Banca Sistema Group

THIRD PILLAR PUBLIC DISCLOSURE

31 December 2012

BANCA SISTEMA

CONTENTS

INTRODUCTION 5

TABLE 1 GENERAL DISCLOSURE REQUIREMENT 7

TABLE 2 RANGE OF APPLICATION 23

TABLE 3 REGULATORY CAPITAL BREAKDOWN 27

TABLE 4 CAPITAL ADEQUACY 31

TABLE 5 CREDIT RISK
GENERAL INFORMATION FOR ALL BANKS 37

TABLE 6 CREDIT RISK
INFORMATION ON THE PORTFOLIOS SUBJECT TO THE STANDARDISED METHOD AND THE SPECIALISED CREDIT EXPOSURES AND THE CAPITAL INSTRUMENT EXPOSURES WITHIN THE SCOPE OF THE IRB METHODS 49

TABLE 8 RISK MITIGATION TECHNIQUES 53

TABLE 9 COUNTERPARTY RISK 57

TABLE 12 OPERATIONAL RISK 61

TABLE 13 CAPITAL INSTRUMENT EXPOSURES
INFORMATION ON THE POSITIONS INCLUDED ON THE BANK PORTFOLIO 65

TABLE 14 INTEREST RATE RISK ON THE POSITIONS INCLUDED ON THE BANK PORTFOLIO 71

TABLE 15 REMUNERATION AND BONUS SYSTEMS AND PROCEDURES 75

INTRODUCTION

This document complies with the provisions of Prudential Supervision which states that the following must be disclosed to the public (known as the Third Pillar):

- capital adequacy;
- exposure to risks;
- and the general characteristics of the systems established to identify, measure and manage these risks.

The information that must be published is quantitative and qualitative and classified in synopses (tables), with each referring to a certain disclosure area.

Table (see Circular 263/2006 - Title IV, Chapter 1, Attachment A)	**Qualitative information**	**Quantitative information**
Table 1 - General disclosure requirement	X	
Table 2 - Range of application	X	
Table 3 - Regulatory capital breakdown	X	X
Table 4 - Capital adequacy	X	X
Table 5 - Credit risk: general Information for all banks	X	X
Table 6 - Credit risk: information on the portfolios subject to the standardised method and the specialised credit exposures and capital instruments within the scope of the IRB methods	X	X
Table 7 - Credit risk: disclosure on the portfolios to which the IRB approaches apply		
Table 8 - Risk mitigation techniques	X	X
Table 9 - Counterparty risk	X	X
Table 10 - Securitisation transactions		
Table 11: Market risk: information for banks that use the internal model method for position risk, exchange rate risk and market position risk (IMA)		
Table 12 - Operational risk	X	
Table 13 - Capital instrument exposures: information on the positions included on the bank portfolio	X	X
Table 14 - Interest rate risk on the positions included on the bank portfolio	X	X
Table 15 - Remuneration and bonus systems and procedures	X	X

In this document, the information required by table 7: "*Credit risk: disclosure on the portfolios for which the IRB approaches apply*"; 10: "*Securitisation transactions*"; and 11: "*Market risk: information for banks that use the internal model method for position risk, exchange rate risk and market position risk (IMA)*" is not provided since it does not relate to the range of operations, the risks taken or the methods used by the Group.

The Banca Sistema Group publishes this disclosure for the public and any updates on its internet site www.bancasistema.it, in the Pillar 3 section.

TABLE 1 - GENERAL DISCLOSURE REQUIREMENT

QUALITATIVE DISCLOSURE

Organisational structure

In order to manage the material risks to which it is or could be exposed, the Banca Sistema Group (hereinafter Banca Sistema or the Group) has set up a risk management system that is in line with the characteristics, dimensions and complexities of the Group's operations.

The framework to protect against risks implemented by the Group provides for three separate levels of control:

- **first level controls**: the first level (or line) controls comprise a control system put in place by the operational departments that are the source of the risks;
- **second level controls**: the second level controls are the controls carried out by the Risk Division;
- **third level controls:** the third level controls are the controls carried out by the Internal auditing Department, and relate to the risk management procedures.

A summary of the main roles and responsibilities of the company bodies/departments involved in risk management (Governance and Control Bodies, General Management and the operational departments) as defined in the "General Company Rules" approved by the Board of Directors of Banca Sistema S.p.A. on 9 March 2012 is provided below.

The Board of Directors will do the following in its capacity as the body in charge of strategic supervision in order to ensure an efficient and effective risk management and control system:

- establish the strategic policies and goals that the CEO must implement and monitor the control system needed to ensure that they are implemented (Strategic Supervision Department);
- approve the methods used to measure, assess and combine risks by the Risk Division subject to approval by the Risk Management Committee;
- define and approve the general guidelines of the Internal Capital Adequacy Assessment Process ("ICAAP") by approving the underlying organisational model and the methods for measuring, assessing and monitoring the different types of risk;
- ensure the timely update of the ICAAP in relation to significant changes in the strategic guidelines, the organisational structure and the applicable operating context;
- approve the ICAAP findings and provide guidelines on any corrective measures;
- promote full use of the ICAAP findings for strategy purposes and in company decisions;

The Board of Statutory Auditors, as the body with control duties, within the scope of its corporate role will do the following:

- monitor the adequacy and correspondence of the risk management and control system with regulatory and statutory laws, in addition to the ICAAP, on the basis of the information flows from the other corporate bodies and internal control departments (Internal Audit, Risk Division and Compliance);
- also ensure adequate coordination of all the Departments and structures involved in the internal control system, including the Independent Auditing Firm engaged to audit the accounts, encouraging any necessary corrective measures if required.

In order to assess the adequacy, efficiency and effectiveness of the system used to manage the risks to which the bank is exposed, the Board of Directors established the **Internal Control Committee,** which will:

- define the guidelines relating to the Internal Control system and assess their adequacy at least once a year, ensuring that all the risks to which the Bank is exposed are adequately identified, measured, managed and monitored;
- define the criteria to ensure the sound and prudent management of the bank, supervising the work of the legal, compliance and company affairs divisions.

The CEO, as the head of the internal Bank system, is responsible for the current management of this. More specifically the CEO will do the following:

- take part in the meetings of the Board of Directors and the Executive Committee with the right to make proposals and decisions, by implementing the policies decided on;
- implement the ICAAP;
- check compliance of the ICAAP with the strategic policies defined by the Bank, and that this process:
  - consider all material risks;
  - incorporate future assessments;
  - use appropriate methods;
  - ensure that the internal offices are aware of it and agree with it;
  - ensure that it is adequately formalised and recorded;
  - identify the roles and responsibilities assigned to the departments and the company systems;
  - ensure that it is managed by the right resources in terms of quality and quantity, who have the necessary authority to ensure the planning is complied with;
  - form an integral part of the management activity.

The Internal Audit Department, in execution of its responsibilities, will do the following:

- review the ICAAP on an internal basis, identify the areas for improvement of the process and ensure that any corrective actions necessary are taken;
- propose improvement plans for the internal control and risk management system, ensuring that they are sent for approval to the Board of Directors and the Board of Statutory Auditors;

The mission of the Risk Division is to oversee operation of the Group's Risk Management System, by constantly ensuring that it has sufficient capital adequacy with respect to its business. To that end it will do the following:

- submit the methods, instruments and procedures used within the scope of the risk management and control for approval by the Board of Directors;
- continuously identify risks, with special reference to developments in the context in which the Group operates, and developments in its business dealings;
- measure and assess the risks on a pre-defined, recorded basis, assessing the ongoing effectiveness of the methods used with respect to any significant developments in the applicable context or Group business dealings, and if necessary, proposing more suitable corrective measures. More specifically it will:
  - calculate the internal capital generated by the Second Pillar risks;

- calculate the total current and prospective internal capital;
- carry out stress tests.

- help design the mitigation system for the risks that the Bank is exposed to and assess their continued effectiveness and adequacy, proposing more suitable corrective measures if necessary;
- continuously monitor development of the material risks to which the group is exposed in the exercise of its business dealings, and if there are any material changes for the worse of the Group's risk profile, inform, via the Risk Committee, top management and the departments that are at the source of the risk in question;
- prepare specific reports on the risk profile generated by the current business dealings of the group on a regular basis;
- monitor and coordinate the drafting of the Public Disclosure (Pillar III), using the support of the relevant operational departments where necessary;
- propose the organisational model on which the ICAAP is based for subsequent approval by the Risk Management Committee and approval by the Board of Directors of the Parent Company;
- monitor proper execution of the ICAAP and oversee the drafting of the related report;
- monitor compliance with the regulations (Basel II and III) related to:
  - calculation of the capital adequacy (ICAAP);
  - grant of credit lines;
  - medium/long term operation;
  - guarantees.

In order to ensure the integrity of all the activities carried, the Risk Division will report directly to the CEO, and is therefore completely separate from the operational departments that are the source of the risks to which the Group is exposed in the exercise of its activities.

The Risk Management Committee, within the capacity of its corporate duties, will do the following:

- support the CEO in defining strategies, risk policies and profitability targets, by proposing interventions and adjustment tactics;
- monitor capital adequacy with regard to the risk/yield objectives, taking into account the various types of risks and the correlations between them;
- continuously supervise compliance with the capital limits per area/type of risk;
- assess and give a technical opinion on the related proposals;
  - grant and renew credit facilities;
  - classify the impaired loans and their related values;
  - financial investments and short-term investments;
  - funding policies and instruments;
  - new products and services;
- monitor compliance of the regulatory provisions in terms of risk management and relative disclosure transparency;
- guarantee the organisational model on which the ICAAP is based and the methods for measuring, assessing and monitoring the different types of risk for subsequent approval by the Board of Directors of the Parent Company;
- examine the ICAAP findings for subsequent approval by the Board of Directors of the Parent Company.

