GruppoBancaIFIS

BASEL 2 – THIRD PILLAR

DISCLOSURE TO THE PUBLIC
as of 31st December 2012

Banca IFIS S.p.A.
Register of Banks no.: 5508
Parent company of the Banca IFIS Banking Grop, enrolled in the Register of Banking Groups
Share Capital: Euro 53.811.095 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, Via G. Camozzi 106
Bologna - Imola, Via U. Lambertini 6
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
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, Pl.Trzech Krzyży 10/14

Contents

Disclosure to the public (Pillar 3) as of 31st December 2012

**All figures are expressed using standard Italian format*

Introduction

With the issuing of the "New prudential supervisory provisions for Banks" (Circular 263 dated 27th December 2006 as subsequently amended), the 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 requirements;
- 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 regard to the "third pillar" (Pillar 3), for the purpose of strengthening market discipline, Circular 263/06 of the 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:

Table (cf. Circular 263/2006 – Title IV, Chapter 1, Annex A)		Qualitative information	Quantitative information
Table 1	General disclosure requirement	X	
Table 2	Scope of application	X	X
Table 3	Composition of regulatory capital	X	X
Table 4	Capital adequacy	X	X
Table 5	Credit risk: general information for all banks	X	X
Table 6	Credit risk: disclosures for portfolios treated under the standardized approach and specialized lending and equity exposures treated under IRB approaches	X	X
Table 7	Credit risk: disclosures for portfolios treated under IRB approaches (*)		
Table 8	Risk mitigation techniques (**)		
Table 9	Counterparty risk	X	X
Table 10	Securitization transactions (***)		
Table 11	Market risks: disclosures for banks using the internal methods approach (IMA) for position risk, foreign exchange risk and commodity risk (*)		
Table 12	Operational risk	X	
Table 13	Equity exposures: disclosure for banking book positions	X	X
Table 14	Interest rate risk on positions in the banking book	X	X
Table 15	Remuneration and incentivization systems and practices	X	X

(*) 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).

Compared to the Disclosure to the Public as of 31st December 2011, this document takes into account the main novelties introduced with the 9th update of Circular 263/06 (Title V, Chapter 4 and 5) on the subject of "*Equity investments that may be held by banks and banking groups"* and *"Risk activities and conflict of interests towards related parties"*. Table 1 of this document was supplemented in order to provided a specific disclosure on the risks associated with investments in equity interests and with exposures towards related parties.

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 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;
- acquisition and management of *non-performing loans*;
- 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 2012, the Banca IFIS Banking Group consisted of the Parent company and the Polish subsidiary IFIS Finance Sp. Z o.o.. For the wholly owned-subsidiary TF Sec s.r.l., not included within the footprint of the Banking Group, the liquidation procedure is being completed.

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 Top Management (consisting of the C.E.O. and of 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 regard to the achievement of the strategic objectives of the Bank and of the Group as a whole.

Top Management (C.E.O. and General Manager of the Parent company) 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 Groups consists of rules, procedures and organizational units that aim to ensure 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 elected 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 regard 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 Function, 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 Function.

The Internal Audit Function, in staff to the Board of Directors, not responsible for any operational area and not hierarchically dependent upon any operational area manager, represents a staff unit of the Top Management's direction and coordination activities, as an autonomous consultation, informational and control instrument. All this for the purpose of correctly identifying the main risks pertaining to Banca IFIS and to the subsidiaries controlled by it in its capacity of Parent company, as well as of measuring, managing and monitoring said risks, pursuing a healthy and proper business management.

Moreover, Banca IFIS has adopted specific measures aimed at monitoring the risk of incorrect financial disclosure: the provisions in the Articles of Incorporation 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 set of figures in charge of the internal audit system is completed by additional risk management control functions, mainly entrusted to:

- *Chief Risk Officer*, in staff to the C.E.O., who is assigned the following tasks:
  - ✓ overseeing the Risk Management Department, the Compliance Department and the Anti-Money laundering Function (set up within the Compliance Department) in connection with which it ensures the necessary coordination, with a view to constant improvement of the overall internal audit and risk management system;
  - ✓ responsibility for updating the Group's Risk Appetite framework, for the integrated monitoring of risks, for the implementation of the risk management processes, assurance of a suitable and timely disclosure on risk topics to the various company Departments and to Top Management, to preliminary opinions on consistency with the company policy of risk governance of significant transactions and the inclusion in new businesses/products;

- Risk Management Department, with the aim of establishing the methodologies, tools and procedures to identify, measure, monitor and control the various types of risks, compliance with the risk policies defined by the Bank and with any limits set by the latter, as well as of verifying the proper application of operational process falling within their area of responsibility;
- Compliance Department, with the aim of identifying non-compliance risks, assessing their impact and recommending mitigating actions through the preliminary analysis and monitoring of the regulations included in the reference footprint and of their fallout on company units and processes;
- Anti-Money laundering Function, with the aim of constantly verifying that company procedures are consistent with the goal of preventing and fighting the violation regulations on the subject of Anti-money laundering and funding of acts of terrorism.

In late 2012, a comprehensive review of the internal audit system was launched consistently with the regulations discussed during the month of September 2012 “Prudential supervisory provisions for Banks – Internal audit system, information system and business continuity”.

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 monitoring their continuing 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. With the inclusion in the Banca IFIS Group's footprint of the former Toscana Finanza Group, the traditional factoring business has been complemented with the business of acquiring non-performing trade and tax receivables with different risk profiles. The sellers are typically banks, financial institutes, insolvency proceedings and businesses. The activities carried out by the former Toscana Finanza Group do not include the granting of financial guarantees or the taking on of commitments other than those associated with the acquisition of the aforementioned receivables.

