.

Impaired exposures relating to the DRLs sector are subjected to an assessment process that consists of the following phases:

1. at the time of their acquisition, the loans are entered at their purchase values in a specific sub-account called "NPLs waiting for documental check" and recorded at their cost.

[1] The Problem Loans Area handles non-performing or substandard loans assigned to it on the basis of the occurrence of events that indicate irregularities or criticalities in the trend of the relationship.

Subsequently, a verification is carried out of the existence of probative documentation for the loan as well as any prescription, preparatory activities for any charge-back to the transferor or the write-off of the loan. At the end of this phase, and following the sending of the notice of transfer to the debtor, the loan is ready for the first step of its collection process;

2. after being included in the collection process, loans are recorded in the sub-account “Loans due from NPL customers”, and the evaluation is begun at the amortized cost according to the actual interest rate method;
3. the actual interest rate is calculated on the basis of the price paid, of any transaction cost, of the cash flow and expected collection times estimated by a proprietary statistical model (item 5), or by analytical forecasts carried out by operators or, again, in the case of exchange plans or agreements formalized with the creditor, by the relevant payment plans;
4. the actual interest rate referred to above does not change over time;
5. the proprietary model estimates cash flows and expected collection times based on historical series of collections realized over a statistically significant temporal horizon on homogeneous portfolios;
6. payment plans pertaining to exchange plans or agreements formalized with the creditors are adjusted by a percentage of outstanding amounts observed from a historical standpoint;
7. at the closing of each period, Receivable Interest accrued on the basis of the original actual interest rate is recorded in the item Receivable Interest; this interest is calculated as follows: Amortized cost at the start of the period x TIR/365* days of the period;
8. moreover, at the closing of each period the expected cash flows for each single position are re-estimated;
9. in case of events (greater or lesser collections realized or expected compared to the forecasts and/or change in collection times) that cause a change of the amortized cost (calculated by discounting the new cash flows at the original actual interest rated compared to the amortized cost for the period), this change is also recorded in the item Receivable Interest, except as provided for in the following item;
10. in the case where loans are classified as non-performing loans, all changes referred to in item above are recorded in the item Impairment losses or reversals/write-backs;
11. in the case where loans are classified as substandard and there are objective losses in value, the changes referred to in item 9) are recorded in item Impairment losses or reversals/write-backs; in the case where impairment losses or reversals have been previously recorded, write-ups can be entered up to the value of said write-downs, with the excess amount recorded in item Receivable Interests.

It is important to consider that the recording in the accounting books of the various economic components in the items Receivable Interests and Impairment losses or reversals/write-backs is relevant for accounting purposes only, since it is connected to the classification of the loans; from a managerial point, on the other hand, the economic effects must be viewed as a whole and separated into two macro-categories: interest generated by the valuation at the amortized cost (item 7) and the economic components due to changes in cash flows (items 8-9-10-11).

Lastly, exposures pertaining to tax credits are classified among performing loans, since the counterparty is the Public Administration.

Quantitative information

(b) Total and average gross credit exposures for the period, divided by main type of exposure and counterparty. The amount is net of admitted accounting compensations but does not take into account the effects of credit risk mitigation techniques.

Table 8 – Gross credit exposure by type of exposure and counterparty						
Portfolio/quality (units in thousands of Euros)	**Non-performing loans**	**Substandard loans**	**Rescheduled loans**	**Overdue assets**	**Other activities**	**Total**
1. Financial assets held for trading	-	-	-	-	10	0
2. Financial assets available for sale	-	-	-	-	2,515,810	2,515,810
3. Financial assets held until maturity	-	-	-	-	5,818,019	5,818,019
4. Loans and receivables due from banks	-	-	-	-	415,817	415,817
5. Loans and receivables due from clients	301,685	133,742	9,395	42,432	2,012,956	2,500,210
6. Financial assets at fair value	-	-	-	-	-	0
7. Financial assets being disposed of	-	-	-	-	-	0
8. Hedging derivatives	-	-	-	-	-	0
Total	301,685	133,742	9,395	42,432	10,762,612	11,249,866

Table 8 does not show the average values as it is believed that the end of period datum is representative of the risk exposure during the year.

Quantitative information

(c) Distribution by significant geographical areas of exposures, broken down into main types of exposure and, if necessary, further details.
(g) By significant geographic areas, the total amount:
1) of the impaired and overdue exposures, shown separately;
2) of the impairment losses or reversals relating to each geographical area, where possible.

Table 9 – Geographical distribution of cash and "off-balance sheet" exposures towards customers

Exposures/Geographic areas (units in thousands of Euros)	**ITALY**		**OTHER EUROPEAN COUNTRIES**		**AMERICA**		**ASIA**		**REST OF THE WORLD**	
	Net exposure	**Overall impairment losses/reversals**	**Net exposure**	**Overall impairment losses/reversals**	**Net exposure**	**Overall impairment losses/reversals**	**Net exposure**	**Overall impairment losses/reversals**	**Net exposure**	**Overall impairment losses/reversals**
A. Cash exposures										
A.1 Non-performing loans	**117,759**	**180,058**	**34**	**3,818**	**9**	**-**	**1**	**1**	**5**	**-**
A.2 Substandard loans	**121,030**	**10,327**	**2,188**	**178**	**11**	**-**	**2**	**-**	**5**	**1**
A.3 Rescheduled loans	**8,351**	**1,044**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.4 Overdue loans	**40,905**	**758**	**753**	**16**	**-**	**-**	**-**	**-**	**-**	**-**
A.5 Other loans	**10,261,080**	**6,964**	**53,193**	**112**	**-**	**-**	**6**	**-**	**-**	**-**
Total A	**10,549,125**	**199,151**	**56,168**	**4,124**	**20**	**-**	**9**	**1**	**10**	**1**
B. Off-balance sheet exposures										
B.1 Non-performing loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.2 Substandard loans	**26,591**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.3 Rescheduled loans	**975**	**-**	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.4 Other loans	**118,101**	**-**	**6,845**	**-**	**-**	**-**	**382**	**-**	**215**	**-**
Total B	**145,667**	**-**	**6,850**	**-**	**-**	**-**	**382**	**-**	**215**	**-**
Total A+B	**10,694,792**	**199,151**	**63,018**	**4,124**	**20**	**-**	**391**	**1**	**225**	**1**