The Central finance and administration division, in accordance with the law and the provisions of the Bank of Italy will do the following:

- calculate the capital requirements generated by the Second Pillar risks;
- support the Functions involved in the analysis and use of the material information for ICAAP purposes included in the accounting data and/or the Regulatory Reports;
- gather and update the administrative and technical regulations issued by the Bank of Italy regarding Regulatory Reports;
- take care of all regulatory and operational aspects relating to the reports sent to the Bank of Italy, ensuring their completeness, validity and timeliness;
- prepare the figures to measure the Regulatory Capital;
- define and assess the Total Capital and reconcile it with the Regulatory Capital.

Specific duties and responsibilities for the management and control of risks that the various company departments are in charge of.

Mapping the material risks

On the basis of the analysis carried out, in view of its current and future business dealings as at 31 December 2012, the Group believes that it is exposed to the following risks:

First Pillar Risks

- credit risk;
- counterparty risk;
- market risk;
- operational risk.

Second Pillar Risks

- concentration risk;
- liquidity risk;
- interest rate risk on the banking book;
- strategic risk;
- reputation risk;
- compliance risk.

The Group is not exposed to residual risks or shareholding risks. It is not exposed to securitisation risks either since the credit risk requirement of the assets held in the Pubblica Funding vehicle was calculated using the standardised methods, carrying out any necessary stress tests due to the consolidation of the vehicle (see TABLE 2).

Risk management and hedging policies

Pillar I

Credit risk is the risk that the counterparty cannot meet its contractual commitments with the Group, thereby resulting in unexpected loss for the Group which could put its financial stability at risk in the immediate future.

In the case at hand, this risk is one of the main components of the overall exposure. However, the specific composition of the credit portfolio was designed to significantly reduce the percentage of credit risk over the entire absorption. The counterparties mainly include public administration entities such as local healthcare facilities and hospitals and territorial entities that have a very low risk of default by definition.

The operating components of the Banca Sistema Group that give rise to the credit risk are described below:

a. factoring activities;
b. financial instruments held in own accounts;
c. supervised intermediaries.

The Group uses the standardised method provided to calculate the regulatory requirements with respect to credit risk to calculate the internal capital with respect to credit risk[1].

The internal capital with respect to credit risk is therefore equal to the capital requirements defined in accordance with the First Pillar. The capital requirements are calculated on a constant basis and a report is sent to the Bank of Italy every quarter.

In general, the Group continuously performs analyses and assessments for all credit risk exposure, aimed at classifying exposures, where considered necessary, among the problematic credit risk categories.

The paragraphs below provide a brief overview on the management and mitigation of credit risk, as specifically implemented with respect to the different types of business dealings of the Group.

a. Factoring: Banca Sistema Group policy mainly entails acquiring corporate receivables owed by central authorities, territorial entities and in general by the Public Administration, directly taking on the credit risk with respect to the end debtor. Credit risk is generated as a direct consequence of the acquisition of credit on a definitive basis from customer companies against the insolvency of the assigned debtor.

Maintenance of effective credit risk management is the strategic objective of the Banca Sistema Group, and is pursued by adopting integrated instruments and processes to ensure correct credit management at all stages (preliminary, granting credit, monitoring and management, interventions on non-performing loans).

The credit risk management process involves various central Banca Sistema structures. This organisation of activities allows greater efficiency and standardisation in terms of tackling the credit risk and monitoring the individual positions, using specialised resources and separating the functions at each decision-making level.

The Board of Directors is responsible for providing guidance and specific functions to establish strategies and company control policies, with specific reference to the risk component.

The Underwriting office of Banca Sistema is set up to carry out the separate analysis and reliance on the counterparties (assignor, debtor/s) and the management of the related financial relationships which is carried out at all the typical phases of the loan granting process, summarised as follows:

(1) Ref: Bank of Italy Circular no. 263 of 27 December 2006 as amended - Title II, Chapter I, First part.

- “analysis and assessment”: the gathering of quantitative and qualitative information from the counterparties in question and the system in order to assess the reliability of the counterparty and to quantify the proposed lines of credit;
- “decision making and formalisation”: once the proposal has been made, the contractual documentation is prepared to be signed by the assigning counterparty;
- “relationship monitoring”: the continuous control of the counterparties, both in relations with the factor and the system, allows any anomalies to be identified leading to timely interventions. With specific reference to the overdue receivables, there is first a “non-judicial” stage involving automatic, personalised reminders and if necessary, a “judicial” type stage, with the assistance of outside lawyers.

A “Collection Working Group” has been set up to provide constant, specific monitoring of the factoring portfolio. The Working Group carries out checks and assessments on the factoring portfolio based on the guidelines defined in the “Collection policy”. The Collection Manager of the Parent Company coordinates the monitoring and any non-judicial collections with the Group collecting agency, Solvi S.r.l. or other external companies that have been engaged.

The Risk Division continuously monitors the Credit Risk that the Group is exposed to in order to promptly identify any anomalies and/or discontinuities and ensure that a risk profile in line with the strategic indications provided is maintained.

With respect to credit risk mitigation of the factoring portfolio, in order to reduce exposure of the factoring portfolio, and more specifically its exposure with regard to the local health authorities (ASL), the Group has drawn up specific standard hedging contracts known as credit default swaps (CDS) and credit linked notes (CLN) compliant with international ISDA derivative regulations (International Swaps and Derivatives Association).

The issue of these types of instrument catalogued as hedging derivatives allows the Bank to transfer the credit risk of the loans underlying the derivative, and therefore improve its capital ratios.

b. Financial instruments held in own accounts: the Bank has a limit system that is structured to guarantee the careful and balanced management of the operating independence within the the scope - among other things - of the transactions relating to financial instruments registered on the banking portfolio and held in own accounts.

The operations with Italian government securities means that it has a credit risk towards EU central authorities.

c. Exposures to supervised intermediaries: the deposits are only made on the overnight interbank market, resulting in exposure to the credit risk of supervised intermediaries.

The so-called “hot money” transactions also generate exposures towards supervised intermediaries, i.e. short-term loans to leading financial institutions.

The Risk Division prepares specific periodic reports regarding credit risk. These reports are prepared at different levels of detail, and for different recipients (Risk Committee, the CEO and the Board of Directors)

The Group Banca Sistema also performs stress tests in order to evaluate the impacts in terms of capital adequacy.

The stress test method employed uses a 'what if' type analysis, which evaluates the ability of the Group to deal with possible worsening of its loan portfolio and the consequent increase of Internal Capital.

Counterparty risk is the risk that the "counterparty to a transaction regarding certain financial instruments will default before settling the transactions"[2]. It is different from credit risk due to the different types of transaction involved in each. These are normally related to transactions that generate exposure equal to their positive fair value, have a market value that changes over time in accordance with the underlying variables and that generate an exchange of payments, financial instruments or goods against payment. Counterparty risk creates a bilateral type of risk whereby both counterparties are exposed to the risk of incurring unexpected loss

Banca Sistema has set up extremely prudent repurchase agreements and reverse repurchase agreements since the underlying assets are mainly Italian Government Securities and the counterparty is the Compensation and Guarantee Fund (CCG).

The Group uses the line by line method to measure counterparty risk.

The Risk Division produces specific reports to the Risk Division, the CEO and the Board of Directors on a monthly/ quarterly basis.

The risk is reduced by careful management of operating independence, establishing limits both in terms of responsibilities and the extent and composition of the portfolios by type of securities.

Market risk involves the risk of loss that a financial intermediary is exposed to due to carrying out trading operations on financial instruments on the markets. More specifically, it involves the risk of recording losses due to unfavourable market trends that cause unexpected or unforeseeable reductions in the value of the instruments held.

These involve risks generated by operations on the markets regarding the financial instruments and currencies and the important components are:

- general position risk caused by unfavourable price trends in the instruments traded, and specific risk due to factors related to the situation of the issuer;
- settlement risk, which includes transactions which have not yet been settled after expiry exposing the Group to the risk of loss due to the failure to settle the transaction;
- concentration risk, which provides for specific regulatory capital for banks which - due to the risks positions relating to the trading portfolio for regulatory purposes - exceeds the limit identified by the credit line;
- exchange rate risk which is the risk of suffering loss due to unfavourable changes in the exchange rates in foreign currencies.

(2) Ref: "New Prudential Supervision provisions for Banks" - Bank of Italy Circular no. 263 of 27 December 2006 as amended - Title II, Chapter 3, Section I, Paragraph 1.

The internal capital is calculated in accordance with the standardised method with respect to market risk[3].

This method calculates the requirement on the basis of the building-block approach, according to which the overall requirement is given by the sum of the capital requirements calculated against the individual market risks (position, settlement and concentration risk). This approach is prudential since the benefits provided by diversification are ignored by summing the individual requirements on a linear basis, therefore obtaining higher regulatory capital with respect to the risks taken on.

The Risk Division produces specific reports for the Risk Committee, the CEO and the Board of Directors.

As at 31 December 2012, the Bank did not have significant exposures to market risk.

Operational risk is the risk of suffering loss due to the inadequacy or inefficiency of procedures, human resources or internal systems, or by external events. They include, for example, losses ensuing from fraud, human error, interruptions of operations, the unavailability of systems, breaches of contract, or natural disasters.

Legal risk is also included in operational risk, while strategic risk and reputation risk are not included.

The Group adopted the BIA method (Basic Indicator Approach) to calculate the capital requirement generated by operational risk.

This method provides that the capital requirements are calculated by applying a regulatory coefficient to an indicator of the volume of company operations identified in the operating income.

The Risk Division produces and sends the Risk Committee, the CEO and the Board of Directors a report which shows the capital absorption generated by the operational risk and how they changed since the previous report. The Group manages the development of operational risk by defining specific policies and rules to deal with various issues and matters. The Group also enters into specific insurance policies explicitly aimed at covering certain operational risks.

