BANCA SELLA

BIELLA
Since 1886

REPORT AND FINANCIAL STATEMENTS

AS

December 31, 2015

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GRUPPO BANCA SELLA

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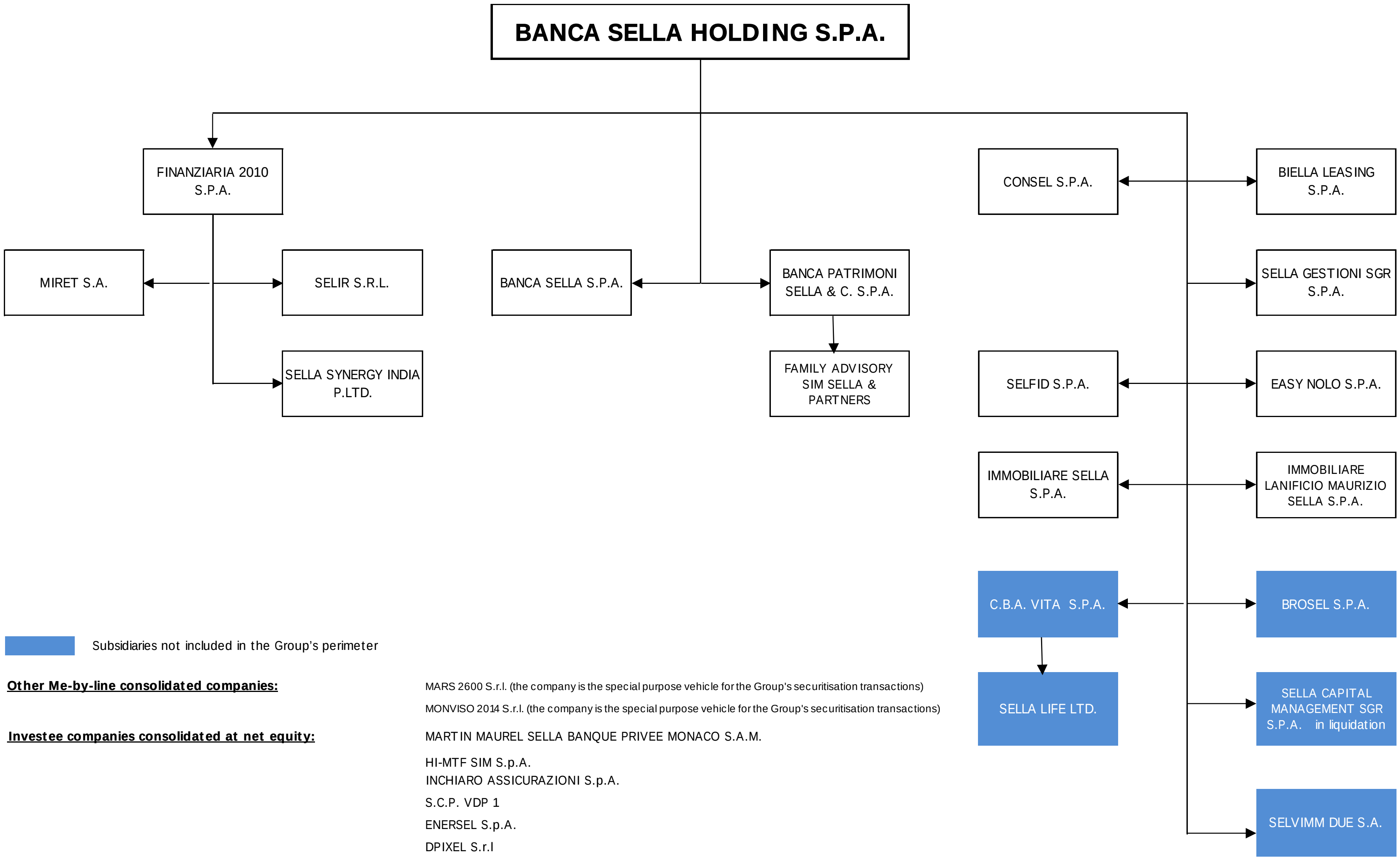
Map of the Banking Group as 31 December 2015



Subsidiaries not included in the Group's perimeter

Other Me-by-line consolidated companies:

MARS 2600 S.r.l. (the company is the special purpose vehicle for the Group's securitisation transactions)

MONVISO 2014 S.r.l. (the company is the special purpose vehicle for the Group's securitisation transactions)

Investee companies consolidated at net equity:

MARTIN MAUREL SELLA BANQUE PRIVEE MONACO S.A.M.

HI-MTF SIM S.p.A.

INCHIARO ASSICURAZIONI S.p.A.

S.C.P. VDP 1

ENERSEL S.p.A.

DPIXEL S.r.l

SYMBID ITALIA S.p.A.

Corporate Officers

BOARD OF DIRECTORS

in office up to the approval of the 2016 financial statements

Chairman	Maurizio Sella
Deputy Chairman	Franco Sella
Managing Director	Claudio Musiari
Director	Elisabetta Galati
"	Luigi Gargiulo
"	Andrea Lanciani
"	Ferdinando Parente
"	Carlo Santini
"	Pietro Sella
"	Sebastiano Sella
"	Silvana Terragnolo
"	Paolo Tosolini
"	Attilio Viola

BOARD OF STATUTORY AUDITORS

in office up to the approval of the 2016 financial statements

Regular Auditor - Chairman	Paolo Piccatti
"	Vincenzo Rizzo
"	Riccardo Foglia Taverna
Alternate Auditor	Daniele Frè
" "	Michela Rayneri

GENERAL MANAGEMENT

Director General	Claudio Musiari
Co-Director General	Giorgio De Donno
Co-Director General	Gianluca Bisognani

Report on Operations

Main figures and indicators

Rating

The DBRS agency assigned Banca Sella, in May 2015 and confirmed after the capital increase, the following ratings:

Rating - DBRS	
Long-term rating	**BBB (low)**
Short-term rating	**R – 2 (low)**
Trend	**Negative**

Staff and branches

Staff and branches

Item	31/12/2015	31/12/2014	Changes	
			absolute	%
Employees	2,989	2,963	26	0.9%
Branches	293	293	-	-

Summary Data

Summary data (amounts in Euro thousands)

BALANCE SHEET DATA	31/12/2015	31/12/2014	Changes	
			absolute	%
Total assets	10,765,853.3	10,566,753.9	199,099.3	1.9%
Financial assets (1)	1,749,371.7	1,338,305.0	411,066.6	30.7%
Cash loans, exclusive of repurchase agreements receivable	6,734,045.2	6,961,360.6	(227,315.4)	-3.3%
repurchase agreements receivable	*412.3*	-	412.3	100.0%
Total cash loans (2)	6,734,457.5	6,961,360.6	(226,903.1)	-3.3%
Tangible and intangible fixed assets	90,656.8	88,415.9	2,240.9	2.5%
Total deposits	21,392,956.1	21,078,036.7	314,919.4	1.5%
Direct deposits, excluding repurchase agreements payable	9,275,161.1	9,212,379.0	62,782.1	0.7%
repurchase agreements payable	*46,251.0*	*297,286.1*	*(251,035.2)*	*-84.4%*
Total direct deposits (3)	9,321,412.0	9,509,665.1	(188,253.1)	-2.0%
Indirect deposits (4)	12,071,544.1	11,568,371.6	503,172.5	4.4%
Guarantees issued	207,164.0	252,196.4	(45,032.4)	-17.9%
Shareholders' Equity	771,168.6	617,219.9	153,948.7	24.9%
Common Equity Tier 1 (CET 1)	689,345.1	553,373.2	135,971.9	24.6%
Tier 2 Capital (T2)	239,737.8	239,297.9	439.9	0.2%
Total own funds	929,083.0	792,671.1	136,411.9	17.2%
RECLASSIFIED ECONOMIC DATA (5)	**31/12/2015**	**31/12/2014**	**Changes**	
			absolute	**%**
Net interest income	168,390.7	197,664.3	(29,273.5)	-14.8%
Gross income from services (6)	282,472.7	255,565.3	26,907.5	10.5%
Fee and commission expenses	84,337.8	76,260.9	8,076.9	10.6%
Net income from services (net of fee and commission expenses)	198,134.9	179,304.4	18,830.6	10.5%
Net banking income	366,525.6	376,968.6	(10,443.0)	-2.8%
Operating costs net of recovery of stamp duties and other taxes (7)	258,231.6	244,072.6	14,159.0	5.8%
Operating profit (loss)	108,294.0	132,896.0	(24,602.0)	-18.5%
Net value adjustments for impairment losses	(98,744.1)	(103,505.1)	4,760.9	-4.6%
Other economic items	(2,174.2)	66,887.8	(69,062.1)	-103.3%
Income taxes	(1,363.4)	(32,048.7)	30,685.3	-95.8%
Profit (Loss) for the period	6,012.2	64,230.1	(58,217.9)	-90.6%

(1) The aggregate represents the sum of the following items in the Balance Sheet Assets: item 20 "financial assets held for trading" and item 40 "financial assets available for sale".
(2) The aggregate represents item 70, "Due from customers", in the Balance Sheet Assets.
(3) The aggregate represents the sum of the following items from Balance Sheet Liabilities: 20 "Due to customers" and 30 "Securities in issue".
(4) The aggregate does not include the item "cash and cash equivalents", relating to asset management, which is included in the item "direct deposits". It instead includes the item related to income from insurance activities, as indicated in the note at the foot of the table on Management and Brokering for third parties.
(5) As per items reported in the reclassified Income Statement.
(6) The aggregate represents the sum of the following items in the Reclassified Income Statement: fee and commission income, net income (loss) from trading and hedging activities, profit (loss) from sale or repurchase of loans, financial assets available for sale and financial assets;
(7) Given by the sum of the following items: "Administrative expenses" item 150, "writedowns on tangible assets" item 170, "writedowns on intangible fixed assets", item 180 "Other operating income and expenses" item 190.

Economic-Financial Indicators

Alternative performance indicators

PROFITABILITY RATIOS (%)	31/12/2015	31/12/2014
R.O.E. (return on equity) (1)	1.0%	11.7%
R.O.A. (return on assets) (2)	0.1%	0.6%
Net interest income (3) / Net banking income (3)	45.9%	52.4%
Net income from services (3) / Net banking income (3)	54.1%	47.6%
Cost to income (4)	69.7%	62.5%
Cost to income net of National Resolution Fund contribution (5)	67.7%	62.5%
PRODUCTIVITY RATIOS (in Euro thousands)	**31/12/2015**	**31/12/2014**
Net banking income (3) / Average no. of employees	123.2	128.3
Operating profit (loss) (3) / Average no. of employees	36.4	45.2
Cash loans (net of repurchase agreements) / Employees at year end	2,252.9	2,349.4
Direct deposits (net of repurchase agreements payable) / No. of employees at the end of the year	3,103.1	3,109.1
Direct deposits / No. of employees at year end	7,157.2	7,113.8
EQUITY AND LIQUIDITY RATIOS (%)	**31/12/2015**	**31/12/2014**
Cash Loans (net of repurchase agreements) / Direct deposits (net of repurchase agreements)	72.6%	75.6%
Cash loans (net of repurchase agreements) / Total assets	62.6%	65.9%
Direct deposits (net of repurchase agreements payable) / Total assets	86.2%	87.2%
CREDIT RISK RATIOS (%)	**31/12/2015**	**31/12/2014**
Net impaired loans / Cash Loans (net of repurchase agreements)	8.3%	8.1%
Net bad loans / Cash Loans (net of repurchase agreements)	4.5%	3.7%
Net adjustments to loans (6) / Cash Loans (net of repurchase agreements)	1.5%	1.5%
Coverage rate for impaired loans	47.8%	44.4%
Coverage rate for non-performing loans	60.0%	59.7%
SOLVENCY RATIOS (%)	**31/12/2015**	**31/12/2014**
CET 1 ratio	14.67%	10.81%
Tier 1 ratio	14.67%	10.81%
Total capital ratio	19.77%	15.48%

(1) Ratio between "Profit for the year" and the sum of items 160 "Reserves", 170 "Share premiums", and 180 "Share Capital" in the Balance Sheet Liabilities.
(2) Ratio between "Net profit" and "Total assets".
(3) As in the reclassified Income Statement.
(4) Ratio between operating costs, after deducting IRAP on personnel costs and net of losses connected to operating risks and net banking income.
(5) Cost to income calculated removing ordinary and extraordinary contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS).
(6) Obtained from the sum of items 130 a) and 100 a) in the reclassified income statement.

Macroeconomic reference scenario

World context

In 2015, the world economy as a whole continued to grow, although at a lower rate than in 2014, with wide variations between geographical areas and progressively slowing. The final projection for world growth in 2015 made by the International Monetary Fund was 3.1%, as stated in the January 2016 update, compared to 3.5% estimated in January 2015 and 3.9% estimated in January 2014.

The **United States economy**, after a first half of growth with an average rate of 2.8% year on year, showed signs of slowing in the second half, achieving 2.4% growth year on year in 2015, in line with the figure from 2014. Private consumption, with a trend that fell in particular during the final months of the year, providing the main contribution to GDP growth, supported by multiple factors: from a progressive recovery in employment conditions, although still incomplete and not accompanied by increases in hourly wages comparable to those seen prior to the crisis; further wealth accumulation, both in the real and financial components; favourable credit conditions, as well as support for purchasing power deriving from the drop in inflation (at 0.1% for all of 2015 against 1.6% in 2014), determined for the most part by the drop in oil prices. Positive contributions to growth were also provided by residential investments and public spending, after the contribution seen in 2014 of just only slightly above zero. The correction in crude oil prices, on the other hand, slowed investments in the energy sector which weighed down trends for non-residential private investments, pulling them downwards. The appreciation of the dollar and the anaemic nature of international demand led to a more significant loss of drive for exports with respect to imports, weakening net exports and therefore holding back GDP growth again in 2015. Supported by the signals coming from the labour market, with an unemployment rate that fell again during the year (at 5% in December, half of the level at 10% reached in 2009, and compatible with long-term equilibrium estimated by the Federal Reserve), in its December meeting the US central bank began normalising the official rate used in monetary policy, raising it by 25 basis points for the federal funds reference interval (brought to 0.25–0.50%) for the first time since 2006, thereby ending the zero rate policy adopted in December 2008. In addition, the Federal Reserve offered assurances regarding the fact that monetary conditions will continue to be accommodating, so as to favour both additional improvement in the labour market, where certain indicators are still far from the numbers seen prior to the recession, and a return to the medium-term inflation objective of 2%; it also added that the securities reinvestment policy about to expire will be continued until normalisation of federal fund levels is not at an advanced state. In line with these declarations, guidelines for the official rate indicate the Committee’s desire to gradually move towards raising rates, guided by progress achieved in regards to the dual mandate of supporting employment and price stability. Based on the average judgement of members of the Monetary Policy Committee, the official rate at the end of 2016 will be between 1.25% and 1.50%, or 100 basis points higher than the current level.

In the **Eurozone**, the moderate economic recovery continued in 2015, but at rhythms that as a whole slowed in the last quarters of the year, leading to an overall increase of 1.5%, compared with 0.9% in 2014. The recovery of real GDP, which returned to the values seen at the start of 2008, was above all led by internal demand: monetary conditions slowly becoming more accommodating, support for purchasing power deriving from the drop in oil prices and the gradual improvement in the labour market, while still far from conditions prior to the crisis, all supported private consumption; another sign of recovery was also seen in investments, in particular in the last quarter of the year, which nonetheless remain a good 13 percent below 2008 levels. Weakness in net exports based on the deterioration of the external situation, notable in certain significant emerging economies, represented a factor that held back growth. In terms of geographic composition, with respect to the initial phase of the recovery which saw notable differences between core and peripheral countries, the consolidation of the expansive trends seen also become more homogeneous: all the major economies in the Eurozone saw overall increases in Gross Domestic Product during the 4 quarters in question, with the exception of France, which saw zero growth between April and June. With reference to **Italy**, national accounting figures for the fourth quarter (+0.1% with respect to the third quarter 2015 and +1% with respect to fourth quarter 2014) confirmed a progressive weakening seen during the year which, nonetheless, did not impede the economy from ending 2015 with the first increase since 2011 (+0.6%, taking calendar effects into account, from -0.3% in 2014). In the last three months of the year, the contribution from domestic demand, net of inventories, remained positive (at +0.4%), thanks to the private consumption, public spending and gross fixed investments. Net exports, after having held back growth by 0.3 percent in the previous quarter, returned positive during the last quarter of the year (+0.1%). Among the Eurozone countries, in 2015 the **Greek** economy once again shrank (-0.3%, against +0.7% in 2014), working to implement a complex programme of structural reforms, which was the requirement international lenders established for granting the third aid plan for the country (€ 86 billion over 3 years), agreed upon in August. The substantial absence of pressure on the demand side, and the notable decrease in oil prices (-47% on average with respect to 2014 prices) led to an additional drop in inflation, from the already low levels of the previous year, with various monthly figures falling below zero when compared with the start of 2015; the annual average inflation rate was 0.0% (+0.4% in 2014) in the Eurozone and +0.1% (0.2% in 2014) in Italy. The deterioration of the inflation situation and the progressive decrease in inflation prospects, also with a medium/long-term horizon, led the European Central Bank (ECB) to adopt an even more accommodating monetary policy in 2015; at its meeting on 22 January, it announced a securities purchasing programme (Quantitative Easing - QE) which was more extensive than that presented the previous September by including, in addition to covered bonds and asset-backed securities (ABS), debt securities issued by Eurozone governments, national agencies and supranational institutions, for monthly purchases totalling € 60 billion. These purchases, which were begun on 9 March, were initially intended to continue at least through September 2016. At its last meeting in 2015, on 3 December, the European Central Bank, worried that the interventions carried out up to that point had been effective in regards to the real economy, but insufficient to sustain a recovery in inflation in terms of the medium-term objective, once again strengthened monetary stimulus. It announced a new package of expansive measures: 10 basis point reduction in the interest rate on deposits, going from -0.20% to -0.30%, while confirming the interest rate for the main refinancing operations and for marginal refinancing operations, respectively at 0.05% and 0.30%; it also extended the timeframe for monthly € 60 billion purchases of securities at least through March 2017, and in any case until inflation trends are in line with the established objective (just under 2%); in addition, reinvestment of maturing securities acquired in the context of the QE plan, until necessary and inclusion of Eurozone regional and local public administration bonds in the category of securities that can be purchased. Also at said meeting the Directive Council emphasised its willingness to act again, using all the tools available to it, and in particular taking advantage of the flexibility of the purchasing plans, which allow for adjustments in terms of size, structure and duration. This willingness was confirmed at the meeting on 10 Mach 2016, when the ECB introduced significant new stimulus measures against growth and inflation forecasts that had been lowered beyond that seen in December, aimed in particular at loosening lending conditions and thereby transmitting the multiple unconventional initiatives adopted to the real economy, with the ultimate goal of supporting the recovery in the Eurozone and accelerating a return to inflation levels of just under 2%.

In Asia, **Japan**, with high volatility in quarterly trends, oscillated both above and below zero, growing by a modest 0.5% year on year in 2015, after the 0.0% seen in 2014, and continuing the have difficulties in finding a stable path towards expansion; in fact, the solid conditions seen in the domestic labour market are having difficulties in translating to upward salary trends and consequently more vivacious consumption trends. Similarly, corporate profits are improving thanks to the significant contribution of the exchange rate and favourable oil prices, but are struggling to generate sustainable recovery in regards to the investment cycle. In regards to consumer prices, the change in the index after fresh food is removed (Central Bank figures), as well as the transitional impact of the VAT increase introduced in April 2014, remained near zero for all of 2015, affected by the trend of oil prices and substantial inertia in the recovery of components more closely linked to economic growth trends, similar to that seen in other advanced economies. During the year, the Central Bank confirmed its exceptionally accommodating stance in terms of monetary policy that began in April 2013, becoming even more expansive with the measures announced at the end of 2014, with the explicit intention of reaching an inflation rate of 2%.

In the **emerging economies**, despite widely varying macroeconomic conditions, 2015 saw a generalised reduction in growth rates, which in some cases involved serious recessions. In **China**, the deceleration of growth rates seen, which fell from 7.3% in 2014 to 6.9% in 2015, was limited and for the most part can be viewed within the context of the government plan to transition towards a more sustainable growth model, intended to progressively reduce certain economic sectors in favour of others. The favourable inflation situation (with a +1.4% year on year change in the consumer price index, from +2% in 2014 and with the government target at 3%) allowed monetary policy, during the delicate rebalancing stage, to continue to provide necessary support for growth. In **India**, where in 2015 domestic product grew at 7.3% year on year, based on national accounting figures, in contrast to 7.1% in 2014, with inflation confirming the downward trend begun in 2014 (going from 6.7% in 2014 to 4.9%), the Central Bank lowered the cost of funding by 125 basis points, announcing in December that it would continue to have an accommodating stance in terms of monetary policy. In **Russia**, gross domestic product fell by 3.7% in 2015, in comparison to the modest growth of 0.6% seen in 2014. After the peak of 16.9% seen in March 2015, inflation progressively declined to 8.1% in February 2016. The prospects for 2016 are weighed down by the drop in oil prices, the weakness of the rouble and tensions with Turkey, as well as the continued sanctions applied by the West due to involvement in the Ukraine situation. In **Brazil**, political uncertainties and the delay in the start of structural reforms have aggravated an already difficult economic situation. Gross domestic product fell by 3.8% in 2015, after the zero growth seen in the previous year. Inflation, which continues to grow despite the 250 basis point increase in the cost of funding applied by the Central Bank in 2015, was over 10.7% in January 2016.

The financial markets

Long-term return rates in the USA were stable overall in 2015, despite the volatility seen during the year, including moments of risk aversion and a desire for quality investments by international investors, particularly notable in the summer months, after the problems seen in significant emerging economies, above all China, and awaiting a slow and gradual normalisation of monetary policy by the Federal Reserve. Expectations for further monetary stimulus from the European Central Bank, after the announcement of the QE plan in January, led government returns to return to the levels seen at the start of 2015 by the end of the year, after the upward trends seen in spring and summer, in part affected by the fears arising at the end of 2014 in regards to the situation in Greece. The average German ten year rate was 0.54% in 2015, compared to the 1.24% average in 2014. The return on ten-year BTPs saw an average 1.70% in 2015, compared to 2.87% the previous year.

In 2015, the stock markets saw a decline of approximately 2,7% (MSCI World). During the first part of the year, the main stock markets benefited from the accommodating stance for monetary policy established by the main global Central Banks, subsequently undergoing a corrective phase originating from apprehensions relative to the effects of the initial increase in official rates by the US Central Bank, fears about lower growth prospects in the Chinese economy and the associated structural changes that involved sectors connected with raw materials - factors which increased the economic problems in certain emerging areas and were not entirely compensated for by the more accommodating stance taken by other large global Central Banks.

The Euro depreciated by around 6% in nominal effective terms during 2015, with a clear change of around 4% between the start of September and the start of December. The weakening of the single currency was particularly notable in regards to the US dollar (around 17%), reflecting growing divergences in the monetary policies followed by the Federal Reserve and the ECB.

Italian banking system

During 2015, lending activity by the Italian banking system saw a period of gradual improvement, while still far from the pre-crisis period. The drop in loans provided to business progressively slowed, benefiting from the gradual improvement in economic activity and the loosening of the conditions offered by banks; loans to households began to grow once again, although only slowly, starting after the middle of the year. Although the level of impaired items grew again, the flow of new bad loans fell with respect to 2014, allowing for a reduction in the cost of credit. All this was reflected in the balance sheets of Italian banks, which in the first three quarters of the year saw profitability that was still weak, but recovering.

The regulatory changes which applied to banks, aimed at making the financial system more resistant to crises and more stable in the future, also contributed to holding down bank profitability and the overall size of the credit system.Italian bank loans to private customers residing in Italy came to € 1,643 billion in December 2015, with an annual drop of 0.4%. Loans to non-financial companies continued to fall in 2015, although the downward trend was lower, with the final amount reaching € 793 billion at the end of December (-1.75% year on year), with varying trends by sector, size class and creditworthiness. Loans to households returned to growth in April, after three years of shrinking, reaching a final figure at the end of December of € 620 billion, with 3.9% growth, above all due to the significant increase in the stock of consumer loans.

In 2015, the deterioration of credit quality continued, although the amount of new non-performing loans slowed. The volume of gross non-performing positions at the end of December stood at € 201 billion, up 9.4% on last year with a ratio of gross non-performing positions and loans of 10.5% (from 9.57% at end 2014) and a ratio of net non-performing positions and loans of 4.9% (from 4.6% at end 2014).

At the end of December 2015, deposits in Euro with Italian banks represented by residents' deposits and bonds reached € 2,061 billion, down by 1.2% on an annual basis. The drop is entirely due to the reduction in the bond component which ended the year at € 601 billion, down by 15%. Bonds which matured during the year were not replaced by similar amounts of new issues, due to the abundant availability of alternative financial instruments within the Eurosystem, the uncertain recovery of the credit cycle and finally, lower demand from customers, disoriented by insufficient communication regarding regulatory changes for resolutions and bail-ins. On the other hand, for the third consecutive year growth in current account deposits was positive, seeing an 8.4% annual increase in December, reaching € 877 billion.

In regards to amounts in the income statement, listed banking groups ended the first nine months of the year with profitability that was still limited, but improving with respect to the corresponding period the previous year. This was mainly thanks to the drop in writedowns on loans (-26%) and to a lesser extent, containment of operating expenses. Operating income was substantially stable (+0.4%), given that the weakness of net interest income (-4.5%) was compensated for by the progress seen in net commissions (+6.6%).

Strengthening of capital for Italian banks continued in 2015 and at the end of the third quarter the average CET1 ratio for the main listed Italian banking groups was 11.9%, compared to 10.8% at the end of 2014.

Liquidity

The year 2015 was characterised by consolidation of the good, and in some cases excellent, liquidity situation for the Italian banking system. This condition was favoured by the unrolling of the European Central Bank's (hereafter ECB) monetary stimulus, which starting in March began its Quantitative Easing securities purchasing programme (hereafter QE), which involved both government securities and asset backed securities and covered bonds. Also thanks to the QE stimulus, during the year access conditions to institutional funding through covered bonds or asset backed securities remained favourable. To this was added the 4-year loan at particularly favourable conditions that many Italian banks made use of in significant amounts, that was offered by the ECB through the Targeted Long Term Refinancing Operations (T-LTRO). During the second half of the year, and in particular towards the end of the year, Italian banks also saw evident tensions on credit spreads for senior unsecured bond debt and, in particular, for subordinated bonds. The phenomenon was worse for medium and small banks.

Despite these systemic tensions, the cost of customer funding still fell during the year. The unsecured interbank market continued, as in previous years, to record exchanges concentrated for shorter maturity dates (mostly overnight) and for smaller amounts.

As indicated above, the ECB continued with its stimulus actions. In addition to beginning the cited QE programme, in 2015 the ECB Directive Council extended the duration of the ON Deposit Facility by another 6 months and further reduced the rate to -0.30%.

Significant events during the year

Below are the most important events that occurred during financial year 2015 for Banca Sella.

Capital Increase and issue of subordinated loans

On 10 April 2015, Banca Sella presented a request for a capital increase to Bank of Italy. Follow the authorisation obtained on 24 July 2015, the extraordinary shareholders' meeting approved the operation, which had the objective of supporting growth and taking advantage of the opportunities available due to the Bank's special characteristics. Subsequently, the prospectus was submitted to Consob for approval, as this was a "general" public offering.

The maximum amount was set at € 120 million, with a share placement period between 5 October and 15 December 2015. The offer was aimed at the general public in Italy, through the two placer banks (Banca Sella and Banca Patrimoni Sella & C.). The operation ended with the full amount subscribed, equal to € 120 million, with another 3,000 new shareholders entering the shareholding structure.

Banca Sella Holding, the controlling shareholder, also participated in the operation, subscribed new shares totalling around € 13 million. A portion of this amount, around € 7 million, was subsequently transferred to adjust placement with institutional investors that indicated interest after the end of the period.

On 27 October 2015, Banca Sella issued a subordinated loan maturing in 2025, placed exclusively with institutional customers, for an amount of € 25 million, which is listed on the Luxembourg stock market.