Table 10 – Geographical distribution of cash and "off-balance sheet" exposures towards banks

Exposures/Geographic areas (units in thousands of Euros)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. Cash exposures										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
A.3 Rescheduled loans	-	-	-	-	-	-	-	-	-	-
A.4 Overdue loans	-	-	-	-	-	-	-	-	-	-
A.5 Other loans	435,246	-	6,000	-	-	-	-	-	-	-
Total A	435,246	-	6,000	-	-	-	-	-	-	-
B. Off-balance sheet exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Rescheduled loans	-	-	-	-	-	-	-	-	-	-
B.4 Other loans	12,839	-	-	-	-	-	-	-	-	-
Total B	12,839	-	-	-	-	-	-	-	-	-
Total A+B	448,085	-	6,000	-	-	-	-	-	-	-

Quantitative information

(d) distribution by each economic sector or type of counterparty of the exposures, broken down by type of exposure, and, if necessary, further details.

Table 11 – Distribution by sector of cash and "off-balance sheet" exposures towards customers

Exposures/Counterparties (units in thousands of Euros)	Governments and Central Banks			Other Public Entities			Finance companies		
	Net exposure	Specific impairment losses/reversals	Portfolio impairment losses/reversals	Net exposure	Specific impairment losses/reversals	Portfolio impairment losses/reversals	Net exposure	Specific impairment losses/reversals	Portfolio impairment losses/reversals
A. Cash exposures									
A.1 Non-performing loans	-	-	X	6,319	6,053	X	26	-	X
A.2 Substandard loans	-	-	X	6,629	2,045	X	7,036	1,265	X
A.3 Rescheduled loans	-	-	X	-	-	X	-	-	X
A.4 Overdue loans	574	1	X	5,439	8	X	-	-	X
A.5 Other loans	8,365,443	X	-	491,919	X	187	140,012	X	32
Total A	8,366,017	1	-	510,306	8,106	187	147,074	1,265	32
B. Off-balance sheet exposures									
B.1 Non-performing loans	-	-	X	-	-	X	-	-	X
B.2 Substandard loans	-	-	X	-	-	X	260	-	X
B.3 Rescheduled loans	-	-	X	-	-	X	-	-	X
B.4 Other loans	539	X	-	-	X	-	12,565	X	-

Table 11 – Distribution by sector of cash and "off-balance sheet" exposures towards customers

Exposures/Counterparties (units in thousands of Euros)	Governments and Central Banks			Other Public Entities			Finance companies		
	Net exposure	Specific impairment losses/reversals	Portfolio impairment losses/reversals	Net exposure	Specific impairment losses/reversals	Portfolio impairment losses/reversals	Net exposure	Specific impairment losses/reversals	Portfolio impairment losses/reversals
Total B	539	-	-	-	-	-	12,825	-	-
Total A+B	8,366,556	1	-	510,306	8,106	187	159,899	1,265	32

Quantitative information

(e) Distribution by remaining contractual duration for the entire portfolio, broken down by type of exposure and, if necessary, further details.

Table 12 shows the distribution over time periods of remaining contractual duration for cash and off-balance sheet transactions.

Table 12 – Time distribution by residual conractua life of financial assets

Items/Time brackets (units in thousands of Euros)	On demand	From more than 1 to 7 days	From more than 7 to 15 days	From more than 15 days to 1 month	From more than 1 to 3 months	From more than 3 month up to 6 months	From more than 6 months up to 1 year	From more than 1 year up to 5 years	Beyond 5 years	Undetermined	Total
Cash assets	1,167,460	79,788	218,692	915,849	850,438	1,365,854	1,450,006	5,193,660	64,502	33,973	11,340,222
Government securities	-	-	563	633,573	358,860	1,275,786	1,326,797	4,848,667	-	-	8,444,246
Other debt securities	-	-	12,696	11	11,663	3,090	25,235	11,966	750	-	65,411
UCITS shares	-	-	-	-	-	-	-	-	-	-	0
Loans	1,167,460	79,788	205,433	282,265	479,915	86,978	97,974	333,027	63,752	33,973	2,830,565

Table 12 – Time distribution by residual conractua life of financial assets

Items/Time brackets (units in thousands of Euros)	On demand	From more than 1 to 7 days	From more than 7 to 15 days	From more than 15 days to 1 month	From more than 1 to 3 months	From more than 3 month up to 6 months	From more than 6 months up to 1 year	From more than 1 year up to 5 years	Beyond 5 years	Undetermined	Total
- to banks	265,762	11,001	12,390	66,644	2,069	-	-	-	-	33,973	391,839
- to customers	901,698	68,787	193,043	215,621	477,846	86,978	97,974	333,027	63,752	-	2,438,726
Off-balance sheet transactions											
Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
Receivable deposits and loans	-	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
Irrevocable commitments to grant loans	-	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
Issued financial guarantees	-	-	-	-	-	-	-	-	-	-	-

Quantitative information

(f) For significant economic sector or type of counterparty, the amount of:
i) impaired and overdue exposures, shown separately;
ii) total impairment losses or reversals;
iii) impairment losses or reversals made during the reference period.

(h) Adjustment dynamics of overall value of impaired exposures, separately for the specific value and book adjustments The information includes:
i) a description of the methods of determination of the impairment losses or reversals;
ii) the initial balance of total impairment losses or reversals;
iii) write-offs made during the period;
iv) impairment losses or reversals made during the period;
v) write-backs of value made during the period;
vi) any other adjustment, for example due to fluctuations of exchange rate, corporate mergers, acquisitions and divestitures of subsidiaries, including transfers between types of impairment losses or reversals;
vii) the final balance of total impairment losses or reversals.
Write-offs and write-backs of value directly ascribed to the income statement are highlighted separately.