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 troubled 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 2012, the Group continued to purchase bonds classified as "*Available for Sale*" or "*Held to Maturity"* and, to a lesser extent "*Loans and Receivables due from banks*". 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 bond portfolio average maturity is approximately twenty-one months, while the maximum maturity per individual asset is longer 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's 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 the constant monitoring of 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 to recover the debt, also with support from the Legal Department, if necessary.

The integration of the former Toscana Finanza Group has led the Banca IFIS Group to also operate 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.

Acquiring the different types of receivables is a fundamental aspect of the credit process and is carried out in various ways, designed and implemented based on the experience gained over the years. In this stage, the Group sets the terms and conditions for the acquisition of the receivables portfolio and how to manage it (analytical or aggregate method), assessing the relevant impact on operating units. In order to collect non-performing loans relating to the scope of the former Toscana Finanza Group, the Banca IFIS Group can count on not only an in-house legal office, but also a widespread and proven network of credit collection companies operating throughout Italy. This structure, together with numerous lawyers located near the courts, ensures the utmost flexibility and effective and timely action to recover all types of debt.

With the acquisition of the former Toscana Finanza Group, also the subsidiary TF SeC S.r.l. joined the Banca IFIS Group. TF SeC S.r.l. carried out ancillary activities of corporate consultancy and professional assessment of non-performing loans. The procedure to liquidate TF SeC S.r.l is about to end.

Management, measurement, control and reporting systems.

The operational procedure governing Banca IFIS Group's credit process within the traditional factoring activity is audited during the year and expressly requires a thorough and analytical assessment of all the counterparties (both the seller and the account debtor) involved in the factoring relationship. These operations do not include the statistics-based assumption of credit risks.

Within the factoring activity, credit risk is constantly monitored by means of procedures and instruments allowing to rapidly detect particularly anomalous positions. The main instrument of assessment and control is the Internal Rating System (IRS). During the assessment stage, the IRS allows the analysts to:

- define the credit standing and counterparty rating of the seller and the debtor;
- immediately identify the risk in each individual cash advance or financing operation;
- define adequate pricing for each class of risk right from the initial feasibility study.

Following a positive assessment, the IRS, which constantly draws on 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 to assess the seriousness of the anomalies and whether the problems are permanent or temporary, so as to decide whether or not to maintain the relationship . 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. Other counterparties are assessed only by using the financial statement analysis form and the Central Credit Register form.

As for the activities carried out by Banca IFIS following the merger of the companies in the former Toscana Finanza Group, in order to ensure increasingly efficient control over the operations undertaken, investments have been made in information systems, with the adoption of solutions and procedures to manage the various business sectors. To manage its credit risk Banca IFIS has implemented a system to monitor the cash flows generated by the collection of receivables and to analyse the profitability of the receivables portfolio. This work is followed by a periodic review of the technical foundations underpinning the projections of expected cash flows.

Among the activities related to the former Toscana Finanza Group, the purchases of non-performing loans are particularly significant. Those loans are classified as from their purchase under impaired assets. 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.

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 Top Management on the composition of the bond portfolio.

Credit risk mitigation techniques

Within 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 to assess 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 for the former Toscana Finanza Group's non-performing loans and tax receivables business and the relevant business model, generally no action is taken to hedge 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 on the part of the counterparty, the situation is placed under watch and the Head Office's Credit Management Area directly supervises the branch's management 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.

Value adjustments, upon proposal by the Legal Department, are assessed by the Top Management and subject 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.

The activities undertaken by Banca IFIS following the merger of the subsidiaries of the former Toscana Finanza Group concern the acquisition, management and collection of non-performing loans/tax receivables. Excluding the tax receivables due from the Public Administration, a signification portion of the remaining receivables are classified under 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.

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, during the course of 2012, the business of sale repurchase agreement payables has been given a considerable push.

However, said activity 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).

Said 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 portfolio for Supervisory purposes (position, settlement and concentration risks) and with the Bank's entire budget (exchange rate and position risk on commodities).

Since the Group carries out its activity almost exclusively in the areas of the financing of working capital of small and medium-sized enterprises, and of the acquisition of non-performing loans and tax receivables, it usually does not assume any market risk.

Bond purchases made during 2012 are included in the banking book, since these bonds are classified under Available for Sale, Held to Maturity and Loans and Receivables assets, and therefore do not give rise to new market risks.

At the end of 2012 the Group recognized an interest rate swap, which was included under the Group's financial liabilities. The classification of the derivative under financial liabilities held for trading does not reflect the aim of the transaction, which is to mitigate the impact of possible fluctuations in key interest rates.

In reference to the Group's *banking book* perimeter, the only market risk that may manifest itself is the currency risk. Assumption of the currency risk, intended as a management tool that is potentially suitable for improving treasury performance, represents a speculative instrument. Therefore, in principle, it is not part of the Group's policies. The Bank's currency operations basically involve transactions carried out in the name or on behalf of customers, and are usually associated with the traditional factoring activity. In this sense, the currency advances granted to the customers are generally hedged by deposits and/or loans from other banks in the same currency, thus eliminating for the most part the risk of losses associated with exchange rate fluctuations. In some cases, synthetic instruments are used as hedging instruments.