Bank of Italy Inspection

In February 2015, Banca Sella, in the context of the inspection of Banca Sella Holding, regarding: "Analysis of the quality of the group's loan portfolio and effectiveness of the relative lending policies," the bank itself was also the subject of an inspection, completed on 17 June 2015. Relative to the conclusion of the inspection, relative to measurements taken at 31 December 2014 on positions subject to analytical verification, classification and expected loss differences arose, the latter already made independently during the course of 2015, during the inspection. Note that both the reclassification, with the exception of certain specific and justified exceptions, and the writedowns were recognised before the completion of the inspection. In September, Banca Sella Holding received the inspection report where, in virtue of the good credit quality found and the positive profile structure as a whole, it received a "Partially Favourable" rating. In particular, in regards to the examination of the sample of Banca Sella loan positions, greater bad loans of € 82.7 million were indicated, as well as losses for € 26.5 million; these assessments, fully recognised during the inspection, were already shown in the figures included in the Banca Sella Interim Financial Statements at 30 June 2015.

Visa Inc and Visa Europe Merger

In November 2015 Visa Inc. and Visa Europe (in which the Bank holds minority investments) announced that an agreement had been reached for the strategic acquisition of Visa Europe by Visa Inc., aimed at creating a single company that operates both on the US and European market. The transaction will involve the acquisition of Visa Europe shares by Visa Inc., leading to total potential capital gains of € 21.2 billion. Following this operation, extraordinary dividends will be distributed € 11.5 billion will be paid in cash, while Visa Inc. shares worth around € 5 billion will be assigned when the operation is completed. A further earn-out of a maximum of € 4.7 billion will be distributed four years after the operation is completed. The transaction is subject to a series of regulatory authorisations and is planned to be completed by September 2016. At the end of December 2015, Visa released initial estimates of the proceeds accruing to the shareholders of Visa Europe. Based on this information, as a principal member, Banca Sella would receive cash of around € 32 million for the sale of its share in Visa Europe, as well as

Visa Inc. shares with a value of around € 11 million. On the basis of these assumptions, the carrying value of the minority interest was reviewed, and the valuation reserve was also updated.

Rating Assignment

In May 2015, Banca Sella requested and obtained that a rating be issued by DBRS, holding it an appropriate step in the context of the growth and development foreseen in the Strategic Plan and in line with many of its competitors. The rating was granted, and confirmed following the capital increase. Specifically: ***BBB (low)*** (with negative trend*)*, similar to that expressed for the parent company, taking into account the importance Banca Sella has within the Group.

Resolution process - Banking Resolution and Recovery Directive (BRRD)

On 16 November 2015, with Italian Legislative Decrees no. 180 and 181, national regulations implemented Directive 2014/59/EU (Banking Resolution and Recovery Directive, "BRRD"), creating a framework to restore and resolve credit institutions and investment companies and establishing the National Resolution Fund managed by the Bank of Italy. The contribution in 2015 for Banca Sella amounted to € 7.3 million.

The resolution process was introduced to reduce the risk that the cost of instability of large financial companies falls on the countries in which they work and the relative taxpayers**,** as had occurred in many European countries following the financial crisis originating from the failure of Lehman Brothers. In fact, in these cases governments were often forced to save large financial institutions in order to protect their depositors and avoid domino-effect repercussions that could seriously compromise the stability of the entire financial and economic situation, carrying out a **bail-out**. The "resolution process" (of which a bail-in is one of the possible results) is an alternative to the normal bank liquidation procedure and allows, with respect to the former, **faster times and better protection of all actors involved in the crisis**, including creditors and depositors.

A bail-in is a tool that allows authorities[1]**,** when resolution conditions are met, to reduce the value of shares and certain receivables, or to convert them into shares, to absorb losses and recapitalise the bank to a sufficient degree that restores adequate capitalisation and maintains trust in the market. In no case can shareholders or creditors suffer greater losses than those they would see in the case of bank liquidation following normal procedures. The rules for being subject to a bail-in follow a strict hierarchy on the basis of which a subsequent category of credits is accessed only after all the resources have been exhausted that are available in the previous category with more risk. Some bank creditors are excluded from the bail-in and cannot be asked to contribute to covering the crisis**.** For example, those with deposits of less than the € 100 thousand protected by the Deposit Guarantee Fund, guaranteed liabilities (e.g. covered bonds, guaranteed by dedicated assets), and liabilities relative to assets held for customers (for example securities accounts and in safe deposit boxes). Similarly, certain operating liabilities such as those due to employees, trade payables, tax payables and those due to other banks coming due within the week are also excluded (in the latter case because it would threaten the operations of the institution and the stability of the economic and financial system). The first called to contribute to losses and subsequent recapitalisation are therefore the owners (shareholders) and holders of other equity instruments. These will suffer a reduction in the value of the shares, possibly down to zero in the case of significant losses. Only after the entire category of equity instruments has been exhausted are creditor securities touched, starting from the subordinated category. Once this category is also exhausted, the next is bond-holders (with the exception of guaranteed bonds). Finally, in the case that the previous categories are not sufficient, the last category is that of deposits held by households and small businesses not covered by the deposit guarantee fund - those exceeding € 100 thousand**.**

[1] The European directive envisages the creation of a "third" authority (resolution authority), with the task of preventing and managing crises through new powers and tools. Following the Single Supervisory Mechanism system for banks, a single resolution authority has been created at the European level, as well as national resolution authorities. The role of the latter will be more significant in the case of problems within smaller intermediaries.

In this context, the Banca Sella Group continues to maintain satisfactory solidity thanks to capitalisation which is far above regulatory requirements and more than adequate with respect to problem loan levels[2], its high level of liquidity, high level of provisions covering impaired loans and above all, thanks to prudent management, always focused on achieving sustainability profitability focused on the value of the customer.

Opening/closing of branches

On 5 June 2015, the branches of Montecatini Terme, Bari 2 via Tommaso Fiore, Lecce 4, via San Cesareo and Grottaminarda were closed, aimed at, in addition to rationalising presence throughout the territory, freeing up useful professionals to enhance other local branches, increasing overall efficiency and providing better and more professional service to the Bank's customers.

On 8 June 2015, the branch in Caselle Torinese opened, in the International Sandro Pertini Airport, Strada San Maurizio, no. 12.

[2] The Banca Sella Group has a "Texas ratio" (a measure used by the US Federal Reserve to anticipate banking crises) equal to 80.3%, in line with the most solid of Italian listed banks.

Balance Sheet Data

Reclassified balance sheet (in Euro millions)

Assets	31/12/2015	31/12/2014	% change over 31/12/2014
Financial assets (1)	1,749,371.7	1,338,305.0	30.7%
Due from banks	1,584,034.6	1,577,495.5	0.4%
Cash loans, exclusive of repurchase agreements receivable (2)	6,734,045.2	6,961,360.6	-3.3%
Repurchase agreements receivable	412.3	-	100.0%
Tangible and intangible fixed assets (3)	90,656.8	88,415.9	2.5%
Tax assets	188,847.6	168,702.3	11.9%
Other assets (4)	418,485.2	432,474.7	-3.2%
TOTAL ASSETS	**10,765,853.3**	**10,566,753.9**	**1.9%**
Liabilities and Shareholders' equity	**31/12/2015**	**31/12/2014**	**% change over 31/12/2014**
Due to banks	335,182.9	26,851.4	1148.3%
Direct deposits, excluding repurchase agreements payable (5)	9,275,161.1	9,212,379.0	0.7%
Repurchase agreements payable	46,251	297,286.1	-84.4%
Total direct deposits	9,321,412.0	9,509,665.1	-2.0%
Financial liabilities	19,007.3	24,250.1	-21.6%
Tax liabilities	23,664.4	69,994.7	-66.2%
Other liabilities (6)	252,193.4	268,514.2	-6.1%
Provisions for specific purposes (7)	43,224.7	50,258.6	-14.0%
Shareholders' equity (8)	771,168.6	617,219.9	24.9%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10,765,853.3**	**10,566,753.9**	**1.9%**

(1) Given by the sum of the following balance sheet asset items: 20 "Financial assets held for trading," and 40 "Financial assets available for sale".
(2) Item 70 "Due from customers" in the balance sheet assets, exclusive of repurchase agreements.
(3) Given by the sum of the following balance sheet asset items: 110 "Tangible assets" and 120 "Intangible assets".
(4) Given by the sum of the following balance sheet asset items: 10 "Cash and cash equivalents", 80 "Hedging derivatives", 90 "Value adjustment of financial assets subject to macrohedging" and 150 "Other assets".
(5) Given by the sum of the following balance sheet liability items: 20 "Due to customers" and 30 "Securities in issue".
(6) Given by the sum of the following balance sheet liability items: 60 "Hedging derivatives" and 100 "Other liabilities".
(7) Given by the sum of the following balance sheet liability items: 110 "Employee severance indemnities" and 120 "Provisions for risks and charges".
(8) Given by the sum of the following balance sheet liability items: 130 "Valuation reserves", 160 "Reserves", 170 "Share premiums", 180 "Share Capital" and 200 "Profit for the year".

Analysis of the balance sheet shows how the change in the management of the liquidity portfolio resulted in the following on the asset-side:

- The increase in financial assets (30.7%) for investments of liquidity in debt securities based on a strategy of diversifying financial assets;
- a slight increase in loans to banks (0.4%), mainly due to relations with parent company Banca Sella Holding;
- the decrease in cash loans (-3.3%), due to the demand from private customers and business that was less than loans maturing;
- stability of direct deposits, which net of repurchase agreements saw an increase of 0.7%;

- the increase in amounts due to banks, which grew by around € 308 million, mainly due to the Targeted Long Term Refinancing operation (T-LTRO) carried out with the Central Bank through Banca Sella Holding.

Brokering with customers saw loans reaching € 6,734 million, down by -3.3% with respect to the € 6,961.4 million seen at the end of the previous year, in a situation where demand for loans is still weak, but in which the Bank has still maintained its support for households and companies.

This item includes intra-group loans to Biella Leasing and Consel for € 1,229 million, net of which loans would have been € 5,505 million, compared to the € 5,735.7 million at 31 December 2014.

On the other hand, in regards to funding, total administered assets continued to grow, in particular for the managed and insurance components.

Total deposits (in Euro thousands)

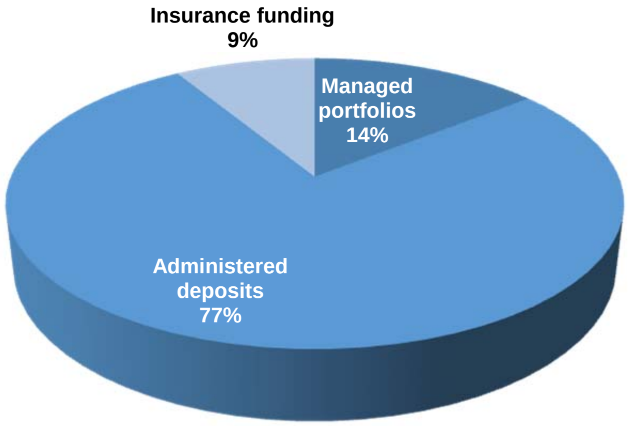
Item	31/12/2015	Proportion (%) of total	31/12/2014	Proportion (%) of total	Changes absolute	Changes %
Direct deposits (excluding repurchase agreements payable)	9,275,161.1	43.8%	9,212,379.0	44.2%	62,782.1	0.7%
Repurchase agreements payable	46,251.0	0.2%	297,286.1	1.4%	(251,035.2)	-84.4%
Indirect deposits	12,071,544.1	56.0%	11,568,371.6	54.4%	503,172.5	4.4%
Total deposits	**21,392,956.1**	**101.0%**	**21,078,036.7**	**100.9%**	**314,919.4**	**1.5%**

Total deposits amounted to € 21,393 million, up by 1.5% thanks mainly to the good performance of indirect funding (4.4%), with more than positive results in all components. Assets managed grew by 6.8%, and assets under administration saw more contained growth (+1.7%), while insurance funding saw very positive performance (+28.6%).

Indirect deposits (in Euro thousands)

Item	31/12/2015	Proportion (%) of total	31/12/2014	Proportion (%) of total	Changes absolute	Changes %
Managed portfolios	1,731,760.0	14.4%	1,621,175.7	14.0%	110,584.3	6.8%
Administered deposits	9,280,490.4	76.9%	9,123,479.1	78.9%	157,011.3	1.7%
Insurance funding	1,059,293.7	8.8%	823,716.8	7.1%	235,577.0	28.6%
Total indirect deposits	**12,071,544.1**	100.0%	**11,568,371.6**	100.0%	503,172.5	4.4%

Breakdown of indirect funding



Direct deposits including repurchase agreements were essentially stable. The decrease of -2.0% with respect to 31 December 2014 is due to the decrease in repurchase agreements, net of which growth of 0.7% would be seen. Outstanding securities also fell, in that securities maturing during the year were not entirely replaced with new issues. This trend was counteracted by the increase in current accounts and demand deposits held by customers. Direct deposits accounted for 43.4% of total deposits.

Direct deposits (in Euro thousands)

Item	31/12/2015	Proportion (%) of total	31/12/2014	Proportion (%) of total	Changes	
					absolute	%
Due to customers (excluding repurchase agreements)	8,596,336.1	92.2%	8,257,530.8	86.8%	338,805.3	4.1%
- Current accounts and demand deposits	7,356,415.7	78.9%	7,070,458.8	74.4%	285,957.0	4.0%
- Term deposits	904,063.8	9.7%	809,034.2	8.5%	95,029.6	11.8%
- Other loans and advances	70,900.9	0.8%	42,208.2	0.4%	28,692.6	68.0%
- Other items	264,955.7	2.8%	335,829.6	3.5%	(70,873.9)	-21.1%
Securities in issue	678,825.0	7.3%	954,848.2	10.0%	(276,023.2)	-28.9%
TOTAL DIRECT DEPOSITS	**9,275,161.1**	**99.5%**	**9,212,379.0**	**96.9%**	**62,782.1**	**0.7%**
Repurchase agreements payable	46,251.0	0.5%	297,286.1	3.1%	(251,035.2)	-84.4%
TOTAL DIRECT DEPOSITS (INCLUDING REPURCHASE AGREEMENTS)	**9,321,412.0**	**100.0%**	**9,509,665.1**	**100.0%**	**(188,253.1)**	**-2.0%**

Shareholders' equity at 31 December 2015 came to € 771.2 million, up by 24.9%, equal to around € 154.0 million following the capital increase operation and the increase in valuation reserves relative to financial assets available for sale following the revaluation of the investment in Visa Europe, already illustrated in the section of "significant events during the year".

Funding Policies and ALM

In regards to funding policies, during 2015 the bank continued to operate under its normal policy of healthy and prudent management. In particular, it acted to ensure a solid liquidity position was maintained, which originates and is founded on the ratio, notably lower than parity, between cash loans and direct deposits. The surplus of direct deposits not used in sales assets is allocated to senior bonds (mainly government) and in on sight deposits with the banking parent company, which constitute a significant reserve of high quality and easily liquidated assets.

Bonds placed with customers, that matured during the year, were in large part replaced by medium/long-term fund from the targeted long term refinancing operation (T-LTRO) with the European Central Bank, received through the parent company Banca Sella Holding (€ 268 million, maturing on 26/09/2018).

The Bank’s cash and cash equivalents

Prudential liquidity management has always been, since the very start, fundamental to ensure normal banking business, especially in times of tension. Maintaining adequate liquidity, both short-term and structural, is held to be a cornerstone of prudent corporate management.

Liquidity monitoring and management operations for Banca Sella are formalised in the Group’s Liquidity Policy, which contains liquidity risk management guidelines and strategies to be followed in the event of critical issues.

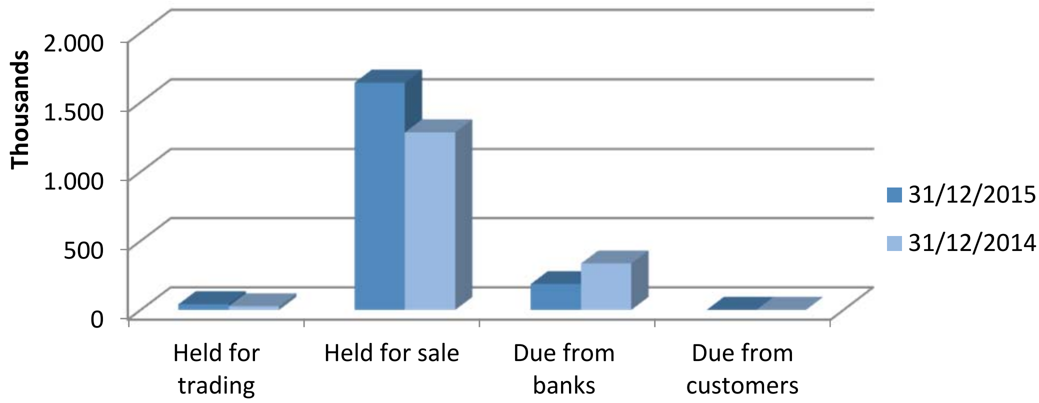
The process of liquidity management and control made it possible in 2015 to maintain a more than adequate level. During the year, a positive trend was seen for the most important liquidity indicators, at both the Group level and for Banca Sella, both structural and short-term, supported by the improvement in macroeconomic conditions and the overall trends in commercial loans and direct deposits.

Further information is provided on liquidity risk in section 3 of part E of the Notes to the Accounts.

Financial assets (Debt securities)

Financial assets (in Euro thousands)

	31/12/2015	31/12/2014	% change over 31/12/2014
Held for trading	40,620.3	26,907.8	51.0%
Held for sale	1,640,612.1	1,282,824.2	27.9%
Due from banks	186,847.5	335,597.6	-44.3%
Due from customers	120.1	212.3	-43.4%
TOTAL	**1,868,200.0**	**1,645,541.9**	**13.5%**



Recall that in 2014 a significant portion of securities within the category of financial assets held to maturity were disposed of, with maturity after 2017, and for a total nominal value of € 525.5 million. In accordance with the IAS, the remaining securities were reclassified among financial assets available for sale, for a nominal € 174.5 million. Based on this, the category is no longer found within the own securities portfolio.

At 31 December 2015 the bank held a debt securities portfolio of € 1,868.2 million which, in accordance with the accounting principles, was divided into the following categories.

Financial assets held for trading

This category mainly consists of debt securities, in particular Italian government securities, senior bank bonds and bonds issued by banks within the Banca Sella Group. At 31 December 2015 the following types of securities are held:

- Italian government securities 46%;
- Senior bank bonds 4%;
- Banca Sella Group bonds 50%.

The amount of this component slightly increased in absolute terms by around € 13.7 million, going from € 26.9 million at 31 December 2014 to € 40.6 million at 31 December 2015.

With regard to asset allocation, the variable component was almost entirely eliminated, and almost all of the category is invested in short-term fixed rate securities. Exposure to interest-rate risk was contained for the entire period in question.

Financial assets available for sale

The item shows a significant increase, mainly due to the purchase of debt securities, with the objective of increasing portfolio profitability and pursuing a diversification strategy for financial assets, with particular attention paid to the quality of the bonds from banks and financial and corporate issuers in the portfolio.

This category mainly consists of Italian government securities and bank and corporate bonds with high creditworthiness. During the year, a small stock portion was also introduced through the purchase of units from certain specialised SICAVs. At 31 December 2015 the following types of securities are held:

- BOT 0.1%;
- CCT 29.4%;
- BTP 61.8%;
- Senior bank bonds 5.9%;
- Senior corporate bonds 2.8%.

During the year, the amount of this segment increased by around € 360.6 million, reaching a value of € 1,640.6 million at 31 December 2015. The greatest changes involve BTPs (Euro +406.6 million, approximately), CCTs (Euro -139.1 million, approximately), bank bonds (Euro +49.5 million, approximately) and corporate bonds (Euro +46 million, approximately), which was introduced as a category in the second half of 2015.

With regard to asset allocation, the variable component, which fell with respect to 31 December 2014, represented about 30%, while the remaining 70% was invested in fixed rate securities with short or medium-term maturity. Exposure to interest-rate risk remained at very low levels for the entire period in question. With an eye to increasing diversification, during the year exposure to private issuers was increased, both banking and corporate, with an average maturity of 3 years.

Due from banks

Debt securities consist exclusively of bonds issued by Banca Sella Holding. During the year, the segment decreased by about € 148.8 million. The decrease is entirely due to the maturity of bonds that were only partially renewed.

Due from customers

The item debt securities consists solely of a 6% subordinated Confidi bond, maturing on 27 December 2018. During the year, the counterparty repaid part of the capital in accordance with the amortisation plan.

Credit policies and products

In 2015, the Credit Policies and Products service made new products available and updating existing ones to better satisfy the requirements of private customers and businesses.

More specifically, we note the following:

- adhesion to the First House Guarantee Fund, which provided easier access to special mortgages for young people and single-parent households with minor children;
- placement of pension-backed loans through Consel, a Banca Sella Group company specialising in personal loans;
- the Sella.it loan offer, a personal loan that for the first time can be entirely subscribed online;
- rendering holders of employment contracts with increasing protection equivalent to those with holders of permanent employment contracts when assessing creditworthiness;
- adhesion to financial support initiatives for populations affected by natural disasters;
- adhesion to the new 2015 Credit Agreement aimed at helping businesses recover, as well as helping develop new entrepreneurial projects and capital strengthening;
- the creation of a dedicated product for advance payment of EU Agricultural Policy contributions;
- renewal of contracts with the EIB (European Investment Bank) aimed at obtaining funding to be used to provide loans to small and medium companies and medium-capitalised companies, as well as financing start-up companies or those working to increase youth employment;
- adhesion to the Smart & Start initiative, aimed at granting zero-interest loans (through Invitalia) to company that produce highly technological and innovative goods and/or services.

In addition, training activities continued to develop and update staff knowledge in regards to loans.

Finally, the full review of internal regulations continued, with an eye to simplifying and improving efficiency.

For 2016, adhesion to new national and EU guarantee programs is planned, as well as further development of subsidised loans to businesses.

Cash loans

At the end of FY 2015, cash loans to ordinary customers came to € 6,734.5 million (€ 6,961.4 million as at 31 December 2014) with a negative change of 3.3% with respect to the previous year. As concerns unsecured loans, the total amount is € 207.2 million (€ 252.2 million as at 31 December 2014).

In a still difficult economic situation, the Bank, as noted above, maintained its support for households, offering mortgages to purchase or remodel homes, and to companies that have demonstrated appropriate economic prospects and business continuity, disbursing short-term loans to support the carrying out of current activities, and medium/long-term loans for new investments and/or to restructure short-term debt.

Loans to businesses continued in collaboration with Biella Leasing, the Group’s leasing company, and with Consel, the Group’s consumer credit company, for the disbursement of consumer credit loans.

Also during the course of 2015, the concrete collaboration with Regional Bodies, Category Associations and Loan Consortia continued and the funds made available by the EIB and the national Deposits and Loans Institute were made use of.

Due to the complexity of the economic context, a major boost was given to the training and involvement of staff operating in the credit sector and activities concerning assessment of risk and prospective analysis of cash flows and debt sustainability, controlling credit disbursed were also of great import.

Loans portfolio Quality

2015 saw the continuation of the economic crisis in the country and while there were some signs of improvement seen during the final months of the year, the effects on credit risk were significant, above all during the first part of the year, which saw worsening of the same with respect to the same period during the previous year.

In particular, there was a notable increase in new flows of impaired loans, which led to an increase in writedowns. This phenomenon improved during the year, thanks to significant credit supervision and monitoring.

From February - June 2015, the Banca Sella saw the quality of its loan portfolio evaluated by Bank of Italy, in the context of an inspection involving Banca Sella Holding.

Relative to the assessments relative to 31 December 2014 on positions subject to analytical verification, classification and expected loss differences arose, amounting to a total of around € 26.5 million.

Note that both the reclassifications, with the exception of specific and justified exceptions, and the writedowns, partially made independently by Banca Sella during the first months of 2015 during the inspection, were all recognised by the end of the inspection.

The changes in the valuation of sampled exposures were mainly due to deterioration in credit risk, which arose during the initial months of 2015.

In particular, the elements which led to an increase in provisions were:

- classification from unlikely to pay to non-performing through application of more stringent parameters with respect to the previous classification;
- updating of appraisals of properties concerned by our mortgage guarantee;
- application of prudential haircuts on properties guaranteeing certain unlikely to pay or non-performing positions, for certain types of properties;
- presence of auctions with no bids during the half;
- admission to bankruptcy proceedings and/or revocation of admission to other similar proceedings, such as settlement agreements;
- commencing of foreclosures;
- lack of cash flow for unlikely to pay positions without revocation of credit lines and/or participation in negotiations together with the banks, with negotiations of a significant duration.

These aspects required adjusting provisions both in terms of measurement and in terms of discounting. In some cases, adjustments were more stringent with respect to the risk category in which the positions were classified, in that they would be better met by the principles of prudence and risk supervision in reference to the specific situations being analysed.

In addition, the Credit Regulations were updated and, specifically, in May 2015, new and more stringent timeframes were introduced in regards to the management of unlikely to pay positions with revocation of credit lines, in order to improve monitoring and collection. This change reduced the timeframe from 12 to 6 months, starting as of June 2015, with the consequent earlier movement to non-performing of a larger number of positions compared with the previous year.

Adjustments to classification of impaired loans

The update for Circular 272 of 20 January 2015 issued by Bank of Italy introduced a new classification for impaired loans, eliminating the categories of substandard and restructured loans, and introducing the category of unlikely to pay.

It was therefore necessary to reclassify loans previously categorised as substandard and restructured loans, moving them to the new classification categories.

Additionally, the Bank of Italy requested a parallel running period of 6 months, ending at 30 June 2015, during which reporting was done using both the old categories of substandard and restructured loans and the new category unlikely to pay.

The following categories of impaired loans were reclassified to this latter category:

- restructured (represented by restructuring in pool and objective restructured - positions that have repayment agreements solely with Banca Sella);
- subjective substandard loans (positions classified as substandard due to a judgement by the bank, with a specific resolution);
- revoked substandard loans (positions classified as substandard with credit lines revoked);
- substandard loans due to group default (positions classified as impaired due to similar classification by other companies in the Banca Sella Group);
- forborne substandard loans (forborne non-performing positions classified as substandard at December 2014 due to measures applied due to the deterioration of the loan for which a period of 12 months of regular payment without any overdue payments exceeding 30 days had not passed)

Objective substandard loans, instead, were mainly reclassified among impaired past-due exposures.

In compliance with that foreseen in the International Technical Standard (ITS) issued by the European Banking Authority (EBA), pursuant to regulation CRR 575/2013 issued by the European Parliament and Council, Circular 272 also added the EBA’s definition in regards to forbearance measures, in reference to all those concessions granted by the entity in favour of customers suffering financial difficulties or likely to suffer financial difficulties.

This classification, in effect as of 2014, affects both positions classified among performing loans and positions classified as non-performing or impaired.

When forbearance is granted to a customer classified as non-performing, it remains in this category until the following conditions are all met simultaneously:

- a year has passed since the forbearance was granted (cure period)*;*
- there are no past-due amounts present at the end of the period referred to above;
- there are no doubts in regards to debtor repayment; this profile can also be alternatively be met when:

  - ✓ payments have been made equal to the amount of previous past-due amounts;
  - ✓ the payment recognised in the forbearance has been made;
  - ✓ the debtor has in any case demonstrated the capacity to meet the conditions after forbearance.

Once the period of “forborne NPE” has passed, the position will move to “forborne performing”, where it remains for an additional two years before being transferred to performing with no reserves, if the following conditions are met:

- a probation period of 2 years has passed;

- regular payments for the appropriate amount of capital and interest have been made for at least one half of the probation period;
- none of the exposures associated with the debtor are past-due by over 30 days at the end of the probation period.

Banca Sella carries out a monthly check, rather than a quarterly one as foreseen in the Regulations. The automatic procedure indicates the positions that fall within the parameters of articles 156 and 176 of the ITS to the evaluator. The evaluator analytically checks whether there are any doubts regarding repayment by the debtor. Transfer of status may occur when all of the qualitative controls done by the evaluator and the automatic checks on the lack of past-due amounts are passed.

If a position is classified as “forborne performing”, but when the forbearance was granted it was classified as a NPE, if a past-due amount exceeding 30 days arises during the probation period, or new forbearance measures are granted, it must immediately be reclassified in “forborne NPE”, and the clock is reset for the cure and probation periods.

Forbearance measures are outlined in line with EU regulations, based on the following categories:

- renegotiation with extension of amortisation;
- bank moratorium;
- ABI/MEF agreement moratorium;
- ABI/consumer agreement moratorium;
- consolidation with unsecured or secured loan;
- repayment plan;
- solidarity fund moratorium;
- short-term lines with cuts;
- extensions of expiring consortia guarantees.

Total customers with forbearance status at 31 December 2015 amounted to € 350.4 million (gross exposures), broken down as follows:

- € 213 million in non-performing loans (€ 144.1 million the previous year);
- € 137.2 million in performing loans (€ 166.1 million the previous year);

In 2015, forborne non-performing positions saw a total of € 86 million in new entries, of which 33.5 million from forborne performing exposures.