Table 13 – Cash exposures towards customers: dynamics of total impairment losses or reversals

Reasons/categories (units in thousands of Euros)	**Non-performing loans**	**Substandard loans**	**Rescheduled loans**	**Past due loans**	**Total**
A. Total initial adjustments	**122,820**	**25,620**	**1,138**	**429**	**150,007**
B. Increases	**71,797**	**14,257**	**8**	**345**	**86,407**
B.1 Impairment losses or reversals	49,831	14,171	-	-	64,002
B.2 Transfers from other categories of impaired exposures	21,966	86	-	-	22,052
B.3 Other increases	-	-	8	345	353
C. Decreases	**(10,740)**	**(29,371)**	**(102)**	**-**	**(40,213)**
C.1 Write-backs of adjustments	(9,395)	(2,712)	-	-	(12,107)
C.2 Write-backs on collection	(777)	(1,119)	-	-	(1,896)
C.3 Write-offs	(479)	(3,575)	-	-	(4,054)
C.4 Transfers to other categories of impaired assets	(87)	(21,965)	-	-	(22,052)
C.5 Other decreases	(2)	-	(102)	-	(104)
D. Total final adjustments	**183,877**	**10,506**	**1,044**	**774**	**196,201**

With regards to the description of the process of determination of the impairment losses or reversals, refer to that indicated in the qualitative section of Table 5.

6. Credit risk: disclosures for books treated under the standardized approach and specialized lending and equity exposures treated under IRB approaches (Table 6)

Qualitative information

(a) For banks that calculate weighted exposures for credit risk according to the standardised method, the following information must be provided for each regulatory class of activity:

i) the name of the external agencies of credit assessment and agencies for export credit selected and the reasons for any changes;

ii) the regulatory classes of activities for which each external credit assessment agency or agency for export credit is used;

iii) a description of the process employed to extend credit assessments relating to the issuer or the issuance to comparable activities not included in the trading book for supervisory purposes.

For the purposes of calculating capital requirements against credit risk (standardised method) the Banca IFIS Group uses the following external credit assessment agency (ECAI): ***Fitch Ratings***.

The assessments of the ECAI selected apply to the following classes of activity:

Table 14 – Books and official ratings

Regulatory classes	**ECA/ECAI**	***Rating characteristics***
Exposures towards central administrations and central banks	Fitch Ratings	Solicited/Unsolicited
Exposures towards international organizations	-	-
Exposures towards multilateral development banks	-	-
Exposures towards companies and other subjects	-	-
Exposures towards companies for collective investment in transferable securities (UCITS)	-	-
Positions in securitizations with short-term ratings	-	-
Positions in securitizations other than those with short-term ratings	-	-

Quantitative information

(b) For banks that calculate the weighted exposures for credit risk according to the standardised method, it is necessary to provide, for each regulatory class of activity, the exposure values, with and without attenuation of the credit risk, associated with each class of creditworthiness as well as the exposure values deduced from the total capital.

(c) With reference to exposures that in the IRB methods are subject to regulatory weightings for risk (specialised financing - specialised lending, equity exposures subject to the simple weighting method), the exposures assigned to each class of credit risk must be provided.

The following table shows the distribution of the exposures subject to credit risk on the basis of weighting factors (classes of creditworthiness).

Table 15 – Exposures by regulatory class of activity and by credit merit class/weighting (in thousands of Euros)

Regulatory class of activity/weighting	0%	20%	50%	75%	100%	150%	200%	Regulatory capital deductions	Total
Central Administrations and Central Banks	8,443,244								8,443,244
Supervised intermediaries	4,049	519,037	0		49,572				572,658
Local agencies		5,669							5,669
Non-profit organizations and public sector agencies		449,307			40,649				489,956
Multilateral Development Banks									0
International organizations									0
Companies and other entities					1,150,905				1,150,905
Retail exposures				250,740					250,740
Short-term exposures towards companies									0
Exposures towards UCITS									0
Exposures guaranteed by real estate									0
Past due exposures					178,909	112,508			291,417
High-risk exposures							5		5
Securitizations									0
Other exposures	30	304			46,527				46,861
Total credit risk	**8,447,323**	**974,317**	**0**	**250,740**	**1,466,562**	**112,508**	**5**	**0**	**11,251,455**

7. Counterparty risk (Table 9)

Qualitative information

(a) Description:

i) of the methodology used to assign the operating limits defined in terms of internal capital and credit relating to the credit exposures of the counterparty.
ii) the policies relating to guarantees and the evaluations concerning the counterparty risk;
iii) the policies with respect to exposures to the risk of unfavourable correlation (wrong-way risk);
iv) the impact, in terms of guarantees, that the bank should provide, in the case of lowering of the assessment of its creditworthiness (downgrading).

Counterparty risk is the risk that the counterparty of a transaction, having as object certain financial instruments (such as OTC financial and credit derivatives, Securities *Financing Transaction* operations and end of term settlement transactions) that are non compliant prior to settlement of the transaction itself. In this sense, the counterparty risk can be considered a case of credit risk.

The Banca IFIS Group does not carry out activities in derivative financial products on behalf of third parties and has limited activity in their own hedge instruments from market risk. Banca IFIS sometimes uses financial derivatives designed to cover exposures on exchange rates. At the end of 2013, among the liabilities held for trading and hedging derivatives were included two interest rate swaps whose purpose was to mitigate the interest rate risk.

For transactions entered into, the total non involvement of the Group in logistics of a speculative nature is highlighted.

As of the reference date, the operations on *OTC* financial derivatives in their totality present a negative fair value of approximately 358 thousand Euros. The counterparty risk in light of these operations is therefore zero.

No transactions with long-term regulation were entered into.

Thus for the Group, with regards to the ordinary operations, the counterparty risk is to be understood as limited to sale and purchase agreements on securities (Securities Financing Transactions). For such operations, for the quantification of the internal capital given the counterparty risk, the Banca IFIS Group applies the simplified method *(CRM) (see Bank of Italy's Circular 263/2006, Title II, Chapter 3, Section II).*

There are no policies with respect to the risk exposures of unfavourable correlation.

Contracts in effect as of the date of reference do not provide for the integration of the guarantee in the event of lowering of the evaluation of their creditworthiness.

Furthermore, there are no credit derivatives in place as of the reference date.