A residual currency risk arises as a result of a physiological mismatch between the customers' use and the Treasury Department's currency procurement. Such mismatches are mainly a result of the difficulty in correctly anticipating financial trends associated with the factoring activity, with special reference to cash flows from account debtors vis-à-vis the maturity of loans granted to customers, as well as the effect of interest on said loans. Nevertheless, the Treasury Department is committed on a daily basis to minimizing said differences, constantly realigning the size and timing of currency positions.

Currency risk related to the Bank's activities is assumed and managed in compliance with the risk policies and limits set by the Parent company's Board of Directors, with precise delegations of powers limiting the autonomy of individuals authorized to operate, as well as particularly strict limits on the daily net currency position.

The business departments responsible for guaranteeing proper management of the currency risk are: the Treasury Department, which directly manages funding and the bank's currency position; the Risk Management Department, responsible for identifying the most appropriate risk indicators and for monitoring asset and liability trends with reference to preset limits; and, lastly, Top Management, which every year is responsible for making proposals to the Bank's Board of Directors regarding policies on funding and management of the currency risk, as well as for suggesting appropriate interventions during the year to ensure that operations are carried out consistently with the risk policies approved by the Bank.

In order to monitor the currency risk, Top Management receives a daily summary on the Treasury's general position showing, among other things, the Group's currency position broken down by currency.

The Integrated Treasury and Risk Management System (SIT) provides the control departments with the appropriate tools for monitoring and measuring the currency risk. Furthermore, the Risk

Management Department periodically reports to the Bank's Board of Directors on the currency risk position by means of a quarterly Dashboard prepared for the Bank's management.

Expansion into the Polish market through the subsidiary IFIS Finance does not change the above: assets denominated in zloty are financed through funding in the same currency. With the acquisition of this Polish subsidiary, Banca IFIS has assumed the currency risk represented by the initial investment in IFIS Finance's share capital for an amount of 21,2 million Zloty and the subsequent share capital increase for an amount of 66 million Zloty.

Furthermore, Banca IFIS owns a 10% equity interest in the share capital of the company India Factoring and Finance Solutions Private Limited, for a total of 200 million Indian rupees and a value of 3.044 thousand Euro at the historic exchange rate. Considering the size of this investment, it was not deemed necessary to hedge the ensuing currency risk.

With regard to the activities carried out by Banca IFIS following the merger of the companies in the former Toscana Finanza Group, no positions in foreign currency were recognized.

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.

Managing operational risks requires the ability to identify the risks entailed by all significant products, activities, processes and systems that could compromise the Group's goals. Operational risks include the risks of judicial or administrative sanctions or of significant financial losses 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 Corporate Governance Code for listed companies).

Correct 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 2012 Banca IFIS continued to strengthen controls over operational risks also by progressively updating internal processes aimed at monitoring and identifying potential anomalous situations.

Control of operational risks is ensured as part of the internal systems of control briefly described above. The department in charge of setting up suitable controls of operational risks is the Organization and IT Systems Area, which is responsible for defining and adjusting over time the organizational layouts and company processes. The individual operational units are assigned the direct monitoring of operational risks (line controls); additional controls are entrusted to the *Risk Management* Department, to the Compliance Department and to the Anti-Money laundering Department (under the supervision of the *Chief Risk Officer*) as well as to the Financial Reporting Officer. In view of the fact that the category of operational risks is transversal to all banking processes, the "third level" control and monitoring activity is entrusted to the Internal Audit Function.

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. The monitoring of third-level risks is entrusted to the Parent company's Internal Auditing Function, which operates directly and through the support of specialized local organizations.

As far as Business Continuity is concerned, the Banca IFIS Group has adopted a Business Continuity Plan, inclusive of a *Disaster Recovery Plan*, suited to the technological evolutions of company IT systems. Every year, the Bank conducts *Disaster Recovery* test, simulating service interruptions and activating the same interrupted applications at other sites.

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 immobilisation 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* and holds a single shareholding in a non-financial company (among other aspects in the process of liquidation), within the context of a not particularly significant amount in the current overall investment in equity and the current low risk of conflicts of interest as part of the activity of equity investment and the remaining banking activity (in particular that of credit provision).

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 account. Interbank funding operations are mainly at a fixed rate and very short term. Customer deposits on the rendimax account 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. The development of the activity of permanent acquisition of receivables towards *Public Administrations* debtors – with special reference to the National Healthcare System – entails the assumption of the interest rate risk over longer time horizons compared to traditional *factoring* transactions.

As part of the non-performing loans/tax receivables business undertaken by Banca IFIS following the incorporation of the companies belonging to the former Toscana Finanza S.p.A. Group, with 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 31^{st} December 2012, approximately thirty-three percent of the bond portfolio consisted of bonds indexed to market rates and two percent of inflation-indexed bonds. The remainder consisted of fixed-rate, short-term bonds. The average maturity of the overall portfolio was just under nine 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 business 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 monitoring asset and liability trends 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 consistently with the risk policies approved by the Bank.

Based on the trend and composition of the *online* funding, on interest rate forecasts and on evaluations of lending trends and *pricing* policies of the main *competitors*, Top Management also defines, from time to time, the interest rates to apply to the free and fixed-term rendimax accounts.

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 by means of a quarterly *Dashboard* prepared for the Bank's management. The Integrated Treasury and *Risk Management* System (SIT) provides further tools for assessing and monitoring the main interest rate-sensitive assets and liabilities.

Considering the entity of the assumed risk , the Banca IFIS Group does not usually hedge the interest rate risk. Moreover, following the acquisition of the companies that belonged to the former Toscana Finanza Group, at the end of 2012 it recognized among hedging liabilities one interest rate swap position which was acquired in order to offset possible fluctuations in the reference interest rates.