Tthe Group intends to set up a Risk Self Assessment (RSA) project in 2013 to improve the identification and assessment of all the risks relating to individual company processes, allowing the Bank to implement corrective actions that can reduce any risks detected.

Pillar II

The applicable regulations regarding prudential supervision (circular 263/06 as amended) define concentration risk as risk resulting from exposure to counterparties, groups of related counterparties and counterparties in the same economic sector or who perform the same activity or belong to the same geographical area.

The Group decided to measure the geo-sectorial concentration risk in accordance with the ABI method proposal. The ABI method allows the effects on internal capital of the Group to be assessed, caused by changes in the business sector concentration, and measured by the Herfindahl index. These effects are calculated in terms relating to a

(3) Ref: “New Prudential Supervision provisions for Banks” - Bank of Italy Circular no. 263 of 27 December 2006 as amended - Title II, Chapter 4, Section 1, Second Part.

minimum concentration benchmark, with respect to which any internal capital adjustment (add-on) is quantified by applying a reloading coefficient.

Reports on concentration risk are sent to the CEO, the Risk Management Committee and the Board of Directors.

Interest rate risk is the current or prospective risk of a reduction in the value of the asset or a reduction in the interest margin from the impact of adverse changes to interest rates.

The exposure to interest rate risk on the banking book is calculated by the Group in accordance with the provisions of prevailing law using the simplified Supervision approach (See Circular 263/2006, Title III, Attachment C). This is how the Group can monitor the impact of unexpected changes in market conditions on the value of the shareholders' equity, thereby identifying the mitigation measures to adopt.

The company departments in charge of ensuring the correct management of interest rate risk include the Treasury Department, which is involved in identifying the most suitable risk indicators and monitoring the performance of funding assets and liabilities in relation to the pre-established limits, and top management, which is involved in making annual proposals to the Board of Directors of the Parent Company, regarding the loan and funding policies and management of interest rate risk, and suggesting, during the year, any necessary measures that should be taken to ensure that the work is carried out in accordance with the approved risk policies.

The CEO, Risk Division and Financial Manager receive a summarised daily report on the overall treasury position. Hedging instruments are not used since the risk taken on is not significant.

Hedging instruments were not being used as at 31 December 2012 since the risk was not significant.

Liquidity risk is defined as a risk of the Group defaulting on payment commitments, and may be caused by:

- Funding Liquidity Risk: inability to obtain funds or to meet payment commitments at market cost or incurring high funding costs.
- Market liquidity risk: when there are limits to the sale of assets or capital losses upon sale.

Liquidity risk in the sense of difficulties in obtaining funds to meet payment commitments, can be broken down as follows:

- Mismatch Liquidity Risk: the risk resulting from a mismatch between the amounts and/or the payment dates of the incoming and outgoing cash-flows relating to Group operations, with reference both to contractual and behavioural expiry dates:
- Contingency Liquidity Risk: the risk resulting from unexpected future events that may require an unexpected amount of cash that is higher than the amount currently considered necessary by the Group; it is the risk of not being able to make unexpected and sudden short-term payments.

The methodological approach used by the Group Risk Division to measure the Liquidity risk follows the liquidity gap approach set out in the Bank of Italy guidelines (Circular no. 263/06, Title III, Attachment D).

The Group also follows the instructions issued by the Basel Committee to ensure adequate monitoring of liquidity risk, entailing the following:

- formalisation of liquidity risk governance policies in line with operational characteristics and extent;
- assessment of the Group's net financial position;
- periodic stress tests (class 3 sensitivity analyses for Banks) to evaluate the impact of negative events on the exposure to risk and the adequacy of the liquidity reserves;
- constant availability of adequate liquidity reserves;
- definition of the operating limits;
- definition of suitable liquidity risk mitigation instruments, firstly by drafting an adequate Contingency Funding Plan, which guarantees protection of the Group's assets in liquidity drainage situations, through preparation of crisis management strategies and procedures to obtain funding sources in the case of emergencies.

The Group has identified the roles and responsibilities attached to the various company structures within the scope of the Liquidity risk management process to adequately monitor liquidity risk:

- Treasury Division (first level monitoring) represents the first level of liquidity risk management. It carries out daily monitoring and calculation of risk indicators;
- Risk Division (second level monitoring), carries out second level checks of liquidity risk on a monthly basis, and continuously assesses the adequacy and correct implementation of the liquidity policy and the Contingency Funding Plan.

The Group liquidity situation is subject to careful and continuous monitoring by the Treasury Division and the Risk Division, also within the scope of the Risk Management Committee meetings.

The Risk Division provides the CEO and the Board of Directors with reports on the liquidity risk twice a month.

The Group has structured its liquidity management on three interconnected levels through its Liquidity Policy and Contingency Funding Plan, which meet specific requirements:

- **Operating liquidity** (short term - up to 12 months), in order to guarantee the Bank's ability to meet its expected and unexpected cash payment commitments, for the upcoming 12 months;
- **Structural liquidity** (medium/long term - over 12 months) in order to maintain an adequate relationship between overall liabilities and medium/long term assets to avoid pressure on current and prospective sources, in the short term;
- **Contingency Funding Plan** (CFP), which governs the process, roles and responsibilities in the event of liquidity crisis situations.

The liquidity management policy and CFP provides for the following basic actions:

- identification of the duties and responsibilities to assign to the company departments involved in the liquidity management process;
- definition of the operating processes related to execution of the activities;
- calculation of the measurement instruments;
- definition of the operating limits, warning indicators and tolerance thresholds.

Reputation risk (or risk to image) is the risk of loss that the Group may incur following events that could harm its image before various types of stakeholders (shareholders, customers, counterparties, investors, the Supervisory Authorities). This negative perception may result from the direct experience of the parties, such as sensations, not necessarily caused by actually observable events. This risk is closely related to operational risk in this case. There are three different situations that can be distinguished in accordance with the Group's level of responsibility when negative events occur that could harm the company's image:

- the Group is considered to be a passive "victim" of the harmful event and therefore this is attributed to external factors that cannot be controlled or forecast by the Group (natural disasters, sabotage, acts of terrorism, unlawful actions by outside parties);
- management is considered to be unintentionally involved and therefore only partially responsible for the failure to prevent the harmful event (technical errors, public accusations which cannot be legally proven);
- management is considered to be fully responsible for the harmful event that occurs and it is therefore understood that not even minimal effort went into preventing the event (breach of prevailing law, human error).

The awareness of the difficulties related to quantifying reputation risk encouraged the Group to concentrate on finding out more with respect to the quality of the organisational and control structures in order to implement adequate protection to reduce this.

To this end, maximum significance was given to the positions that must ensure substantive compliance with the requirements of honesty and professional competence, especially with regard to:

- the level of awareness of the top bodies with respect to the significance of these matters;
- promotion of a code of ethics and honest behaviour at all company levels;
- adequate management of relations with all stakeholders;
- suitability of the risk mitigation and management systems;
- the effectiveness of the Supervisory Body controls.

Strategic risk is the current or prospective risk of a reduction in earnings or capital, generally due to four well-defined cases:

- changes in the operating context;
- erroneous company decisions;
- inadequate implementation of decisions made;
- poor or erroneous reaction to changes in the operating context (structural breaks).

Strategic risk therefore emerges when there is a break in the normal running of the business activities, due either to internal or external changes to the company's structure, it being otherwise assumed that this type of risk would not exist since it would be assumed that the business should normally run on a stable basis.

Special emphasis is placed on the fact that this risk could be especially critical as currently configured due to the high levels of dynamism required by the decision-making bodies to establish adequate and timely corrections in response to the continuous changes in the macroeconomic/economic context that characterises the market in which the Group operates.

Some typical situations that could give rise to strategic risk are described below:

- acquisitions/partnership operations;
- changes in the corporate structure;
- consolidation/growth operations in order to achieve greater economies of scale for example;
- diversification of products and distribution channels;
- technological innovation and operational optimisation in order to increase the quality of the services offered.

The assessment of strategic risk, carried out by the Risk Division as part of the Risk Management Committee, aims to identify and explain the individual aspects that could determine the emergence of strategic risk. This has the double function of identifying the operating stages that have critical elements and any mitigation actions to be undertaken. Analysis of the Group's position on the market is of particular importance, especially with respect to the main competitors. To that end, the specific area of activity of the Banca Sistema Group gives it an advantage since it operates in a market segment that has not yet been well explored. Apart from comparison with direct competitors (benchmarking), financial controlling will ensure that compliance with the guidelines defined by the management bodies when drawing up the budget and establishing the corporate strategy plan is periodically monitored. This is a particularly significant activity since it definition of the guidelines regarding corporate behaviour in the immediate future hinges on this, and it is therefore one of the most suitable elements to determine the potential emergence of a strategic risk.

Compliance risk is the risk of non compliance with the regulations and involves the risk of incurring legal or administrative sanctions, significant financial loss or damage to reputation due to breach of the law (laws, regulations) or self-regulation rules (for example articles of association, codes of conduct or the corporate governance code).

This risk is common at all levels of company organisation, especially within the scope of the operating guidelines. Prevention should be concentrated where the risk is generated: therefore all staff must be made properly aware of their responsibilities.

In general, the most significant regulations regarding the risk of non-compliance are those that regard the exercise of intermediation, anti-money laundering regulations, management of conflicts of interest, transparency with respect to customers, and more generally, the rules established to protect the consumer.

Since there is a Department that constantly monitors the risk of non-compliance, and in view of the range of products on offer, we believe that the Group is not particularly exposed to that risk.

In order to guarantee dynamic, mindful management of the risk of non-compliance, the Group established a specific Compliance Department to ensure that internal procedures are consistent with the aim of preventing the breach of external rules (laws and regulations) and internal rules (codes of conduct, codes of ethics) applicable to the bank.