(b) Quantitative information

i) the positive gross fair value of contracts;
ii) the reduction of the positive gross fair value due to clearing;
iii) the positive fair value net of clearing agreements;
iv) collateral held;
v) the positive fair value of derivatives contracts net of any clearing agreements and guarantee agreements;
vi) the measures of the EAD, or of the value of the exposure to counterparty risk, calculated according to the methods used (internal models, standardised, current value);
vii) the notional value of credit spread derivatives of the counterparty risk;
vii) the distribution of the positive fair value of contracts by type of underlying assets;
ix) notional value of credit derivatives of the banking book and trading book for supervisory purposes, divided by types of products, further detailed according to the role played by the bank (buyer or seller of protection) within each group of products;
x) estimate of α if the bank has received approval from Bank of Italy to provide this estimate.

With respect to sales agreements on securities (Securities Financing Transaction - SFT), all the financing operations adjusted at 31st December 2013 were carried out on systems guaranteed by central counterparties, for a total of approximately 263 million Euros on MTS (Clearing House counterparty) and for 6,656 million Euros in refinancing operations with the Eurosystem.

Furthermore, at the close of the financial year two repurchase agreements transactions with a short maturity date with banking counterparties, for a total value of approximately 4 million Euros were identified.

In view of the regulatory provisions relating to SFT transactions carried out with central counterparties (Clearing House and Central European Bank) and collateralised on a daily basis (see Bank of Italy's Circular no. 263/2006, Title II, Chapter 3, Section II), the impact in terms of capital requirement is zero. For transactions involving residual repurchase agreements with banking counterparties (equivalent value of 4 million Euros), the impact in terms of the capital requirement is equal to 363 Euros.

8. Operational risk (Table 12)

Qualitative information

(a) Description of the method adopted for calculation of the capital requirements against operational risk.

With reference to the measurement of capital requirements against operational risk, the Banca IFIS Group, having considered its characteristics in operational and dimensional terms, applies the Basic Method (*Basic Indicator Approach - BIA*).

This methodology requires that the capital requirement against operational risk is measured by applying a single regular index to the volume indicator of company operations, identified within the intermediation margin. In particular, the capital requirement is 15 per cent of the average of the last three observations, on an annual basis, of the intermediation margin. This margin is determined on the basis of the IAS accounting principles and is based on available observations with positive value.

For the determination of the internal capital against operational risk, a recalculation of the last three observations of the Group intermediation margin was performed, taking into account completion of the acquisition operation of the companies belonging to the former Toscana Finanza Group that took place on 17th May 2011.

9. Equity exposures: disclosures to banking book positions (Table 13)

Qualitative information

i) Differentiation of the exposures according to the desired objectives (e.g. realization of capital gains, relations with counterparties, strategic reasons);

ii) A description of the accounting techniques and the methodologies used in the evaluation, including the basic hypothesis and practices affecting evaluation, as well as the significant changes to these practices.

As of 31st December 2013, the equity securities included in the banking book of the Banca IFIS Group consisted of the minority shareholdings classified as “Financial assets available for sale”.

Inscription criteria

Financial assets available for sale are initially recognized at fair value, which corresponds to the cost of the transaction including any transaction costs directly attributable to this instrument. Interest-bearing instruments are accounted for at amortized cost using the actual interest rate criterion.

Evaluation criteria

After initial recognition, these investments are valued at *fair value* at closure of the reference period. The *fair value* is determined on the basis of the same criteria for financial assets held for trading. Profits and losses arising from changes in *fair value are* recognized in a special net equity reserve until the financial asset is sold, at which time the profits and losses accumulated are ascribed to the income statement. The changes in fair value recognized in the “valuation reserve” are also reported in the statement of overall profitability under item 100 “Financial assets available for sale”.

If there is objective evidence that the asset has suffered a permanent reduction in value, the accumulated loss that was identified directly in the net equity is transferred to the income statement. The amount of the total loss that is transferred from the net equity and recognized in the income statement is equal to the difference between the load value (acquisition cost net of any losses resulting from reduction in value previously reported in the income statement) and the *fair value*.

For equity instruments, the existence of lasting value loss is assessed by considering, in addition to any difficulties in the loan service by the issuer, additional indicators such as the drop of the fair value below cost and negative changes in the environment where the company operates. A significant or prolonged reduction in fair value of an equity instrument below its cost is considered objective evidence of value reduction. The loss of value is considered significant if the reduction of the *fair value* below the cost is greater than 20%, while it is considered prolonged if the reduction of the *fair value* below cost lasts longer than 9 months.

On the basis of the above considerations and in accordance with the provisions of IFRS 7, the Group classifies the *fair value* evaluations on the basis of a hierarchy of levels that reflects the significance of the inputs used in the evaluations. Distinction is made between the following levels:

- **Level 1**: *fair value* measured using prices quoted (unadjusted) on active markets for identical assets or liabilities;

- **Level 2**: *fair value* measured using input data different from the prices quoted in Level 1 that are observable for the asset or liability, either directly (as in the case of prices), or indirectly (i.e. as derived from the prices);

- **Level 3**: *fair value* measured using input data relating to the asset or the liability that are not based on observable market data (non-observable data).

Quantitative information

(b) Carrying value and fair value and, for the listed securities, comparison with the market quotation where this diverges significantly from the relative fair value

(c) Type, nature and amount of exposures, distinguishing between:
i) exposures negotiated on the market;
ii) exposures in private equity instruments held in sufficiently diversified portfolios;
iii) other exposures.

(d) Gains and losses realized overall during the reference period following sales and liquidations.

(e) i) Total gains/losses not realized (recorded in the balance sheet but not in the income statement;
ii) sum of gains/losses referred to above included in Tier 1 or Tier 2 capitals.

Table 16 – Equity exposures – Banking book

(amounts in thousands of Euros)	**Carrying value**			**Fair Value**			**Market Value**	**Profits/losses for the period**	**Capital gains/losses suspended at net capital**	**Capital gains/losses suspended at net capital calculated in Tier 1/Tier 2 capital**
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**-**	**-**	**-**
Financial assets available for sale	**-**	**-**	**13,369**	**-**	**-**	**13,369**	**-**	**59**	**449**	**225**
Capital securities										
- at *fair value*			10,325			10,325	-	59	449	225
- at cost	-	-	3,044	-	-	3,044	-	-	-	-
Total	**-**	**-**	**13,369**	**-**	**-**	**13,369**	**-**	**59**	**449**	**225**

As of 31st December 2013, impairment losses/reversals for available-for-sale impaired financial assets consisting of equity securities were included in the balance sheet for 59,000 Euros, relating to a minority shareholding. During the course of the 2013 period, this shareholding was sold, thus realizing the write-down previously recorded in the books.