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 of the Banca IFIS Group are represented by the capital, by the funding from customers (in particular the online rendimax account), 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 in order to limit *factoring* transactions on 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, is not critical.

In reference to the activities carried out by Banca IFIS following the merger of the companies in the former Toscana Finanza Group, 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 non-performing loans compared to the total assets of the Banca IFIS Group, the overall impact on the balancing of maturities of consolidated assets and liabilities can be deemed marginal. In order to ensure expected cash flows are correctly assessed, also with a view to correctly *pricing* the operations undertaken, the trend in receipts compared to expected flows is carefully monitored.

Thanks to the breadth and diversification of interbank relationships, the securitization programme and 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 bond portfolio *eligible* with the ECB or suitable for financing repurchase agreements, as well as to the type and quality of its assets, the Banca IFIS Group has always secured adequate 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.

With reference to the Polish subsidiary, the treasury activity is co-ordinated by Banca IFIS's Treasury Department, in accordance with the Group's policies. Naturally, where necessary, the bank may intervene directly in the subsidiary's favour.

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 the Top Management, which every year shall make proposals to the Bank's Board of Directors regarding policies on *funding* and the management of liquidity risk, as well as suggest appropriate interventions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Group.

As 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. Furthermore, the *Risk Management Department* periodically *reports* to the Bank's Board of Directors on the liquidity risk position by means of a quarterly Dashboard prepared for the Bank's management.

The monitoring of liquidity risk is completed with the daily measurement of the overall exposure sent to Top Management and to the Treasury by the *Risk Management Department*. Furthermore, the liquidity risk position is also subject to periodical reporting to the Bank's Board of Directors, as part of the section of the *Dashboard* dedicated to the trend of indicators envisaged by risk policies, prepared by the *Risk Management Department*.

Residual risk

This represents the risk that the techniques recognised for credit risk mitigation used by the Bank are less effective than expected.

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

Securitization risk

This represents the risk that the economic aspect of the securitisation 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.

In the course of 2011 the Board of Directors of Toscana Finanza decided to proceed with the realisation of a securitization operation of *non-performing* receivables 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.

On the date of reference the group holds no active positions on the 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 these.

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 the activities of *factoring*, 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 regard to deposit from *retail*. The high number of borrowers related to operations in the field of non-performing 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 regard 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 quality of service to customers 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 assets and conflicts of interest in respect of 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 Board of Directors approved, within the time limits set forth in the supervisory provisions, the adaptation of the "Procedure for the operation with related parties" aligning the measures and safeguards with the provisions that came into force on 31st December 2012.

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. Parent company of the Banca IFIS Banking Group, member of the Register of Banking Groups.

The consolidation area for prudential purposes is defined by the 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 the Bank of Italy's Circular 155/91 – "Instructions on 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. No differences can therefore be established on 31st December 2012 between the perimeter of consolidation used for the calculation of regulatory capital and consolidated capital ratios and those of the consolidated financial statements.

The consolidation area for prudential and financial statements purposes as of 31st December 2012 includes the Parent company Banca IFIS S.p.A., the Polish subsidiary IFIS Finance Sp. Z o. o. and the company TF Sec S.r.l.. The latter is the result of the acquisition of the company Toscana Finanza S.p.A. on 17th May 2011 and of the subsequent merger by incorporation of said companies into Banca IFIS S.p.A., which took place on 28th December 2011.

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 purpose	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
TF SEC S.r.l. in liquidation	Finance Company	Florence (Italy)	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 of 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 area 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 capita 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 of the 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 in the stages of development.

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 the 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.

The 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 5,4 million Euro as of 31st December 2012

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 value adjustments 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 in Tier 1 capital	
Share capital	53.811
Share premium reserves	73.188
Reserves	104.371
Profit for the period	58.262
Total positive elements in Tier 1 capital	**289.632**
Negative elements in Tier 1 capital	
Own shares or stock	1.340
Goodwill	850
Other intangible assets	4.833
Negative Reserves AFS securities	465
Total negative elements in Tier 1 capital	**7.488**
Tier 1 capital including elements to be deducted	**282.144**
Elements to be deducted	-
TOTAL TIER 1 CAPITAL	**282.144**
Positive elements in Tier 2 capital	
Valuation reserves	350
Negative elements in Tier 2 capital	
Other negative elements	4.391
Prudential filters	175
TOTAL TIER 2 CAPITAL	**-4.216**
TOTAL REGULATORY CAPITAL	**277.928**
TIER 3 capital	-
TOTAL REGULATORY AND TIER 3 CAPITAL	**277.928**

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 263/06*), 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*). By internal capital adequacy, it is meant the internal capital referring to all the relevant risks assumed and that 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 risks of Pillar I and II.

Table 3 - Methods for measuring internal capital

CATEGORY	RISK TYPE	METHOD
FIRST PILLAR RISKS	**Credit Risk**	Standardized Method
	Counterparty Risk	Standardized Method (exposure: simplified CRM method)
	Market Risk	Standardized Method
	Operational Risk	Basic Meghod (*BIA*)
SECOND PILLAR RISKS	**Concentration Risk**	GA method - *Granularity Adjustment* (Annex B, Title III, Circ. 263/06)
		ABI method to estimate the Geo-Sector Concentration Risk
	Interest Rate Risk	Simplified Method (Annex C, Title III, Circ. 263/06)

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

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 taking into account 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 capital base identified;
- also considers possible needs of a strategic nature.