Outgoing flows moving to forborne performing, meaning that regular payments had been made for 12 months after forbearance was granted, amounted to € 7.7 million.

Credit flows subject to reclassification within other impaired categories due to forbearance measures not being met amounted to € 66 million.

Preventive initiatives to monitor forborne loans has been begun, with the aim of more effectively mitigating credit risk and preventing positions from being transferred to non-performing. One of these is prevention done by the Monitoring Service on forborne performing positions coming from forborne non-performing, in order to send branches information about counterparties with past-due amounts falling between 0 and 30 days, so as to promptly request payment and collection, in order to avoid a return to forborne non-performing, as foreseen under article 179, ITS.

Adjustment to the impaired loan assessment policy

As occurred in previous years, and in compliance with Group regulations, during 2015 certain revisions were made to the parameters used to measure impaired loans.

The underlying principles of the impaired loan valuation process continue to be the valuation and determination of analytical estimates of recovery for individual customers and loan types, taking account of all the valuation elements present, namely sureties acquired and/or acquirable, the customer's income and assets, legal actions available, possibility of out-of-court agreements, presence of settlement procedures.

Only the segment of loans not subject to revocation of credit lines and of less significant amounts continues to use the lump sum measurement model with application of percentage ratios.

Periodic review of the parameters used to measure specific adjustments has the goal of allowing appropriate methods to be used to measure impaired loans each time, adapted to the conditions of the external situation and changes in the macroeconomic situation, in the organisation and in processes.

The parameters that were reviewed during the year had the consequence of strengthening coverage of bad loans and unlikely to pay positions.

In June 2015 discounting at 13 months was introduced for non-revoked unlikely to pay, with the adjustment of this timeframe for discounting of revoked unlikely to pay, as well. For the latter, discounting times, when foreseen, went from 18 months to 13 months, based on the decision to reduce the maximum time positions can be classified as revoked from 12 to 6 months, while awaiting out of court collection attempts.

Application of discounting prior to the revocation of credit lines was carried out for the following cases:

- absence of forbearance measures;
- forbearance measures with overdue amounts exceeding 90 days;
- absence of cash flows, without prejudice to the need for discounting for greater periods in the case of work progress status transactions, for positions with debt restructuring with all of the banks and, in any case, in the case that the need to apply greater times is determined after analytical assessment.

As a whole, the change in discounting for the unlikely to pay portfolio led to a € 1.3 million increase in adjustments, already indicated in the interim report.

In June 2015, coverage for loans classified as unlikely to pay and subject to loan restructuring with a pool of banks was reviewed for which, in addition to analytical adjustments deriving from the guarantees present and the agreement signed, a minimum adjustment was introduced for all the relevant lines, equal to the collective one for forborne performing companies.

In addition, in December 2015, the following elements were reviewed, used to measure non-performing loans classified as unlikely to pay revoked and bad loans:

- collection estimates applied to unsecured loans when the settlement request is filed;
- recovery estimates applied to unsecured loans not supported by guarantees or capital that can enforced at the time the credit lines are revoked;
- estimated recovery to be assigned to cases for which, at the end of in-court and out-of court collection actions, are classified as possible sale without recourse;
- average discounting times for real estate enforcement proceedings and settlements, broken down by geographic area;
- average discounting times for subsidiary consortia guarantees;
- estimates of costs connected to discounting for negative cashflows envisaged for real estate enforcement procedures.

Updates to measurement parameters, supported by historic series and statistics, carried out on the bank's portfolio of loans classified within the indicated impaired categories were applied to the measurements of the stock of loans categorised as bad loans and unlikely to pay revoked at 31 December 2015, leading to an increase in the amount of provisions of 4.8 million, of which € 4.7 million for non-performing and € 0.1 million for unlikely to pay revoked.

The largest component refers to the change in the estimates of average discounting times for enforcement and settlement procedures for bad loans, equal to € 5 million.

In the context of the conventional review process, all of the other parameters and measurement moments relative to the life of impaired loans were confirmed.

In the light of the updates presented here, 2015 ended with stronger provisioning policies for impaired loans, which led to a coverage rate of 47.8%, meaning total writedowns carried out on all impaired cash loans and gross loans disbursed, that increased by 3.4 points over the previous year. The figure was 44.4% at 31 December 2014 and 41.7% at 31 December 2013.

Credit quality (in thousands of Euro)

Item	31/12/2015	Proportion (%) of total	31/12/2014	Proportion (%) of total	Changes	
					absolute	%
Due from customers	**6,734,457.5**	**100.00%**	**6,961,360.6**	**100.00%**	**(226,903.1)**	**-3.26%**
Non-impaired loans	6,174,757.9	91.69%	6,401,025.8	91.95%	(226,267.9)	-3.53%
Impaired loans	559,698.6	8.31%	560,333.8	8.05%	(635.2)	-0.11%
of which net bad loans	*305,461.2*	*4.54%*	*253,833.6*	3.65%	*51,627.6*	*20.34%*
of which unlikely to pay	*242,994.7*	*3.61%*	*287,107.9*	4.12%	*(44,113.2)*	*-15.36%*
of which expired impaired	*11,242.7*	*0.17%*	*19,392.3*	*0.28%*	*(8,149.6)*	*-42.02%*

Bad loans

Net bad loans at year-end total € 305.5 million (including securitisation volumes), up 20.3% on a yearly basis (2014 saw an 11.3% increase over 2013) with an incidence on total cash loans of 4.5%.

During the period in question, the amount of gross new non-performing loans totalled 200.3 million, a 54.1% increase with respect to the previous year. The significant increase derived from the worsening of credit quality which occurred in the first half of 2015 on positions already classified as non-performing at 31 December 2014. In particular, as is illustrated further in the next section, flows came from unlikely to pay positions, with a consequent significant reduction in this aggregate, which went from € 124 million in December 2014 to € 94.4 million in June 2015. In the second half, this phenomenon lessened, but flows entering the bad loans category suffered from the process adjustments made in regards to unlikely to pay revoked loans (reduction of time in the category from 12 to 6 months), aimed at catching signs of impairment more quickly (reduction from € 94.4 million in June 2015 to € 72.5 million in December 2015).

Collections seen on bad loans amounted to € 37.1 million, a 20.6% increase with respect to 2014, when the figure was € 30.8 million. In particular, collections achieved following enforcement of guarantees from Confidi and guarantee consortia were significant.

In May 2015, an agreement was signed with Banca IFIS to dispose of bad loans without recourse at the end of their life (average time of bad loan, 3.9 years) that involved 2,129 positions totalling € 33.7 million.

In December 2015, another two operations without recourse were completed with Guber, one for non-performing loans at the end of their life, involving 1,498 positions totalling € 15.6 million, and the other for non-performing loans in settlement procedures with the presence of non-bankrupt enforceable guarantees, involving 356 positions totalling € 1.1 million (the nominal value of loans gross of the loss stock was € 36.8 million).

This made it possible to decrease the stock of bad loans by around 3,980 positions, with total gross exposure of over € 50 million, characterised by collection activity that had been exhausted or nearly exhausted, and with minimal collection possibilities, which made any further actions not economically sound.

At 31 December 2015, the number of non-performing positions was 10,521 units, of which 71.5% were below the threshold of € 50,000 and 29.9% of € 5,000.

In December 2015, the coverage ratio referred to non-performing positions was 60.0%, whilst at the end of last year it was 59.7%, a 0.3 points increase.

Therefore, coverage of bad loans was strengthened, with adequate protection against credit risk in this category.

Unlikely to pay positions

Unlikely to pay positions totalled € 243 million at the end of the year (net cash exposures including securitisations).

In 2015, the flow of new entries, gross of adjustments, amounted to € 148.9 million.

As illustrated in the previous pages, the category of loans classified as unlikely to pay derives from reclassification of positions that previously had been categorised as substandard and restructured loans.

Although this is a single risk category, for management purposes and to allow for continuity with previous years, details are provided below:

<u>Unlikely to pay positions with revocation of credit lines:</u> these fell by 41.5%, going from € 124 million in 2014 to 72.5 million in 2015 (gross exposures).

In 2015, management processes were reviewed, reducing the time positions stay in this category from 12 to 6 months, consequently accelerating the classification as bad loans for customers when out of court collection processes are unsuccessful. Consequently, flows moving to the bad loans category increased by 53.8%, going from € 130 million in 2014 to 200 million in 2015.

The disputes service continues to more promptly check for any elements that may indicate the existence of insolvency (understood as the incapacity to fulfil the obligations taking into account an overall assessment of the counterpart's economic and financial situation and not merely non-payment with immediate classification as non-performing), labelling them as bad loans at the same time.

In December 2015, the coverage ratio for unlikely to pay revoked positions was 35.1%, up slightly with respect to the end of the previous year, when it had been 34.6%. This trend is in line with the strengthening of coverage for all impaired loans.

<u>Unlikely to pay positions with revocation of credit lines:</u> these amounted (gross exposures) to € 208.5 million at the end of 2015, while in 2014 they came to € 223.3 million, a decrease of 6.6%.

Non-revoked unlikely to pay positions include 746 positions with total exposure of € 157.8 million which benefit from mortgage guarantees.

In this category of impaired positions, the presence of forborne non-performing exposures is also significant, amounting to € 152.6 million.

In order to determine writedowns, measurement of non-revoked unlikely to pay positions (with exposure over Euro 10,000) is done analytically when a position enters the category and subsequently every time new and significant factors arise.

Measurements done by the Non-Performing Exposures service applied to unlikely to pay positions are aimed at determining whether there is a real possibility of returning to performing and, if there are doubts about realisation, quantifying possible losses after collection actions, in general taking into account capitalisation, income-generating capacity, financial balance, prospects in the relative sector, managerial and entrepreneurial capacity, regularity of managing bank relations and any guarantees present.

In 2015, certain significant loans classified among unlikely to pay indicated progressive deterioration of creditworthiness and, given a lack of respect for the conditions required to reach an out of court settlement, it was necessary to revoke the credit lines. If the economic and financial conditions of the customer were particularly compromised, classification to bad loans also occurred.

As a whole, analytical adjustments applied to positions classified as non-revoked unlikely to pay amounted to € 25.9 million at 31 December 2015, compared to 27.6 million at 31 December 2014. Average coverage at 31 December 2015 was 12.6%, stable with respect to the previous year, when the figure was 12.3%.

<u>Unlikely to pay positions restructured with a pool of banks:</u> these amounted (gross exposures) to € 18.4 million at the end of 2015, while in 2014 they came to € 12.8 million, an increase of 44%.

New entries referred to new positions subject to restructuring in pools with other credit institutions, for a total balance of € 8.9 million.

The category continues to include the Comital Saiag S.p.A. position, now Cuki Group S.p.a. for which a restructuring agreement was signed in 2009, generating the partial conversion of the total amount owed to the Bank of € 9 million, divided as follows:

- € 4.7 million in restructured loans;
- € 4.3 million in SFP (participating financial instruments).

The writedown amounted to € 2.5 million.

At 31 December 2015, the book value of the remaining credit was equal to € 2.8 million, which was reduced during financial year 2015 as envisaged in the plan (at 31 December 2014 it was 3.1 million).

As a whole, analytical adjustments applied to positions classified as unlikely to pay restructured with a pool of banks amounted to € 3.9 million at 31 December 2015, compared to 0.9 million at 31 December 2014. Coverage in December 2015 was 21.0%, up with respect to the previous year when it was 7.3%, after adjustments carried out in 2015 in regards to credit lines.

In December 2015, the coverage ratio for all unlikely to pay positions was 18.4%, whilst at the end of last year ratio was 20.3% for the combination of substandard and restructured loans.

Past-due loans

Past due and deteriorated loans in excess of thresholds granted totalled € 11.2 million at the end of the year (net cash exposures including securitisations).

At 31 December 2015 past-due and overdrafted loans amounted to € 11.2 million. Exposure fell by 42% continuous the similarly significant decrease (-57%) seen in 2014.

This is in part due to the method used to recognise past-due loans which, already in 2014, allowed measurement by individual debtor, applying a 5% materiality threshold, also for those supported by eligible guarantees, generating a lower inflow of new positions.

In application of EU Regulation 575/2013, impaired positions and past-due positions with the characteristics for classification as “forborne non-performing” are reclassified within unlikely to pay, which contains these impaired past-due positions.

Past-due and loans in excess of thresholds include 75 positions with total exposure of € 3.2 million, which benefit from mortgage guarantee.

At 31 December 2015, the number of past due loans and loans in excess of thresholds corresponded to 6,157 customers. The portfolio of past-due positions has a large number of items, since average exposure is equal to Euro 1,977, down with respect to the previous year, when the figure was Euro 2,550.

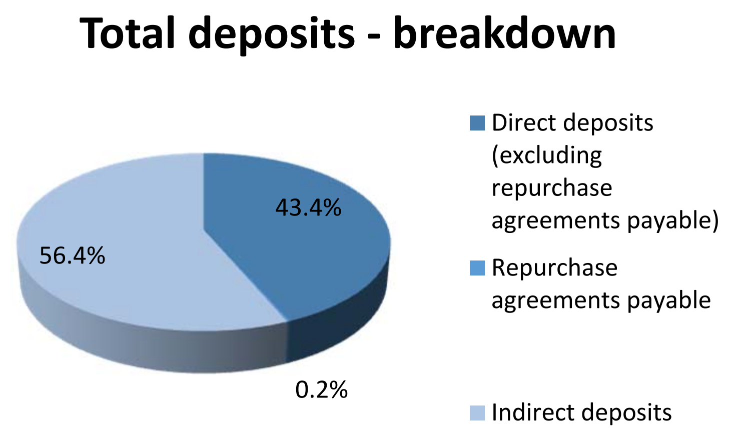
Measurement of past-due and overdrafted loans used to determine writedowns is done analytically for positions with exposure exceeding Euro 25,000, at initial classification and every time new and significant factors arise.

Measurements done by the Non-Performing Exposures service are aimed at determining whether there is a real possibility of returning to performing and, if there are doubts about realisation, quantifying possible losses, in general taking into account capitalisation, income-generating capacity, financial balance, prospects in the relative sector, managerial and entrepreneurial capacity, regularity of managing bank relations and any guarantees present.

In all, analytical adjustments applied to the total of past-due loans and loans in excess of thresholds amounted, at 31 December 2015, to € 1.5 million (1.7 million at 31 December 2014).

In December 2015, the coverage ratio for past-due positions was 11.8%, up significantly with respect to the previous year, when it was at 7.9% (figure referring to past-due amounts at 31 December 2014, exclusive of objective substandard loans transferred to this category on 1 January 2015).

Total Deposits



Administered Savings

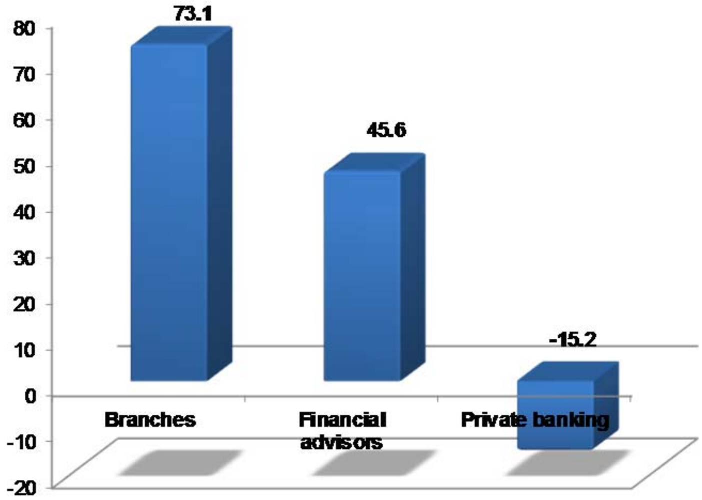
The aggregate of third-party securities in deposit, excluding asset management, SICAVs and financial insurance savings, reached € 8,775 million at 31 December 2015, an increase of 5.7% on the figure of € 8,305 million at the end of 2014. The main underlying trends showed a decrease in the bond component (Euro -37 million compared to 2014) and an increase in the equity component (Euro +506 million compared to 2014).

Asset Management

2015 was a particularly positive year for Banca Sella's asset management service, which saw net banking income increase by 15% with respect to 2014, thanks to good funding figures.

At 31 December 2015, asset management volumes, including liquidity, came to € 1.817 billion, of which 1.183 billion (65.1%) placed with the Private Banking service, 285 million (19.2%) by the branch network and 348 million (19.2%) by the network of Banca Patrimoni Sella & C. financial advisors. Aggregate volumes show an increase of around 8% with respect to 31 December 2014, also due to the positive effect of the markets.

Most net deposits (meaning the difference between the value of deposits and the value of withdrawals and closures) were carried out in the first four months, with notable benefits that continued throughout the year. The largest contributions came from branches and the network of financial advisors, who increased their portion to the managed total, going from 16% in 2014 to 19%. The figure from the private banking service was not particularly satisfying, above all during the final part of the year, when there were significant withdrawals made by customers who subscribed the Banca Sella capital increase. More specifically, the branch network saw net deposits of 73.1 million, financial advisors saw 45.6 million and private saw withdrawals of 15.2 million.



2015 saw an increase in volatility. After reaching historic highs during the initial months of the year, in subsequent months the markets saw various corrections, which were only partially recovered. The factors that led to the interruption in the upward trend were, in particular, the slowing of the Chinese economy, the significant drop in oil prices and raw materials and the ultra-expansive policy pursued by the US central bank. The US stock market was fairly stable, while the largest increases were seen in the European stock markets, in particular that in Milan, as well as the Japanese market. The corrective phase was stronger in emerging countries.

Rates remained at extremely low levels, in particular in Europe and Japan, where central banks continued and strengthened their ultra-expansive monetary policies. In this context, the dollar continued to appreciate in regards to all other main currencies. The drop in raw material prices and the slowing of economic growth at a global level kept prices quite contained, with the risk of deflation, which the main authorities attempted to deal with through monetary policies.

In this market context, management of the Fondi Retail range saw a positive trend, both in terms of volumes and profits (GPF Globale 0–15 shares, GPF Globale 10–30 shares, and GPF Profilo 0–30 the most subscribed). The latter is reserved for branches that offer only UCITS investments. These positive factors compensated well for the lower figures seen for revenues from management of short-term bonds, which at the moment offer very low returns, and for multi-line management, which has never been particularly successful, given the fact that, based on the customer's requests, they divide investment into very specific sectors, markets and financial instruments. Additionally, minimum investment amounts cater to a medium-high target audience. The initial charges applied to new openings also had a positive impact.

Revenues were at excellent levels, also thanks to overperformance commissions (a commission charged on a percentage basis on the positive return differential between management and the relative benchmark). These amounted to Euro 463,000 (of which 50% returned to Banca Patrimoni), confirming the excellent work done by their team, which is entrusted with management.

In 2015, 75.3% of customers (68.1% of assets) saw returns gross of tax effects and commissions exceed the benchmark, and 8.7% of customers (22.7% of assets) saw net returns exceed the benchmark.

In 2015, the retail asset management line saw the addition of the Gpm Azionaria Internazionale 50–100% shares line. This line has a high capital growth objective, with significant oscillations in value through the use of equity-based financial instruments, mainly using trading. It uses an active management strategy, which can lead to significant variations from the benchmark. For tax purposes, it is considered administrated.

The rationalisation of the lines continued, which led to changing of mandates for old lines that can no longer be subscribed in favour of new ones present in the array of products.

The management of the Banca Sella portfolios is entrusted to Banca Patrimoni Sella & Co.

Private banking

2015 ended with net deposits totalling € 378.7 million, with a 7.5% growth rate over the stock at 31 December 2014. Total deposits at the end of 2015 amounted to € 6.208 billion, also following the process to assign target customers who are not currently assisted by the private service to private bankers.

The result achieved by managed savings was again positive, with incoming deposits of around € 174 million, still mainly due to the subscription of UCITS and insurance (in general segment I), with managed savings accounting for 42.4% of total deposits.

2015 saw excellent results in terms of customer acquisition, with a net positive change of 489 new accounts opened.

Economic results were up with respect to the previous year, with operating income growing by € 28.5 million, +11% with respect to the prior year. The trend for revenues from services should be highlighted, which grew by € 23.3 million, above all thanks to the investment services component.

In terms of organisation, activities to strengthen local specialised structures continued, in particular through the placement of 2 external and 12 internal employees, mainly during the last part of the year, at the same time the project began to extend the “Private Banking” service to target customers not currently followed by private bankers, while selection activities continue to increase staff in other areas.

Specialised training activities dedicated to Private Banking employees also continued, in accordance with the three-year strategic plan.

Online Trading

In 2015, the trend for revenues deriving from the online trading service for financial instruments was influenced by the results of the financial markets, which saw rising prices at the start of the year with significant trading, but worsened conditions and contained volumes in the final months.

In this situation, the actions of Banca Sella customers, with over 2,600,000 orders executed on the market, fell overall by 1% with respect to the previous year, generating trading revenues that were down by 2%. Business performance was also influenced by the simultaneous drop in the average commission, which was required to keep up with the aggressive pricing policies of the competition. As a whole, operating income from this service fell by 1.6% with respect to the previous year.

The on line trading service activities developed mainly in the following directions:

- Development of offerings;
- Extension of services for trading via mobile phone;
- Execution of commercial initiatives to acquire new customers.

In reference to development of offerings, in 2015 foreign exchange trading and multiday leverage were introduced, and the platforms saw the addition of new functions, such as the strategy builder (a combination of strategies carried out even when the computer is off) and the infinite book (a chart of listings that contains all price levels and allows full in-depth visualisation of the book, seeing all available offers), which are new additions on the market.

Relative to mobile phone-based trading, in 2015 the SellaXTrading application was developed, available for Android and iOS. This application allows Banca Sella customers to trade using tablets in a professional and highly-evolved manner.

In 2015, a large online campaign was carried out to promote the Trader Account and local and web-based training events were organised on various issues relative to online trading. There were 59 days of classroom training and 27 online courses (webinars).

Payment Systems

In regard to the Point of Sale (POS) service, activities of acquiring payment cards saw an overall positive trend, featuring an increase in transactions carried out with debit cards (+8.8% with respect to the previous year), and with credit cards (+12.3% with respect to the previous year). This confirms not only the ever more widespread habit of Italian consumers to use cards that foresee immediate withdrawal of funds from current accounts, but also a return to the use of cards that foresee a cumulative withdrawal at the end of the month.

Overall volumes grew with respect to the previous year, also thanks to good sales activities to sign agreements with new operators, carried out both by the branch network and the network of agents associated with the Bank. Comprehensive income was overall positive, thanks to the increase in volumes, satisfactory stability in average commissions and despite a progressive increase in management costs for transactions applied by the international circuits.

Activities relative to debit and credit cards issued by the Bank, similar to the phenomenon seen for the POS acquiring component, saw a significant increase in both debit card spending (+14.7% with respect to the previous year) and in credit card spending (+5.8% with respect to the previous year). Overall profitability grew despite a progressive drop in the margins from association membership fees.

After a 2014 that saw shrinking volumes, the e-commerce sector once again grew (+10.1%), allowing us to consolidate our market share. Margins also improved.

During the year, commercialisation of the “Hype” product began. This is an application linked to a prepaid credit card that, through an extremely simple interface, allows Bank customers to very easily make use of not only payment functions (with the card), but also bank transfers, personal transfers (” P2P”) and mobile phone top-ups. Hype can be subscribed entirely online and has allowed Banca Sella to take a place among the main Italian operators in terms of mobile applications for banking services.

Shareholders' equity and regulatory capital

At 31 December 2015, equity book value, including profits for the year, came to € 771.2 million, up by € 154 million (+24.90%) over 31 December 2014, substantially due to the capital increase of € 120 million, described in Significant Events During the Year, and the increase in valuation reserves for financial assets available for sale, following the adjustment in the carrying value of the minority investment in Visa Inc., also outlined in the same section.

Net shareholders' equity (euro thousands)

Item	31/12/2015	31/12/2014	Change in %
Share Capital	334,228	281,597	18.69%
Share premiums	366,090	298,722	22.55%
Profit reserves	-5,745	-39,144	-85.32%
Other reserves	30,061	6,999	329.50%
Valuation reserves of Financial Assets available for sale	44,418	9,951	346.37%
Actuarial profit/losses in relation to defined benefit pension plans	-3,896	-5,134	-24.11%
Profit (loss) for the year (+/-)	6,012	64,230	-90.64%
Shareholders' Equity	**771,168**	**617,221**	**24.94%**

As of 1 January 2014, as envisaged in the new harmonised regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in EU Regulation 575/2013 (CRR) of 26 June 2013, which transfer the standards defined by the Basel 3 Committee to the European Union, and on the basis of Bank of Italy Circulars no. 285 and 286 and the update to Circular 154, a new classification of own funds has taken effect, consisting of:

- Common equity tier 1, i.e. the main capital component generally represented by ordinary capital paid in, the relative share premium reserve, profit for the period, reserves and other regulatory adjustments;
- Additional Tier 1 capital;
- Tier 2 capital, represented by subordinated loans.

The regulatory provisions relative to own funds envisage a transition period, generally extending to 2017, during which certain elements which, when fully operational, will be fully calculable or deductible in Common Equity, affect common equity Tier 1 capital only for a certain percentage. As a rule, this residual percentage with respect to that applicable is calculated/deducted from the additional Tier 1 capital (AT1) and from the Tier 2 capital (T2) or is considered among the risk-weighted assets.

Also for subordinated instruments that do not respect the requirements envisaged in the new regulatory provisions, specific transitional provisions are envisaged, aimed at the gradual exclusion of no-longer calculable instruments from own funds (over a period of 8 years).

Regulatory capital (in thousands of Euro)

Item	31/12/2015	31/12/2014	Change in %
Common Equity Tier 1 CET1 (formerly Tier 1 capital)	689,345	553,373	24.57%
Common Equity Tier 2 T2 (formerly Tier 2 capital)	239,738	239,298	0.18%
Total own funds (formerly regulatory capital)	**929,083**	**792,671**	17.21%
Credit and counterparty risk	314,503	343,724	-8.50%
Market risks	2,462	2,194	12.24%
Operating risk	58,905	59,588	-1.15%
Total capital requirements	375,870	409,624	-8.24%
Risk-weighted assets	4,698,373	5,120,302	-8.24%
Common equity Tier 1/Risk-weighted assets (CET1 capital ratio)	14.67%	10.81%	
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	14.67%	10.81%	
Total own funds/Risk-weighted assets (Total capital ratio)	19.77%	15.48%	

At 31 December 2015, the capital ratios exceeded the minimum requirements foreseen in the regulations in effect as of the reporting date:

- Common Equity Tier 1 ratio: 14.67%, against a minimum level of 5.125%;
- Tier 1 ratio: 14.67%, against a minimum level of 6.625%;
- Total Capital ratio: 19.77%, against a minimum level of 8.625%.

The significant improvement in the ratios is due both to the increase in common equity tier 1 (CET1), consequent to the increase in capital, but also the decrease in risk-weighted assets, in part due to the drop in loan volumes and also due to the decision made in December 2015 to make use of an authorised ECAI, as in the current regulations, to determine weighting ratios to calculate capital requirements for exposures associated with businesses classified as capital companies. The ECAI is Cerved Rating Agency.