The Bank adopted an organisational architecture based on an internal network model (“widespread compliance”) whereby the Compliance Officer is in charge of the Department, who:

- governs, addresses and controls the compliance process, and more generally, management of the risk of non compliance within the Bank;
- co-ordinates and checks the assistance given by other Bank Departments involved (authorised) in execution of activities that help manage the risk of non-compliance.

TABLE 2 - RANGE OF APPLICATION

QUALITATIVE DISCLOSURE

The public disclosure obligations referred to in this document apply to the Banca Sistema S.p.A. Group.

As at 31.12.2012, the Group comprised the Parent Company, Banca Sistema S.p.A., and the following entities:

- Specialty Finance Trust Holding Limited (SFTH), a company governed by English law, with registered office in Dukes House 32-38 Dukes Place, London EC3A 7LP UK. The company provides administrative services to Pubblica Funding No. 1 S.r.l. and Banca Sistema with regard to the receivables acquired from them.
- Specialty Finance Trust Servicing Ltd (SFTS), a company governed by English law. This is a special purpose vehicle that will be wound up.
- SF Trust Italia S.r.l. (SFTI), a company established in accordance with Art. 106 Legislative Decree 385/1993, with registered offices in Rome, at Piazzale delle Belle Arti 8, mainly involved in originating the acquisition of trade receivables owed by the public sector, especially healthcare receivables owned by the National Healthcare System.
- Solvi S.r.l. (SOLVI), registered office in Milan, at Galleria Sala dei Longobardi no. 2, which is involved in debt collection and management.

The Group's scope of consolidation also includes the assets of the securitisation vehicle, Pubblica Funding No. 1 S.r.l. (PF), incorporated in accordance with the Law 130/99. The bond securities of this vehicle have been fully subscribed to by the Royal Bank of Scotland Plc, who suspended its origination activity from June 2011; it is therefore, currently disinvesting its credit portfolio.

The scope of consolidation does not include the company Solvi for the purposes of the prudential supervision according to the specific instructions of the Supervisory Authorities.

The Group carried out a specific restructuring plan in 2012; activities carried out or to be carried out are described below:

- **Assignment of company branch by SFTI to the Bank**: SFTI assigned the company branch regarding the staff and certain contracts that were additional to the factoring activity, including the non-recourse factoring already assigned by SFTI to the Bank by assignment of the legal relationships on 18 July 2011.
- **Assignment of the investment in Solvi S.r.l.**: SFTI assigned its stake in Solvi to the Bank.
- **Winding up SFTI**: SFTI will be wound up and cancellation from the list of financial intermediaries pursuant to article 106 Consolidated Law on Banking ("TUB") will be requested at the same time.
- **Assignment of the company from SFTS to SFTH**: with effect from 1 October 2012. SFTS assigned the whole company involving all the contractual positions, to SFTH.
- **Closure of SFTS**: upon conclusion of the assignment of the company with respect to third parties, SFTS will be wound down in accordance with prevailing law.

At the end of the above-mentioned activity, the new structure of the Group will involve Banca Sistema holding the entire control of a single company SFTH.

TABLE 3 - REGULATORY CAPITAL BREAKDOWN

QUALITATIVE DISCLOSURE

The regulatory capital is the first protection against the risks taken on by the Group and is the main reference parameter for the Bank of Italy assessments regarding the Bank's solidity.

The Group assigns a priority role to the management activities and capital allocation in accordance with the risks taken on in order to develop operations in order to create value. Capital management involves all the policies needed to define the size of the capital in current and future terms, and the best combination between various alternative capitalization instruments, in order to ensure adequate cover of the risks taken on and compliance with the ratios required by the regulatory provisions. When a company grows in size, there are changes to the company assets, therefore representing a decisive element in the development stages.

As provided by those provisions, bank groups are subject, on a consolidated basis, to rules with respect to regulatory capital, comprehensive capital requirements, the assessment of full capital adequacy and risk concentration.

As provided in the applicable regulations, consolidated regulatory capital comprises the sum, net of deductions and within the calculation limits provided by law, of the following elements:

Common equity

The common equity comprises the most solid resources available to the Group such as the share capital and all items similar in nature to this. These components have a high absorption capacity for losses and can be easily liquidated. Components such as goodwill, intangible assets and treasury shares are therefore not included under these components as it is difficult to liquidate them in the short term.

Total Tier 1 capital

Total Tier 1 capital includes non-capital, innovative instruments. These instruments have a high capacity of absorbing loss since they have clauses preventing payment of interest or par value reduction mechanisms in relation to the financial and solvency situation of the Bank.

Total Tier 2 capital

The components included in the Tier 2 capital are capable of guaranteeing sufficiently rapid payment times even though they do not fulfil the requirement of being completely similar to share capital. They include but are not limited to items such as hybrid capitalisation instruments and Tier 2 underlying liabilities[4].

Total Tier 3 capital

The resources included under Tier 3 capital are the ones that are the most dissimilar to equity by their very nature if compared to those included under Tier 1 or Tier 2. Tier 3 liabilities fall under the definition of Tier 3 capital and generally the liabilities excluded from Tier 2 liabilities.

---

(4) Ref: Bank of Italy Circular no. 263 of 27 December 2006 as amended - Title I, Chapter 2, Section II, Paragraph 4 "innovate and non-innovative capital instruments" Paragraph 5 "hybrid capitalisation and underlying liability instruments.

The asset elements that fall under Tier 3 capital may only be used to cover the capital requirements to deal with market risks - excluding the capital requirements to deal with counterparty risk and settlement risk relating to the "trading portfolio for supervisory purposes" and up to a maximum limit of 71.4% of said requirements.

QUANTITATIVE DISCLOSURE

The consolidated regulatory capital was calculated on the basis of the Supervisory Measures.

REGULATORY BANK CAPITAL

Amounts in thousands of Euros

	2012
A. Tier 1 capital before application of prudential filters	**18,960**
B. Tier I capital prudential filters:	-
B1 - positive prudential Ias/Ifrs filters (+)	-
B2 - negative prudential Ias/Ifrs filters (-)	-
C. Tier 1 capital gross of deductible elements (A+B)	18,960
D. Elements deductible from Tier I capital	-
E. Total tier 1 capital (C-D)	**18,960**
F. Tier 2 capital before application of prudential filters	**9,480**
G. Tier II capital prudential filters:	-
G1 - positive prudential Ias/Ifrs filters (+)	-
G2 - negative prudential Ias/Ifrs filters (-)	-
H. Tier 2 capital gross of deductible elements (F+G)	**9,480**
I. Elements deductible from Tier II capital	-
L. Total tier 2 capital (H-I)	**9,480**
M. Elements deductible from total Tier 1 and Tier 2 capital	-
N. Regulatory capital (E+L-M)	**28,440**
O. Tier 3 capital	16
P. Regulatory capital including TIER 3 (N + O)	**28,456**

TABLE 4 - CAPITAL ADEQUACY

QUALITATIVE DISCLOSURE

In accordance with the Second Pillar provisions, banks must periodically assess their current and prospective capital adequacy, with an expanded range of risks to calculate compared to the First Pillar.

The Banca Sistema Group announces its capital adequacy on a monthly basis and also includes the second pillar risks in its analysis.

This is carried out within the scope of the ICAAP (Internal Capital Adequacy Assessment Process), where the responsibility lies entirely with "the body in charge of strategic supervision, which designs and organises it on a fully independent basis in accordance with the respective duties and privileges".

The following First and Second Pillar risks are included in the applicable scope for ICAAP purposes, with the methods indicated in the table below:

CATEGORY	RISK TYPE	METHODS
First pillar	Credit risk	Standardised method
	Counterparty risk	Standardised method (CRM - line-by-line method with regulatory volatility adjustments)
	Market risk	Standardised method
	Operational risk	Basic method (BIA)
Second pillar	Concentration risk	Granularity Adjustment ABI method to estimate the Geo-Sectorial Concentration Risk (Attachment B, Title III, Circular 263/06)
	Interest rate risk	Simplified method (Attachment C, Title III, Circular 263/06)
	Liquidity risk	Qualitative assessment
	Reputation risk	Qualitative assessment
	Strategic risk	Qualitative assessment
	Compliance risk	Qualitative assessment

The ICAAP is organised into 5 sub-activities, set out in detail below:

Identification of the material risks and their management: the identification of the risks that the Group could be exposed to is activated by the applicable organisational structures, taking various elements into account:

- recognition of the asset aggregates;
- company strategic plan in which the top management illustrates the investment policies and targets, both in the short and medium term;

- changed market context, new opportunities or significant size changes (absolute or relative) of the business components to the extent of influencing the positioning of the Group on the market and the consequent assessments of the initial risk;
- introduction of new products or services;
- economic situation.

More specifically, the Risk Division will carry out a detailed analysis and assessment of the Group's business dealings in order to identify the material risks.

Measurement/assessment of material risks and calculation of the related internal capital: the Risk Division defines the measurement, assessment and risk management methods.

With reference to the First Pillar risks, the measurement methods adopted are those used for the purposes of Prudential Supervision.

With reference to the Second Pillar risks, which are difficult to quantify, a judgemental type analysis is made in order to define the assessment and risk mitigation techniques, in association with the various departments involved (for example: The Financial Manager, the Organisational Manager, the Legal Manager, the Compliance and corporate affairs divisions, etc.).

In order to properly apply the principle of proportionality, the Bank of Italy divided the banks into three different classes, in accordance with their sizes and the operational complexity. The Banca Sistema Group is currently placed in class 3 regarding "banking groups and banks that use standardised methods, with consolidated or individual assets equal to or less than Euro 3.5 billion respectively".

Calculation of total internal capital and reconciliation with the regulatory capital: in accordance with the provisions of the applicable regulations, the Group calculates its total internal capital using the building block approach, which sums any internal capital relating to the other material risks found to the First Pillar risk regulatory requirements.

The Risk Division then reconciles the total internal capital with regulatory requirements.