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 2012 and that estimated at 31st December 2013**.**

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 entities	**699**	**56**	**0**	**0**
Non-profit organizations	**4.243**	**339**	**0**	**0**
Public sector entities	**131.801**	**10.544**	**0**	**0**
Multilateral development banks	**0**	**0**	**0**	**0**
International organizations	**0**	**0**	**0**	**0**
Supervised Intermediaries	**158.572**	**12.686**	**0**	**0**
Companies and other entities	**798.188**	**63.855**	**0**	**0**
Retail esposures	**95.515**	**7.641**	**0**	**0**
Past due exposures	**565.718**	**45.257**	**0**	**0**
Other exposures	**83.180**	**6.654**	**0**	**0**
CAPITAL REQUIREMENT AGAINST CREDIT AND COUNTERPARTY RISK	**1.837.916**	**147.033**	**0**	**0**

Quantitative information

(e) Capital requirements against market risks separately for:

- the activities included in the trading portfolio for supervisory purposes:
i) position risk, with evidence of the specific one for positions toward securitisation;
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 portfolio for supervisory purposes and for the entire financial statements

Risk type (units in thousands of Euros)	Equivalent risk weighted asset (RWA)	Capital requirement
Trading portfolio for supervisory purposes		
Position risk	0	0
Concentration risk	0	0
Entire financial statements		
Settlement risk	0	0
Exchange rate risk	31.079	2.486
Commodities risk	0	0
CAPITAL REQUIREMENT AGAINST MARKET RISK	31.079	2.486

Quantitative information

f) Capital requirement against operational risks.

Table 6 - Capital requirement against operational risks

(units in thousands of Euros)	Equivalent risk weighted asset (RWA)	Capital requirement
Operational risk	295.097	23.608

Quantitative information

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

Table 7 - Capital coefficients and ratios

Total weighted risk assets	2.164.092
Total capital requirement	173.127
Tier 1 capital	282.144
Tier 1 capital/Weighted risk assets (TIER 1 capital ratio)	13,04%
Supervisory capital (including TIER 3)	277.928
Supervisory capital/Weighted risk assets (Total capital ratio)	12,84%

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

Qualitative information

a) In addition to the general information shown in Table 1, with regard 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 value adjustments.

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, "Matrix of accounts", in the context of the definition of the 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 adopted to determine the value adjustments.

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 the Bank of Italy, consistent with the IAS regulations.
In the notes to financial statements, the value adjustments 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 debts are subject to 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").
The 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 Administration for which both 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 quotas overdue by less than 270 days with the same debtor is at least 10% of the entire exposure to this debtor.

In the context of the factoring activity, the continuity of the expired loan must be determined as follows:

- in the case of "without recourse" operations for each debtor granted, reference is made to the individual invoice that has the longest delay;
- in the case of "with recourse" operations, 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 expired invoice of more than 270 days and the total of overdue invoices exceeds 10% of the total outstanding receivables.

Subjective or objective substandard exposures on loans without recourse/overrun loans, amounting to more than 100.000 Euro 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 or objective substandard exposures on loans without recourse/overrun loans of less than € 100.000 are subjected to collective assessment of loss of value.
Objective substandard exposures on loans with recourse are subjected to collective evaluation of loss of value as it is considered that such loans are not representative of objectively problematic positions.

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 subject to collective loss of value or, if circumstances so dictate, analytical evaluation.

Overdue exposures, as defined by the provisions of the Bank of Italy, are subject to collective assessment of loss of value.

Impairment exposures relating to the Distressed Loans Sector are subject to a process of collective evaluation determined using a statistical model that takes into account the historical series for homogeneous categories of credits.

The **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.

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 exposures by type of exposure and counterparty

Portfolio/quality (units in thousands of Euros)	Non-performing loans	Substandard loans	Rescheduled loans	Overdue loans	Other	Total
1. Financial assets held for trading	-	-	-	-	-	0
2. Financial assets available for sale	-	-	-	-	1.961.556	1.961.556
3. Financial assets held to maturity	-	-	-	-	3.120.428	3.120.428
4. Loans and receivables due from banks	-	-	-	-	545.527	545.527
5. Loans and receivables due from clients	238.071	229.814	9.048	113.249	1.857.608	2.447.790
6. Financial assets at fair value	-	-	-	-	-	0
7. Financial assets being disposed of	-	-	-	-	-	0
8. Hedging derivatives	-	-	-	-	-	0
Total	238.071	229.814	9.048	113.249	7.485.119	8.075.301

Table 8 doesn't 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) The impairment losses/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	Overal impairment losses/reversals	Net exposure	Overal impairment losses/reversals	Net exposure	Overal impairment losses/reversals	Net exposure	Overal impairment losses/reversals	Net exposure	Overal impairment losses/reversals
A. Cash exposures										
A.1 Non-performing loans	114.741	119.558	501	3.262	9	-	-	-	-	-
A.2 Substandard loans	201.872	25.509	2.299	111	13	-	3	-	7	-
A.3 Rescheduled loans	7.910	1.138	-	-	-	-	-	-	-	-
A.4 Overdue loans	112.453	427	367	2	-	-	-	-	-	-
A.5 Other	6.825.908	5.382	34.392	87	-	-	14	-	-	-
Total A	7.262.884	152.014	37.559	3.462	22	-	17	-	7	-
B. Off-balance sheet exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	264	-	-	-	-	-	-	-	-	-
B.3 Other impaired loans	1.565	-	-	-	-	-	-	-	-	-
B.4 Other loans	62.570	-	9.984	-	-	-	1.082	-	-	-
Total B	64.399	-	9.984	-	-	-	1.082	-	-	-
Total A+B	7.327.283	152.014	47.543	3.462	22	-	1.099	-	7	-