Income statement data

Reclassified income statement (in Euro thousands)

Item	31/12/2015	31/12/2014	% change over 31/12/2014
10. Interest receivables and similar income	247,977.9	305,076.5	-18.7%
20. Interest payable and similar charges	(79,660.5)	(107,492.1)	-25.9%
70. Dividends and similar income	73.3	79.8	-8.2%
NET INTEREST AND DIVIDENDS	**168,390.7**	**197,664.3**	**-14.8%**
40. Fee and commission income	257,548.8	238,983.5	7.8%
50. Fee and commission expenses	(84,337.8)	(76,260.9)	10.6%
Net fees	**173,210.9**	**162,722.6**	**6.5%**
80. Net gains (losses) on trading activities	7,424.8	7,565.9	-1.9%
90. Net gains (losses) on hedging activities	191.5	3,370.1	-94.3%
100. Profit (loss) from sale or repurchase of:	17,307.7	5,645.7	206.6%
a) receivables	92.8	-	0.0%
b) financial assets available for sale	17,840.7	9,410.1	89.6%
d) financial liabilities	(625.9)	(3,764.4)	-83.4%
NET REVENUES FROM SERVICES	**198,134.9**	**179,304.4**	**10.5%**
NET BANKING INCOME	**366,525.6**	**376,968.6**	**-2.8%**
150. Administrative expenses			
a) personnel expenses	(157,630.0)	(153,330.6)	2.8%
IRAP on net personnel and seconded personnel expenses (1)	(498.9)	(5,185.3)	-90.4%
Total personnel and IRAP expenses	**(158,128.9)**	**(158,515.9)**	**-0.2%**
b) other administrative expenses	(144,663.7)	(130,274.3)	11.1%
Recovery of stamp duty and other taxes (2)	37,474.3	36,651.0	2.3%
Total administrative expenses and recovery of taxes	**(107,189.5)**	**(93,623.2)**	**14.5%**
170. Writedowns on fixed assets	(7,395.4)	(7,024.9)	5.3%
180. Writedowns on intangible fixed assets	(12,332.8)	(10,983.9)	12.3%
190. Other operating expenses/income (after deducting “Recovery of stamp duty and other taxes”)	26,814.9	26,075.3	2.8%
Operating costs	**(258,231.6)**	**(244,072.6)**	**5.8%**
OPERATING PROFIT (LOSS)	**108,294.0**	**132,896.0**	**-18.5%**
160. Net provisions for risks and charges	(1,677.1)	(6,079.0)	-72.4%
100. Gains on disposal of financial assets held to maturity	-	75,124.6	-100.0%
130. Net value adjustments for impairment of:			
a) receivables	(98,744.1)	(103,505.1)	-4.6%
b) financial assets available for sale	(6.0)	(600.0)	-99.0%
c) financial assets held to maturity	-	-	0.0%
d) other financial transactions	(61.9)	(514.1)	-88.0%
210. Profit (loss) on equity investments	-	-	0.0%
230. Writedowns on goodwill	(441.6)	(1,048.3)	-57.9%
240. Profit (loss) on disposal of investments	12.3	4.7	159.4%
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES	**7,375.6**	**96,278.8**	**-92.3%**
260. Income taxes for the period on current operations (after deducting “IRAP on net personnel and seconded personnel expenses”)	(1,363.4)	(32,048.7)	-95.8%
PROFIT FROM CONTINUING OPERATIONS NET OF TAXES	**6,012.2**	**64,230.1**	**-90.6%**
280. Profit (loss) on asset disposal groups held for sale after tax	-	-	0.0%
PROFIT (LOSS) FOR THE YEAR	**6,012.2**	**64,230.1**	**-90.6%**

(1) Separated from the item “Income taxes for the year on continuing operations”.
(2) Separated from the item “Other operating expenses/income”.

Income Statement Reclassification Criteria

In order to provide a more easily understandable representation of the income results, an Income Statement has been prepared using exposure criteria more appropriate to represent the content of the items in accordance with principles of management homogeneity.

Reclassifications involved:

- item 70. “dividends and other income”, which is included within net interest income;
- IRAP on the costs for personnel, which is separated from the item “Income taxes for the period on continuing operations”, and included in personnel expenses;
- the item “Recovery of stamp duties and other taxes” which is separated from item 190. “other operating expense/income” and included in item 150 b) “other administrative expenses”;
- item 100. “Profit (loss) on disposal or repurchase of c) financial assets held to maturity” which is separated from net revenues from services and inserted after operating profit (loss).

Profitability

The comments below refer to the Income Statement items reclassified shown in the table in the preceding page.

The total result for the year was € 6.0 million, a decrease with respect to 31 December 2014. The ROE was 1.0%. Profit at 31 December 2014 had been influenced by the decision to sell a significant portion of the portfolio of financial assets held to maturity, which had made it possible to achieve gross gains on disposal of around € 75 million.

Analysing the items, we see a decrease in net interest income (in line, however, with the system figure) of -14.8%, in that the cost of funding, which continued to fall, was not able to compensate for the reduction in market rates applied to loans.

On the other hand, the trend for net commissions was positive, up by +6.5%.

Operating income fell by -2.8% with respect to 2014 (amounting to € 366.5 million compared to € 377 million in 2014), in that the good performance seen in the trend of net revenues from services did not completely make up for the drop in net interest income.

Credit quality saw positive results. Writedowns on loans fell by -4.6%, even if during the year certain loan measurement parameters were revised and made stricter.

Net interest income

At 31 December 2015 net interest income amounted to € 168.4 million, down by -14.8% compared with the previous year. Lower interest income was recorded (-18.7%), mainly in regards to loans to customers, in the presence of decreasing volumes and average interest payable rates contracting. Lower interest income also came from securities, mainly due to the disposal of the portfolio of financial assets held to maturity carried out in the second half of 2014.

This was partially compensated for by a reduction in interest expense (-25.9%), due to the continuing downward trend in the cost of funding, despite higher direct deposit volumes.

Net fees

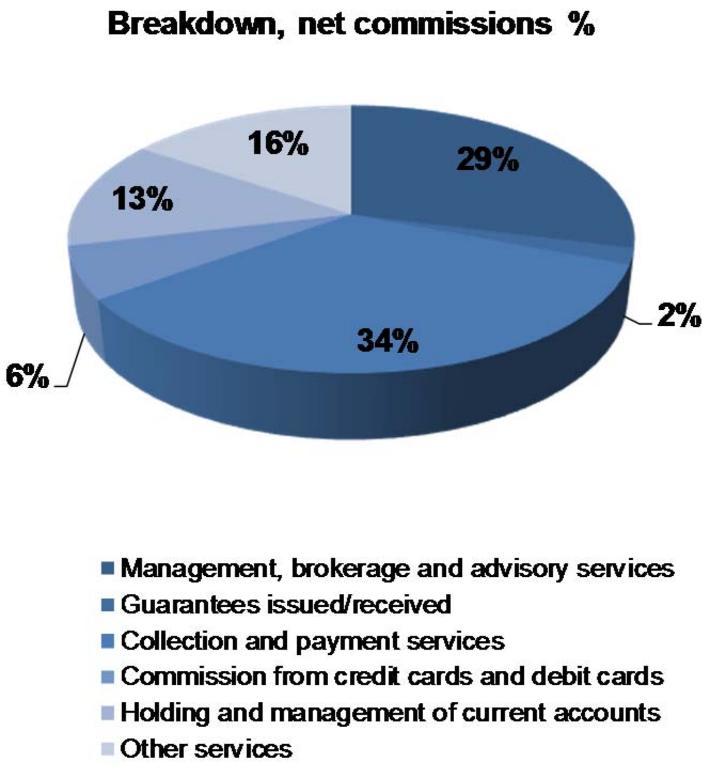
Net commissions (+6.5%) as a whole saw greater revenues from investment services, thanks to an increase in volumes of indirect funding and excellent performance from managed savings, which grew by around € 7 million, +25.8% with respect to the previous year.

The trend for the funds and SICAVs segment was also very positive (+27.9% for the margin with respect to 2014), within which the largest contributions came from private channels and branches, with excellent deposit volumes, mainly concentrated in third-party funds. Income from the life insurance bank was also good (+35.8% with respect to 2014), due to an increase in volumes almost entirely from insurance products. The contribution of Asset Management was also positive (+15.2%), thanks again to excellent deposit volumes.

Interest and exchange rate operations were also very positive (+39.1% year on year), thanks to high volatility on the foreign exchange markets and satisfying customer desk operations. On the other hand, revenues from traditional trading fell with respect to 2014 (-6.5%), mainly due to lower volumes in the bond segment, due to a notable decrease in returns.

A positive contribution was also provided from electronic payment systems (+7.2% with respect to the 2014 margin), due to an increase in e-commerce and POS volumes, as well as increased volumes from foreign payment systems.

Revenues from traditional payment services were similar to those in 2014. On the other hand, accessory fees on loans fell (-2.9%) due to the reduction in volumes disbursed.



Net revenues from services

The trend in net income from services, which amounted to a total of € 198.1 million, showed a rise of 10.5% compared with 2014, when it was € 179.3 million.

The component represents 54.1% of net banking and insurance income (47.5% at 31 December 2014).

Net income from services: main components (in Euro thousands)

Item	31/12/2015	31/12/2014	Change	
			absolute	%
Payment services	69,895.5	65,157.5	4,738.1	7.3%
Trading for third parties, order collection and placement	22,536.5	21,066.1	1,470.4	7.0%
Asset management	14,635.2	12,506.3	2,128.9	17.0%
insurance products placing	9,963.0	8,078.4	1,884.6	23.3%
Trading and hedging activities	7,616.3	10,936.1	(3,319.7)	-30.4%
Holding and management of current accounts	22,802.8	23,056.7	(253.9)	-1.1%
Management of loans granted	23,925.1	23,632.0	293.1	1.2%
Profit (loss) from sales or repurchases of credits, financial assets/liabilities	17,307.7	5,645.7	11,662.0	206.6%
Other	9,452.8	9,225.7	227.2	2.5%
Total	**198,134.9**	**179,304.4**	**18,830.6**	**10.5%**

The satisfying profitability seen in the segment was obtained thanks to excellent growth at the Group level in the stock of indirect funding, caused by both incoming flows of new customer deposits and the positive impact of securities prices connected to the good performance for stocks during the year. Average profitability for indirect funding remained substantially at the same level as in 2014, confirming the Bank’s capacity to remunerate customer products and services.

In terms of payment systems business, which was stable overall, growth was seen in the acquiring segment (POS), with a drop in cards, e-commerce and traditional payment systems. The unfavourable consumption situation led to a decrease in transaction volumes and margins for cards and e-commerce, while acquiring volumes (POS) increased. In terms of profitability, this segment is always subject to a high degree of competition and regulatory provisions that compress margins.

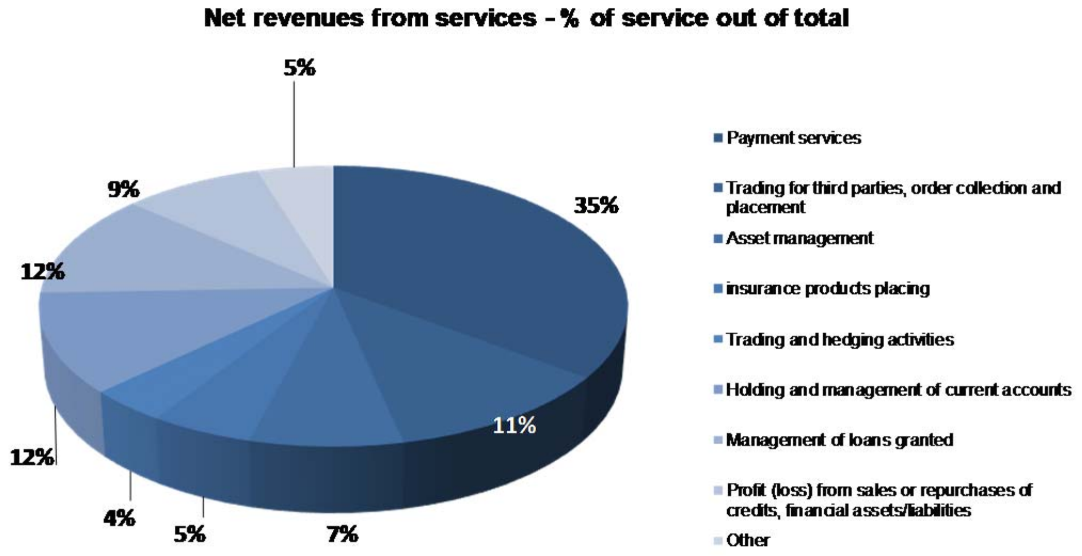
The commission portion relative to payment services saw good performance (+7.3%), due to the ever more widespread habit of Italian consumers to use cards that foresee immediate withdrawal of funds from current accounts, with respect to the use of cards that foresee an accumulative withdrawal at the end of the month.

Income from assets managed stood at € 14.6 million, with good growth with respect to 2014. In fact, customers were more interested in the managed component, rather than the administered one. This is also due to a monetary policy that penalises bonds, due to the extremely low interest rates.

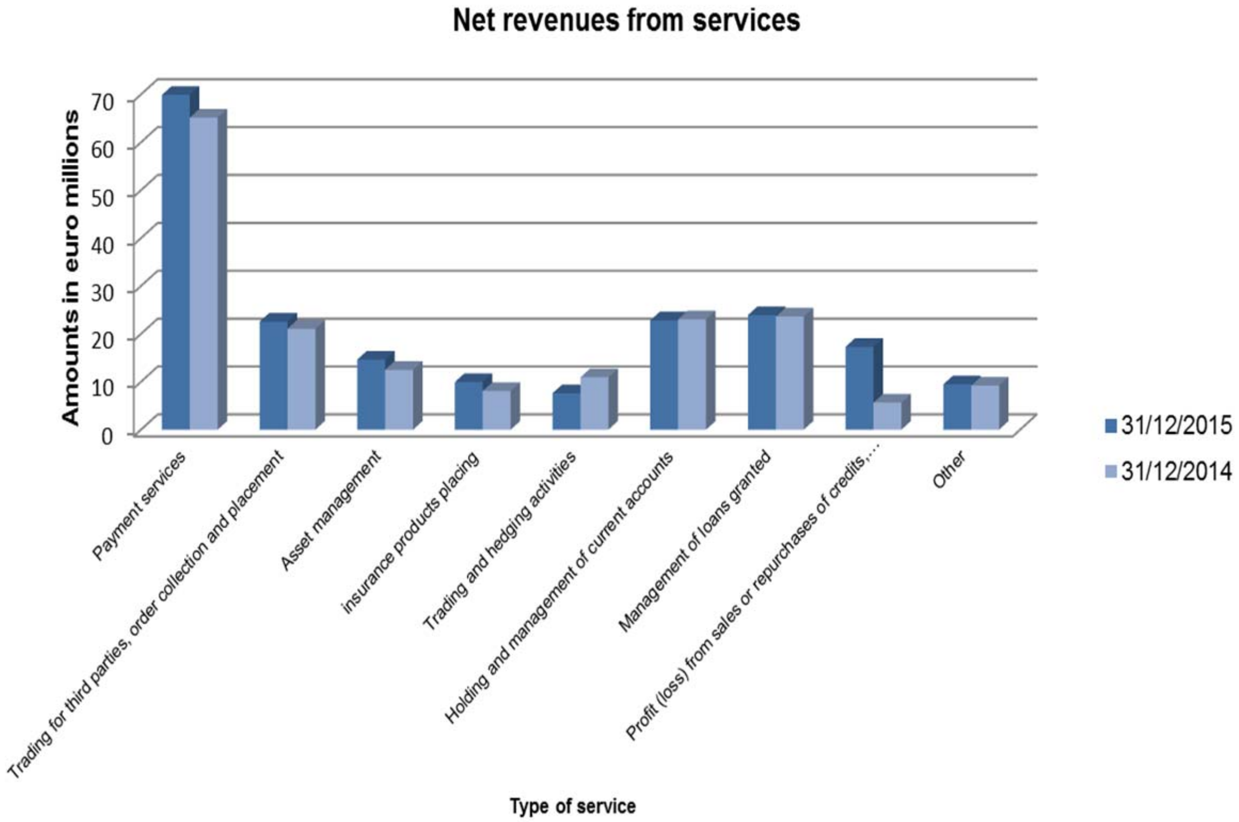
Capital gains added to the item “gains on sale and repurchases of loans, financial assets available for sale and financial liabilities” for a net amount of € 17.8 million, from disposals from said securities portfolio.

The remaining “other” category includes commission charged on holding and managing current accounts and commission on loans granted to customers.

The table below shows the percentage of every service in the total of net revenues from services. At 31 December 2015, the payment services component accounted for 35% of the total.



Below we show the trend for the various services that make up net revenues at 31 December 2015, compared to the previous year.



Net banking income

The money management margin, together with income from services, led to the total income of € 366.5 million, down (-2.8%) with respect to 31 December 2014.

As already noted, the good result from net commissions (+6.5%) and the disposal of part of the financial assets available for sale was not sufficient to compensate for the drop in net interest income.

Operating costs

Operating costs, amounting to € 258.2 million, including the positive contribution of € 26.8 million of the item "Other operating expenses/income", saw an increase of 5.8%. More detailed analysis shows that the decrease in the staff costs component (including IRAP relative to the same) is substantially due to the elimination of IRAP in permanent employment contracts as well as substantial stability in terms of Bank staff.

The administrative expenses component increased, mainly due to Legislative Decrees no. 180 and 181 taking effect on 16 November 2015, which implemented in Italian legislation Directive 2014/59/EU (Banking Resolution and Recovery Directive, "BRRD"), creating a framework to restore and resolve credit institutions and investment companies and establishing the National Resolution Fund managed by the Bank of Italy. Payment of these contributions were recognised in administrative expenses in the Income Statement. In 2015, these contributions amounted to around € 7.4 million, divided between the Single Resolution Fund (SRF), with € 1.3 million as the ordinary portion and € 4 million as the extraordinary portion, and the Deposit Guarantee Scheme (DGS), with € 2 million as an ordinary contribution.

There was also an increase in costs associated with consulting, training, work assigned to Selir for outsourced activities and legal/dispute services connected with still high credit risk.

Other operating expenses were represented by writedowns on tangible and intangible fixed assets, resulting in a € 1.7 million increase with respect to the same period the previous year, while other operating income, after deducting recovery of indirect taxes, improved by 2.8% with respect to 31 December 2014.

The efficiency indicator known as the cost-to-income ratio, the ratio of operating costs (after deducting IRAP on personnel costs and net of losses linked to operational risks) and net banking, is 69.7%, a decline with respect to the 62.5% recorded at 31 December 2014. When calculated net of the contribution to the National Resolution Fund, the cost to income ratio is 67.7%.

Breakdown of operating costs (in Euro thousands)

Item	31/12/2015	31/12/2014	Change absolute	Change %
Administrative expenses:				
a) Personnel expenses	(157,630.0)	(153,330.6)	(4,299.5)	2.8%
IRAP on net personnel and seconded personnel expenses	(498.9)	(5,185.3)	4,686.4	-90.4%
Total personnel and IRAP expenses	**(158,128.9)**	**(158,515.9)**	**386.9**	**-0.2%**
b) Other administrative expenses	(144,663.7)	(130,274.3)	(14,389.5)	11.1%
Recovery of stamp duty and other taxes	37,474.3	36,651.0	823.3	2.3%
Total administrative and stamp duty expenses	**(107,189.5)**	**(93,623.2)**	**(13,566.2)**	**14.5%**
Writedowns on fixed assets	(7,395.4)	(7,024.9)	(370.5)	5.3%
Writedowns on intangible fixed assets	(12,332.8)	(10,983.9)	(1,348.9)	12.3%
Other operating expenses/income (after deducting "Recovery of stamp duty and other taxes")	26,814.9	26,075.3	739.7	2.8%
Operating costs	**(258,231.6)**	**(244,072.6)**	**(14,159.0)**	**5.8%**

Operating profit (loss)

Operating profit amounted to € 108.3 million, down by 18.5% over 31 December 2014.

Operating profit (loss) (in thousands of Euro)

Item	31/12/2015	31/12/2014	Change absolute	Change %
Net banking income	366,525.6	376,968.6	-10,443.0	-2.8%
Operating costs	(258,231.6)	(244,072.6)	-14,159.0	5.8%
Operating profit (loss)	**108,294.0**	**132,896.0**	**-24,602.0**	**-18.5%**

Allocations and adjustments

Net allocations to provisions for risks and charges

During the year provisions for risks and charges were made totalling € 1.7 million, down with respect to 2014, when it was necessary to establish a provision for employee resignations.

Value adjustments for credit impairment

Net value adjustments on loans and advances amounted to € 98.7 million, down by 4.6% compared to the € 103.5 million at 31 December 2014. Adjustments fully include the findings resulting from the Bank of Italy inspection in the first half of 2015, together with other regulatory and internal policy updates. This item represents 1.5% of total lending, in line with the figure at 31 December 2014.

At 31 December 2015 the coverage ratio with reference to non-performing loans was 60.0%, while, at the end of 2014, it was 59.7%. The change seen during the period can substantially be attributed to that previously reported in the section on Loans portfolio quality. The coverage ratio on anomalous loans, understood as total writedowns booked on impaired cash loans over gross loans disbursed stood at 47,8%; at 31 December 2014 it was 44,4%.

Profit (loss) from sale or repurchase of financial assets held to maturity

Recall that the result at 31 December 2014 had been influenced by the decision to sell a significant portion of the own portfolio of financial assets held to maturity, which had led to income from the disposal of around € 75 million.

Income taxes

The considerable reduction in income tax (-95.8% with respect to the previous year) is mainly due to the decrease in gross results.

Exclusive of IRAP relative to expenses for personnel which was reclassified, increasing said component, the percentage impact of income taxes on continuing operations before taxes was 18.5%.

The significant decrease in IRAP on staff costs can be attributed to the changes introduced by Italian Law 190 of 23/12/2014, which provided for full tax deduction of the cost of employees with permanent contracts.

The so-called "Robin Hood tax" introduced by Legislative Decree 112/2008 (turned into Law no. 133/2008) which foresees that 4% of interest expenses is non-deductible, caused an increase in taxes of approximately € 0.7 million, corresponding to about 8.9 percentage points in the tax rate.

The IRES and IRAP deduction rules were applied to adjustments made to loans to customers, as foreseen in Decree Law 85/2015, converted by Italian Law 132/2015, which governs the immediate deductibility of a larger portion of value adjustments on receivables (75% in 2015, compared to the 20% foreseen in the previous regulations) and, as a consequence, generates lower increases in deferred taxes, without, however, having an impact on the tax rate with respect to the regulatory situation that previously applied.

Banca Sella, as a subsidiary, adheres to the tax consolidation system adopted by the parent company Banca Sella Holding as its controlling and consolidating company.

Comprehensive income

COMPREHENSIVE INCOME

		31/12/2015	31/12/2014
10.	**Profit (loss) for the period**	**6,012**	**64,230**
	Other comprehensive income net of taxes without transfer to income statement		
40.	Defined benefit plans	1,238	(4,106)
	Other comprehensive income net of taxes with transfer to income statement		
100.	Financial assets available for sale	34,467	5,062
130.	**Other comprehensive income, net of tax**	**35,705**	**956**
140.	**Comprehensive income (Items 10 +130)**	**41,717**	**65,186**

The increase in item 100. Financial assets available for sale includes the effect of the fair value revaluation of the investment held in Visa Europe, already outlined in the section of Significant Events During the Year.

Distribution channels, organisation and business model

At 31 December 2015, the situation for the branches is as shown in the following table:

Subdivision of branches by region and geographic area

Region	31/12/2015		31/12/2014	
	Number of branches	Weight % Region Out of total	Number of branches	Weight % Region Out of total
Piedmont	134	45.7%	130	44.4%
Sardinia	3	1.0%	3	1.0%
Tuscany	10	3.4%	11	3.8%
Aosta Valley	6	2.0%	6	2.0%
Emilia Romagna	15	5.1%	15	5.1%
Lazio	17	5.8%	17	5.8%
Liguria	8	2.7%	8	2.7%
Lombardy	18	6.1%	18	6.1%
Veneto	12	4.1%	12	4.1%
Friuli Venezia Giulia	1	0.3%	1	0.3%
Abruzzo	1	0.3%	1	0.3%
Marches	5	1.7%	5	1.7%
Molise	1	0.3%	1	0.3%
Campania	14	4.8%	15	5.1%
Puglia	27	9.2%	29	9.9%
Sicily	21	7.2%	21	7.2%
Total	**293**	**100.0%**	**293**	**100.0%**
ITALY				
North	194	66.2%	190	64.8%
Centre	33	11.3%	34	11.6%
South and Islands	66	22.5%	69	23.5%
Total	**293**	**100.0%**	**293**	**100.0%**

Despite the lack of change in the final result, during the year some reorganisation was done, aimed at optimising the presence throughout the country and improving the quality of consulting provided to customers:

- the opening of the Caselle branch, at the International Sandro Pertini Airport in Caselle Torinese, with the simultaneous closure of the Montecatini Terme branch;
- the closure of the branch in Bari, via Tommaso Fiore, combined with the larger and more central branch in via Calefati;
- the closure of the branch in Lecce, via San Cesario, combined with the larger and more central branch in viale Marconi;
- the transfer of the branch in Lecce, viale de Pietro from no. 61 to no. 3, to a newer and more prestigious location, with the simultaneous opening of the first consulting office in Lecce, of significant quality, where customers, mainly business and private individuals, can find useful solutions for their business and personal needs;
- the closure of the Grottaminarda, combined with the Benevento branch, where investment and development will be focused (as the capital of the province, and with offices that were remodelled in 2014).

In 2015, to maintain stability and management continuity, no changes were made to the territories in which branches are organised, but only some changes at the level of the underlying districts.

On the other hand, adoption of territorial organisation based on "unified" branches continued - unifying several nearby branches, with the objective of achieving better structured and organised branches, to increase the levels of consulting and skills available to customers.

Commercial organisation

The year focused on strengthening the "integrated relationship" consulting model, that is quality consulting supported by excellent digital instruments, increasing adoption of the customer portfolio model and adding to the number of dedicated sales agents, in particular private sales agents, to further support the development of relationships models between customers and the Bank, moving from a transaction approach to a consulting approach.

The Integrated Relationship project was begun with these characteristics, with a new section developed, available to customers both through Internet Banking and on the application for mobile devices, where each customer can clearly see the sales agent who assists them and from which they will receive messages, advice and sales proposals dedicated personally to them. If desired, customers can directly follow the advice and proposals received in these messages, by using the new functions integrated into the platform and based on electronic and digital signatures.

The project has the goal of developing an even more immediate, direct and personalised relationship between the Bank and the customer, taking into account the communication methods most appreciated by the customer, selecting the most appropriate channel to meet their needs.

Biometric signatures were extended to all branches and private banking offices, which makes it possible to sign contracts and teller transactions in an entirely digital manner. The digital document is signed by the customer by signing on a special tablet that identifies the special characteristics of their handwriting (speed and pressure) and saves them, safely and in compliance with current regulations, within the digital document.

Development of the new Sales Workstation also continued, which serves as the main working environment for the network. This innovative tool, that supports and takes advantage of the new consulting service model begun through the creation of customer portfolios, was enriched and personalised in order to better implement and respond to the needs of various types of customers.

The adoption of a new geographic organisation continued, which involves the "unification" of several branches, located nearby, with the objective of creating a single structure and a single organisation, with several operating points in the area, in order to increase the level of consulting and competence offered to customers.

During 2015, the project aimed at reducing the load of administrative activities falling on the branches continued, both through optimisation of processes and innovation in solutions, as well as to an increase in operations carried out independently by customers, through electronic channels.

A project was also begun which, in 2016, will provide Banca Sella with an organisational and technical structure that will allow it to manage a network of financial advisors with agency agreements, supporting the current network of private sales agents.

The sales markets

The external context in 2015 saw the Italian economy reverse trend: consumption was up after several years with negative figures. In the third quarter of 2015, income available to consumer households increased by 1.3% with respect to the previous quarter and by 1.5% over the same period in 2014. Based on ISTAT data, buying power (which also considers inflation) increased by 1.4% with respect to the previous quarter and by 1.3% over the third quarter of 2014. In the first three quarters of 2015, in comparison with the same period in 2014, buying power grew by 0.9%. A recovery was also seen in the real estate market (+8.4% in the third quarter): disbursement of mortgages and loans to households grew.

In regards to employment, on an annual basis unemployment fell significantly (-14.3%, equal to -479 thousand less people searching for work), employment grew (+0.9%, equal to +206 thousand more employed people), and inactivity also grew (+1.0%, equal to +138 thousand inactive people).

The sales trends for 2015 were heavily affected by the very volatile situation on the markets due to significant international geopolitical tensions and the continuation of accommodating policies by the main international central banks. The ECB further strengthened QE, extending it at least until 2017 and brought rates on deposits even further into negative territory (-0.30%), while the Fed began a slow path towards raising rates only during the final part of the year. For the first time in history, in Italy BOT and CTZ auctions ended with negative returns.

As a consequence, growth in the managed savings industry continued, with a total net balance of deposits of around 130 billion in 2015 (mainly during the first half), and a level of assets equal to around € 1,835 billion.

During the last quarter, additional complexity was added, deriving from the partial application of the new European regulations on bank resolution to save 4 banks in Italy, which saw a reaction by investors nearing panic. This is one of the aspects that will be important to manage also and above all in 2016, given the official introduction of the Bail-In as of 1 January 2016.

Households and Private Market

The Households and Private Market represents individuals with total assets held at the Bank of less than € 50 thousand. The target customers served are minors, young people, families and pensioners. The segment is supervised at the commercial level by the Household and Private Sales Professionals. Organisation of the market through dedicated, non-dedicated and support household and private sales professionals continued. The foundations were also established for the innovations foreseen in the 2015–2017 strategic plan, which envisages reorganisation of markets and sales figures so as to offer ever improving consulting, as close as possible to the customer.