10. Interest rate risk on positions in the banking book (Table 14)

Qualitative information

i) Nature of the interest rate risk;
ii) Basic assumptions made in the measurement and management of risk, in particular pertaining to loans with early basic methods used in the measurement and management of risk, particularly relating to loans with prepayment option and the dynamics of non-fixed deposits;
iii) Measurement frequency of this type of risk.

The interest rate risk on the banking book represents the risk of an unexpected reduction in the interest margin or equity resulting from an adverse variation of interest rates with effect on the assets not found in the trading book for supervisory purposes.

Within the context of the factoring activity, the loans to clients are mainly uncommitted revolving credit facility and variable rate type. Except for the operations of outright receivables purchase, in all other cases the interest rates can be unilaterally changed by the Bank.

As part of impaired loans and tax receivables operations there is a potential interest rate risk related to the uncertainty on the timing of collection. Having taken into account the size of the purchase asset, the contribution in terms of interest rate risk to the overall position of the Banca IFIS Group, although positive, is not to be considered relevant.

At the close of the 2012 financial year, the bond portfolio was made up of a share of thirty-three percent of securities with returns indexed to market rates and a share equal to two percent of securities indexed to the inflation rate. The remaining part was composed of fixed-rate securities and limited duration. The average maturity of the overall portfolio is based on values slightly less than nine months.

The sources of funding are mostly comprised of fixed rate interbank deposits (collateralized and non collateralized) of short duration, of refinancing operations with the Eurosystem and deposits of retail customers in the rendimax current account. The latter are fixed-rate for the fixed component, and non indexed variable rate, unilaterally revisable by the Bank in compliance with the rules and contracts, for the sight and call deposits. The maximum length permitted for the fixed deposits is 24 months.

This financial structure helps to contain the importance of the impact of a shock of interest rates on the market.

For the determination of the internal capital given the interest rate risk on the banking book the Banca IFIS Group uses the simplified algorithm referred to in Annex C Title III Chap.1 of Circular 263/06 of Bank of Italy. This method enables assessment of the impact on rate sensitive positions of the banking book in terms of changes in the economic value of the company compared to a hypothetical scenario of an increase in interest rates. In the context of the principles laid down in the assessment model, a distinction between “*core*” and “*non-core*” component of the overdraft accounts and demand deposits was introduced. The “*non-core*” component, which concentrates 25% of the total of current accounts and demand deposits, is classified in the “sight and uncommitted revolving credit facility” band. The “*core*” component should be distributed proportionally in the different time bands from “up to 1 month” to the maximum of the band “for over 4 years to 5 years”. In relation to the characteristics of the rendimax product which represents almost all of the passive “sight” deposits of the Group and that allows fixing of the amounts of deposits up to a maximum of two years, the “core” component was proportionally allocated in the time bands from “up to 1 month” to “more than 1 year to 2 years”.

Shown below are the main methods applied in the measurement model, as indicated in the methodological annex of Circular 263/06:

the variable rate assets and liabilities are placed in different time bands based on the date of renegotiation of the interest rate;

- the fixed rate assets and liabilities are classified in their own time bands on the basis of their remaining duration;
- the assets and liabilities are included in the schedule according to the criteria provided in Circular no. 272 "*Manual for the compilation of matrix of accounts*" and in Circular no. 115 "Instructions *for compilation of the supervisory reports of credit institutions on a consolidated basis*";
- active current accounts are classified in the "sight" band;
- the sum of overdraft accounts and demand deposits is considered to be of the "on demand" type for a fixed amount of 25% (*non-core component)* and for the remaining amount in the subsequent five time bands in proportion;
- for the determination of the degree of shock, reference is made to the annual variations in interest rates recorded in the last six years ensuring, in the case of scenarios downward, the constraint of non-negativity of interest rates.

The relevant current and prospective capital requirement is determined on an annual basis when preparing the ICAAP report. Monitoring of the relevant indicators on the degree of exposure (composition, degree of indexation, average financial duration of sources and allocations, etc.) is conducted on a quarterly basis and is subject to reporting by Top Management and the Board of Directors.

Quantitative information

In keeping with the interest rate risk measurement method adopted by management, the increase/decrease in profits or economic asset (or other relevant indicators) - broken down by major currencies - under the assumption of a shock of rates upwards or downwards.

The following table shows the result of the measurement carried out on 31st December 2012 in accordance with the methodology set out in Annex C, Title III, Chap.1 of Circular no. 263/06 issued by Bank of Italy.

Table 17 – Interest rate risk in the banking book

(amounts in thousands of Euros)	**RECEIVABLE**	**PAYABLE**	**Net exposure**	**Weighting Factor**	**Weighted exposure**
on demand or on call	917,046	619,674	297,372	0.0%	0
up to 1 month	2,237,289	6,862,748	-4,625,459	0.0%	-1,543
from 1 month to 3 months	443,370	650,194	-206,824	0.1%	-272
from 3 months to 6 months	4,015,261	487,520	3,527,741	0.3%	10,523
from 6 months to 1 year	1,320,635	912,403	408,232	0.6%	2,626
from 1 year to 2 years	1,368,739	1,305,521	63,218	1.3%	833
from 2 years to 3 years	793,413	870	792,543	2.1%	16,312
from 3 years to 4 years	46,099	877	45,222	2.5%	1,148
from 4 years to 5 years	44,305	1,135	43,170	2.8%	1,225
from 5 years to 7 years	38,077	331	37,746	2.9%	1,111
from 7 years to 10 years	1,876	567	1,309	3.3%	44
from 10 years to 15 years	1,038	2,515	-1,477	4.6%	-67
from 15 years to 20 years	0	0	0	5.9%	0
Beyond 20 years	236	0	236	7.1%	17
Change in company economic value					**31,958**
Regulatory capital					**328,131**
Riskiness indicator (warning threshold 20%)					**9.74%**

11. Remuneration and incentivization systems and practices (Table 15)

Qualitative information

Information pertaining to
i) the decision-making process adopted to define the remuneration policies including, where appropriate, information on the composition and powers of the "Remuneration Committee", on any outside consultants of whose services the bank availed itself and on the role of the bodies and of the departments concerned.