Calculation of total capital and reconciliation with the Regulatory Capital: the financial statements and supervisory areas of the administrative department analyses all the capital components available in order to quantify the total capital available.

The Risk Division is then responsible for reconciling the Regulatory Capital and the Total Internal Capital.

Management and maintenance of the ICAAP: the Risk Division will check whether the total capital is enough to cover the Total Internal Capital requirements that had previously been calculated. If it should not be enough, this will be promptly reported to the CEO and a Risk Management Committee meeting will be called so the necessary corrective measures can be put in place.

Upon conclusion of the Process, the Risk Division will be in charge of producing the disclosure report to submit to the Internal Auditing office and the Board of Directors for approval.

Once the ICAAP has been concluded, the Internal Audit Department will have to produce its assessment of the solidity of the entire process and identify any problematic issues in the activities carried out or areas for improvement.

The review of the ICAAP will end with the formalisation of the internal audit report that will be submitted to the Board of Directors for approval.

The capital impact findings of the Second Pillar regulations confirm the good capital base of the Group which will be able to deal with all risks, both in normal day to day operations and in conditions of stress.

QUANTITATIVE DISCLOSURE

CAPITAL ADEQUACY

Amounts in thousands of Euros

Categories/Values	Unweighted amounts 2012	Weighted amounts / requirements 2012
A. RISK ASSETS		
A.1 CREDIT RISK AND COUNTERPARTY RISK	**912,012**	**146,197**
1. Standardised method	912,012	146,197
2. Method based on internal ratings	-	-
2.1 Base	-	-
2.2 Advanced	-	-
3. Securitisation	-	-
B. REGULATORY CAPITAL REQUIREMENTS	-	**-**
B.1 CREDIT RISK AND COUNTERPARTY RISK	-	**11,696**
B.2 MARKET RISK	-	**23**
1. Standardised method	-	23
2. Internal methods	-	-
3. Concentration Risk	-	-
B.3 OPERATIONAL RISK	-	**1,413**
1. Basic method	-	1,413
2. Standardised method	-	-
3. Advanced method	-	-
B.4 OTHER PRUDENTIAL REQUIREMENTS	-	-
B.5 OTHER CALCULATION ELEMENTS	-	-
B.6. TOTAL PRUDENTIAL REQUIREMENTS	-	**13,132**
C. RISK ASSETS AND REGULATORY RATIOS	-	**164,147**
C.1 Risk-weighted assets	-	164,147
C.2 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	-	11.60%
C.3 Regulatory capital including TIER 3 / Risk-weighted assets (Total capital ratio)	-	17.30%

TABLE 5 - CREDIT RISK:
GENERAL INFORMATION FOR ALL BANKS

QUALITATIVE DISCLOSURE

Initial recognition of a receivable is at the date of settlement on the basis of its fair value including the costs/income of the transaction directly attributable to the acquisition of the receivable.

Costs/income having the aforesaid characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial instrument is usually equivalent to the amount granted or the cost incurred by the acquisition.

Following initial recognition, the receivables from customers are measured at amortised cost which, using the actual interest rate method, allows the economic effect of costs/income relating to the single transaction to be distributed over the remaining expected life of the receivable.

Generally, the Bank continuously performs analyses and assessments for all credit risk exposure, aimed at classifying exposures where considered necessary among the problematic credit risk categories. On the basis of the Regulatory provisions issued by the Bank of Italy and internal provisions, impaired exposures can be divided among the following categories:

- **non-performing loans**: loans with debtors in serious long-term difficulties or irremediably insolvent, even if this has not yet been legally decided;
- **watch list loans**: loans with parties who are undergoing temporary difficulties but where the difficulties are objective and are expected to be resolved in a reasonable length of time;
- **restructured loans**: loans for which restructuring agreements have been reached where changes from the original contractual terms are permitted that will result in a loss for the Bank;
- **loans past due and/or impaired**: debtors with past due and/or impaired loans of more than 180 days. With respect to its factoring business, the Group considers the past due exposures as positions relating to a single debtor where no payment has been made 180 days after the due date.

The receivables that do not fall within the aforesaid classifications are considered to be performing.

Exposures classified as impaired loans are analysed in order to quantify the potential impairment of the individual loan. With regard to past due exposures relating to the Public Administration, referring to receivables acquired on a definitive basis as part of the Factoring, it was decided that the conditions for making value adjustments were not present considering the quality of the receivable and the debtor counterparties. Given the above, since the new activity started during the financial year, a prudential write-down of the receivables of 0.3% was applied. This prudential write-down was made even though there were no specific, analytical risks that could be classified as non-performing loans, watch list loans or past due loans.

Those receivables for which there was no objective evidence of loss are subject to collective write-down.

The amount of value adjustments net of previous provisions and the partial or full recovery of amounts previously written-down are recorded in the income statement under "net value adjustments/write-backs due to loan impairment".

Loans are derecognised from the financial statements when they are deemed totally unrecoverable or if transferred, when this entails the substantial transfer of all loan-related risks and benefits.

QUANTITATIVE DISCLOSURE

The tables below were taken from the Financial statements as at 31.12.2012, part E of the Notes to the financial statements. The amounts at year-end are considered to represent the exposures to risk of the Bank during the applicable period.

DISTRIBUTION OF FINANCIAL ASSETS
BY RELATED PORTFOLIO AND BY CREDIT QUALITY (BOOK VALUES)

Amounts in thousands of Euros

Portfolios / Quality	Banking group					Other companies		Total
	Non-performing loans	Watch list loans	Restructured loans	Past due exposures	Other assets	Impaired	Other	
1. Held-for-trading financial assets	-	-	-	-	129	-	-	**129**
2. Available-for-sale financial assets	-	-	-	-	540,994	-	-	**540,994**
3. Held-to-maturity financial assets	-	-	-	-	-	-	-	-
4. Loans to banks	-	-	-	-	13,036	-	1,439	**14,475**
5. Loans to customers	-	-	-	540	483,849	-	46	**484,435**
6. Financial assets carried at fair value	-	-	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-
Total 2012	-	-	-	**540**	**1,038,008**	**-**	**1,485**	**1,040,033**

CREDIT EXPOSURE DISTRIBUTION
BY RELATED PORTFOLIO AND BY CREDIT QUALITY (GROSS AND NET VALUES)

Amounts in thousands of Euros

Portfolios / Quality	Impaired assets			Performing			Total Exposure (net)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Held-for-trading financial assets	-	-	-	-	-	129	**129**
2. Available-for-sale financial assets	-	-	-	540,994	-	540,994	**540,994**
3. Held-to-maturity financial assets	-	-	-	-	-	-	-
4. Loans to banks	-	-	-	14,475	-	14,475	**14,475**
5. Loans to customers	542	2	540	485,042	1,193	483,849	**484,389**
6. Financial assets carried at fair value	-	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 2012	**542**	**2**	**540**	**1,040,511**	**1,193**	**1,039,447**	**1,039,987**

There were no receivables subject to renegotiation as part of any collective agreements under the "credit exposures to performing customers" as at 31 December 2012.

CASH AND OFF-BALANCE SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

Amounts in thousands of Euros

Type of exposure / Values	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURE				
a. Non-performing loans	-	-	-	-
b. Watch list loans	-	-	-	-
c. Restructured loans	-	-	-	-
d. Past due loans	-	-	-	-
e. Other assets	14,604	-	-	**14,604**
TOTAL A	**14,604**	-	-	**14,604**
B. OFF-BALANCE SHEET EXPOSURES				
a. Impaired	-	-	-	-
b. Other	1,340	-	-	**1,340**
TOTAL B	**1,340**	-	-	**1,340**
TOTAL A+B	**15,944**	-	-	**15,944**

Banking Group - Cash credit exposures to banks - movements of gross impaired exposures and "country risk" parties: The cash exposures to Banks are all performing.

Banking Group - Cash credit exposures to banks: movements of total value adjustments: The cash exposures from loans to Banks are all performing**.**

BANKING GROUP
CASH AND OFF-BALANCE SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

Amounts in thousands of Euros

Type of exposure / Values	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURE				
a. Non-performing loans	-	-	-	-
b. Watch list loans	-	-	-	-
c. Restructured loans	-	-	-	-
d. Past due loans	542	2	-	**540**
e. Other assets	1,026,082	-	1,193	**1,024,889**
TOTAL A	**1,026,624**	**2**	**1,193**	**1,025,429**
B. OFF-BALANCE SHEET EXPOSURES				
a. Impaired	-	-	-	-
b. Other	4,999	-	-	**4,999**
TOTAL B	**4,999**	-	-	**4,999**
TOTAL A+B	**1,031,623**	**2**	**1,193**	**1,030,428**

BANKING GROUP
CASH CREDIT EXPOSURES TO CUSTOMERS: MOVEMENTS OF GROSS IMPAIRED EXPOSURES

Amounts in thousands of Euros

Reasons / Categories	Non-performing loans	Watch list loans	Restructured loans	Past due exposures
A. **Gross opening exposure**	-	-	-	**4,099**
▪ of which: exposures disposed of and not derecognised	-	-	-	-
B. **Increases**	-	-	-	**479**
B.1 income from performing credit exposures	-	-	-	313
B.2 transfers from other categories of impaired exposures	-	-	-	-
B.3 other increases	-	-	-	166
C. **Decreases**	-	-	-	**4,036**
C.1 transferred to performing credit exposures	-	-	-	3,882
C.2 write-offs	-	-	-	-
C.3 collections	-	-	-	154
C.4 gains on disposals	-	-	-	-
C.5 transfers to other categories of impaired exposures	-	-	-	-
C.6 other decreases	-	-	-	-
D. **Gross closing exposure**	-	-	-	**542**w
▪ of which: exposures disposed of and not derecognised	-	-	-	-