During the year, the household and private market saw growth in net deposits, new disbursements of loans, in interest margins, revenues from services and therefore, operating income.

The demand for consulting, relationships and personalisation increased for certain services, to which the Bank responded by continuing to have an open approach in terms of customers, placing their real needs at the centre, through a standard of offerings able to satisfy any need through:

- multichannel management, coordinated with the customer;
- the creation of ad hoc agreements and the activation of locally focussed marketing initiatives;
- the development of the online component, including through a social media presence;
- personalised promotions aimed at reinforcing geographic peculiarities in acquiring given targets.

In the context of the sales plan prepared at the beginning of 2015, certain actions were planned with a particular focus on:

- Customers;
- Loans to private individuals (mortgages and loans in particular);
- Life insurance, liability insurance and social security;
- Banking.

Significant attention was paid to updating the Family and Private Community. Worthy of particular note was the development of the role of sales agents towards proactive actions in regards to customers.

The Community is the main repository for communications, information, further learning and commercial support dedicated to the role, where the sales professional can find all the news regarding their market and all the information about the products that can satisfy their customers.

In terms of updating and developing the array of offers, the loans and mortgages offered to private individuals was reviewed. In cooperation with Banca Assicurazione, the array of products and conventions available to customers was updated.

Banking requirements were also an important focus, with the extension of services and possibilities for reaching customers.

The CUSTOMER LIFECYCLE project was begun, an imaginary lifecycle that envisages specific actions in relation to where in life a customer finds themself.

Finally, the issue of integrated social security continues to be central, with focus on education and sales actions.

Professional growth was also supported through the provision of an appropriate level of training, structured along the lines of the main updates for products and offerings, in-depth education regarding loans, the digital economy, insurance certification and monthly alignments.

Businesses Market

The Businesses Market mainly includes companies with turnover exceeding € 2.5 million and/or loans exceeding € 250 thousand. The Business Sales professionals are assigned to supervise and develop this segment, which is strategic both in terms of the rapid evolution of the external scenario and the growing competition that globalisation imposes.

This means the role of a business sales professional is increasingly similar to that of a financial advisor, who must understand and help the company they assist, not only in terms of the numbers seen in the corporate balance sheet, but also and above all in terms of future prospects and the dynamic evolution of the business, with a particular focus on size and capital on one hand, and on the opportunities offered by digitalisation and internationalisation, on the other.

Internationalisation remains one of the main areas of action used to support small and medium enterprises (hereafter, PME). In fact, the foreign offerings available to business customers includes foreign goods, forex risk management services, and possible insurance coverage through Brosel, the Group’s brokerage company.

In regards to financial solutions for companies that operate abroad and intend to finance projects to improve competitiveness in foreign markets, the use of the “Sella Export” products was confirmed, supported by SACE guarantees.

In terms of consulting, offerings of alternatives to traditional bank loans are taking on an increasingly important role. Even if Italian companies depend on loans provided by the banking system much more than in other countries in Western Europe or in the United States, there is growing interest in finance products. To that end, Banca Sella, together with the Corporate Finance division within the banking parent company, is able to provide the necessary assistance and consulting to issue

"Minibonds", a financing tool that supports business growth. Business sales professionals are supported in their consulting activities by colleagues from the Corporate Finance division and also by the Business Finance structure within Banca Sella. To that end, in the second half of 2015, the Bank placed its first minibond, issued by Tundo Vicenzo S.p.A. for € 2.8 million, with a 7 year duration and a rate of 7%. Specialists in this area can also assist companies in all extraordinary operations, from searching for financial or industrial partners to solutions for generational transfers.

During 2015, Banca Sella continued to disburse ECB funds, associated with the T.L.T.R.O acronym (targeted long-term refinancing operation) up to the total available amount of € 268 million, for short and medium-term products.

To meet the various needs of companies, with particular reference to new investments for growth, development and internationalisation, short-term loans were made available, with durations of up to 18 months and instalment loans of up to 48 months.

This initiative was supported by the Instrumental Goods Credit Line, also known as "New Sabatini", thanks to an agreement that allows disbursement of loans with special conditions specified in Ministerial provisions. In addition, the possibility for business customers to access EIB funds was also confirmed.

Thanks to these financial solutions, business sales professionals were able to provide adequate responses to the credit requirements of creditworthy businesses deriving, in particular, from investments for growth and development.

The attention paid to SMEs also continued to be high. The Inventories Loan is intended in particular for this category, supporting warehouse supply needs. The Salaries Loan is also used for this category, for the "13th pay cheque" in December and to support greater financial requirements connected with reduced turnover during the summer holidays.

This latter loan was also provided for financial necessities suffered by businesses to fulfil obligations to pay annual severance indemnities for employees that make use of Banca Sella Group products, thereby advancing a possible solution to an extremely current issue regarding severance indemnities in pay cheques.

This Salaries Loan, greatly appreciated by business customers, has excellent results every year and is also gaining strength outside of its traditional areas, confirming interest in a formula designed for specific needs, also in terms of repayment methods.

In addition to traditional consulting, 2015 also featured strengthening of consulting on new issues associated with digital transformation. "Digital disruption" not only characterises offerings and payment and collection tools, but also changes in company organisation, such as the use of start-ups for open innovation projects in research and development, and the use of fintech, also for investment solutions. In fact, Banca Sella, which is already a leader in e-commerce and payment systems, has also added consulting from the Sella Lab (a research and development centre within the Banca Sella Group) to the array of services offered to businesses, and also opened a second Sella Lab in Turin in 2015, in line with the desire to be a local bank.

In addition, 2015 saw continued sponsorship of the notable "Milano Unico" project, an international fabric fair held in Milan in February and September. This commitment testifies to the Bank's desire to support development of the fabric industry and the excellence associated with "Made in Italy", and also saw the presence of business sales professionals and foreign specialists, supporting the companies present who contacted the Desk or having meetings organised with the stands.

In regards to training, all business sales professionals participated in specialised events on loans, foreign issues and finance.

Affluent Market

In 2015, the Affluent Market continued to be represented by private customers with total assets held with the Bank exceeding € 50 thousand, mainly up to € 500 thousand. The target customers served are professionals, entrepreneurs, families and pensioners. Affluent sales professionals and dedicated affluent sales professionals are the relevant roles.

The approach to the market is an open one in regards to customers, making available all possible channels, both traditional and online, so as to all them to freely decide the schedule and methods used to work with their consultant. At the same time, a great deal of attention was paid to proactive management of customers by the affluent sales professionals, thanks to all the tools made available and the market initiatives, which aim to offer consulting for all needs, supporting customers in financial and insurance planning throughout their life, including solutions for generational transfers.

In 2015, the Affluent Market contributed:

- to the growth of the Bank's managed savings segment, with a balance of net deposits amounting to almost € 250 million, through the combined effects of: a) conversion of a significant portion of direct deposits, b) management of the maturity of conditions, deposits and securities, and c) acquisition of new customers;
- to acquisition of new customers;
- to a drop in the cost of funding for private individuals, which saw an average rate of 0.11% for on sight deposits and a rate of 0.59% for term deposits;
- to growth in the disbursement of mortgages and loans of over € 40 million, with associated advisory services for protection and social security;
- a roughly +6% increase in net revenues from services in the market (around +18%) for the portfolios of "dedicated" sales professionals;
- to the placement of the Banca Sella capital increase for around € 22 million.

In regards to updating and developing the range of offerings, new products were released in cooperation with Group companies (CBA, Sella Gestioni, Banca Patrimoni and Sella Life), in line with requests from the market, aimed at extending the solutions that can be offered to customers and pursuing a strategy that bets heavily on open architecture.

Banking requirements were also an important focus, with the extension of services made available to customers, as well as the possibility of accessing them. The account agreement for Affluent customers continued.

Finally, the issue of digitalisation continues to be important, through which new products continue, with a targeted focus on the launch of educational and online course, but above all through the spread of the new mobile application Sella.it.

During the last quarter, as in the guidelines found in the 2015–2017 Strategic Plan, the "Affluent vs. Private" project was begun, which foresees the transfer of customers with total assets held with the Bank exceeding € 300 thousand to Banca Sella Private Banking, and as a consequence the transfer of certain sales professionals. This project, begun at the end of the year, will have significant impacts in 2016.

Also for affluent sales professionals, professional growth was supported through providing an appropriate level of training, structured along the lines of the main updates for products and offerings, in-depth education regarding investment, regulations and tax laws, loans, the digital economy, and the plan to cover gaps identified in previous years. In addition, the external training project continued, thanks to a cooperative agreement with SDA Bocconi, that provides training by high-level instructors on specific issues and areas of interest for target customers. Finally, monthly market alignment meetings continued, with the objective of constantly sharing guidelines and strategies to be followed during the year, as well as team-building. For this purpose, there is also an internal Community reserved for affluent sales professionals.

Small Business Market

The Small Business Market serves and develops customers in the segment of artisans, shop owners, freelance professionals, companies of medium/small size and some institutional operators. The Small Business Sales Professionals work with the customers on the basis of the principles of the service model, defined within the context of the New Commercial Model.

The structure also provides indications regarding the organisation, direction and strategy for food and agricultural and renewable energy sectors, to which the agricultural specialists report, who work in synergy with the small business market professionals, the branches, and all the other commercial roles.

In 2015, the number of dedicated small business sales professionals (with a customer portfolio and activities mainly focussed on their own portfolio and acquisition of new customers) increased, reaching almost 100 individuals and with prospects for additional growth in 2016.

The areas of interest for the small business market in 2015, which will continue to serve as reference points in 2016, were:

- internationalisation;
- business networks and networking;
- subsidised and guaranteed loans;
- start-ups;
- digital economy and payment systems.

The sectors that most appreciated these development activities were food and agricultural, “green” in the sense of energy savings and new alternative sources, and the entire segment of small artisans and freelance professionals. The agriculture sector, which is supported by specialists in certain regions (with the objective of completing coverage in 2016), also achieved satisfying results, both in terms of new acquisitions and in monitoring and developing loans.

In addition, the acquisition of new POS operators improved, with the support of structured offerings.

Various sales initiatives were begun, in addition to those cited above for POS operators, there were those for *agriturismo*, owners of bed and breakfasts who were not yet Bank customers, and for owners of agricultural businesses to support PAC advances and investment initiatives. In addition, Small Business sales professionals also made proposals to:

- trade associations, through the stipulation of new offers and renewal of existing agreements;
- traditional and innovative start-ups, also thanks to the creation of new products and services and through the Bank’s participation in certain loan initiatives, for example Invitalia (Smart&Start);
- improve energy savings in buildings, in particular condominiums, through targeted offerings and a partnership with the Roadto2020 project, in the context of the Turin Smart City project.

Support for the internal community continued with weekly updates on news and new sales information aimed at both dedicated and non-dedicated sales professionals. Towards the end of 2015, an internal project was begun with the goal of revising the market community aimed at all small business colleagues, with an eye to social collaboration and communication, which will come to fruition during 2016.

Worthy of note were a series of events held in 2015, with the support of marketing, which took advantage of the partnership with the University of Gastronomic Science in Pollenzo, as well as that with the Roadto2020 project for energy savings in buildings, with certain services networks aimed at condominium managers, those with trade associations from Confagricoltura to Coldiretti (Creditagri), while also renewing the long-term agreement with the Association of Italian Booksellers, with whom we worked by supporting the internal training school. Also in 2015, some agreements were renewed with local regional Confidi.

Training of sales professionals continued in various areas, in particular in regards to regulations, insurance and loans, completing a specialised course held by the CUOA training school and managed savings, offering customers a series of solutions not only for the short-term, but also for the medium and long-term.

Online Bank

The Online Bank Service (hereafter OBS) develops its mission through three macro-lines:

- definition and monitoring of the dedicated offerings for private customers who operate exclusively online (typically represented by the Websella offerings);
- definition and monitoring of digitalisation of the multi-channel offerings, both for private customers and for business customers, with a focus on developing business with higher digital content (electronic payment systems, prioritising e-commerce and online trading), and developing independent transactions;
- the responsibility for the Digital Branches Territory, which develops and manages customers who mainly operate digitally, and do not require a physical support branch. Digital Branches also accept and manage transactions coming from non-account holder customers (POS, e-commerce, credit cards), provide operational management for “Group Company” customers, and accept and open accounts with Banking Service customers and accept Hype customers.

To develop the first two lines, OBS makes use of 10 Digital Economy Managers (DEM), dedicated figures who answer to the Regional Managers and develop business and digital culture within the distribution network. The DEM are supported by Digital Economy Specialists (DES), non-dedicated professionals, who take action when necessary on specific issues relative to digital aspects.

The situation in 2015, relative to digitalisation in the world of finance, highlighted the constant evolution of the market towards an increased request for digital bank/customer relationship tools.

Retail customers showed a growing trends towards independent transactions using digital channels (internet banking, mobile, digital money), but with a need to maintain relationships with consultants for complex issues (in particular, mortgages, investments, social security).

In this segment, the “millennials” target was strengthened: people born between the Eighties and the Aughts in the West, who favour a bank/customer relationships based on simplicity and affordability, but above all completely digital.

Business customers also increased their demand for digital services: e-commerce, electronic payment tools, services that allow companies to increase the efficiency of financial management and offer new added value services to their customers.

The energy dedicated to the world of start-ups, in particular innovative ones, grew, which despite still difficult economic trends show constant growth both in terms of numbers and ecosystems around which these are established and develop.

For both segments, the growth of actors external to the banking world continued, so-called “Fintech”, that offers highly specialised vertical services, with low fees and fully digital. The main examples of this now well-established business include peer to peer lending or automated investment consulting services (robo-advisors).

In this scenario of continuous change, OBS has developed its own strategy, adjusting offerings and monitoring changes to remain responsive to market needs.

In regards to the WEBSELLA offerings, efforts were concentrated on monitoring pricing to ensure that it remains in line with the main competitors and allows marketing initiatives (mainly concentrated on search engine results) to achieve maximum efficacy. The joint action led to around 11,200 new customers, against a target of 10,000.

In addition, work focused on enriching offerings, with the launch of the personal loan product sella.it in August 2015, which can be subscribed entirely online, through cooperation with Consel, and at particularly competitive conditions.

In terms of development of digitalisation and support for digital business, OBS involved the DES in monitoring this area.

In particular, for electronic payment systems, efforts were concentrated on sales development of value added serves (VAS), through development campaigns targeted at specific customers.

Monitoring of customers who carry out frequent online trading transactions continued, thanks to the extension of offerings with new advanced services that, however, suffered from less favourable market trends, especially in the second half.

In the world of start-ups, a series of contacts with the main actors within the Italian ecosystem continued, with a special focus on incubators, which will be further strengthened in 2016 through a greater presence by the group in this area. Finally, work was done to create dedicated services for start-ups, which will be unique in Italy. Preparatory work was completed at the end of 2015, in view of a launch at the start of 2016.

In this area, strengthening of the connection with Sella Lab continued, to add services to those offered by the network that make Banca Sella one of the main actors in the world of start-ups and fintech.

In regards to the activities of the Digital Branches, in 2015 activities to develop digital customer business continued, made concrete through growth that exceeded forecasts, both in terms of customers and net profits, above all thanks to satisfying e-commerce growth and supervision of TOP customers, whose activities also extend to other value added services such as forex hedging activities provided by the Customer Desk service.

The Digital Branches were heavily involved in providing support to the Banking Service, which saw significant growth in new operating accounts opened (around 2,200), with the aim of offering partner customers operational bank support for their own customers.

Professional development was supported through specific training courses, aimed in particular at DES. At the end of these, participants produced 3 ideas for new products/services. One of the proposals was used as an embryo to be offered to the start-ups, referred to above.

Training activities also were aimed at customers, through classroom courses provided in cooperation with the Marketing Office and saw increasing participation and interest.

Marketing

In 2015, the Marketing service established a customer relationship model based on the lifecycle. All campaigns to acquire and develop customer loyalty aimed at private individuals and companies were developed with an eye to this model. In regards to acquisition of new private customers, the main campaigns involved:

- Websella: around 11,000 customers acquired through an online campaign;
- Online Trading: around 1,000 customers acquired through an online campaign and educations programs/webinars.

The online communication campaign for companies focused on promoting the “Gestpay” e-commerce platform, that allowed acquisition of around 2,000 new customers.

In addition, events and meetings were organised throughout Italy, in order to take advantage of opportunities provided by the market, both in terms of the digital economy, and business financing and internationalisation.

Contact Centre

The Contact Centre service, which offers assistance to customers for all remote channels, saw an increase in calls in 2015, rising by 4.35% with respect to 2014. The Telephone Banking service saw the percentage of transactions carried out by operators remain stable, coming to 72%. The trend for calls received by Internal Customer Assistance remained unchanged.

Starting in February 2015, when the new HYPE digital money product was launched, the Contact Centre activated a new customer care service for customers using the product, managing both the customer acceptance stage and multichannel assistance (through email, telephone and social channels).

The activities of the “Development Support” service were significant, which both centrally managed calls made by customers to the landline numbers of certain branches and contributed to the activation of new products and services requested by customers through online channels (+5.92% with respect to 2014).

Direct channels

In 2015, the Direct Channels service was responsible for numerous projects, with the objective of promoting and supporting multichannels and developing relationships with customers, strengthening and improving the services offered to them.

Mobile banking saw a 30% increase in customers using devices with respect to the previous year, at the same time the number of device transactions rose by 48% with respect to 2014.

Within the application Sella.it, improvements were made to user experience and new functions were developed, in particular:

- recognition of the Touch ID system for Apple devices;
- availability of new functions on Apple Watch;
- payment of postal bills and payment of RIBA.

Numerous actions were completed for the Home Banking platform, with the goal of increasing the functions available to customers. Among these we note in particular the possibility for customers to digitally sign contracts and revise their personal profile, through which the customer can view and change their identifying information.

On both the home and mobile banking platforms a new space was made available, in which customers can receive personalised messages, advice, reminders and sales proposals, and carry out actions directly from these messages (e.g. renewing car insurance policies about to expire).

In regards to web-marketing on Banca Sella Group websites, we note both the creation of the “Events Calendar” section, through which customers can sign up for events offered by the Banca Sella Group, and the creation of online campaigns to communicate the Websella offerings and dedicated online trading services.

Social Media Banking

In 2015, the Social Media Banking service contributed to improving the Banca Sella Group’s position on websites and increasing the value of its sales offerings, strengthening brand awareness and reputation.

Monitoring of the main social networks, Facebook, Twitter and LinkedIn, was intensified, both in editorial terms and in the sense of maintaining relationships with customers and prospects within online social spaces (social caring). In particular, goals included increasing audience, improving loyalty and reducing average customer response time.

Thanks to the use of new dedicated platforms, the ability to listen to and monitor online conversations was improved.

Sella Lab

Sella Lab is an initiative that supports start-ups and SME that want to bring innovation that is useful and effective within the Banca Sella Group and, more generally, to drive and support local economic development. Sella Lab carries out research, development and innovation activities supporting the Banca Sella Group’s areas of business, to help it to quickly take advantage of emerging innovations, development opportunities and idea accelerators, supporting start-ups and SME through the digital transformation process.

Sella Lab aims to create a network of knowledge and ideas, in order to contribute to the development of the Group and its human capital.

In working towards these objectives, the service aims at constructing a strong network of relationships, consisting of incubators, accelerators, venture capitalists, start-ups, entrepreneurs, universities and research centres. The value proposition that mainly involves mentoring, networking and banking services, is reinforced in the local area with co-working space.

In 2015, Sella Lab reviewed 450 business plans and worked with 35 companies that already generate turnover, for a total of 178 jobs created. It began three internal projects (OpenBank, BlockchainLab and Project Corporate). In terms of digital literacy, it organised more than 41 evening events (#DIGITALDRINK + FABLAB Biella), with average participation of 78 people at each event, and a total of 1,576 people involved, which involved upselling and cross-selling activities using social and email marketing communication channels. Also in 2015, Sella Lab began the #SELLALAB Academy, payment based courses on innovation, organising a total of 22, in addition to another 65 events in which it actively participated through both presence and presentations throughout Italy.

In terms of connection with the world of capital, Sella Lab assessed 84 requests relative to loans for innovative start-ups and supported the direct investment process for start-ups and funds.

Hype

Based on the evolution of the most successful digital services, Banca Sella has decided to position itself on the digital market with a new way of banking, which is different from the traditional meaning and with appropriate offerings. The new method is a “non-bank”, that is a bank that is visible only when necessary, that is in the background of the customer’s life, smarter, less formal, and simpler, where the customer experience is the central element in acquiring, retaining and satisfying said customer. It is aimed at a target audience of digital natives, as well as specific targets such as those without banks.

The offer is advertised through digital communication channels using communities and social tools, making use of certain usage models that work well with the particularities of the target customers belonging to said groups. In addition, viral mechanisms are used to engage and acquire customers.

The offer is focused on a smartphone application called HYPE, which allows a series of functions and innovative banking and payment tools to be used in real time. By way of example, these include Emoney, instant P2P money transfer, personal financial assistant, commercial deal offering and use, and one-click web payments.

In order to achieve the objectives established, in-depth work to innovate and develop new products has begun, as well as significant external communication and monitoring of physical and digital channels.

In 2016, the development of the released product will continue. At the same time, offerings for real persons will be accompanied by payment services intended for operators who will therefore have, in the context of the acquiring service, the ability to accept payments using the HYPE application.

Risk management and internal audit system

Attention to risk management and mitigation continued in 2015 thanks to constant monitoring on the part of the internal audit departments established at the Parent Company.

Operating risk

With the aim of constantly improving the culture and management of operational risks and to ensure adequate information flows, Banca Sella, like the other Group companies, for several years has used the organisational process known as the "Control Cycle" for the regulation of anomalies/observations, the removal of the effects and causes generating them.

Once again in 2015 Banca Sella paid careful attention to managing operating risk, through the constant strengthening of organisational measures and tools for mitigation and control, including, among other things:

- continuation of mapping and validation of business processes with a view to end[3];
- certification and summary of service levels and line controls;
- the controls carried out through the so-called "alarm bells" (automatic processing with the aim of identifying and/or preventing any internal and/or external anomalies).

Monitoring of the risk translates also into specific reporting functions at all levels of the corporate organisation, in accordance with the legislation which states that timely information must be provided on the subject of operational risks. The Control Cycle provides the information basis which, at the occurrence of the anomaly/observation reported and according to a precise escalation, generates and sends communication flows to the parties concerned.

In addition, in order to ensure an assessment of the performance of the management of operational risk, the Parent Company Risk Management function produces regular summary and detailed statements which summarise for the Bank the degree of risk assumed in relation to:

- anomalous events/observations and operating losses reported in the Audit Cycle database (highlighting the more serious anomalies);
- the outcome of line audits;
- the trend in service levels;
- the performance of the "internal operational risk rating" calculated on the basis of an analysis of some KPIs (Key Performance Indicators) and KRIs (Key Risk Indicators).

Credit risks

The lending policies and processes for the disbursement and monitoring of loans are defined in order to combine positive responses to customers' needs and business needs with the need to ensure the maintenance of high quality for the lending business in a difficult economic situation.

Credit risk monitoring and control is outsourced to the Risk Management service of the Parent Company and to the Quality and Credit Control service of Banca Sella.

The Parent Company's Risk Management Service has the task of monitoring and quantifying the credit risk assumed by the Group companies, assessing its sustainability and, through the use of shared

[3] The process is defined as end-to-end when it is set up in such a way as to form a "value flow" in complete logic of satisfying the intended purposes of the customer, whether internal or external, starting from the request and running through to delivery of the service.

instruments, facilitating effective and proactive management. The Credit Control service of Banca Sella is focused on more traditional monitoring activities, mainly aimed at credit quality analysis.

In reference to the activities performed by the Parent Company's Risk Management function, the evolutionary maintenance of the IT processes and procedures which support credit risk evaluation continued throughout 2015, including:

- execution of second level controls on credit risk, pursuant to Circular 285 (formerly the 15th update to Bank of Italy Circular 263/2006);
- annual updating of risk parameters, including Loss Given Default (LGD), Probability of Default (PD), default rates (TD), and Loss Identification Period (LIP);
- methodological refinement of collective writedowns, in compliance with the IAS;
- development of trend reporting and monitoring of the main variables that impact credit risk, concentration risk and residual risk;
- analysis and investigations of specific risk profiling issues;
- providing support for the definition of the Capital Management plan and measuring current and prospective adequacy, as well as efficient allocation on a risk adjusted return basis;
- definition of forecast analysis methodologies, preparation of forecasts and analysis of changes when compared with final figures;
- development of specific reports on the cost of credit for all Group companies, aimed at analysing the variables that affected final figures on a monthly basis; assessment of the coherence with the RAF for significant operations and loan disbursement/renewal under the responsibility of the Board of Directors;
- procedures to check the admissibility requirements of credit-risk mitigation techniques.

Monitoring and management of credit risk, concentration risk and residual risk is formalised in the respective Policies, which contain both details on risk indicators and on the actions to be taken in the case the thresholds identified in the Risk Appetite Framework (RAF) are exceeded.

Banca Sella also has a service for managing anomalous loans, now part of the non-performing exposure service, whose purpose is to assist Bank management in guaranteeing the quality of the credit granted, taking direct action in risk management and control activities, defining rules, instruments and processes.

This takes place through a double structure:

- a central team, which monitors the exposure of the clientèle and intercepts the positions with clear signals of potential or effective credit impairment;
- a team in the field which deals with the management of the positions intercepted, and gives support and advice to the entire sales structure of the area of reference where each appointed team member works.

All this favours the resolution of problem loans according to predefined procedures, conditions and times, to then start up the most suitable action to protect the Bank's credit.

Interest rate, market, and liquidity risk

The interest-rate risk, understood as the risk of a change in the interest rate reflecting negatively on the Bank's financial and economic situation, is internally monitored both in terms of the banking book and the trading book.

The market risk, meaning potential losses connected to adverse changes in the price of shares, interest rates, and exchange rates, as well as volatility of the same, is measured using the standard Bank of Italy methodology.

Market risk management and control is governed by Group Regulations and a specific Policy, documents that define the rules by which each individual company in the Group may expose themselves to various types of risk.

The Parent Company's Risk Management function carries out controls regarding whether the limits envisaged in the above-mentioned internal documents are respected as well as, for management purposes, identifying the VaR (Value at Risk) for the Bank's own portfolios (ten-day and three-month horizons and 99% confidence margin) and analysis of sensitive factors such as: portfolio duration and effects of sudden interest rate shocks.

Liquidity monitoring and management operations for Banca Sella are formalised in the Group's Liquidity Policy, which contains both liquidity risk management guidelines and the strategies to be followed in critical situations.

The process for the management and control of the interest-rate risk on the banking book is formalised by a policy, with the purpose of disciplining the rules and the management, measurement and control methods linked to the interest-rate risk, in order to guarantee effective management of the conditions for the economic and financial balance of the Banca Sella Group.

The policies were acknowledged by the Bank's Board of Directors.

Legal risk

The internal regulations of the Banca Sella Group, adopted by the Bank's Board of Directors, establish the obligation of using contractual forms with contents which correspond, as far as possible, to standardisation features previously assessed by the appointed structures at Group level. The Legal Services office of Banca Sella is the point of reference for the preparation and examination of draft contracts, for the drafting of legal opinions, and for the examination of legal problems and relative consultancy, for the companies of the Banca Sella Group.

With regard to legal disputes pending, we note that the Bank is summonsed to some legal disputes originating from its ordinary business. In fact, the most frequent legal disputes relate to the application of compound interest and, more recently, the application of usurious interest rates or, although to a much lower extent than in the past, investment operations in financial instruments. In as much as it is not possible to predict the final results with certainty, it is held that any unfavourable results of said proceedings would not have, either singularly or as a whole, important negative effects on the financial and economic situation of the Bank.

Risks connected with possible unfavourable sentences are carefully analysed and, when it was possible to make a reliable assessment of their amounts, an allocation was recognised to the appropriate provision.

In addition, we note that, in the case brought by some minority shareholders of Banca Sella Sud Arditi Galati to the Court of Lecce, a company that has now merged by incorporation into Banca Sella, aimed at ascertaining the legitimate right to withdraw on the part of said shareholders, the Bank has filed its appeal against the first level sentence, not agreeing with the decision of the Court assigned to the case.

The Lecce Appeals Court did not find any presuppositions to declare the appeal inadmissible and referred the case for the specification of findings to November 2015, which was subsequently postponed to September 2016. Given that negotiations are currently in course in order to settle the dispute, with suspension of both legal and out of court initiatives, the Board of Directors has begun preliminary procedures but has not yet arrived at the definitive determination of the liquidation amount for the shares for the purposes of withdrawal, which is a subject disputed by the parties. If a settlement agreement is not reached shortly, the Board of Directors will make a definitive determination on the value of the shares and will begin the liquidation procedure.