The role of corporate Bodies, control Departments and of the other company Departments is described in the Articles of Association and/or in the company regulations, and complies with Bank of Italy's supervisory provisions. Such role is summarised here below.

Role of the Shareholder's Meeting

According to the provisions of art. 10 of the Articles of Association, the Ordinary Shareholders' Meeting, in addition to determining the remuneration to be paid to the bodies appointed by the same Meeting, also approves:

- the remuneration policies in favour of directors, employees or associates not employed by the company;
- any remuneration plans based on financial instruments.

The Shareholders' Meeting is adequately informed on the implementation of remuneration policies.

Role of the Board of Directors

The Board of Directors is currently made up of the following members:

- Sebastien Egon Fürstenberg (Chairman of the Board of Directors);
- Alessandro Csillaghy (ViDeputy Chairman of the Board of Directors; Executive Director);
- Giovanni Bossi (C.E.O.);
- Giuseppe Benini (Independent and non-executive Director; Lead Independent Director);
- Francesca Maderna (Independent Director);
- Andrea Martin;
- Riccardo Preve;
- Marina Salamon;
- Daniele Santosuosso (Independent Director).

On a yearly basis, the Board of Directors adopts and reviews the remuneration policies, including for the purpose of reporting and formulating proposals to the Shareholders' Meeting. During the preliminary phase, the Board avails itself of an internal Committee, as specified here below. Such Committee is assigned the task of making sure that company departments are involved in the process of preparing and checking the remuneration policies and practises. The main Parent Company departments involved are the Human Resources Area and the Strategic Planning and Management Control Department for the preparation and implementation, as well as the Risk Management Department, the Compliance and Anti-money laundering Department (both under the supervision of the Chief Risk Officer) and the Internal Audit Department for the consulting and control profiles.

The Board of Directors, pursuant to art. 2389 of the Italian Civil Code, defines the remuneration of directors vested with special offices, in compliance with the Articles of Association and after consulting with the Appointment and Remuneration Committee, with the favourable opinion of the Board of Statutory Auditors.

The Board of Directors also defines the remuneration and incentivization systems for the "risk-takers" (as defined by Bank of Italy's supervisory provisions and the self-evaluation conducted from the time to time by the Board itself), falling - in addition to the list of directors vested with special offices (directors with executive tasks) - in the following categories:

- Directors to whom executive tasks are assigned;
- General manager and heads of the main business lines, company departments or geographical areas, as well as those who report directly to corporate bodies with strategic supervision, management and control function;
- Heads and higher-level personnel of the internal control departments.

In the area of employees, the Banca IFIS Executives with strategic responsibilities, as of the date of preparation of the financial statements, are:

- the General Manager;
- the Corporate Financial Reporting Officer.

In view of art. 14 of the Articles of Association, *"the Board of Directors is exclusively responsible for resolutions concerning:*

- *the appointment, revocation and remuneration of members of Top Management;*
- *the evaluation of the consistency of the remuneration and incentivization system with the Bank's long-term strategies, ensuring that the system is such as to not increase company risks".*

Role of the C.E.O. and of the General Manager

The C.E.O. is responsible for executing the resolutions adopted by the Board of Directors, including with the assistance of the General Manager.

Composition, responsibilities and functioning of the "Appointment and Remuneration Committee"

Following the resolutions adopted by the Shareholders' Meeting and by the Board of Directors' meeting dated 30th April 2013, the Committee now consists of the Chairman Sebastien Egon Fürstenberg (non-executive and non-independent), of the Director Maderna (independent and non-executive) in the role of Chairman, and by the Director Daniele Santosuosso (independent and non-executive).

In view of the Board Members' curricula vitae, the Board has expressed an opinion of conformity concerning the Body's composition with respect to the legislative provisions, especially with regards to the adequate knowledge and experience acquired by Francesca Maderna on the subject of financial matters and remuneration policies.

The Committee stays in office for three years and meets periodically, including in video/telephone conference, any time the need arises in connection with the tasks assigned to it.

The Regulations require that the Chairman of the Parent Company's Board of Statutory Auditors, or another Standing Auditor appointed by the Chairman from time to time, also participates in the Committee's activities. Moreover, the Regulations provide for the possibility of participation by the Parent Company's C.E.O. and General Manager, in case the agenda does not include topics that concern them, and the ban, for the other directors, to take part in meetings of the Committee during which proposals are made to the Board of Directors concerning their remuneration. The Committee's Chairman evaluates, in connection with the topics to be discussed, the opportunity of having the Head of the Risk Management Department participate in the meetings, for the purpose of ensuring that the incentivization systems are adequately correct in order to take into account all risks assumed by the Banking Group, according to methods that are consistent with the ones adopted for risk management for regulatory and internal purposes. Lastly, the Committee may request the presence of:

- external consultants expert on the topic of remuneration policies, which may also be identified among the Parent Company's members of the Board of Directors, provided that such experts do not render at the same time to the Human Resources Areas, to the executive directors or to the executives with strategic responsibilities of the Parent Company and/or other Group subsidiaries, services whose significance is such to concretely compromise the independent opinion of the same consultants;
- any other representative or company employee of the Parent Company or of another Group subsidiary.

Functions of the Appointment and Remuneration Committee

At least once a year, the Committee evaluates the adequacy, overall consistency and tangible application of the Group's remuneration policies approved by the Parent Company's Shareholders' Meeting. With the same minimum frequency, the Committee reports to the Parent Company's Board of Directors and Shareholders' Meeting on the activity carried out. Consequently, the Chairman or at least one member of the Committee must be present at such Meeting.