BANKING GROUP
CASH CREDIT EXPOSURES TO CUSTOMERS: MOVEMENTS OF TOTAL VALUE ADJUSTMENTS

Amounts in thousands of Euros

Reasons / Categories	Non-performing loans	Watch list loans	Restructured loans	Past due exposures
A. **Overall opening adjustments**	-	-	-	-
▪ of which: exposures disposed of and not derecognised	-	-	-	-
B. **Increases**	-	-	-	**2**
B.1 value adjustments	-	-	-	-
B.2 transfers from other categories of impaired exposures	-	-	-	-
B.3 other increases	-	-	-	2
C. **Decreases**	-	-	-	-
C.1 value write-backs from revaluation	-	-	-	-
C.2 value write-backs from collections	-	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other categories of impaired exposures	-	-	-	-
C.5 other decreases	-	-	-	-
D. **Closing total adjustments**	-	-	-	**2**
▪ of which: exposures disposed of and not derecognised	-	-	-	-

BANKING GROUP - SEGMENT DISTRIBUTION OF CASH AND "OFF-BALANCE SHEET" CREDIT EXPOSURES TO CUSTOMERS (BOOK VALUE)

Exposures / Counterparties	Governments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures																		
A1. Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A2. Watch list loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	-	-	-	540	2	-	-	-	-	-	-	-	-	-	-	-	-	-
A5. Other exposures	564,926	-	72	352,319	-	1,121	106,566	-	-	-	-	-	-	-	-	1,078	-	-
TOTAL A	**564,926**	-	**72**	**352,859**	**2**	**1,121**	**106,566**	-	-	-	-	-	-	-	-	**1,078**	-	-
B. "Off-balance sheet" exposures																		
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B2. Watch list loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	4,977	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22	-	-
TOTAL B	**4,977**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22	-	-
TOTAL (A+B) 2012	**569,903**	-	**72**	**352,859**	**2**	**1,121**	**106,566**	-	-	-	-	-	-	-	-	**1,100**	-	-

BANKING GROUP
GEOGRAPHIC DISTRIBUTION OF CASH AND "OFF-BALANCE SHEET" CREDIT EXPOSURES TO CUSTOMERS
(BOOK VALUE)

Amounts in thousands of Euros

Exposures / Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
A2. Watch list loans	-	-	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	540	2	-	-	-	-	-	-	-	-
A5. Other exposures	1,024,889	1,193	-	-	-	-	-	-	-	-
TOTAL	**1,025,429**	**1,195**	-	-	-	-	-	-	-	-
B. "Off-balance sheet" exposures										
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
B2. Watch list loans	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	4,999	-	-	-	-	-	-	-	-	-
TOTAL	**4,999**	-	-	-	-	-	-	-	-	-
TOTAL 2012	**1,030,428**	**1,195**	-	-	-	-	-	-	-	-

TIME DISTRIBUTION BY RESIDUAL CONTRACT DURATION OF FINANCIAL ASSETS AND LIABILITIES

Items / Timescales	on demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Duration not defined
Cash assets	**60,567**	**100,365**	**815**	**2,745**	**22,554**	**229,143**	**513,019**	**121,661**	**230**	**4,183**
A.1 Government securities	-	-	-	-	-	159,512	376,636	5,000	-	-
A.2 Other debt securities	-	-	-	-	-	-	16	129	230	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	60,567	100,365	815	2,745	22,554	69,631	136,367	116,532	-	4,183
▪ Banks	10,292	-	-	-	-	-	-	-	-	4,183
▪ Customers	50,275	100,365	815	2,745	22,554	69,631	136,367	116,532	-	-
Cash liabilities	**45,918**	**254,125**	**4,365**	**12,901**	**76,583**	**93,105**	**148,739**	**364,355**	**10,000**	**5,000**
B.1 Deposit and current accounts	32,296	5,131	4,365	7,757	76,583	93,105	148,739	179,790	-	-
▪ Banks	12,568	-	-	-	-	-	-	-	-	-
▪ Customers	19,728	5,131	4,365	7,757	76,583	93,105	148,739	179,790	-	-
B.2 Debt securities	-	-	-	-	-	-	-	40,000	10,000	5,000
B.3 Other liabilities	13,622	248,994	-	5,144	-	-	-	144,565	-	-

Items / Timescales	on demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Duration not defined
"Off-balance sheet" transactions	-	**4,977**	-	-	-	-	-	**35,000**	-	-
C.1 Financial derivatives with exchange of capital	-	4,977	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	4,977	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	35,000	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	35,000	-	-
C.7 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
▪ Long positions	-	-	-	-	-	-	-	-	-	-
▪ Short positions	-	-	-	-	-	-	-	-	-	-

BANKING GROUP
GEOGRAPHIC DISTRIBUTION OF CASH AND "OFF-BALANCE SHEET" CREDIT EXPOSURES TO BANKS (BOOK VALUE)

Amounts in thousands of Euros

Exposures / Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
A2. Watch list loans	-	-	-	-	-	-	-	-	-	-
A3. Restructured loans	-	-	-	-	-	-	-	-	-	-
A4. Past due loans	-	-	-	-	-	-	-	-	-	-
A5. Other exposures	14,493	-	111	-	-	-	-	-	-	-
TOTAL	**14,493**	**-**	**111**	-	-	-	-	-	-	-
B. "Off-balance sheet" exposures										
B1. Non-performing loans	-	-	-	-	-	-	-	-	-	-
B2. Watch list loans	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-
B4. Other exposures	1,340	-	-	-	-	-	-	-	-	-
TOTAL	**1,340**	-	-	-	-	-	-	-	-	-
TOTAL 2012	**15,833**	**-**	**111**	-	-	-	-	-	-	-

At 31 December 2012 the significant risks to the Group comprise the following:

a. Euro 715,281 (in thousands);
b. 33 positions.

On 27 December 2010, the Bank of Italy issued the 6th update of Circular 263 of 27 December 2006 which defines "significant exposures", the exposures of amounts that equal or exceed 10% of the regulatory capital, where "exposure" refers to the amount of the risk assets on a cash basis and the off-balance sheet transactions with customers or groups of related customers, as defined by the laws on credit risk and counterparty risk.

TABLE 6 - CREDIT RISK

INFORMATION ON THE PORTFOLIOS SUBJECT TO THE STANDARDISED METHOD

AND THE SPECIALISED CREDIT EXPOSURES AND AND THE CAPITAL INSTRUMENT EXPOSURES WITHIN THE SCOPE OF THE IRB METHODS

QUALITATIVE DISCLOSURE

The Banca Sistema Group currently calculates the capital requirements for credit risk on the basis of the standardised method.

The Group's business mainly entails the acquisition of corporate receivables owed by the Public Administration and more specifically by the Local Health Authorities, and involves direct assumption of the credit risk with respect to the end debtor.

As at 31 December 2012, the Group used the rating issued by the ECAI "Fitch Ratings" with respect to its exposures towards the Central Authorities and Central Banks. The identification of a reference ECAI does not represent - with respect to the objective or the purpose - an evaluation of merit of the ratings attributed by the ECAIs or support for the methods used, for which the external creditworthiness ratings agencies are the only ones in charge.

QUANTITATIVE DISCLOSURE

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

Amounts in thousands of Euros

Regulatory asset /weight class	0%	20%	50%	75%	100%	150%	Total
Central Authorities and Central Banks	577,237						577,237
Supervised intermediaries		10,327					10,327
Territorial Entities		72,837					72,837
Non-profit organisations and public sector entities			244,483				244,483
Multilateral development banks							-
International Organisations							-
Companies and other entities					3,108		3,108
Retail exposures				12			12
Short-term exposures to companies							-
UCITS exposures							-
Property backed loans							-
Past due exposures						542	542
High risk loans							-
Securitisations							-
Other exposures					3,466		3,466
Total credit risk							**912,012**

TABLE 8 - RISK MITIGATION TECHNIQUES

QUALITATIVE DISCLOSURE

With reference to the credit risk mitigation techniques, in order to reduce exposure of the factoring portfolio, and more specifically its exposure with regard to the Local Health Authorities (ASL), the Group has drawn up specific standard hedging contracts known as credit default swaps (CDS) and credit linked notes (CLN), compliant with international ISDA derivative regulations (International Swaps and Derivatives Association).

The issue of these types of instrument catalogued as hedging derivatives allows the Bank to transfer the credit risk of the loans underlying the derivative, and therefore improve its capital ratios by the hedging generated by the derivative and the amounts taken in from the subscription of the notes.

In December, Banca Sistema issued the first CLN, subscribed to by a regulatory intermediary, at a nominal value of Euro 35 million, with a duration of eighteen months and with the underlying asset being the healthcare receivables of the ASL/AO.

QUANTITATIVE DISCLOSURE

Amounts in thousands of Euros

Segment	Exposures	Guarantee	Post CRM exposure	RWA
Public sector entities	279,483	35,000	244,483	122,208

TABLE 9 - COUNTERPARTY RISK

QUALITATIVE DISCLOSURE

The Group pays adequate attention to counterparty risk, understood as the risk of default by the counterparty to a transaction with respect to certain financial instruments such as over the counter instruments, repurchase agreements and reverse repurchase agreements on securities or goods, assignments or borrowing of loaned securities or goods and security financing transactions, transactions with long-term settlement in which one of the counterparties undertakes to sell or acquire a security, goods or foreign currency against the collection or payment of cash at a contractually established settlement date that falls later than the standard market date for similar types of transactions.

This is a specific type of credit risk that generates a bilateral type risk, whereby both counterparties are exposed to the risk of incurring unexpected loss.

The Bank manages counterparty risk in a careful, balanced manner, establishing an adequate limit system in terms of portfolio consistency and composition. With reference to the repurchase agreement positions, the Group counterparty is Cassa Compensazione Garanzia.