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	Overal impairment losses/reversals	Net exposure	Overal impairment losses/reversals	Net exposure	Overal impairment losses/reversals	Net exposure	Overal impairment losses/reversals	Net exposure	Overal 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	579.779	-	39.507	-	50	-	-	-	-	-
Total A	579.779	-	39.507	-	50	-	-	-	-	-
B. Off-balance sheet exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired loans	-	-	-	-	-	-	-	-	-	-
B.4 Other loans	196.693	-	-	-	-	-	-	-	-	-
Total B	196.693	-	-	-	-	-	-	-	-	-
Total A+B	776.472	-	39.507	-	50	-	-	-	-	-

Quantitative information

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

The table below shows the sectoral distribution of the exposures broken down by type of exposure .

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

Exposures/Counterparties *(units in thousands of Euros)*	Goverments and Central Banks			Other Public Entities			Finance companies		
	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures									
A.1 Non-performing loans	-	-	X	9.329	2.883	X	24	-	X
A.2 Substandard loans	-	-	X	5.401	3.040	X	3.410	145	X
A.3 Rescheduled loans	-	-	X	-	-	X	-	-	X
A.4 Overdue loans	583	-	X	43.881	-	X	-	-	X
A.5 Other	5.053.121	X	-	549.917	X	14	351.508	X	144
Total A	5.053.704	-	-	608.528	5.923	14	354.942	145	144
B. Off-balance sheet exposures									
B.1 Non-performing loans	-	-	X	-	-	X	-	-	X
B.2 Substandard loans	-	-	X	-	-	X	-	-	X
B.3 Other impaired loans	-	-	X	-	-	X	-	-	X
B.5 Other	-	X	-	40	X	-	496	X	-
Total B	-	-	-	40	-	-	496	-	-
Total A+B	5.053.704	-	-	608.568	5.923	14	355.438	145	144

follows *Exposures/Counterparties*	Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal
A. Cash exposures									
A.1 Non-performing loans	-	-	X	68.452	113.693	X	37.446	6.244	X
A.2 Substandard loans	-	-	X	131.825	22.382	X	63.558	53	X
A.3 Rescheduled loans	-	-	X	7.910	1.138	X	-	-	X
A.4 Overdue loans	-	-	X	68.356	429	X	-	-	X
A.5 Other	-	X	-	899.462	X	5.272	6.306	X	39
Total A	-	-	-	1.176.005	137.642	5.272	107.310	6.297	39
B. Off-balance sheet exposures									
B.1 Non-performing loans	-	-	X	-	-	X	-	-	X
B.2 Substandard loans	-	-	X	264	-	X	-	-	X
B.3 Other impaired loans	-	-	X	1.565	-	X	-	-	X
B.5 Other	-	X	-	73.100	X	-	-	X	-
Total B	-	-	-	74.929	-	-	-	-	-
Total A+B	-	-	-	1.250.934	137.642	5.272	107.310	6.297	39

Quantitative information

(e) Distribution for 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 bands of remaining contractual duration for cash and off-balance sheet transactions.

Table 12 - Time distribution by residual contractual 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 month to 3 months	from more than 3 months to 6 months	from more than 6 months to 1 year	from more than 1 year to 5 years	beyond 5 years	Undetermined	Total
Cash assets											
Government securities	-	-	-	-	139.050	565.089	1.080.703	3.375.533	-	-	5.160.375
Other debt securities	-	-	30.089	8	46.768	5.179	2.218	49.500	750	-	134.512
UCITS shares	-	-	-	-	-	-	-	-	-	-	-
Loans	1.309.684	204.737	76.635	145.246	408.734	44.848	123.946	315.296	66.780	82.863	2.778.769
- to banks	325.059	44.720	5.001	25.036	4.728	-	-	-	-	82.863	487.407
- to customers	984.625	160.017	71.634	120.210	404.006	44.848	123.946	315.296	66.780	-	2.291.362
Off-balance sheet transactions											
Financial derivatives with exchange on principal	-	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
Financial derivatives with no exchange on principal	-	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
Receivable deposits and loans	-	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
Irrevocable commitments to grant loans	-	-	-	-	758	-	-	-	-	-	758
- long positions	-	-	-	-	379	-	-	-	-	-	379
- short positions	-	-	-	-	379	-	-	-	-	-	379
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 value adjustments;*
- *iii) value adjustments made during the reference period.*

(h) Adjustment dynamics of overall value of impaired exposures, separately for the specific value and portfolio adjustments. The information includes:
- *i) a description of the methods of determination of the value adjustments;*
- *ii) the initial balance of total value adjustments;*
- *iii) derecognitions made during the period;*
- *iv) value adjustments 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 value adjustments;*
- *vii) the final balance of total value adjustments.*

Derecognitions and write-backs of value directly ascribed to the income statement are highlighted separately.