Generally speaking, the Committee is assigned the following tasks:

- providing consulting services and formulating proposals to the Parent Company's Board of Directors concerning the remuneration of company representatives (including executive directors and other directors vested with special offices), of executives with strategic responsibilities and of the heads of the internal control departments of the Parent Company and of the Group other subsidiaries;
- providing consulting services on the subject of determining criteria for the remuneration of the remaining "risk-takers" identified within the Parent Company and the other Group subsidiaries in compliance with the supervisory provisions in force;
- directly overseeing the proper application of rules pertaining to the remuneration of the heads of the internal control departments of the Parent Company and of the other Group subsidiaries, working closely with the Board of Statutory Auditors;
- handling the preparation of the documentation to be submitted to the Board of Directors of the Parent Company for the relevant decisions;
- cooperating with the Internal Control and Risks Committee, in case the coincidence of a significant component of the members of the two Committees fails to guarantee such cooperation *ipso facto*;
- ensuring the involvement of the *Internal Audit function*, of the Human Resources Area, of the Strategic Planning and Management Control Department, of the *Risk Management* Department and of the Compliance and Anti-money laundering Department of the Parent company during the preparation and control process of the Group's remuneration policies and practices;
- monitoring the application of decisions adopted by the Board of Directors of the Parent Company and of the other Group subsidiaries on the subject of remuneration and, specifically, to express itself, also using the information provided by the company departments on the achievement of performance objectives on which the incentive plans are based and on the verification of the other conditions established for the disbursement of the payments;
- formulating proposals to the Parent Company's Board of Directors with regards to the assignment criteria of *stock options* or shares in favour of the Group's directors and employees;
- with regards to the latter, if possible, providing an interpretation in controversial cases and rectifying the assignment conditions of each tranche as well as regulating the exercise of emerging rights in case of transactions of an extraordinary nature on the Parent Company's capital (mergers, increases in capital for free or against payment, fractioning or grouping of shares, etc.).

Independent experts

There were no independent experts involved in the preparation of the remuneration policy of the Banca IFIS Banking Group.

The Bank did not avail itself of individuals external to the company for performing the verification, at least once a year, on compliance of the remuneration practices with the approved policies and with the supervisory provisions. Said verification was carried out by the Internal Audit Department, in observance of the relevant Regulations.

Qualitative information

Information pertaining to:
ii) the methods through which the connection between remuneration and performance is ensured;
iii) the more significant characteristics of the remuneration system, including the criteria used to evaluate performance, adjustment to risks, deferral policies with special reference to ex post correction mechanisms for risks;
iv) performance indicators taken as reference for the variable pay, including plans based on shares, stock options or other financial instruments;
v) the reasons underlying the choices of the variable remuneration systems and of any other non-monetary benefits and the main parameters used.

The variable component of the remuneration paid to the C.E.O. and to the General manager is tied to the overall results of the Bank and follows their trend, while the deferral mechanism takes into account the stability of such results for a three-year horizon as well as the capital resources and liquidity needed to deal with the activities undertaken.

After the appointment of the current directors by the Shareholders' Meeting of 30th April 2013, the Board of Directors, as part of the remuneration policy decided by the shareholders, set the remuneration of executive directors, of the other directors vested with special offices and of the General Manager. During the course of 2013, the Board adopted the following resolutions:

- to raise to 40,000,000 Euros the portion of the Bank's consolidated result, including the taxes for the period only, on which the percentages of 1.5% and 0.75% established in order to determine the variable pay for the C.E.O. and for the General Manager will not be applied;
- to set as the limit of the incidence of the variable component over the fixed component at 100% of the GAS for the C.E.O. and 60% (again of the GAS) for the General Manager.

The payment of 40% of the variable component of the C.E.O.'s remuneration is subject to a three-year deferral period; such payment is not made if:

- in one or more of the three periods ending after the determination of such variable component, the Bank's consolidated result before the taxes for the period only is negative;
- in one or more of the three periods ending after the determination of such variable component, the "total capital" is lower than the "total internal capital" in the "ICAAP report" to be submitted every year to Bank of Italy;
- during the three-year deferral period the C.E.O. has voluntarily resigned from office or the Shareholders' Meeting has resolved on his revocation for just cause.

The sums subject to said deferral are revaluated annually at the legal rate in force from time to time.

The amount of the variable pay to be paid to the C.E.O. is in any event subject to compliance with the overall limit for the remuneration of the Board of Directors determined by the Shareholders' Meeting, from which all the other remuneration which the Board decides to pay to other members for any reason are first deducted.

The General Manager's remuneration consists of a Gross Annual Salary (GAS) and a variable pay, equal to 0.75% of the Bank's consolidated result before taxes for the period only, for the portion exceeding 40 million Euros. The variable portion cannot exceed a limit of 60% if the GAS.

The payment of 40% of the variable component of the General Manager's remuneration is subject to a three-year deferral period; such payment is not made if:

- in one or more of the three periods ending after the determination of such variable component, the Bank's consolidated result before the taxes for the period only is negative;
- in one or more of the three periods ending after the determination of such variable component, the "total capital" is lower than the "total internal capital" in the "ICAAP report" to be submitted every year to Bank of Italy;
- during the three-year deferral period the General Manager has not voluntarily resigned (save for the retirement request) from office or the Shareholders' Meeting has resolved on his revocation for just cause.

The sums subject to said deferral are revaluated annually at the legal rate in force from time to time.

For risk-takers responsible for control functions, the variable portion is not significant compared to the remuneration, and it is not tied to the achievement of specific performance objectives. During the evaluation, the following aspects are taken into account: the level of risk supervision, any problems arising with regards to the latter, the individual salary situation of recent years as well as any other additional element in said context deemed useful for the overall evaluation.

For the remaining risk-takers, the payment of the variable component, if any, is based on mainly qualitative evaluations, without prejudice to certain general parameters defined *ex-ante* (in terms of consolidated profits and solvency ratio), and it is carried out after approval of the financial statements.

The variable remuneration system for the sales network is defined by the C.E.O. and communicated to the Board of Directors.

For the remaining personnel, the variable remuneration is tied to mainly qualitative evaluations.

In reference to the period ending on 31st December 2013, the relevant policies on the subject of remuneration do not include any plans based on shares, stock options or other financial instruments.