QUANTITATIVE DISCLOSURE

COUNTERPARTY RISK

Type of instruments	Positive gross fair value	Reduction due to offsetting (gross offset)	Positive net fair value (net of the offsetting agreements)	Collateral securities	Net fair value (net of offsetting and guarantees)	EAD	Distribution of fair value by underlying asset type
Repurchase agreements							
Held-for-trading financial assets	-	-	-	-	-	-	-
Loans to banks	-	-	-	-	-	-	-
Loans to customers (performing)	99,700	-	99,700	91,418	-	8,282	8,282
Reverse repurchase agreements							
Due to banks	-	-	-	-	-	-	-
Due to customers	249,012	-	249,012	248,997	-	15	15

Type of instruments	Regulatory trading portfolio	Banking portfolio
Repurchase agreements	-	99,700
Reverse repurchase agreements	-	249,012

TABLE 12 - OPERATIONAL RISK

QUALITATIVE DISCLOSURE

Operational risk is the risk of suffering losses due to the inadequacy or inefficiency of procedures, human resources or internal systems, or by external events. The following cases fall under the operational risk classification:

- fraud;
- human error;
- interruption of operations;
- system unavailability;
- inadequate execution of the processes;
- contractual breach;
- natural disasters.

Operational risk includes legal risk, while strategic risk or reputational risk are not included. Therefore operational risk refers to the various types of events that are not individually significant alone but only if analysed together and quantified by the entire risk category.

The Supervisory Authorities acknowledge that the specific approach adopted by individual banks for managing operational risk may depend on a series of factors including the size, organisational set-up and the nature and complexity of the transactions.

In this context, there is more awareness about operational risk and controls, which, along with the implementation of a functional internal reporting system and the availability of emergency plans, form the essential elements of an effective and efficient operational risk management system.

In order to calculate the capital requirements to cover operational risk, the Banca Sistema Group uses the Basic Indicator Approach - BIA - where the capital requirements are calculated by applying a regulatory coefficient to an indicator of the volume of company operations as set out by Title II, chapter 5 of the Supervisory regulations.

The regulatory ratio provided for the Base method - BIA, is 15% of the volume of company business dealings identified in the operating income. In order to measure the regulatory requirement with respect to the operational risk, the average operating income amounts over the past 3 years are weighted (with respect to the situation at year end as at 31/12) with the above-mentioned ratio.

If one of those figures is negative or invalid, this figure will not be used to calculate the total capital requirement and the requirement will therefore be calculated as the average of the amounts with positive values only.

For newly formed bank groups, the relevant indicator for the amounts relating to the three-year period prior to the establishment of the Group is generally determined as the sum of the relevant indicators of the individual companies that form the group.

On the other hand, if the relevant indicator figures are missing for certain findings in the applicable three-year period, the requirement will be calculated on the basis of the average of the findings available. This requirement is calculated using the relevant indicator figures only, calculated on the basis of the IAS accounting standards.

TABLE 13 - CAPITAL INSTRUMENT EXPOSURES
INFORMATION ON THE POSITIONS INCLUDED ON THE BANK PORTFOLIO

QUALITATIVE DISCLOSURE

Investments in capital instruments forming part of the Group bank portfolio pursue a number of different objectives such as: strategic, institutional (public finance interests) financial investments and supporting operational activities.

Accounting techniques

The capital instrument exposures included in the banking portfolio are classified under Equity investments and Assets available for sale in the financial statements.

Available-for-sale financial assets - accounting standards:

- **Classification criteria**. This category includes the non-derivative financial assets not classified otherwise as "Held-for-trading financial assets" or "Held-to-maturity financial assets" or "Financial assets carried at fair value" or "Receivables". The investments "available for sale" are financial assets that are intended to be retained for an indefinite period of time and that may be sold for reasons of liquidity, changes in interest rates, exchange rates or market prices.
- **Recognition criteria**. Initial recognition of available-for-sale financial assets is at the date of settlement, based on their fair value including the costs/income of the transaction directly attributable to the acquisition of the financial instrument. Costs/income having the aforesaid characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded. The initial fair value of a financial instrument is usually the cost incurred for its acquisition.
- **Measurement and recognition criteria for income components**. Following initial recognition, available-for-sale financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost, recorded in a specific equity reserve recorded in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recorded.

  In the case of financial instruments quoted on active markets, the fair value is determined on the basis of quotations (official price or other equivalent price on the last day the market is open in the reference financial year) of the most advantageous market to which the Bank/Group has access. If there is no active market, the fair value is calculated using measurement techniques that are generally accepted in financial practice, designed to establish what price the financial instrument would have been on the measurement date on an arm's length basis between knowledgeable and willing parties.

  Impairment testing is performed in accordance with paragraphs 58 et seq. of IAS 39 at every year end. As regards equity securities listed on an active market, a significant or prolonged reduction of the fair value below the purchase cost is also evidence of impairment.

  The amount of any adequately ascertained impairment is recorded under the income statement item "net value adjustments/write-backs due to impairment of available-for-sale financial assets".

This amount also includes the reversal to the income statement of any profits/losses from the measurement previously recorded in the specific shareholders' equity reserve.

If the reasons behind the impairment are no longer valid following an event which occurred after recognition, a write-back will be made on the income statement if it refers to debt securities and to shareholders' equity if it refers to equity securities measured at fair value.

- **Derecognition criteria**. Available-for-sale financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the financial assets.

Equity investments - accounting standards:

- **Classification criteria.** This category includes investments in subsidiaries, associates and joint ventures by Banca Sistema.
- **Recognition criteria.** Equity investments are recorded in the financial statements at purchase cost.
- **Measurement criteria.** If there is evidence that the value of an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment and/or other measurement elements.

  The amount of any impairment, calculated on the basis of the difference between the book value of the investment and its recoverable value is recorded in the income statement under "profits (losses) from equity investments".

  If the reasons for impairment are removed following an event occurring after recognition of the impairment, write-backs are made to the income statement under the same item as above to the extent of the previous adjustment.

- **Derecognition criteria.** Equity investments are derecognised from the financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and benefits.
- **Recognition criteria of income components**. In accordance with IAS 18, dividends are recorded when the right of the shareholder to receive payment has been established and, therefore, after the date of resolution of the Shareholders' Meeting of the investee company.

QUANTITATIVE DISCLOSURE

Type of security / Values	Book value			Fair Value			Market value	Gains/ losses and impairment		Unrealised capital gains/ losses and recorded on the Balance Sheet	
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Profits	Losses	Plus (+)	Minus (-)
Available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-
Financial assets carried at fair value	-	-	-	-	-	-	-	-	-	-	-
Goodwill	-	-	1,786	-	-	1,786	-	-	-	-	-

The goodwill is related to the purchase of the Solvi investment by SF Trust Italia.

The impairment test for goodwill in accordance with IAS 36 requires testing that the recoverable value of the goodwill is higher than its book value in the financial statements.

The impairment test is governed by accounting standard IAS 36 which provides for two different recoverable value configurations: paragraph 18 defines "Recoverable Value" as "the higher between the fair value of an asset or a cash-generating unit minus the selling costs and its value in use". Paragraph 19 also specifies that "It is not always necessary to calculate both the fair value minus the selling costs and its value in use. If one of the two amounts is higher than the book value, the asset has not suffered impairment and it is not necessary to calculate the other amount".

More specifically the impairment test was carried out by referring to the "Value in use" based on a measurement of the Solvi company carried out by an independent expert as part of the transfer of the equity investment by SF Trust Italia to Banca Sistema, which did not show lower values compared to the recognised value. The main hypotheses adopted for the estimate were to maintain the current normalised income (calculated on the basis of the historical data of the last two years, the 2012 budget and the integration prospects of the company into the Bank).

In addition, in accordance with the provisions of IFRS 3, the additional price that must be paid by SF Trust Italia to the previous shareholders did not increase the goodwill value.

It has not been necessary to record any impairment to date.

TABLE 14 - INTEREST RATE RISK ON THE POSITIONS INCLUDED ON THE BANK PORTFOLIO

QUALITATIVE DISCLOSURE

The banking portfolio is made up of all the financial instruments either due or payable and that are not included in the trading portfolio. As already noted in this document, the risk on the positions in the banking portfolio refers to the possibility of negative changes in the cash flows or market values of the assets and liabilities of the Bank due to adverse and unexpected changes in the market rates.

The Banca Sistema Group does not take on significant interest rate risk as a rule, as it mainly uses repurchase agreements, own bonds and interbank deposits in addition to the funding from the deposit account (SI conto!).

The interbank loans are mainly very short-term loans at fixed rates. Customer deposits with the SI conto! accounts are at fixed rates, with standard maturity dates.

Loans to customers are at fixed rates only, while in other cases the interest rates can be fixed at the sole discretion of the Bank within the scope of applicable law.

Taking on of interest rate risk related to the funding activities by the Treasury Division is carried out in accordance with the policies and limits established by the Board of Directors.

The company departments in charge of ensuring the correct management of interest rate risk include the Treasury Department, which is involved in the direct management of funding, the Risk Division which identifies the most suitable risk indicators and monitors the performance of funding assets and liabilities in relation to the pre-established limits, and top management, which is involved in making annual proposals to the Board of Directors of the Bank regarding the loan and funding policies and management of interest rate risk, and suggesting, during the year, any necessary measures that should be taken to ensure that the work is carried out in accordance with the risk policies.

On the basis of the funding information provided by the Treasury department, the expected interest rates and assessments on developments in investments, top management provides the Treasury department with instructions on use of the available lines of credit.

The top management receives a summarised daily report on the overall treasury position in order to monitor interest rate risk.

Hedging instruments are not used since the risk taken on is not significant.

QUANTITATIVE DISCLOSURE

The capital requirement necessary for interest rate risk is calculated, in accordance with indications by Bank of Italy Circular 263/2006, using a simplified model that divides the assets and liabilities of the Group banks banking portfolio into 14 time ranges on the basis of their residual lives. The assets and liabilities at variable rates are slotted into the various time ranges on the basis of the interest rate re-pricing date.