Table 13 - Cash exposures towards customers: dynamics of total adjustment values

Reasons/categories *(units in thousands of Euros)*	**Non-performing loans**	**Substandard loans**	**Rescheduled loans**	**Past due loans**	**Total**
A. Total initial adjustments	**95.476**	**2.411**	**526**	**77**	**98.490**
B. Increases	**33.022**	**28.283**	**680**	**352**	**62.337**
B.1 Value adjustments	29.345	28.283	680	-	-
B.2 Transfers from other categories of impaired exposures	3.667	-	-	-	-
B.3 Other increases	10	-	-	352	-
C. Decreases	**(5.678)**	**(5.074)**	**(68)**	**-**	**(10.820)**
C.1 Writebacks of adjustments	(4.436)	(1.188)	(60)	-	(5.684)
C.2 Writebacks on collection	(817)	(1)	-	-	(818)
C.3 Derecognized assets	(425)	-	-	-	(425)
C.4 Transfers to other categories of impaired exposures	-	(3.667)	-	-	(3.667)
C.5 Other decreases	-	(218)	(8)	-	(226)
D. Total final adjustments	**122.820**	**25.620**	**1.138**	**429**	**150.007**

With regard to the description of the process of determination of the value adjustments, refer to that indicated in the qualitative section of Table 5.

6. Credit risk: disclosures for portfolios 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 portfolio 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 to companies and other entities	-	-
Exposures to undertakings for collective investments 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%	Deductions from regulatory capital	Totale
Central administrations and central banks	5.347.924								5.347.924
Supervised intermediaries	188.262	575.725	67.239		9.808				841.034
Local entities		3.494							3.494
Non-profit and Public entities		471.367	75.063		4.243				550.673
Multilateral development banks									0
International organizations									0
Companies and other entities					832.614				832.614
Retail exposures				128.952					128.952
Short-term exposures towards companies									0
Exposures towards UCITS									0
Exposures guaranteed by real estate									0
Past due exposures					189.098	251.692			440.790
High risk exposures							5		5
Securitizations									0
Other exposures	28	65			46.610				46.703
Total credit risk	5.536.214	1.050.651	142.302	128.952	1.082.373	251.692	5	0	8.192.189

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 2012, 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.
On the reference date the operations on *OTC* financial derivatives in their totality present a negative fair value of approximately 588 thousand Euro. 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 regard 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.

The contracts in effect on 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 on the reference date, there are no credit derivatives in place.

(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 portfolio and trading portfolio 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 the 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 2012 were carried out on systems guaranteed by central counterparties, for a total of approximately 4.039.000 Euro on MTS (Clearing House counterparty) and for 500 million Euro in refinancing operations with the Eurosystem.

Furthermore, at the close of the financial year a number of operations of repurchase agreements for a total amount of approximately 143 million Euro were identified, of which approximately 139 million Euro implemented on MTS.

In view of the regulatory provisions relating to SFT transactions carried out with central counterparties (Clearing House and European Central 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 (countervalue 4,7 million Euro), the non-applicability of these principles results in capital absorption on the countervalue of the transaction directly related to the credit standing of the counterparty.

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.

At 31st December 2012, the equity securities included in the banking portfolio 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 effective interest 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 20 "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 the economic-financial trend of the investment, as reported by the last approved financial statements. 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. If the reasons that led to imposing the devaluation are no longer valid, the losses reported due to value reduction are subsequently restored with net equity effect.

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

(figures 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	**-**	**497**	**12.538**	**-**	**497**	**12.538**	**-**	**-**	**320**	**160**
Capital securities										
- valued at *fair value*	-	497	12.538	-	497	12.538	-	-	320	160
- valued at cost	-	-	-	-	-	-	-	-	-	-
Total	**0**	**497**	**12.538**	**-**	**497**	**12.538**	**-**	**-**	**320**	**160**

At 31st December 2012 value adjustments for available-for-sale impaired financial assets consisting of equity securities were included in the balance sheet for 2.119 thousand Euro. These adjustments relate to the write-down of the minority shareholding in a non-financial company.

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 portfolio 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 bonds 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 portfolio the Banca IFIS Group uses the simplified algorithm referred to in Annex C Title III Chap.1 of Circular 263/06 of the Bank of Italy. This method enables assessment of the impact on rate sensitive positions of the banking portfolio 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 272 "*Manual for the compilation of matrix of accounts*" and in Circular 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 "sight" 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 Senior Management and the Board of Directors.

Quantitative information

Consistent with the interest rate risk measurement method adopted by the 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 263/06 of the Bank of Italy.

Table 17 - Interest rate risk in the banking book

(figures in thousands of Euros)	**RECEIVABLE**	**PAYABLE**	**Net Exposure**	**Weighting factor**	**Weighted Exposure**
On demand or on call	1.067.214	522.248	544.965	0,0%	0
up to 1 month	1.290.574	4.116.116	-2.825.542	0,1%	-1.501
from 1 month to 3 months	524.636	790.654	-266.018	0,2%	-606
from 3 months to 6 months	1.956.860	401.378	1.555.482	0,5%	7.029
from 6 months 1 year	1.144.054	721.651	422.402	0,9%	3.679
from 1 year to 2 years	1.810.440	1.120.208	690.232	1,6%	10.745
from 2 years to 3 years	53.013	130	52.883	2,4%	1.258
from 3 years to 4 years	51.475	137	51.338	3,0%	1.551
from 4 years to 5 years	56.218	145	56.073	3,6%	1.997
from 5 years to 7 years	56.560	314	56.247	4,3%	2.394
from 7 years to 10 years	3.976	538	3.438	5,1%	177
from 10 years to 15 years	58	2.751	-2.693	6,7%	-180
from 15 years to 20 years	1	0	1	8,4%	0
beyond 20 years	65	0	65	9,7%	6
Change in company economic value					**26.549**
Supervisory capital					**277.928**
Riskiness indicator (critical threshold 20%)					**9,55%**

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 Functions and of the other company Functions is described in the Articles of incorporation and/or in the company regulations, and complies with the 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 Incorporation, 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 (Deputy 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 and non-executive Director);
- Andrea Martin (Non-independent and non-executive Director);
- Riccardo Preve (Non-independent and non-executive Director);
- Marina Salamon (Non-independent and non-executive Director);
- Daniele Santosuosso (Independent and non-executive Director).