Finally, we note that in regards to the payment request received in January 2015 from Cassa Depositi e Prestiti spa (hereafter CDP) for around € 18.4 million, in relation to a loan granted by CDP to a municipalised company with an account held with Banca Sella and the asserted obligation for the Bank to pay the residual debt of the municipalised company due to the delegation of payment by the Bank, subscribed as the CDP treasurer, a call to a mediation meeting was received, for 4 March 2016. This meeting ended with an officially reported lack of a settlement.

The Bank, also based on research done be external legal experts, holds CDP’s claims to be entirely unfounded.

Compliance risk

The Compliance unit is responsible for monitoring the risk of non-conformity with norms (compliance risk) and has a duty to verify that internal procedures are in keeping with the objective of preventing the infringement of both obligatory rules (laws and regulations) and internal rules (Articles of Association, codes of conduct, self-regulation codes).

This unit governs a cross-sector multi-functional process that involves numerous aspects of company life. In fact, carrying out compliance tasks, which include a large number of activities already performed by other departments, involves responsibilities distributed within the company, diverse skills and may also require communicating with external parties, including the Supervisory Authorities.

The Compliance process is necessary in order to:

- supervise the risks of non-compliance deriving from the introduction of new relevant regulations or amendments to existing ones;
- transform the new regulatory context into opportunities and benefits for customers and for the company;
- carry out effective and efficient organisational and cultural adaptation.

The stages into which the Banca Sella Group compliance process is divided are:

- knowledge of the regulations;
- alert activities;
- gap analysis;
- organisational planning, successive changes, and full release of the same;
- adaptation control (with respect to deadlines);
- efficacy and adequacy control.

In greater detail, the application of the compliance process provides for the responsibilities described below, under its scope of competence:

- to continuously identify applicable regulations and measure/assess their impact, in terms of compliance risk, for company processes and procedures;

- to ensure that the processes, procedures, products and services offered comply with the external and self-regulatory provisions;
- including through direct inspections carried out in the context of the annual plan or through extraordinary inspections requested by Top Management, to verify that the regulations have been adopted by the departments affected by the procedure, processes and internal regulations, as well as verifying the effectiveness of the organisational solutions (structures, processes, and procedures, including both operational and commercial ones) that are suggested to prevent compliance risk;
- to provide advisory assessment to the Top Management on the regulatory compliance of innovative projects and on the prevention and management of conflicts of interest;
- to supply advice and assistance to significant subjects appointed to perform services, in order to ensure fulfilment of the obligations laid down in the legislation;
- to verify the coherence of the bonus system (in particular personnel retribution and incentives) with the objectives of compliance with the regulations;
- to evaluate the compliance risk underlying strategic decisions taken;
- to agree on courses and training seminars with human resources on compliance matters, both of a general nature and on specific subjects, in order to ensure the promotion and diffusion of a culture of legality and compliance and to prevent compliance risk;
- at least once a year, it presents the company bodies with the report on activities, in accordance with that established by sector regulations;
- to draw up regular reports on instances of non-compliance detected.

In Banca Sella, the BSE Compliance department is operational. It is permanent, independent and an integral part of the internal audit system, and its staff report to General Management.

Anti-money laundering

Banca Sella carries out its activities in accordance with the regulatory provisions related to anti-money laundering and anti-terrorism, in conformance with ethical standards in order to prevent events that could damage the reputation and stability of the Bank and the Group as a whole.

The measures to prevent money laundering and the financing of terrorism are based on the active collaboration of the financial situation, in the implementation of the following directives:

- the provisions of the Legislator at national level;
- Bank of Italy circulars and provisions;
- the recommendations of the GAFI (Financial Action Group against money laundering);
- the provisions of Community law;
- decrees and clarifications of the Ministry of the Economy and of Finance;
- communications of the Financial Reporting Unit;
- the indications of the Financial Security Committee of the Treasury Department – the Ministry of the Economy and Finance.

In the present context, in which financial brokers are required to have professional training and to create adequate procedures to detect increasingly complex phenomena, Banca Sella continued training sessions both in e-learning mode and virtual classroom sessions, for personnel training and to test the level of the acquisition of the contents.

The course available in e-learning mode was designed by ABI and allows the student to learn the necessary requisites of law and to understand the role of the Bank in the financial system. In addition, courses on specific issues associated with aspects of particular risk were also provided via e-learning. Classroom courses have different programmes and aims depending on the students, and allow for gaining knowledge and understanding of the internal organisational measures adopted by the banks of the Group in order to observe all the legal requisites to which they are subject. Because of the updating of the provisions of law, the internal reference regulations on money laundering have been reviewed.

In 2015, projects were carried out to optimise the procedures and tools available to employees to adequately verify and manage customers, in compliance with the risk-based approach. In addition, the procedure for automatic checks on orders received by customers was improved. Finally, a control instrument was activated to ensure proper data insertion in the UIF.

Information technology and Research and Development activities

During the year, the Information Technology department provided IT services to Banca Sella and all the Group companies. Among the most important activities, we note constant updating of existing software applications and development of new ones for new services and products, strengthening of hardware components in relation to the Multibank IT System and the Group's shared Data Centre infrastructure.

Activities were carried out with a special focus on the flexibility of the architecture of the IT System, to increasing the knowledge of personnel, availability of analytical and programming resources, and constant recovery of productivity internal and external to the structure.

We note the most important projects:

- In the context of the evolution of Data Centre infrastructure and technological infrastructure relative to individual productivity:
  - ✓ renewal of the host infrastructure for the central databases, with simultaneous migration of the operating system and significant strengthening of the available computing capacity;
  - ✓ renewal of the private cloud infrastructure hosting virtual environments with relative strengthening and consolidation;
  - ✓ renewal of the Group's data warehouse infrastructure;
  - ✓ renewal of the versions used for the Active Directory Domain and distribution software for distributed environments, which will also see completion of the renewal of the corporate email system and internal video communication systems during the first part of 2016;
  - ✓ in the context of Green IT, virtualisation/migration continued to physical servers within the private cloud structure, achieving 86% virtualisation; this activity combined with other actions in the same area have led to energy savings for the Data Centre as well as simplification and optimisation of Disaster Recovery and Business Continuity procedures;
  - ✓ extension of the internal zones at the head offices covered by the WiFi network and initial extension of the solution to local offices;
  - ✓ a new Mobile Device Management (MDM) solution was introduced, which allows safe access to certain corporate applications via mobile devices.
- In the context of the Application and Architecture Development:
  - ✓ infrastructure was released for the banking Application Programming Interface (API), with the release of an initial group of functions;
  - ✓ during the year, the Business Process Management (BPM) solution was released, with a review of certain pilot applications, which is also being used in the current development of the new OnBoarding and the new electronic credit line system that will be released in the initial months of 2016;
  - ✓ In regards to the online trading application, new functions were released for Multiday Leverage and access to CFD Forex. Additionally, the new version of the Trading Evoluta SellaExtreme5 platform was released;
  - ✓ all activities necessary to ensure regulatory compliance were completed;
  - ✓ in regards to support for sales development, extension of the sales “desktop” solution continued,

aimed at the sales network and certain operating processes were reviewed and simplified;

- ✓ infrastructure and application activities necessary for the relative PCI certification were completed for a Group company, as well as extension of services provided for alternative payments, in particular;
- ✓ in the payments sector, dedicated P2P infrastructure and the Hype application were released, which were gradually implemented as functions during the year;
- ✓ in the investment services sector, the online consulting solution was completed, which allows sales managers to offer investment advice that can be subscribed digitally by customers;
- ✓ in terms of innovative solutions, the specific application for AppleWatch was released, and Touch ID authentication with Apple was implemented;
- ✓ a new solution was released to disseminate banking transparency information, which led to the installation of dedicated display stands within the sales network;
- ✓ in terms of "Mobile" solutions, the functions that customers can use through the Mobile Banking platform were increased; additionally, specific functions to use the Online Trading and Online Funds platform in the Mobile environment were released;
- ✓ reference BigData infrastructure was released to be used in the identified scenarios.

- In terms of the IT organisational structure and ICT governance:
  - ✓ continued updating of the organisational process for Software Development, aimed at increasing separation between management activities and design activities, increased efficiency and software quality and improved delivery times;
  - ✓ the constant structure of the Development team, based on requirements deriving from the demand management process, between various geographic locations, with the objective of concentrating resources, organised by subject, at a maximum of two offices, which consequently led to the reassignment of responsibilities throughout the production chain;
  - ✓ the use of pilot projects to introduce agile techniques in application development, using Scrum as the project management method;
  - ✓ the annual IT training plan was mainly focused on increasing skills in relation to architectural development, technological innovation and to support the introduction of new methods, such as Scrum;
  - ✓ assessment activities were completed in relation to measuring IT Risk for all applications in the IT system. Application of this method is now an integral part of the software development process;
  - ✓ the corporate Change Management Data Base (CMDB) was constantly updated and extended, including additional information useful to complete the Knowledge Base;
  - ✓ the infrastructure used for static controls on the quality of the application code produced was updated, introducing the Technical Dept. concept, among other things.

Human resources

Management and development

As at 31 December 2015, the bank staff totalled 2,989 employees (including 239 employees of BSE Chennai Branch). With reference to the total, 61 employees (none of BSE Chennai Branch) are not working due to maternity or parental leave.

The net increase compared to 31 December 2014 amounted to 26 persons. Taking into account that no extraordinary operations occurred in 2015, the change in staff was above all influenced by:

- actions to strengthen the distribution network, in order to increase sales capacity;
- strengthening of other head office structures, which required the addition of personnel with organisational skills to deal with activities deriving from regulatory adjustments.

During 2015, internal personnel were mainly used also to cover the positions of outgoing employees due to natural turnover.

New employees hired during the year numbered 133, of whom 61 in BSE Chennai Branch. Of the 72 hired in Italy, 34 were formalised on an open-ended contract (of whom 10 due to transfers from other Group companies), 8 on a fixed-term contract and 30 on a professional apprenticeship contract.

Instead, 107 employees left (35 relating to BSE Chennai Branch) of whom:

- 60 resigned (of whom 35 relating to BSE Chennai Branch);
- 32 retired (of which 20 with access to the services of the Solidarity Fund for the sector, based on the union agreement signed on 27 November 2014);
- 6 for transfers to other Group companies.

At the end of the year the average age of employees, excluding BSE Chennai Branch, is 42 years and 2 months and the average length of service (considering the date of recruitment in the Banca Sella Group) is 15 years and 2 months.

Considering BSE Chennai Branch, the average age is 30 years and 2 months, while average length of service is 4 years.

Training

In 2015, Corporate University activities continued, with volumes in line with those of the previous year. A total of 110,334 man-hours were disbursed (+2.4% with respect to 2014). In particular, classroom training activities decreased (-28%, which represented 48% of total training hours with 53,269 man hours and -34% for virtual classrooms with 17,494 man-hours), while training provided through the e-learning platform increased (39,571 man hours, representing 36% of total training). Employees involved in training courses during the course of the year totalled 2,640 (including employees of BSE Chennai Branch), of which 2,599 in force at 31 December 2015 (87% of total staff).

The average number of training hours per employee was around 37, the training areas most focussed on were:

- insurance, loans and financial consulting;
- legislative changes, with particular reference to money-laundering, security, transparency and privacy;
- sales;
- development of individual skills, in particular self-efficacy;
- digital economy and payment systems;

- digital channels, in particular with reference to the impact of new digital paradigms on business, organisation and people;
- information technology.

Of particular note during the year were the following development and training activities:

- involvement of all employees in an opportunity for direct communication with the Chief Executive Officer regarding the issues in the new strategic plan for 2015/2017. 23 sessions were organised throughout Italy and the opportunities and changes associated with the strategic plan were presented, with space provided for clarifications and questions from employees, with the objective of increasing alignment, engagement, motivation and a sense of belonging;
- participation of all employees involved in the capital increase operation in a specific training project, supporting the commercial operation, aimed at providing adequate and in-depth information about both the technical and commercial characteristics of the operation, as well as for assessing the adequacy of the operation with respect to customer portfolios and the precautions and checks to implement in the case of actual subscriptions. A test was administered at the end of each training session to determine whether the material was properly understood. Employees had to pass these tests in order to receive authorisation to carry out the placement procedure;
- completion of a specialised training process for all employees operating in the credit chain, which had been begun the previous year. Provided by qualified external teachers after a technical knowledge assessment, it examined the issue of managing relationships with companies, introducing an evolved cultural and professional approach to communicate with and assist companies;
- participation of certain talented young people in a specialised interbank course aimed at meeting the needs for professional development shared within the banking system, lasting 12 months, which ended with the issuing of a bank and financial professional certification, obtained after final tests were passed;
- further development of English language skills for managers and professionals required to understand English documentation both for professional purposes and ensuring regulatory and procedural compliance with EU and banking union provisions. In order to effectively meet individual needs, various personalised training processes were used: from individual in-person lessons at the workplace with mother tongue teachers specialising in business English, to individual lessons using technical platforms with teachers residing abroad, to participation in 3–5 day full-immersion courses and study abroad trips;
- for all employees operating in the sales network, a training course aimed at increasing knowledge about anti-money laundering and combating financing of terrorism, with particular reference to awareness regarding adequate verification and assessment of potentially anomalous transactions. The entire sales network was given a test to verify the knowledge held, which included both a theoretical and practical section. In addition to these activities, other training projects were organised, specifically:
    - ✓ for all branch managers, courses on the process and procedure for notifying suspect transactions;
    - ✓ for all sales network employees, small single-issue courses;
    - ✓ for newly hired employees, the classroom training courses foreseen for the insertion process continued.

Outlook

The scenario

The world economy should show a slight acceleration in its growth during 2016. The difficult start to the year for the markets, with increased volatility and sizeable decreases in the prices of the riskiest financial assets, nonetheless highlighted the fragility of the world financial system, in a situation that is still unexplored in many ways, also making clear the increased uncertainty underlying expected positive developments.

In the United States, the gradual adjustment expected in monetary policy should allow internal demand to continue providing moderate support for economic growth, balancing the forecast prolonged negative impacts from the strength of the domestic currency on net foreign demand and the impact of low oil prices on private investments, for an estimated GDP growth rate that is only slightly lower than that seen in 2015, as predicted by most professional forecasters.

The economy in the Eurozone should see further consolidation of the recovery, led by internal demand components, thanks to the stimulus provided by new expansive actions by the ECB and the relative impacts on market interest rates and lending conditions, the weakening of the Euro, benefits deriving from low oil prices and the non-restrictive stance of budget policies. Nonetheless, negative factors persist which slow the intensity of the recovery in the monetary union, such as necessary budget adjustments in various sectors of the economy, the still incomplete recovery of the labour market, risks the affect growth prospects for foreign economies and the manifestation of geopolitical tensions, with consequences for the trust of operators in the area. The continued recovery in Italy, made possible by the growing contribution of internal demand, will be supported by the already cited factors coming from the Eurozone, as well as the improvement in the health of other economies in the area, which will benefit foreign demand. Emerging countries should see GDP growth rates accelerate slightly, although still registering levels higher than those of the advanced economies. Nonetheless, rates varied in accordance with the prospects of the individual economies.

In terms of consumer prices, a moderate recovery of inflation in the advanced countries, in contrast to the current low levels, will be caused by components more directly associated with the continuation of the economic recovery and, in particular in the Eurozone, the transmission of previous changes in exchange rates. On the other hand, there are doubts about the positive contribution coming from the energy component based on evidence derived from oil price futures. The ECB will confirm an extremely accommodating monetary policy and the implementation of a program to purchase government securities will contribute to government interest rates remaining at very low levels. During 2016, the Federal Reserve will likely continue the gradual increase in official rates begun at the end of 2015, with the condition that growth and inflation is seen in line with its mandate. As specified by Janet Yellen, the head of the US central bank, when testifying to Congress on 10–11 February, if negative impacts are seen on the domestic economy deriving from external conditions, this could lead to normalisation of the official rate that is even more cautious, both in terms of timeframes and amounts.

In line with the expected developments for the Italian macroeconomic situation in 2016, credit provided to the non-financial private sector by banks should continue on the path of growth and credit quality should further improve, benefiting profitability for the banking system. Further stimulus to increase the volume of loans disbursed should also arrive from the actions announced by the European Central Bank, with particular reference to the new long-term loan auctions (TLTRO2) for the banking system. Nonetheless, the continuation of interest rates at extremely low levels will presumably also keep net interest income down, inducing banks to favour growth in revenues from services, by diversifying activities other than lending. Given the significant pressure on revenues again in 2016, attention will continue to be focused on improving efficiency in operating structures and containing costs, so as to allow further recovery of profitability, protecting against greater volatility in the financial markets which is likely.

Business continuity: the Bank's strategy, volumes and profitability

With reference to the Bank of Italy, Consob and ISVAP documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010, in relation to information to be provided in financial reports on business prospects, with a particular focus on the company's ability to continue as a going concern, on the financial risks, on tests to reduce the value of assets (impairment tests) and on uncertainties in the use of estimates, the Board of Directors confirms that it has a reasonably expectation that the Bank can continue its operations in the foreseeable future and therefore attests that the annual financial statements have been prepared on the basis of this going concern assumption.

The Bank's equity and financial structure and operating trend do not show any elements or signals that may give rise to any uncertainty on the business as a going concern.

For information on financial risk, the impairments tests on assets and the uncertainties in the use of estimates see the information provided in the present report, in the comments on operational performance, and/or in the specific sections of the Notes to the Financial Statements.

Self-assessment of bank and banking group decision-making bodies

The regulatory context outlined in the Bank of Italy's 1st update on corporate governance of 6 May 2014, to Circular 285 "Supervisory provisions for banks" paid particular attention to the self-assessment process for top decision-making bodies within banks and banking groups, to be carried out in-depth and rigorously.

Self-assessment activities for the Board of Directors were completed, as has been done every year since 2009.

The provisions found in the Self-Assessment Process Regulations were observed, adopted at the Group level in 2015.

The Directors filled out a questionnaire which included the following sections:

- self-assessment of Directors;
- composition of the Board of Directors and Board activities;
- assessment of the Chairman of the Board of Directors;
- assessment of the CEO;
- self-assessment of the Chairman of the Board of Directors;
- self-assessment of the CEO.

The results and observations obtained with the questionnaires, which were examined during a board meeting, confirmed the adequacy of the qualitative/quantitative structure and operations of the Board.

Significant events after the reporting date

On Wednesday 3 February 2016, the new branch in Lecce was inaugurated, located in viale De Pietro 3, with a Sella Lab also opened.

As of Monday 22 February 2016, the Banca Sella shares associated with the capital increase can be traded on the Hi-Mtf Order Driven Stock Market.

Treasury and parent company's shares

During the period, the Bank did not hold, nor does it currently hold, any treasury shares, nor any shares of the parent company Banca Sella Holding.

Equity investments and transactions with the companies of the Group

The following table shows the relations between Banca Sella Holding and the other Group companies, summarising equity and economic amounts. Banca Sella supplies most of the outsourced services to the Group companies; it receives outsourced services from the parent company as concerns the services headed by it, in particular: Inspectorate, IT security and the issue of debenture loans.

Relations with Group companies: balance sheet figures

	Other Assets - other	Other Liabilities - other	Financial assets held for trading - derivatives	Due from banks	Due from customers	Due to banks - other	Due to customers - other	Hedging derivatives	Financial liabilities held for trading - derivatives
Biella Leasing	374	3	-	-	640,853	-	7,967	-	-
Banca Patrimoni Sella & C.	3,093	7,331	-	23	-	5,003	-	-	-
Brosel	42	89	-	-	-	-	1,833	-	-
C.B.A. Vita	1,444	14	-	-	2	-	10,399	-	-
Consel	265	80	-	-	597,027	-	1,105	-	-
Easy Nolo	462	654	-	-	1,928	-	-	-	-
Family & advisory SIM	13	0	-	-	3	-	895	-	-
Finanziaria 2010	9	-	-	-	-	-	13,052	-	3
Immobiliare Sella	13	72	-	-	-	-	9,586	-	-
Immobiliare Lanificio Sella	20	4	-	-	-	-	5,813	-	-
Miret	0	-	-	-	-	-	173	-	-
Sella Capital Management	10	-	-	-	-	-	3,023	-	-
Selfid	39	-	-	-	-	-	1,677	-	-
Selir	25	924	-	-	-	-	2,351	-	-
Banca Sella Holding	3,267	4,012	9,679	1,338,758	-	271,784	-	105,139	9,262
Sella Gestioni	2,570	-	-	-	3	-	7,269	-	-
Sella Life	482	-	-	-	-	-	2,315	-	-
Total	**12,128**	**13,182**	**9,679**	**1,338,781**	**1,239,816**	**276,787**	**67,455**	**105,139**	**9,265**

Relations with Group companies: income statement figures

	Other operating expenses	Other operating income	Other operating income - recovery of taxes	Other operating income - services rendered to Group companies	Fee and commission income	Fee and commission expenses	Ordinary dividends and similar income	Interest receivables and similar income	Interest payable and similar charges	Net gains (losses) on hedging activities	Net gains (losses) on trading activities	Administrative expenses: other administrative expenses	Administrative expense: personnel expenses - Recovery of costs of employees on secondment to other companies	Administrative expense: personnel expenses - Recovery of costs of employees on secondment to other group companies
Biella Leasing	-	295	-	162	260	-	-	11,688	2	-	-	-1	-111	4
Banca Patrimoni Sella & C.	1	1,816	1	1,244	2	16,591	-	1	15	-	8	386	-68	18
Brosel	-	44	-	20	-2	-	-	-	2	-	-	70	-30	1
C.B.A. Vita	-	145	-	71	2,969	-	63	-	777	-	-	-	-	-
Consel	-	199	-	157	2,239	-	-	11,395	-	-	-	1	-52	247
EasyNolo	-	126	-	304	25	-	-	38	-	-	-	7,717	-449	-
Family & Advisory SIM	-	21	-	2	1	-	-	-	-	-	-	281	1	-
Finanziaria 2010	-	15	-	-	9	-	-	3	60	-	285	-	-	-
Immobiliare Sella	-	21	-	-	-	-	-	-	28	-	-	1,861	-	-
Immobiliare Lanificio Sella	-	25	-	-	-	-	-	-	17	-	-	2,055	-6	-
Miret	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sella Capital Management	-	9	-	7	-	-	-	-	1	-	-	-	-	-
Selfid	182	30	-	22	1	1	-	-	2	-	-	-	-49	-
Selir	-	27	-	73	-	-	-	-	1	-	-	4,810	-	-
Banca Sella Holding	-	3,164	-	2,208	830	7,750	-	13,034	28,467	19,079	2,723	2,317	-1,730	2,586
Sella Gestioni	-	133	-	117	9,618	-	-	-	4	-	-	-	-	-
Sella Life	-	10	-	8	1,790	-	-	-	14	-	-	-	-	-
Total	183	6,080	1	4,395	17,742	24,342	63	36,159	29,389	19,079	3,017	19,496	- 2,494	2,855

Proposed allocation of profit

Dear Shareholders,

the Balance Sheet and Income Statement at 31 December 2015, presented in euro units in accordance with current legislation, after all the necessary depreciation, amortisation and provisions, show a net profit for the year of € 6,012,219.83 which we propose to allocate as follows:

Profit for the year	€ 6,012,219.83
- to the "Legal Reserve" pursuant to the Articles of Association	€ 721,466.38
- to the "Statutory Reserve" pursuant to the Articles of Association	€ 1,202,443.97
remaining	€ 4,088,309.48
to Shareholders:	
- dividend of € 0.00539 for each of the	
no. 668,456,168 shares	€ 3,602,978.75
to the "Fund for charity and sundry donations"	€ 70,000.00
and the remainder to the "Extraordinary reserve"	€ 415,330.73

Biella, 21 March 2016

In the name and on behalf of the Board

The Chairman of the Board of Directors

(Maurizio Sella)

Report of the board of statutory auditors

BANCA SELLA S.P.A.

Head office: Biella (BI), piazza Gaudenzio Sella, 1

Share capital: € 334,228,084 fully paid up

Register of Companies of Biella: 02224410023

Register of Banks: 5626; ABI Code: 03268

Subject to direction and coordination

by BANCA SELLA HOLDING S.P.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS

TO THE SHAREHOLDERS' MEETING OF 21 APRIL 2016

Dear Shareholders,

we summarise the content and results of the activities carried out during the second financial year of the current three-year period, recalling that, with the capital increase in December, the company – whose shares are traded on the multilateral HI-MTF order driven system– as of 1 January is subject to the regulations for *issuers of widely distributed securities*, even if we are still awaiting formalisation of our inclusion in the relative registry.

Through participation in Shareholders' meetings, informed participation in Board meetings and conduction of our periodic tasks, we have continued to supervise general respect for regulations, the provisions issued by the BANK OF ITALY, CONSOB and IVASS and that indicated in the Articles of Association.

More specifically, we have:

- judged operations approved and those implemented to be compliant with these provisions and not manifestly imprudent or reckless, such as to compromise the integrity of equity, unusual - due to their nature, size, content, conditions, or timing -, including appropriate measures to exclude problems when presenting possible conflicts of interest, also with related parties and associates, as of 2016 subject to a specific procedure;

- noted that the work of the directors – during the course of which, using commonly used methods and content, information was provided on ordinary actions and on the initiatives of the greatest economic, financial and equity importance – was carried out in compliance with the precepts of article 2381 of the Italian Civil Code;
- ensured the preparation of periodic reports on operations;
- acquired the results of the calculation of regulatory capital and capital ratios;
- supervised procedures to prevent, manage and mitigate risk;
- maintained systematic contact with the managers of the *internal audit* and *compliance* units, in order to review their operating results, the intervention guidelines established when necessary and progress in implementing those worthy of note;
- received information from managers or workers from certain corporate areas and from BANCA SELLA HOLDING which also operate for the company – including: *general affairs and corporate secretary; financial reports and reporting; loans; products and services; special projects; network; risk management and anti-money laundering; group secretary; development and training* – and considering the knowledge acquired through serving as the supervisory body pursuant to Legislative Decree 231/2001, a responsibility assigned to us, effective as of 1 July 2014, by the Shareholders' Meeting held on 29 April of that year;
- sent the Board the results of our activities on a quarterly basis - based on the indications issued by the parent company - summarised in specific reports, used to systematically provide information about all suggestions and recommendations to prevent and eliminate problems and issues, given to the corporate representatives with whom we spoke;
- carried out, pursuant to article 52 of Italian Legislative Decree 231/2007, notifications of anomalies in inserting details in the *single electronic archive*, in regards to which the corrective actions previously begun were continued, with others being adopted and more being planned;
- followed the annual self-assessment process for the appropriateness of the composition, including professionalism and diversified skills, as well as the operations of the Board which, despite the reassuring results newly produced, must include areas for improvement, both due to the inherent subjective methodology that characterises the process, and as anticipated;
- completed, with similar results and limits, the functional and operational review of the Board of

Statutory Auditors and its members, including all considerations aimed at ascertaining the permanence of independence requirements for all regular auditors;

- systematically invited members of the independent auditing firm to our meetings, pursuant to Italian Legislative Decree 39/2010, both to follow execution of activity plan, to which no additional themes were added that required supplementary checks worthy of mention, and to supervise their independence - in regards to which we have no doubts, even considering the amount of the fees for additional services requested from them - as well as to exchange information about the respective operations and make use of those results, from which, and in the absence of other opportunities to gain knowledge, we found no events worthy of censure or omissions to be reported;
- determined, directly and through the positive and recurring assessments of the directors, the overall adequacy of the organisational structure and internal audit system, meaning - for simplicity's sake - all those means, procedures and rules useful to ensure observance of the laws, provisions and company and group rules regarding operations, administration and accounting - although with the presence of always desirable margins for improvement;
- verified, in the context of the financial disclosure process, observance of the principles of proper administrative conduct and the ability to represent operating events appropriately;
- followed the preparatory steps and placement of the capital increase, while also suggesting analysis in regards to *compliance* and *auditing of investment services*;
- awaited preparation of the plan to ensure compliance with the provisions in the IVASS and BANK OF ITALY Circular of 26 August, on the issue of *Payment Protection Insurance*for customers;
- promoted meetings between the Board of Statutory Auditors and the supervisory body of BANCA SELLA HOLDING.

We have not received any charges, either directly or through the company, pursuant to article 2408 of the civil code and recognised.

We prepared the opinions for which we have responsibility, including those pursuant to article 2437 *ter* of the Civil Code on the criteria followed by the directors to determine the value of the shares for which the right to withdrawal was executed.

We did not identify any other elements that appear worthy of note, other than those indicated by the directors, including the aspects deriving from the inspection of the parent company carried out by the BANK OF ITALY.