The model provides for the assets and liabilities to be entered onto the timetables in accordance with the instructions of Bank of Italy Circular 272 "Manual to fill out the accounts table" and Circular 115 "Instructions to fill out the consolidated regulatory reports of the credit institutions" apart from:

- current account assets classified as "on demand";
- current account liabilities and demand deposits to be divided in accordance with the following instructions:
  - if "on demand", with a standard fixed rate of 25% ("non-core component");
  - for the remaining amount ("core component") in the next eight time ranges (from "up to 1 month" to "4-5 years") in proportion to the number of months contained.

The asset positions are offset by the liability positions within each time range, thereby obtaining a net position. The net position of each range is multiplied by certain weighted factors obtained as the product between a hypothetical change in the rates for all the maturities and an approximation of the duration amended with respect to the individual ranges as provided by the simplified Bank of Italy method.

In order to calculate the interest rate risk of the banking book, the Bank of Italy provides that under the "normal state of affairs" reference can be made to the annual changes in interest rates recorded over a 6-year observation period, considering the 99th percentile (raised)".

A summary of the results relating to measurement of the interest rate risk is shown below. The risk ratio calculated as the ratio between the above-described internal capital and the regulatory capital is also shown.

EXPOSURE TO INTEREST RATE RISK	Values at 31/12/2012
1. Internal capital compared to the interest rate risk	57,697
2. Regulatory capital	28,455,643
3. Risk index	0.2%
4. Threshold limit defined by law	20%

TABLE 15 - REMUNERATION AND BONUS SYSTEMS AND PROCEDURES

QUALITATIVE DISCLOSURE

The remuneration policies were formulated in accordance with the instructions in the Bank of Italy Provision regarding "Provisions on the remuneration and incentive policies and practices in banks and banking groups" issued on 30 March 2011 and internal Bank rules.

The formation of the Banca Sistema and Group remuneration policies provides for the involvement of the following company bodies and departments in accordance with the duties and responsibilities indicated below:

The **Shareholders' Meeting** will approve the remuneration policies in favour of employees or outside staff who are not employees and any remuneration plans based on financial instruments.

The Banca Sistema **Executive Committee** will process and define the proposals relating to the Banca SISTEMA and Group remuneration policies in order to evaluate compatibility with long-term company strategies.

When the Executive Committee and the Board of Directors examine the proposals to submit to the shareholders' meeting, they will be assisted by the **Appointments and Remuneration Committee**, comprising three non-executive directors who will give their opinions on the following matters among other things:

- the remuneration of the members of the Board of Directors who hold specific offices and more specifically, remuneration of the CEO;
- the appointment and remuneration of the members of top management;
- the approval of the corporate incentive plan based on financial instruments (stock option plan);
- the remuneration policy for company officers, including any use of options or shares as employee remuneration;
- will directly supervise correct application of the rules relating to remunerating the heads of internal control, in close agreement with the control body.

The remuneration policies will then be submitted to the Board of Directors and if it gives its approval, to approval of the Shareholders' Meeting of Banca Sistema.

The CEO and the Executive Committee, to the extent of their authority, will manage and implement the bonus plan, with assistance from the following company departments:

- HR Division;
- Risk Division;
- Compliance Department;
- Internal audit Department;

In its capacity as the body in charge of strategic supervision, the Board of Directors of Banca Sistema will adopt and review, on an annual basis at least, the remuneration policies to submit for approval to the Board of Directors, and will be responsible for correctly implementing it.

The Group has developed an accurate self-assessment to identify "key staff", i.e. those people whose professional activities have or could have a significant impact on the risk profile of the bank.

The results of that process are summarised below:

Managers with executive powers

- Managers with executive powers in the Parent Company (3 positions)
- Managers with executive powers in the subsidiary SFTI (2 positions)
- Managers with executive powers in the subsidiary SFTH (2 positions)
- Managers with executive powers in the subsidiary Solvi (1 position)

Managers of the main company departments

- Central Factoring Division (1 position)
- Central Banking Division (1 position)
- Central Finance and Administration Division (2 positions)
- Legal, Compliance and Company Affairs Division (1 position)
- Central Operations Division (1 position)
- Marketing and Communication Division (1 position)
- General Manager Solvi (1 Position)

Managers and staff at the highest levels of the internal control bodies;

- Compliance and Anti-money laundering Department (1 position)
- Internal audit Department (1 position)
- HR Division (1 position)
- Risk Division (1 position)

Other "Risk Takers"

- Treasury Department (1 position)
- Commercial Factoring Division (1 position)

More stringent rules will apply to structuring "key staff" remuneration until there is full correspondence between the remuneration and the economic-financial performance - both current and prospective - in accordance with factors that take account of the risks taken on and sustainability of the corporate results over time.

Subject to the more detailed provisions indicated in the "Remuneration policies for Bodies with Supervisory, Management and Control and HR Authority of the Banca Sistema Group" remuneration will comprise the following components, especially with respect to the "key staff":

a) Fixed component:

- is provided for at all levels of responsibility;
- is based on the technical, professional and managerial skills of the staff members and the responsibility assigned to each; it is constantly monitored to check both internal and external fairness with respect to the market, including with the assistance of assessments drawn up by independent consultants chosen by the Parent Company;
- it is also calculated in relation to the specific jobs carried out by the members of the Board of Directors, and their involvement in any internal committees;
- it is aimed at ensuring the sound and prudent management of the Bank and the Group;
- it has always been based on the criteria of sustainability.

b) Variable component:

- is also calculated in accordance with the remuneration levels offered by the market for similar functions in comparable structures;
- is determined on the basis of parameters that are as objective as possible;
- it is calculated on the basis of a quantitative and qualitative assessment system;
- with respect to the quantitative criteria, it has been structured on both short and medium-long term goals assigned to key staff who have the most responsibility for running the company;
- calculated in accordance with exclusively qualitative goals and not related in any way to the financial results for those who have control functions and parties who have to draw up the accounting and corporate documents;
- adequately referenced to the risk profile involved;
- characterised by the sustainability criteria over time;
- assigned on an annual basis and given, providing for the following deferral mechanisms and return rules for the cases described below, in order to align the variable component to the actual results and risks taken on.

c) Benefit:

- additional company benefits are added to the remuneration for all employees or for some of them, in accordance with the roles covered.

This group remuneration structure ensures appropriate connection between the employee and the results obtained, and the risks taken on.

The risk division is involved in identifying potential events that could influence company activities, analysing the impact of said events within the scope of the risk limits considered to be acceptable by the company, and periodically monitoring the impact of implementing the remuneration policies on the Group risk profiles. This Division has worked on defining the risk indicators in the new Group remuneration system.

The variable portion of the staff remuneration for the “key staff” comprises both short and medium-long term bonuses.

The short-term bonuses comprise an annual bonus (paid in cash) attributed on a discretionary basis to each employee and calculated on the basis of both qualitative and quantitative performance indicators.

The individual qualitative criteria that forms the basis of the assessment includes:

- compliance and respect for the values (Integrity, Independence, Excellence, Transparency, Social and Environmental Responsibility) on which Banca Sistema bases its business, applicable law and the Group Code of Ethics;
- honesty in relations with customers, enhancing loyalty and the ability to sell products;
- professional capacity and skills and the ability to develop these qualities;
- constant dedication to work, availability with respect to colleagues and the ability to work as a team;
- the capacity to find concrete and possibly innovative solutions, with the objective always being the sound and prudent management of the Bank and its values over the long term;
- the ability to take responsibility for decisions;
- the ability to promptly to pursue the goals identified;
- the capacity to optimise the use of resources; the capacity to involve and motivate co-workers, encouraging growth including through the attentive use of authorisation;

- the reduction of legal and reputation risk;
- compliance with regulatory requirements.

The individual quantitative criteria at the basis of the assessment can be summarised as contributing to the financial results, management of customer relations and management. More specifically, certain factors related to the short, medium and long term company profitability are represented, and the industrial plan it is based on, in addition to regulatory requirements.

The variable remuneration system is mainly based on qualitative targets, and co-ordinated with a medium and long term assessment when it is being drawn up. This formulation means that annual bonus payment postponement methods are not adopted.

The medium-long term incentives are represented by assignment of shares of the company SGBS S.r.l., who holds 26.35% of Banca Sistema S.p.A. These shares were assigned to "key staff" in accordance with the remuneration policies and the bonus plan for employees and directors. Both documents were approved by the shareholders' meeting of Banca Sistema S.p.A.

The goals of the Bonus Plan are as follows:

- to act as encouragement for staff whose work is considered to be of fundamental importance for Banca Sistema and the Banca Sistema Group to achieve their goals;
- to communicate Banca Sistema's desire to share its expected increased value and the value of the Banca Sistema Group with the most deserving professional performances;
- to improve the competitiveness of Banca Sistema and the Banca Sistema Group in recruiting highly skilled, professional employees and in choosing directors;
- gain the loyalty of the employees and the directors and increase their motivation to achieve the strategic goals.

The Executive Committee of Banca Sistema is in charge of managing the Bonus Plan and related decisions.

QUANTITATIVE DISCLOSURE

The table below shows the remuneration amounts for the year, divided into the fixed and variable components, and the number of "Managers with executive powers", "Managers of the main company departments", and "Managers and staff at the highest levels of the internal control bodies" beneficiaries of the Banca Sistema Group. The total figures include the beneficiaries of Banca Sistema and the other Group companies and the breakdown includes persons who hold more than one different position.

Beneficiary Category	Number of beneficiaries	Fixed remuneration	2011 bonus available	Deferred 2011 bonus
Managers with executive powers	6	802,390	340,000	49,338
Managers of the main company departments	8	936,352	188,000	123,344
Managers and staff at the highest levels of the internal control bodies	4	306,517	60,000	33,639
Other risk takers	2	245,120	70,000	22,426