On a yearly basis, the Board of Directors 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 functions are involved in the process of preparing and checking the remuneration policies and practises. The main Parent Company functions involved are the Human Resources Area and the Strategic Planning Function for the preparation and implementation, as well as the Risk Management Function and the Compliance Department (both under the supervision of the Chief Risk Officer) and the Internal Audit Function 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 Incorporation and after consulting with the Board of Statutory Auditors as well as with the Appointment and Remuneration Committee.

The Board of Directors also defines the remuneration and incentivization systems for the “risk-takers” (as defined by the 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:

- General manager and heads of the main *business* lines, company functions 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 functions.

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 Reporting Officer.

In view of art. 14 of the Articles of Incorporation, *"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 Top Management

Top Management (consisting of the C.E.O. and of the General Manager) handles the tangible implementation of the remuneration policy. In view of art. 17 of the Articles of Incorporation, *"The General Manager handles the implementation of the C.E.O.'s management directives and assists the latter in executing the resolutions adopted by the Board of Directors."*

Composition, responsibilities and functioning of the "Remuneration Committee"

During the course of 2012, the Board of Directors, in compliance with the "Corporate Governance Code for listed companies" (version dated December 2011), has resolved to change the "Committee for the Remuneration of Directors, executives and for any stock option plans" into the "Appointment and Remuneration Committee", changing its relevant Regulations.

The Committee's composition changed during the course of 2012 following the resignation of the independent director Roberto Cravero. Until the approval of the financial statements for the period ending 31st December 2012, the Committee had been made up by the independent directors Andrea Martin, as Chairman, and Francesca Maderna as well as by the Chairman Sebastien Egon Furstenberg.

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 independent directors Francesca Maderna, as Chairman, and Daniele Santosuosso as well as by the Chairman Sebastien Egon Furstenberg.

The Board of Directors, at the time of the appointment, acknowledged the possession by Francesca Maderna of suitable experience and knowledge on the subject of finance and salary 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 function 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 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 functions 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 supervising the proper application of rules pertaining to the remuneration of the heads of the internal control functions 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 Parent company's Internal Control 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 Areas, of the Strategic Planning Function, of the *Risk Management* Function and of the Compliance 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 regard to the assignment criteria of *stock options* or shares in favour of the Group's directors and employees;
- with regard 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 Function, in observance of the relevant Regulations.

Qualitative information

Information pertaining to:
ii) the methods through which the connection between remuneration and performances is ensured;
iii) the more significant characteristics of the remuneration system, including the criteria used to evaluate performances, 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.

In fact, in addition to a fixed recurring salary, the C.E.O.'s remuneration also includes a variable portion equal to 1,5% of the Bank's consolidated result before taxes for the period only, for the part exceeding a minimum profit that, as from the 2013 period, was raised from Euro 20 to 40 million.

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 the 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. Moreover, as from 2013, the incentive, for which there is no guaranteed minimum, cannot exceed the fixed pay.

As regards the variable portion referred to the 2012 results, the C.E.O. had self-limited to 5% the increase in the total remuneration with respect to the one accrued in connection with the results of the 2011 period.

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 part exceeding a minimum profit that, as from the 2013 period, was raised from Euro 20 to 40 million.

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 the 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 regard 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.

At present, there are no plans based on shares, stock options or other financial instruments.

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 performances consistent with the Group's objectives of sustainable growth;
- stimulating and recognising individual contributions, motivating the people concerned;
- developing loyalty in one's 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;
- not creating situations of conflict of interests.

The remuneration policies of the Banca IFIS Banking Group are defined by taking into account the proportionality criteria associated with the characteristics, dimensions and complexity of the activity carried out. In this context, the following elements are particularly important:

- the Banca IFIS Banking Group belongs to Class 2 intermediaries (total assets between Euro 3,5 and 40 billion) with dimensional levels still far from the entrance level of the list of banking groups known as "major" (total assets of more than Euro 40 billion);
- Banca IFIS, admitted to the STAR segment of the Italian Stock Exchange, features a significant concentration of capital. The determining factors that affect the listing on the stock market, which presents a floating content, can be 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 is 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 is 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 an impact on:

- the definition of criteria used to determine the variable component of the remuneration, in which contest there are currently 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 the 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.

Tab.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**	**281**	**38.562**	**5.075**	**43.637**
Acquisition and management of *non-performing loans*	**47**	**36.120**	**2.884**	**39.004**
Acquisition and management of tax receivables	**20**	**36.914**	**8.404**	**45.318**
Corporate units	**139**	**43.187**	**5.592**	**48.779**

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	TFR, end-of-office or employee severance indemnity	Deferred remuneration paid during 2012	Deferred portion of variable pay 2012	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	5	3	199	-	-	76	-	46	323	*n.a.*	579	-	30	38
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	-	-	155	30	18	7	-	210	*n.a.*	-	-	7	10
Heads of internal control units	5	-	-	92	9	*n.a.*	4	-	105	*n.a.*	26	-	-	-

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 30 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