The policies for 2014 on the subject of remuneration require that a significant portion of the variable component be paid through the use of plans based on shares issued by the Bank.

Remuneration, specifically of those who occupy primary positions within the Bank, tends to attract and keep within the company individuals with professionalism and skills suited to the needs of the Banca IFIS Banking Group.

At the same time, remuneration systems should not be in contrast with company objectives and values, long-term strategies and prudent risk-management policies of the Bank, in line with the contents of the provisions of the prudential control process.

The remuneration and incentivization system of the Banca IFIS Banking Group is inspired by the following principles:

- making company performance consistent with the Group's objectives of sustainable growth;
- stimulating and recognizing individual contributions, motivating the people concerned;
- developing loyalty in company personnel by tying them to the company including through medium/long-term systems;

- searching for the best balance between the interests of the various stakeholders;
- focusing attention on risk containment policies;
- fostering respect for legality and discouraging any violation;
- refrain from creating situations of conflict of interest.

The remuneration policies of the Banca IFIS Banking Group have been defined by taking into account the proportionality criteria associated with the characteristics, dimensions and complexity of the activity carried out. In this context, in relation to the remuneration policies approved by the Shareholders' Meeting for the year 2013, the following elements are particularly important:

- the Banca IFIS Banking Group belongs to Class 2 intermediaries (total assets between 3,5 and 40 billion Euros) with dimensional levels still far from the entrance level of the list of banking groups known as "major" (total assets of more than 40 billion Euros);
- Banca IFIS, admitted to the STAR segment of the Italian Stock Exchange, featured a significant concentration of capital. The determining factors that affected the listing on the stock market, which presented a floating content, could have been significantly influenced by external elements, such as the overall trend of the stock exchange and/or the specific trend of Bank shares;
- the *business* developed by the Group was mainly addressed to activities whose quantifiable risks are basically expressed in the short term. In this context, the following activities are particularly relevant, in terms of size:

  - the *factoring* activity, the main source of the undertaking of credit and counterparty risk towards the customers. This activity, mainly aimed at assignors belonging to the market segment of small and medium enterprises, focuses on the financing of short-term trade receivables, usually not longer than six months with the exception of receivables due from the Public Administration which usually have average collection times of up to twelve months;
  - the treasury activity, the main source of undertaking of credit and counterparty risk towards financial institutions and concentration risk as well as market, interest rate and liquidity risk. This activity was mainly carried out through a bond portfolio consisting of bonds *eligible* at the Central European Bank which have an average residual life of less than two years.

  The remaining activities, in terms of type, dimensions and/or management modes, also do not contain significant risk elements in the medium period.

Said considerations have had an impact on:

- the definition of criteria used to determine the variable component of the remuneration, in which contest there were no plans to pay part of the remuneration in company shares and/or share-linked instruments;
- the identification of "risk-takers" as provided for by the provisions of Bank of Italy dated 30th March 2011;
- the definition of Group remuneration policies with different methods depending on the category to which the personnel belong;
- the plan, for part of the "risk-takers" and, more generally speaking, for the remaining personnel, to not distribute part of the variable pay with a long-term deferral.

Table 18 shows the levels of the Gross Annual Salary (GAS) and the Total Annual Salary (TAS) - comprising the GAS, the variable pay and the annual company bonus - per qualification level, calculated on the entire population of the Banking Group.

Quantitative information

i) Aggregate information on remuneration, split into the areas of activity.

Table 18 – Gross Annual Salary (GAS) and Total Annual Salary (TAS) by areas of activity

Areas of activity	**No. of employees**	**Average Gross Annual Salary (Euros)**	**Average Gross Annual Variable Pay (Euros)**	**Average Total Annual Salary (Euros)**
Factoring in Italy and abroad	**292**	**38,582**	**4,558**	**43,140**
Purchase and management of non-performing loans	**56**	**32,758**	**3,025**	**35,783**
Purchase and management of tax credits	**21**	**37,256**	**8,829**	**46,085**
Central units	**171**	**42,503**	**4,669**	**47,172**

Quantitative information

ii) Aggregate information on remuneration, broken down by the various categories of "risk-takers", indicating the following:
- the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;
- the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;
- the amounts of deferred remuneration, split into vested and unvested portions;
- the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;
- new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments;
- the amounts of severance payments awarded during the financial year, number of beneficiaries and the highest amount paid to a single person.

Table 19 below shows, in aggregate form, the main information on the remuneration paid to categories of “risk-takers”. The amounts shown in the table are average gross amounts expressed in thousands of Euros.

Table 19 - Aggregate information on remuneration by categories of risk-takers

Risk-takers category	Number of beneficiaries	Fixed component		Employees fixed salary	Non-equity variable pay		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End-of-office or employee severance indemnity	Deferred remuneration paid during 2013	Deferred portion of variable pay 2013	Deferred portion of variable pay referred to previous periods
		Office indemnity	Remuneration for special offices as per art. 2389 of Italian Civil Code		Bonuses and other incentives	Profit-sharing								
Members of Board of Directors with executive tasks	2	22	550	-	-	325	-		897	*n.a.*		-	130	173
General Manager and heads of main business lines, company units or geographical areas, as well as executives reporting directly to bodies with strategic supervision, management and control function	10	-	-	142	37	18	11	-	208	*n.a.*	-	-	7	17
Heads of internal control units	7	-	-	97	10	*n.a.*	6	-	113	*n.a.*		-	-	-

N.B. The remuneration of individuals falling, even for only part of the year, in more than one category is included in the average gross values of the category that can be considered more significant according to the order, reproduced in this table, that can be inferred from the supervisory provisions of Bank of Italy dated 30th March 2011 on the subject of remuneration and incentivization policies and practices in banks and in banking groups

Declaration by the Manager Responsible for the preparation of the corporate accounting documents

The undersigned, Carlo Sirombo, manager responsible for the preparation of the corporate accounting documents of Banca IFIS S.p.A. declares, in accordance with paragraph 2 of article 154 bis of the "Consolidated text of the provisions regarding financial intermediation" that the accounting information contained in this document corresponds to the documentary information, ledgers and accounting records.

The Corporate Financial Reporting Officer

Carlo Sirombo