We have considered the structure and formulation of the draft financial statements at 31 December 2015, which indicate final profits of € 6,012,219.83.

Among other things, the Report on Operations highlights the factors that had the most significant impact on the year, summarises the various activities and sectors in which it works, comments on the economic, financial and equity figures, and summarises the operations carried out with the parent company and other Group companies.

The notes to the statements indicate the main accounting standards and criteria used to determine the items in the balance sheet and income statement, reporting the breakdown and changes which occurred during the year. It also indicates transactions with related parties, indicating the standards used to regulate them.

Due to the elements we directly reviewed, in regards to the structure and formulation, and the conclusions of DELOITTE & TOUCHE, which lack any findings or requests for additional information, as well as the information found in its *Report on Fundamental Questions*, both of which were commented on during today's summary meeting on the respective activities for the year ending, we hold that the accounts at 31 December 2015 should be approved.

The proposal for destination of the profits appears compliant with the constraints applied to the same, having observed that the most recent indications issued by the BANK OF ITALY on 19 February 2016, which refer to those of the EUROPEAN CENTRAL BANK, are also substantially respected.

Finally, we do not hold that further comments or proposals are necessary in regards to the items placed on the agenda.

Biella, 05 April 2016

The Board of Statutory Auditors

Paolo Piccatti Riccardo Foglia Taverna Vincenzo Rizzo

Financial Statement Schedules at December 31, 2015

Balance Sheet

BALANCE SHEET ASSETS

Assets	31/12/2015	31/12/2014	Difference %
10. Cash and cash equivalents	130,426,196	130,631,721	-0.16%
20. Financial assets held for trading	59,307,804	50,194,134	18.16%
40. Financial assets available for sale	1,690,063,869	1,288,110,897	31.20%
60. Due from banks	1,584,034,567	1,577,495,448	0.41%
70. Due from customers	6,734,457,470	6,961,360,565	-3.26%
80. Hedging derivatives	10,282,377	14,177,393	-27.47%
90. Value adjustment of financial assets subject to macrohedging (+/-)	110,546,374	133,802,548	-17.38%
110. Tangible assets	38,998,704	40,192,362	-2.97%
120. Intangible assets	51,658,079	48,223,518	7.12%
of which:			0.00%
- goodwill	13,755,423	14,196,993	-3.11%
130. Tax assets	188,847,585	168,702,329	11.94%
a) current	65,466,047	52,012,442	25.87%
b) deferred	123,381,538	116,689,887	5.73%
of which Law 214/2011	114,562,394	106,251,121	7.82%
150. Other assets	167,230,238	153,863,007	8.69%
Total assets	**10,765,853,263**	**10,566,753,922**	**1.88%**

BALANCE SHEET LIABILITIES

Liabilities and shareholders' equity	31/12/2015	31/12/2014	Difference %
10. Due to banks	335,182,872	26,851,420	1148.29%
20. Due to customers	8,642,587,036	8,554,816,925	1.03%
30. Securities in issue	678,824,963	954,848,167	-28.91%
40. Financial liabilities held for trading	19,007,292	24,250,051	-21.62%
60. Hedging derivatives	115,421,762	136,676,073	-15.55%
80. Tax liabilities	23,664,350	69,994,677	-66.19%
a) current	11,537,697	57,847,417	-80.05%
b) deferred	12,126,653	12,147,260	-0.17%
100. Other liabilities	136,771,626	131,838,118	3.74%
110. Provision for severance indemnities	32,010,558	35,504,668	-9.84%
120. Provisions for risks and charges:	11,214,175	14,753,896	-23.99%
a) pensions and similar obligations	-	-	0.00%
b) other provisions	11,214,175	14,753,896	-23.99%
130. Valuation reserves	40,521,951	4,816,620	741.29%
160. Reserves	24,315,891	(32,145,349)	-175.64%
170. Share premiums	366,090,483	298,722,062	22.55%
180. Capital	334,228,084	281,596,505	18.69%
200. Profit (Loss) for the year (+/-)	6,012,220	64,230,089	-90.64%
Total liabilities and Shareholders' Equity	**10,765,853,263**	**10,566,753,922**	**1.88%**

Income Statement

INCOME STATEMENT

Item	31/12/2015	31/12/2014	Difference %
10. Interest receivables and similar income	247,977,892	305,076,545	-18.72%
20. Interest payable and similar charges	(79,660,498)	(107,492,114)	-25.89%
30. Net interest income	**168,317,394**	**197,584,431**	**-14.81%**
40. Fee and commission income	257,548,765	238,983,508	7.77%
50. Fee and commission expenses	(84,337,840)	(76,260,901)	10.59%
60. Net fees	**173,210,925**	**162,722,607**	**6.45%**
70. Dividends and similar income	73,336	79,839	-8.15%
80. Net gains (losses) on trading activities	7,424,817	7,565,907	-1.86%
90. Net gains (losses) on hedging activities	191,513	3,370,143	-94.32%
100. Profit (loss) from sale or repurchase of:	17,307,650	80,770,265	-78.57%
a) receivables	92,801	-	0.00%
b) financial assets available for sale	17,840,704	9,410,087	89.59%
c) financial assets held to maturity	-	75,124,564	-100.00%
d) financial liabilities	(625,855)	(3,764,386)	-83.37%
120. Net banking income	**366,525,635**	**452,093,192**	**-18.93%**
130. Net value adjustments for impairment of:	(98,812,011)	(104,619,178)	-5.55%
a) receivables	(98,744,140)	(103,505,056)	-4.60%
b) financial assets available for sale	(6,021)	(600,000)	-99.00%
c) financial assets held to maturity	-	-	0.00%
d) other financial transactions	(61,850)	(514,122)	-87.97%
140. Net financial operating gains (losses)	**267,713,624**	**347,474,014**	**-22.95%**
150. Administrative expenses:	(302,293,776)	(283,604,805)	6.59%
a) personnel expenses	(157,630,033)	(153,330,547)	2.80%
b) other administrative expenses	(144,663,743)	(130,274,258)	11.05%
160. Net provisions for risks and charges	(1,677,077)	(6,079,002)	-72.41%
170. Net value adjustments on tangible assets	(7,395,363)	(7,024,851)	5.27%
180. Net value adjustments on intangible assets	(12,332,835)	(10,983,913)	12.28%
190. Other operating expenses/income	64,289,227	62,726,279	2.49%
200. Operating costs	**(259,409,824)**	**(244,966,292)**	**5.90%**
230. Writedowns on goodwill	(441,571)	(1,048,342)	-57.88%
240. Profit (loss) from disposal of investments	12,274	4,732	159.38%
250. Profit/(Loss) on continuing operations before tax	**7,874,503**	**101,464,111**	**-92.24%**
260. Income taxes for the period on continuing operations	(1,862,283)	(37,234,022)	-95.00%
270. Profit/(Loss) on continuing operations after tax	**6,012,220**	**64,230,089**	**-90.64%**
290. Profit (loss) for the period	**6,012,220**	**64,230,089**	**-90.64%**

Comprehensive income

COMPREHENSIVE INCOME

		31/12/2015	31/12/2014
10.	**Profit (loss) for the period**	**6,012,220**	**64,230,089**
	Other comprehensive income net of taxes without transfer to income statement		
40.	Defined benefit plans	1,237,959	(4,105,776)
	Other comprehensive income net of taxes with transfer to income statement		
100.	Financial assets available for sale	34,467,372	5,061,717
130.	**Other comprehensive income, net of tax**	**35,705,331**	**955,941**
140.	**Comprehensive income (Items 10 +130)**	**41,717,551**	**65,186,030**

Statement of changes in Shareholders’ Equity as 31 December 2014

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY AT 31 December 2014

	balance at 31/12/2013	Changes to opening balance	balance at 01/01/2014	allocation of previous year's: reserves	allocation of previous year's: dividends and other allocations	changes for the year: changes in reserves	changes for the year: operations on shareholders' equity: issue of new shares	purchase of treasury shares	distribution of extraordinary	change in equity instruments	derivatives on treasury shares	stock options	Comprehensive income 2014	shareholders' equity at 31/12/2014
				Reserves	Dividends and other allocations									
Share Capital:														
a) ordinary shares	281.596.505	-	**281.596.505**	-	-	-	-	-	-	-	-	-	-	**281.596.505**
b) other shares	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
Share premiums	298.722.062	-	**298.722.062**	-	-	-	-	-	-	-	-	-	-	**298.722.062**
Reserves:														**-**
a) from profits	88.861.048	-	**88.861.048**	**17.286.231**	-	-	-	-	-	-	-	-	-	**106.147.278**
b) from previous year profits	(4.542.710)		**(4.542.710)**	-	-	-	-	-	-	-	-	-	-	**(4.542.710)**
b) other	(133.718.962)		**(133.718.962)**	-	-	(30.956)	-	-	-	-	-	-	-	**(133.749.918)**
Valuation reserves:														**-**
a) available for sale	4.889.122	-	**4.889.122**	-	-		**-**	**-**	**-**	**-**	**-**	**-**	5.061.716	**9.950.838**
b) cash flow hedging	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
c) special revaluation laws	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
d) other	(1.028.443)	-	**(1.028.443)**	-	-		-	-	-	-	-	-	(4.105.776)	**(5.134.219)**
Equity instruments	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
Profit (Loss) for the period	20.408.737	-	**20.408.737**	**(17.286.231)**	**(3.122.506)**	-	-	-	-	-	-	-	64.230.089	**64.230.089**
Shareholders' Equity	**555.187.359**	**-**	**555.187.359**	**-**	**(3.122.506)**	**(30.956)**	**-**	**-**	**-**	**-**	**-**	**-**	**65.186.029**	**617.219.926**

Statement of changes in Shareholders’ Equity as 31 December 2015

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY AT 31 December 2015

				allocation of previous year's		changes for the year								
				reserves	dividends and other allocations		operations on shareholders’ equity							
	balance at 31/12/2014	Changes to opening balance	balance at 01/01/2015	Reserves	Dividends and other allocations	changes in reserves	issue of new shares	purchase of treasury	distribution of extraordinary	change in equity	derivatives on treasury	stock options	Comprehensive income 2015	shareholders' equity at 31/12/2015
Share Capital:														
a) ordinary shares	281.596.505	-	**281.596.505**	-	-	-	52.631.579	-	-	-	-	-	-	**334.228.084**
b) other shares	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
Share premiums	298.722.062	-	**298.722.062**	-	-	-	67.368.421	-	-	-	-	-	-	**366.090.483**
Reserves:														**-**
a) from profits	106.147.278	-	**106.147.278**	**56.461.241**	-	-	-	-	-	-	-	-	-	**162.608.520**
b) from previous year profits	(4.542.710)		**(4.542.710)**	-	-	-	-	-	-	-	-	-	-	**(4.542.710)**
b) other	(133.749.918)		**(133.749.918)**	-	-	-	-	-	-	-	-	-	-	**(133.749.918)**
Valuation reserves:														**-**
a) available for sale	9.950.838	-	**9.950.838**	-	-		**-**	**-**	**-**	**-**	**-**	**-**	34.467.372	**44.418.210**
b) cash flow hedging	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
c) special revaluation laws	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
d) other	(5.134.219)	-	**(5.134.219)**	-	-		-	-	-	-	-	-	1.237.959	**(3.896.260)**
Equity instruments	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
Profit (Loss) for the period	64.230.090	-	**64.230.090**	**(56.461.241)**	**(7.768.848)**	-	-	-	-	-	-	-	6.012.220	**6.012.220**
Shareholders’ Equity	**617.219.927**	**-**	**617.219.927**	**-**	**(7.768.848)**	**-**	**120.000.000**	**-**	**-**	**-**	**-**	**-**	**41.717.551**	**771.168.629**

Consolidated cash flow statement – Direct method

A. OPERATING ACTIVITIES	31/12/2015	31/12/2014
1. Operations	**113,850,270**	**107,084,042**
Interest income collected (+)	259,973,054	309,781,958
Interest expense paid (-)	(79,660,498)	(107,492,114)
Dividends and similar income	73,336	-
Net fees (+/-)	173,210,925	162,722,606
Personnel expenses	(157,509,747)	(153,146,407)
Other costs (-)	(148,279,176)	(130,274,258)
Other revenues (+)	67,904,659	62,726,279
Taxes and duties (-)	(1,862,283)	(37,234,022)
costs/revenues for asset groups held for sale and net of the tax effect (+/-)	-	-
2. Cash generated (absorbed) by financial assets	**(301,865,782)**	**(1,057,621,997)**
Financial assets held for trading	(1,598,620)	16,801,418
Financial assets available for sale	(345,970,151)	(600,393,965)
Due from customers	128,251,756	98,282,530
Due from banks	(6,539,119)	(553,755,718)
Other assets	(76,009,648)	(18,556,262)
3. Cash generated (absorbed) by financial liabilities	**97,977,234**	**384,131,497**
Due to banks	308,331,452	(168,636,630)
Due to customers	87,770,111	704,401,109
Securities in issue	(272,280,681)	(158,933,387)
Financial liabilities held for trading	(5,242,759)	(1,250,709)
Other liabilities	(20,600,889)	8,551,114
Net cash generated (used) by operating activities	**(90,038,278)**	**(566,406,458)**

B. INVESTMENT ACTIVITIES	31/12/2015	31/12/2014
1. Cash generated by:	**158,476**	**601,691,918**
Sales of equity investments	-	-
Dividends collected on equity investments	-	79,839
Sales/redemptions of financial assets held to maturity	-	601,322,795
Sales of property, plant and equipment	77,625	45,139
Sales of intangible assets	80,851	244,145
Sales of subsidiaries and company divisions	-	-
2. Cash (absorbed) by:	**(22,556,874)**	**(31,739,358)**
Purchases of equity investments	-	-
Purchases of financial assets held to maturity	-	-
Purchases of property, plant and equipment	(6,267,056)	(14,154,980)
Purchases of intangible assets	(16,289,818)	(17,584,378)
Sales of subsidiaries and business units	-	-
Net cash generated (used) by investing activities	**(22,398,398)**	**569,952,560**

C. FUNDING ACTIVITIES	31/12/2015	31/12/2014
Issue/purchase of treasury shares	-	-
Issue/purchase of equity instruments	120,000,000	-
Distribution of dividends and other purposes	(7,768,848)	(3,122,506)
Net cash flow generated (used) by financing activities	**112,231,152**	**(3,122,506)**

NET CASH GENERATED (USED) IN THE PERIOD	**(205,524)**	**423,596**

RECONCILIATION	31/12/2015	31/12/2014
Cash and cash equivalents at start of year	**130,631,721**	**130,208,125**
Total net cash generated (used) in the period	(205,524)	423,596
Cash and cash equivalents at end of period	**130,426,197**	**130,631,721**

Notes to the Financial Statements

Part A – Accounting Policies

A.1 – General section

Section 1 – Declaration of compliance with international accounting standards

This financial report has been drawn up according to the international accounting standards IAS/IFRS (including the SIC and IFRIC interpretation documents) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union as of 31 December 2015, pursuant to Community Regulation no. 1606 of 19 July 2002. As concerns the schemes and notes to the statements, the financial statements is prepared in application of the decrees of the Bank of Italy in the exercise of the powers established by Art. 9 of Italian Legislative Decree no. 38/2005 with Circular no. 262/05 as subsequently amended, was issued.

In order to facilitate interpretation of the international accounting standards reference was also made to the documents prepared by the OIC (Italian Accounting Body) and the ABI (Italian Bank Association).

The financial statements, therefore, are clearly set out and give a true and fair picture of the economic and financial situation of Banca Sella.

Section 2 – General drafting principles

The financial statements consist of the Balance Sheet, the Income Statement, the Comprehensive Income Statement, Statement of Changes in Shareholders' Equity, the Cash Flow Statement, and these Notes to the Financial Statements, and are accompanied by the Directors' Report on Operations, in total continuity with respect to 31 December 2014. The notes to the financial statements are stated in thousands of euro.

They are prepared in compliance with the general standards provided for in IAS 1 and in accordance with the general assumptions envisaged in the Systematic Framework.

The Notes contain the information necessary to provide a true and correct representation, adding to the information foreseen under the international accounting standards and provisions contained in Circular 262/05, as updated.

If, in exceptional cases, the application of one of the provisions of the international accounting standards is incompatible with providing a true and fair view of the assets, liabilities, earnings and the economic result, the provision is not applied. The reasons for any exception and its impact on the presentation of the assets and liabilities, financial position and earnings are explained in the Notes to the Financial Statements.

The financial statements have been prepared in coherence with the accounting standards and criteria used the last financial year.

IFRS accounting standards, amendments and interpretations effective from 1 January 2015

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group as of 1 January 2015, and the Bank verified their applicability.

On 20 May 2013, an interpretation of IFRIC 21 – Levies was published, which provides clarifications about the time a liability should be recognised which is connected to taxes (other than income taxes) imposed by a government body. The standard applies to both liabilities for taxes that fall under the area of application of IAS 37 - Provisions, contingent liabilities and contingent assets and those for taxes for which the timing and amount are certain. The interpretation applies retroactively for financial years starting at the latest on 17 June 2014 or subsequently. The adoption of this new interpretation did not have any effects on the Bank's financial statements, with the exception of the contribution to the National Resolution Fund. Note that the contra-entry in the liabilities (or outgoing cash flow) connected with the contributions foreseen under the decrees is represented by a cost to be recognised in the income statement.

On 12 December 2013, the IASB published the document, “Annual Improvements to IFRSs: 2011–2013 Cycle” which implements changes to certain standards in the context of the annual process intended to improve said standards. The main changes involve:

- IFRS 3 Business Combinations – Scope exception for joint ventures. The amendment clarifies that section 2(a) of IFRS 3 excludes from the scope of application of IFRS 3 the formation of all types of joint arrangements, as defined in IFRS 11.
- IFRS 13 Fair Value Measurement – Scope of portfolio exception (par. 52). The amendment clarifies that the portfolio exception included in paragraph 52 of IFRS 13 applies to all contracts included under the scope of application of IAS 39, regardless of whether they meet the definition of financial assets and liabilities provided in IAS 32.
- IAS 40 Investment Properties – Interrelationship between IFRS 3 and IAS 40. The amendment clarifies that IFRS 3 and IAS 40 do not exclude each other and that, in order to determine whether the purchase of a real estate property falls under the scope of IFRS 3 or IAS 40, it is necessary to make reference to the respective indications provided in IFRS 3 or IAS 40.

The amendments apply for financial years starting on or after 1 January 2015. The adoption of these amendments had no effects on the financial statements.

IFRS accounting standards, amendments and interpretations not yet applied

On 24 July 2014, the IASB published the final document **“IFRS 9 Financial Instruments - Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39”**. The new IFRS 9, which replaces the indications of IAS 39 and will take effect on 1 January 2018, includes the requirements for classification and measurement of financial assets and liabilities. Its adoption will also lead to a change from the current model used to measure loans based on certain and determinable losses (*Incurred Losses*) to a model based on expected losses (*Expected Credit Losses ECL model*), which envisages that allocations to provisions are made in advance with respect to the time the event that gives rise to the loss occurs.

Classification of financial instruments

IFRS 9 indicates three different classification categories for financial instruments:

- the amortised cost;
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

Classification of financial instruments based on IFRS 9 differs based on whether the contractual cashflows includes solely payments of principal and interest (SPPI), or whether they are generated by other circumstances.

Therefore it is the business model that guides classification of financial instruments and their measurement, as this determines the methods used to manage financial assets in order to generate cash flows (which may derive from contractual cashflows, sales of financial assets or from both).

Investments in equity instruments are always measured at fair value. On the condition that an instrument is not held for trading, it is possible to recognise fair value changes to the item OCI (other comprehensive income). If the equity instrument is held for trading, changes in fair value are indicated in the income statement (FVTPL).

Expected credit losses

IFRS 9 introduces a new model to recognise value losses, based on expected credit losses (ECL).

The ECL model constitutes a change with respect to the dictates of IAS 39, with the goal of dealing with the weaknesses of the current approach, seen in particular during the crisis model, which is based on a retrospective impairment model.

The objective of the new accounting standard is to adjust “provisioning” policies in order to predict losses in advance, avoiding their manifestation during times of crisis.

In practice, the new rules mean that at the time a financial asset is initially recognised, entities must also record a loss equal to the annual ECL (12-month expected credit loss), so as to allocate, in the case of impairment, a portion equal to “lifetime expected credit losses”.

In the future impairment model, expected loss is a dynamic process that begins when a financial instrument is originated, with appropriate pricing, and continues throughout the entire life of the operation.

This is a “three-stage” approach, based on changes in the credit quality of financial assets at the time of original recognition. When the credit quality of assets changes, they can be moved from categories (“buckets”) and the methods used to measure impairment can also be changed. Classification of financial instruments within the three is based on recognising a progressive increase in credit writedowns in line with the process of debtor impairment with respect to the initial moment: this will make it necessary to “track” the history of each financial instrument, in order to be able to properly manage transfer between various buckets.

A “point in time” (PIT) measurement concept is requested to estimate probability default (PD), in contrast to the measure adopted for regulatory capital which considers “through the cycle” (TTC) PD.

Impacts

IFRS 9 will take effect for financial years starting on or after 1 January 2018. Initial application will have an impact at the capital level, while for subsequent periods impacts will be seen in the Income Statement, as is usual.

The departments most effected are the Credit Area (management, policies and organisation), Risk Management, Strategic Planning, the Finance Area, Organisation, and the Financial Reports and Reporting services, with inevitable impacts on the Network as well.

From a strategic point of view, careful evaluation of the business model will be necessary, as well as defining new portfolio strategies, changing volatility and risk management, revising the product catalogue and adjusting pricing policies.

From an operational point of view, there will obviously be impacts on processes, models and organisational structures. It will be necessary to implement IT systems and procedures, taking into account the greater volumes and the need for quality data to be used in classifying, measuring and recognising impairment for financial assets. The development will also involve the credit monitoring and management process, and the Group’s accounting policies.

The new impairment model, based on a lifetime expected loss concept will lead to writedowns on loans being done in advance as well a structural increase in these writedowns, creating increased volatility in the income statement, connected with the economic cycle.

Regulatory updates

The update of Circular 272 of 20/01/2015, regarding supervisory reporting, introduced a new classification for impaired loans, eliminating the categories of substandard and restructured loans, and introducing the category of unlikely to pay.

Additionally, the Bank of Italy requested a parallel running period of 6 months, ending at 30/6/2015, during which reporting was done using both the old categories of substandard and restructured loans and the new category of unlikely to pay.

The following categories of impaired loans were reclassified among unlikely to pay:

- restructured (restructured through bank pools and objective restructured);
- subjective substandard loans (positions classified as substandard due to a judgement by the bank, with a specific resolution);
- revoked substandard loans (positions classified as substandard with credit lines revoked);
- substandard loans due to group default (positions classified as impaired due to similar classification by other companies in the Banca Sella Group);
- substandard loans subject to forbearance (forborne non-performing positions classified as substandard at December 2014 due to measures applied due to the deterioration of the loan for which a period of 12 months of regular payment without any overdue payments exceeding 30 days has not passed).

Objective substandard loans, instead, were mainly reclassified among impaired past-due exposures.

The update of Circular 262/05 of 15/12/2015 mainly implemented, in the balance sheet, the new classification for impaired loans, eliminating the categories of substandard and restructured loans, and introducing the category of unlikely to pay, already anticipated in the update to Circular 272 previously reported.

Section 3 - Events subsequent to the balance sheet date

With its Communication of 19 January 2016 - Contributions for resolution funds: balance sheet representation and regulatory reporting, the Bank of Italy provided clarifications regarding the methods used to recognise contributions paid to the National Resolution Fund in the balance sheet and in regulatory reporting.

Contra-entries for liabilities (or outgoing cashflows) connected with the contributions envisaged in the decrees represent a cost to be recognised in the income statement. In 2015, the approval of the decrees led to extraordinary and ordinary contributions to the European Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS).

Section 4 – Other issues

No other relevant aspects to be pointed out.

A.2 – Main accounting items

1 – Financial assets held for trading

Classification criteria

All financial instruments held for trading are classified in this category. Derivative contracts include those embedded in hybrid financial instruments which are accounted for separately because:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid instruments they belong to are not measured at fair value with the associated changes recognised in the Income Statement.

In the presence of events that are unusual and highly unlikely to recur in the near term financial instruments not held for trading may be reclassified in other categories established by IAS 39 if the conditions for their recognition applies (Investments held to maturity, Financial assets available for sale, Loans and Receivables). The transfer value is the fair value at the time of the reclassification. Upon reclassification, the presence of any embedded derivative contracts, that have to be separated, is assessed. For further details, please refer to paragraph A.3 of this section.

Recognition criteria

Initial recognition of financial assets takes place on the settlement date for debt and equity securities and at the signing date for derivative contracts.

At the moment of initial recognition financial assets held for trading are recognised at cost, understood as the fair value of the instrument. Any derivatives embedded in hybrid contracts not closely related to them and with characteristics that meet the definition of a derivative are separated from the host contract and measured at fair value, while the host contract is accounted for under the appropriate accounting standard.

Assessment criteria

After initial recognition, financial assets held for trading are carried at fair value.

In determining the fair value of financial instruments quoted on an active market, market listings are used. When there is no active market, estimation methods and assessment models are used that take into account risk factors associated with the instruments and are based on data that can be taken from the market, such as: methods based on listed instruments with similar characteristics, discounted cash flow calculations, option price determination models, and values taken from recent comparable transactions.

Equity securities and the related derivative instruments whose fair value cannot be determined in a reliable way according to the above guidelines are carried at cost.

Derecognition criteria

These financial assets are derecognised when the contractual rights to the financial flows deriving from them expire, or when the financial assets are sold transferring substantially all of the risks/benefits associated with them.

If a financial asset is not held for sale or for repurchase in the short term, this financial asset may be reclassified out of the category of fair value through profit and loss only if the following conditions are met:

- in rare circumstances;
- if the Bank has the intention and the ability to hold the financial asset in the foreseeable future or to maturity.

2 – Financial assets available for sale

Classification criteria

This category includes non-derivative financial assets not otherwise classified as Loans and receivables, Assets held for trading or Assets held to maturity.

In particular, the item includes equity interests not held for trading and not classifiable as in affiliates, or controlled or jointly-controlled companies.

In the cases provided for by the accounting standards, reclassifications are only permitted towards the category Investments held to maturity, unless there is an event that is unusual or highly unlikely to recur in the near term. In such cases, debt securities may be reclassified in the categories, established by IAS 39, Investments held to maturity and Loans and Receivables if the conditions for their recognition apply. The transfer value is the fair value at the time of the reclassification. For further details, please refer to paragraph A.3 of this section.

Recognition criteria

The initial recognition of the financial asset takes place on the settlement date for debt or equity securities and on the date of disbursement in the case of other financial assets not classified as loans and receivables.

At the moment of initial recognition these assets are accounted for at cost, understood as the fair value of the instrument, inclusive of transaction costs or revenues directly attributable to the instrument itself. If recognition occurs following reclassification from Assets held to maturity or Assets held for trading, the recognition value is the fair value at the moment of transfer.

Assessment criteria

After initial recognition, assets available for sale continue to be measured at fair value while gains or losses deriving from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised or a lasting impairment is recognised. At the moment of disposal, the gains or losses accumulated are recycled to the Income Statement.

To determine a reliable fair value, if no quotations on active markets are available, recent transactions are taken into account and backed up by transactions occurring after the balance sheet date which confirm such fair values.

With reference to equity interests not classifiable as in affiliates, or in controlled or jointly-controlled companies, in the case of equity instruments which do not have a market price quoted on an active market and if no recent transactions are observable, as it is impossible to determine fair value in a reliable manner, they are carried at cost and written down in the case of lasting impairment.

According to the provisions of IAS 39, paragraph 58, at each reference date of the financial statements or quarterly report, the company shall verify if there is any objective evidence that a financial assets or group of financial assets has suffered a reduction in value.

More specifically, for debt instruments, evidence of a lasting loss of value consists of the quality and quantity information indicative of financial difficulties such as to prejudice to the collection of capital or interest, as indicated by the provisions of IAS 39, paragraph 59.

For capital instruments, a significant or prolonged decrease of the fair value of the financial asset concerned to below its cost shall also be considered objective evidence of a reduction in value.

More specifically, the significance of the impairment (so-called "Severity") should be measured both in absolute terms, as a negative performance of the financial asset, and in relative terms in connection with the trends of markets/sectors pertaining to the company analysed in this document; a reduction in the fair value of more than 50% is considered significant.

The persistence of the impairment over time (so-called "Durability") is measured in connection with the time span during which such impairment was permanently and univocally maintained for a period longer than 15 months.

The negative characteristics of certain qualitative/quantitative criteria (so-called "Relativity") leads to a significant writedown for the minority interest.

Severity, durability and relativity parameters should be regarded as alternative: it is sufficient for one of the three criteria to indicate a depreciation for the impairment of the investment to take place.

As a consequence, if the impairment of the carrying cost of an investment is higher or more prolonged than severity or durability limits, or if relativity elements are invalid, the loss is recognised in the income statement.

The existence of objective evidence of lasting impairment is checked at every annual or quarterly balance sheet date. If the reasons for the impairment cease following an event that occurs after recognition, writebacks are recognised in the Income Statement in the case of debt securities, and in Shareholders' Equity in the case of equity securities. The amount of the writeback may not in any case exceed the amortized cost that the instrument would have had in the absence of the previous writedowns.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the financial flows deriving from them expire, or when the financial assets are sold transferring substantially all of the risks/ benefits associated with them.

A financial asset classified as available for sale which, if it had not been designated as such, would have met the definition of a loan or receivable, may be reclassified out of the "available for sale" category and into the "loans and receivables" category if there is the intention and the ability to hold it for the foreseeable future or to maturity.

3– Receivables

Loans and receivables include loans to customers and banks, both disbursed directly and purchased from third parties, which envisage fixed or at least determinable payments, which are not quoted on an active market and which have not been classified at the start as available-for-sale financial assets. The loans and receivables item also includes accounts receivable, repurchase agreements and securities purchased in subscription or private placement, with determined or determinable payments, not quoted on active markets.

Classification of credit exposures

With reference to the classification rules established by the Supervisory Body, the Banca Sella Group's exposures are classified as follows:

- performing exposures: exposures with subjects considered solvent, that have no significant anomalies nor past-due positions for more than 90 days with the exception of the materiality thresholds in effect at the time;
- non-performing exposures: exposures with subjects that meet one or both of the following conditions:
    - the company holds it improbable that, without the use of actions such as enforcement of guarantees, the debtor will fully meet their credit obligations in regards to said company or other Group companies which are exposed to the same, regardless of the existence of any past-due amount or the number of days past due;

   - the debtor is past-due by over 90 days on a significant credit obligation (specifically, exceeding the materiality threshold in effect at the time) within the Group;

or written down exposures where there is clear proof of impairment following one or more loss events occurring after the initial granting of the loan and that this loss event (or events) has an influence on estimated future cash flows for the financial asset, or the group of financial assets, which can be reliably estimated.

In the context of the above definition, non-performing exposures can be further classified as:

- **Past Due:** past-due cash exposures or overdue for at least 90 continuous days, taking into account netting with any available margins on other credit lines in the name of the same debtor and on the condition that the entire past-due amount exceeds 5% of the greater between the average of the past-due portions and/or in excess of threshold for the entire exposure, recognised daily during the previous quarter, and the past-due portion and/or amount in excess of the threshold for the entire exposure in reference to the reference date of recognition.
- **Unlikely to pay:** cash and off balance sheet exposures (loans, securities, derivatives), for which the subjective judgement of the lending subject suggests it is improbable that, without the use of actions such as enforcement of guarantees, the debtor will fully meet their credit obligations (in terms of capital and/or interest), independent of the presence of guarantees or any amounts past-due and unpaid, in line with an approach of the utmost promptness in classifying and managing customers with loans with a decline in their creditworthiness.
  Exposures in the name of debtors who have made a proposal to restructure their debts pursuant to articles 67 and 182 of the Bankruptcy Law (hereafter “BL”) or who have made a request for a settlement agreement pursuant to article 161 of the BL, or settlement as a going concern pursuant to article 186 bis of the BL must be classified as unlikely to pay until the result of the request is not known, unless they are already classified as bad loans or meet the subjective requirements for classification as bad loans.
  If the settlement as a going concern occurs with the sale/transfer of the company working with third-parties, the exposure is reclassified as performing. This possibility is precluded in the case of sale/transfer to a company within the same economic group as the debtor.
  Another element which requires classifying exposures as unlikely to pay is classification as a non-performing loan by at least one other company in the Banca Sella Group.
  In the context of unlikely to pay exposures, and without prejudice to the uniformity of the classification category, a distinction is made between cancellations regarding exposures associated with subjects having difficulty in meeting their obligations and those for which the lending entity has revoked credit lines and requested full repayment of the relative loan.
- **Bad loans:** cash and off balance sheet exposures (loans, securities, derivatives) involving insolvent subjects (even if not determined legally) or in substantially equivalent situations, regardless of any loss forecasts formulated by the lending entity.

Exposures classified as performing or non-performing, as described above, may by subject to grants (concessions) by the creditor in regards to its debtors, with the aim of assisting them in overcoming difficulties in fulfilling their financial commitments, whether already manifested or imminent. **The fundamental element for granting concessions is the debtor’s difficulty;** it functions regardless of whether there are past-due amounts or exposures are classified as impaired. For the above, performing exposures subject to forbearance are classified as “*forborne performing*“, while non-performing exposures subject to forbearance are classified as *“forborne non-performing“*. A debtor’s difficulty can be presumed absolute or to be ascertained.

Recognition criteria

Initial recognition of a loan or receivable occurs at the disbursement date or, in the case of a debt security, at the settlement date, on the basis of the fair value of the financial instrument. The latter is normally equivalent to the amount disbursed, or to the subscription price, inclusive of costs/revenues directly attributable to the single receivable and which can be determined right from the start of the transaction, even if they are liquidated at a later time. Costs which, while having the above characteristics, are refunded by the debtor counterparty, or are classifiable as normal administrative overheads, are excluded. For any lending transactions concluded at different terms from those of the market the fair value is determined using special valuation techniques; the difference with respect to the amount disbursed or to the subscription price is booked directly to the Income Statement. Repurchase agreements with an obligation to repurchase or resell forward are recognised as funding or lending operations. In particular, spot sale and forward repurchase operations are recognised as payables for the spot amount received, spot purchase and forward resale operations are recognised as receivables for the spot amount paid.

Assessment criteria

After initial recognition, receivables are measured at their amortised cost, which is equivalent to their value on initial recognition reduced/increased by repayments of principal, write-downs/write-backs and amortisation – calculated with the effective interest rate method – of the difference between the amount disbursed and the amount repayable at maturity, attributable typically to the costs/revenues booked directly to the single receivable. The effective interest rate is found by calculating the rate that makes the present value of future flows of the receivable, for principal and interest, equal to the amount disbursed inclusive of the costs/revenues associated with the receivable. This accounting method, using a financial formula, makes it possible to distribute the economic effect of the costs/revenues along the expected residual life of the receivable. The amortised cost method is not used for receivables whose short life makes it likely that the effect of application of the discounting formula will be negligible. These receivables are measured at their historical cost and the costs/revenues attributable to them are recognised in the Income Statement. The same valuation technique is adopted for receivables with no defined maturity or valid until revoked.

Analytical valuations

At every annual or interim balance sheet date all loans and receivables are examined to identify those that, following events that occurred after their recognition, show objective evidence of a possible impairment loss.

Loans classified as bad loans, unlikely to pay or past due in accordance with the current Bank of Italy rules, in line with IAS regulations, are the subject of an analytical evaluation process that is continually updated to verify any new elements that may determine possible changes in recoverability.

The amount of adjustment of each loan is the difference between the carrying value at the moment of the valuation (amortised cost) and the present value of the expected future cash flows, calculated by applying the original effective interest rate. The expected cash flows take into account expected recovery times, the presumable realisation value of any guarantees, and costs likely to be incurred for recovery of the loan exposure. The cash flows of receivables which are expected to be recovered in a short time are not discounted. The original effective interest rate of each loan remains unchanged over time even if the position has been rescheduled entailing a change in the contractual interest rate and even if the position, in practice, no longer earns contractual interest.

The valuation parameters are connected to the following classes of past due or unlikely to pay not revoked:

- analytical adjustments for exposures in excess of € 25,000 – past-due and/or deteriorated loans in excess of thresholds granted. The measurements that give rise to an analytical adjustment are proposed by the Anomalous Credit Management Service to the Management or to the delegated mechanisms/collegial bodies. The measurement is performed at the time of classification and subsequently, if new, significant events occur that make a new evaluation necessary (e.g. significant reduction of exposure, acquisition of new guarantees, new prejudicial events, significant new trend anomalies, provision revoking loans to the system, registration of legal mortgages or start-up of enforcement proceedings on property concerned by our mortgage guarantee); the valuations to be applied are aimed at determining the real possibility of returning the position to performing status and, where this possibility is in doubt, the assessment of the possible loss after having taken action to collect. The evaluation of the adjustments must be made, as a general rule, considering the equity of the debtor, its income capacity, its financial balance, future prospects, professional or entrepreneurial capacity, the regularity of the customer in managing bank relations, also considering any guarantees backing the credit facilities granted.

- forfeit adjustments for exposures of less than € 25,000 – past-due and/or deteriorated loans in excess of thresholds granted. The forfeit adjustments are made by applying a fixed percentage to the amount to be adjusted, as decided by Management of the individual banks, on the basis of statistics on the losses recorded for the three previous years;
- the evaluation of the unlikely to pay not revoked will be made, as a general rule, considering the equity of the debtor, its income capacity, its financial balance, the prospects of the segment to which it belongs, managerial or entrepreneurial capacity, the regularity of managing bank relations and the customer morality, also considering any guarantees backing the credit facilities granted.

As a rule, all positions are measured analytically at the time it is decided to classify them as unlikely to pay, and subsequently each time the general conditions of the trend of the relationship and/or acquisition of new guarantees require a change to be made, and in any case at least once a year.

Writedowns are proposed by the Credit services and areas and are approved by the management of individual banks or by the appropriate mechanisms/bodies.

The process used to measure exposures classified as unlikely to pay by Group banks varies based on whether the amount is greater or less than € 10,000 and for the latter, whether it is the first month of entrance or not.

Although not required, in the following cases, writedowns may be made, calculated on a lump sum basis, as follows:

a. Positions with uses within € 10 thousand: forfeit percentage calculated as the weighted average of adjustments made during the last three years to revoked positions with exposure of less than €10,000, in relation to the exposure that said positions had last year. The percentage is reviewed every year on the basis of the latest historic series by the end of February of each year after approval from the Board of Directors.

b. New entry positions with uses of more than € 10 thousand: average writedowns during the last 3 years made to positions classified as non-revoked unlikely to pay with uses exceeding € 10 thousand. This method will only be applied for the first month of entrance. For the next month, the adjustment will be calculated according to the new balances and percentage adjustment defined by the Bank during the previous month.

c. Positions with uses in excess of € 10 thousand already classed as unlikely to pay the previous month: analytical measurement performed by the individual Banks the previous month. The percentage adjustment defined the previous month is applied to the new uses.

In the remaining cases, analytical writedowns are applied, assessing the general condition of the customer in terms of credit rating and considering the real possibility of restoring the customer relationship to performing status, after resolving the anomalies that led to classification as unlikely to pay.

Measurement of positions classified as revoked unlikely to pay and bad loan positions must consider all the elements involving a single customer, on the basis of the main debtor's capital/income capacities and the guarantees and collateral supporting the loan.

The valuation parameters are connected to the following classes of loans:

- Mortgage loans

- Loans with other real guarantees
- Unsecured loans to property-owning private individuals/companies (main debtor and/or guarantors);
- Unsecured loans to non-property-owning private individuals/companies;
- Other Loans divided into amount bands.

The discount rate for disputed loans is determined on the basis of the time expected for recovery taking into account any guarantees and action to be activated.

The valuation times are:

- Valuation at the moment of default with classification as revoked unlikely to pay;
- Valuation at the moment of classification of the loans as bad loans;
- Valuation carried out during the stages of credit recovery management which by way of example can be summarised as acquisition of new real/personal guarantees, formalisation and verification of observance of repayment schedules, adverse events, state of attachment and settlements proceedings etc.

Following the methodology revision process, certain measurement parameters used for impaired loans were updated:

- Introduction of discounting criteria for loans classified as non-revoked unlikely to pay
- Estimated recovery to be assigned at the time the settlement agreement is filed for unsecured loans not backed by any guarantees.
- Estimated recovery to be assigned to cases for which, at the end of in-court and out-of court collection actions, are classified as possible sale without recourse
- Average discounting times for real estate enforcement proceedings and settlements, broken down by geographic area;
- Average discounting times for subsidiary consortia guarantees
- Average discounting times for loans classified as revoked unlikely to pay
- Estimates of costs connected to discounting for negative cashflows envisaged for real estate enforcement procedures
- Estimated recovery for unsecured loans with balances of < €50,000 and revoked unlikely to pay

The updates to valuation parameters are backed by historical and statistical series for the bank's default loan portfolio.

In the context of the parameter revision process, the following evaluation parameters and time frames were confirmed, as summarised below:

- Percentage ratios for specific lump sum adjustments foreseen for past due amounts with balances < € 25,000;
- Percentage ratios for specific lump sum adjustments foreseen for unrevoked unlikely to pay with balances < € 10,000
- Estimated recovery to be assigned at the time bankruptcy is filed for unsecured loans not backed by any guarantees.
- Time estimates for the discounting of disposals without recourse for bad loans
- Time estimates for the discounting of enforcements of guarantees deriving from consortia on first demand
- Valuation at the moment of default with classification as revoked unlikely to pay
- Valuation at the moment of classification of the loans as bad loans

- Valuation carried out during the stages of credit recovery management which by way of example can be summarised as acquisition of new real/personal guarantees, formalisation and verification of observance of repayment schedules, adverse events, state of attachment and settlements proceedings etc.

Collective valuations

Loans for which no specific objective evidence of loss has been found, which are normally performing loans, undergo collective valuation. Under the terms of the International Accounting Standards (IAS/IFRS), the definition of the generic reserve for performing loans should follow a model based on incurred losses. The term incurred loss means a loss for which the fact that it has already happened is clearly identifiable, although it has not yet become manifest (loss “incurred” but not “recognised”).

The collective valuation of performing loans takes place by subdividing the clientèle into homogeneous segments in terms of credit risk. The relative percentage losses are estimated by taking into account probability of default (PD) and the loss given default rate (LGD), making use of appropriate adjustments aimed at converting the expected loss of Basel into incurred loss. Determination of the probability of insolvency and the recovery rate in the case of insolvency takes place, for each Group bank, using the same methodology on the basis of their individual customer portfolio. With specific reference to the PD variable, this is determined on the basis of internal rating models when available, and all other cases on the basis of default entry historic data.

Relative to LGD, the Banca Sella Group has provided itself with an estimate model, on the basis of internal data. The estimate sample has been divided into subgroups with similar risk characteristics, and the resulting LGD for each subgroup is used as an estimate for future LGDs for all loans with the same characteristics.

The method described above makes it possible to estimate “latent loss” for each category of receivables. Writedowns determined collectively are recognised in the Income Statement. At every annual or interim balance sheet date any additional write-downs or write-backs are recalculated in a differential manner with reference to the entire portfolio of performing loans.

Derecognition criteria

Loans assigned are derecognised from the assets on the balance sheet only if the sale has entailed the substantial transfer of all the risks and benefits associated with them. On the contrary, if the risks and benefits of the credit sold have been kept, the receivables continue to be recognised as assets on the balance sheet, even if legal ownership of the credit has effectively been transferred. If it is impossible to ascertain the substantial transfer of the risks and benefits, the loans are derecognised if no type of control has been kept over them. On the contrary, if even partial control over credit is maintained, it is kept on the balance sheet to the extent that the remaining involvement, measured in terms of exposure to changes in the value of the credit sold and to changes in the relative cash flows. Finally, loans sold are derecognised when the contractual rights to receive the associated cash flows are kept, with the assumption at the same time of an obligation to pay these flows, and only these, to third parties.

4 – Hedging transactions

Classification criteria: types of hedging

Assets and liabilities include hedging derivatives which at the balance sheet date present positive and negative fair value respectively.

Transactions to hedge risks are designed to offset potential losses on a specific financial instrument or on a group of financial instruments, attributable to a specific risk, with the profits recognizable on a different financial instrument or group of financial instruments if that particular risk should actually occur.

IAS 39 describes the following types of hedges:

- fair value hedge: hedging exposure to changes in the fair value of an accounting item attributable to a particular risk;
- cash flow hedge: hedging the exposure to fluctuations in future cash flows attributable to particular risks associated with accounting items;
- foreign currency investment hedge: hedging the risks of an investment in a foreign operation expressed in a foreign currency.

Recognition criteria

A derivative instrument is designated as a hedge if there is formal documentation of the relation between the hedged instrument and the hedging instrument and if the hedge is effective at the moment in which the hedging begins and, prospectively, throughout its entire life. The effectiveness of the hedging depends on the extent to which the fair value changes of the hedged instrument or of its expected cash flows are offset by those of the hedging instrument. The effectiveness is therefore measured by comparing the above changes, taking into account the goal pursued by the company at the moment in which the hedge is put in place.

The hedge if effective (within the 80–125% range) when the changes in fair value (or cash flows) of the hedging financial instrument almost completely offset the changes in the hedged instrument, for the hedged risk element. The assessment of effectiveness is carried out every six months using:

- prospective tests, which justify the application of hedge accounting, as they show the expected effectiveness;
- retrospective tests, which show the degree of effectiveness of the hedge achieved in the period to which they refer. In other words, they measure the gap between the actual results and a perfect hedge.

If the tests do not confirm the effectiveness of the hedge, in accordance with the rules outlined above hedge accounting is discontinued and the hedging derivative contract is reclassified as a trading instrument.

Assessment criteria

Hedging derivatives are carried at fair value, and therefore, in the case of fair value hedging, the change in the fair value of the hedged element is offset by the change in the fair value of the hedging instrument. This offsetting is recognised by booking the value changes to the Income Statement, with reference both to the element hedged (as regards the changes produced by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently constitutes its net economic effect.

The fair value measurement of hedged fixed-rate loans requires financial consistency between hedged assets and the IRSs agreed upon for the hedge. At every measurement of the fair value, the cumulative stock of hedging IRSs and the cumulative stock of hedged loans are prepared, making sure that the amortisation profile of the IRSs corresponds to the amortisation profile of the hedged loans;

Subsequently, the weighted average fixed rate of hedging IRSs is calculated. Said rate represents the average effective market rate at the time of the agreement of the various IRSs and reflects the interest that was meant to be hedged at the time of loan hedging. In other words, such rate represents the actual part of interest hedged by the IRS, distinguishing it from the part of interest that is not hedged and corresponds to the spread (expressing customer risk rather than rate risk).

At this point, it is appropriate to prepare, beginning from the residual amortisation plan of the principal of all loans hedged, the amortisation plan of loans to be used for measuring the fair value. This plan shall be made up of loan principal flows (the difference between the residual debt of a period and the residual debt of the previous period according to the contractual amortisation plan) and the interest obtained applying the weighted average rate of hedging IRSs (expressing the hedged interest) to the residual debt for the period.

The instalments obtained can then be updated adopting the same yield curve used for measuring the fair value of hedging IRSs, and brought down in proportion to the actual hedging percentage at the date of the valuation (ratio between the “surfaces” – i.e. the sum of remaining principals for the respective duration days – of amortisation plans for the remaining IRS amount divided by the remaining loan credit), so as to obtain the current value of hedged loans. The remaining credit (multiplied by the hedging percentage) at the date of loan valuation shall be deducted from this value.

According to this procedure (current value of the instalments minus residual debt brought down according to the hedging percentage), the fair value at the end of financial year T and the fair value at the end of financial year T-1 is calculated. The difference between these two figures is the fair value delta of the loans, which is then compared with the fair value delta of the IRSs.

The fair value delta of the IRSs is calculated with the following methods:

- fair value is calculated through discounting future cashflows (*Net Present Value* – NPV): this method involves discounting estimated cashflows at a current rate that expresses the intrinsic risk of the instrument being measured;
- for IRSs hedging loans that already existed at the end of the previous financial year, the fair value delta is given by the difference between the fair value at the end of the year and the fair value at the end of the previous year;
- for IRSs hedging loans contracted during the financial year, the fair value delta is the fair value of the IRS at the end of the year;
- both the market values and the intrinsic values of all IRSs are calculated.

5 – Tangible assets

Classification criteria

Tangible assets includes technical systems, furniture and fittings and equipment of all kinds. These are tangible assets held to be used in the production or supply of goods and services or for administrative purposes, or to be rented out to third parties, and which are likely to be used for more than one period. Improvements made to third party assets included in these items are improvements and extra costs in relation to identifiable and separable tangible assets. These investments are usually made to ensure that the property rented from third parties is suitable for use.

Improvements and incremental costs in relation to identifiable and non-separable tangible assets are instead included under item 160 “Other assets”.

Recognition criteria

Items of property, plant and equipment are initially recognised at cost, which includes, besides the purchase price, any and all the ancillary charges directly attributable to the purchase and commissioning of the asset. Extraordinary maintenance expenses which lead to an increase in future economic benefits are recognised as an increase in the value of the assets, while other ordinary maintenance costs are booked to the Income Statement.

Assessment criteria

Property, plant and equipment items are carried at cost, after deducting any depreciation and impairment losses. These fixed assets are systematically depreciated over their useful life, adopting as the depreciation criterion the straight line method.

At every balance sheet date, if there is any indication that an asset may have suffered a loss in value, the carrying value of the asset is compared with its recoverable amount, which is the greater between the fair value and the use value of the asset, understood as the present value of the future flows originating from the item. Any adjustments are recognised in the Income Statement. If the reasons for recognition of the loss no longer apply, a write-back is made, which may not exceed the value that the asset would have had, net of the depreciation calculated, if the previous write-downs had not been made.

Derecognition criteria

A tangible fixed asset is derecognised from the Balance Sheet upon disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

6 – Intangible assets

Classification criteria

Intangible assets include goodwill and application software with multi-annual use. Goodwill represents the positive difference between the purchase cost and the fair value of assets and liabilities purchased. Other intangible assets are recognised as such if they are identifiable and arise from legal or contractual rights.

Recognition criteria

An intangible asset may be recognised as goodwill when the positive difference between the fair value of the asset items purchased and the cost of the equity interest represents the future earning capacity of the interest (goodwill). If this difference is negative (badwill) or in cases when the goodwill cannot be justified by the future earning capacity of the interest, the difference itself is recognised directly in the Income Statement.

Other intangible assets are recognised at cost, inclusive of any ancillary charges, only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset itself can be measured reliably. Otherwise the cost of the intangible asset is recognised in the Income Statement in the year in which it is incurred.

Assessment criteria

As regards goodwill, whenever there is evidence of a loss of value and in any case at least once a year together with the preparation of the three-year plan, a check is made for the existence of lasting reductions in value. To this end it is first necessary to identify the cash flow generating unit to which to attribute the goodwill. The amount of any reduction of value is determined on the basis of the difference between the book value of the goodwill and its recovery value, if less. This recovery value is the greater of the fair value of the cash flow generating unit and its use value. The use value is the present value of the future cash flows expected from the generating units to which the goodwill has been attributed. The consequent writedowns are recognised in the Income Statement.

The cost of intangible fixed assets is amortized on a straight line basis over their useful life. If the useful life is unlimited amortisation is not applied; instead adequacy of the book value of the fixed assets is checked regularly. At every balance sheet date, if there is evidence of impairment losses, the recoverable amount of the asset is estimated. The amount of the loss, which is recognised in the Income Statement, is the difference between the carrying amount of the asset and the recoverable amount.

Derecognition criteria

An intangible fixed asset is derecognised from the Balance Sheet when it is disposed of or when future economic benefits are not expected.

7 – Current and deferred taxation

These headings include respectively the current and deferred tax assets, and the current and deferred tax liabilities.

Income taxes are recognised in the Income Statement with the exception of those relating to items debited or credited directly to shareholders' equity. Provisions for income taxes are determined on the basis of a prudential forecast of the current tax liability, and of deferred tax assets and liabilities.

Prepaid and deferred taxes are calculated on the temporary differences, with no time limit, between the book value and the tax value of the individual assets or liabilities.

Deferred tax assets are recognised in the financial estimates if it is probable that they will be recovered, to that end, Italian Law no. 225 of 2010, Art. 2, paragraphs from 55 to 56-bis, provides for the convertibility into tax credits of prepaid taxes recognised in the financial statements against writedowns of loans and goodwill, in particular when the individual financial statements show a loss for the year. This convertibility introduced an additional and supplementary method of recovery, which is capable of ensuring the recovery of these types of prepaid taxes in every situation, irrespective of the future profitability of the company. This convertibility is therefore, in every case, a sufficient condition for the recognition and maintenance in the financial statements of these kinds of prepaid taxes.

Deferred tax liabilities are recognised, with the sole exceptions of assets recognised for a higher amount than the fiscally recognised value and of reserves in tax suspension, for which it is reasonable to believe that no operations will be initiated such as to entail their taxation. The deferred tax assets and liabilities recognised are evaluated systematically to take account of any changes made to legislation or tax rates.

8 – Provisions for risks and liabilities

Other provisions for risks and charges refer to amounts set aside for current obligations deriving from a past event, where compliance with the said obligations will probably require the outlay of economic resources, provided that an accurate estimate of the amount of these obligations can be made.

The sub-item "Other provisions" contains provisions for risks and charges set aside in compliance with the International Accounting Standards, with the exception of writedowns due to impairment of guarantees given recognised under "Other liabilities".

Provisions are set aside for risks and liabilities only when:

- there is a current obligation (legal or implied) resulting from a past event;
- it is likely that resources will have to be used to produce economic benefits to settle the obligation;
- an accurate estimate of the amount of the obligation can be made.

The amount set aside represents the best estimate of the charge necessary to extinguish the obligation; this estimate takes into account the risks and uncertainties relating to the facts and circumstances in question.

If a significant period of time is expected to pass before the charge is incurred, the amount of the provision is the present value of the charge expected to be required to extinguish the obligation. In this case the discounting rate used is such as to reflect the current market valuations of the present value of the money.

The congruity of these amounts is also reviewed regularly.

If new, more or further information is acquired on the risk event, such as to lead to an update of the estimates originally made, the associated provisions are immediately adjusted.

Provisions are used only on occurrence of the risk events for which they were originally set aside.

9 – Payables

Classification criteria

The items “due to banks” and “due to customers” include various forms of interbanking funding and with customers.

Recognition criteria

These financial liabilities are initially recognised at the moment when the amounts are deposited or the debt securities issued. Initial recognition is performed on the basis of the fair value of the liabilities, which is normally equivalent to the amount collected or the issue price, increased by any additional costs/revenues directly attributable to the single issue or funding operation and not refunded by the creditor counterparty. Internal costs of an administrative nature are excluded.

Assessment criteria

After initial recognition, these financial assets are measured at the amortized cost, using the effective interest rate method. An exception is made for short-term liabilities – where the time factor is negligible – which remain recognised at the value collected and any costs attributed to them are booked to the Income Statement. It should be noted, also, that funding instruments subject to an effective hedging relationship are measured on the basis of the rules laid down for hedging transactions.

For hybrid instruments, if the requisites envisaged by IAS 39 are complied with, embedded derivatives are separated from the host contract and recognised at fair value as trading liabilities. In this last case the host contract is recognised at the amortized cost.

Derecognition criteria

Financial liabilities are derecognised when they have expired or have been settled. Derecognition also occurs if securities previously issued are repurchased. The difference between the book value of the liability and the amount paid to purchase it is entered in the Income Statement. Re-placing on the market of own securities after their repurchase is considered a new issue with recognition at the new placement price, with no effect on the Income Statement.

10 – Financial liabilities held for trading

Classification criteria

This item only includes the negative value of derivative contracts held for trading measured at fair value.

It also includes embedded derivatives which, in accordance with IAS 39, have been separated from the hybrid financial instruments hosting them are also included, subject to separate accounting because:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid instruments they belong to are not measured at fair value with the associated changes recognised in the Income Statement.

Recognition criteria

Initial recognition of financial liabilities occurs on the date that the derivative contracts are signed.

At the moment of initial recognition financial liabilities held for trading are recognised at cost, understood as the fair value of the instrument. Any derivatives embedded in hybrid contracts not closely related to them and with characteristics that meet the definition of a derivative are separated from the host contract and measured at fair value, while the host contract is accounted for under the appropriate accounting standard.

Assessment criteria

After initial recognition, financial liabilities held for trading are carried at fair value.

Gains and losses deriving from the change in fair value and/or the sale of the trading instruments are accounted for in the Income Statement.

Derecognition criteria

Financial liabilities are derecognised when they have expired or have been settled.

11 – Foreign currency transactions

Initial recognition

Foreign currency transactions are entered, on initial recognition, in the accounting currency, applying to the foreign currency amount the exchange rate current at the time of the transaction.

Subsequent recognitions

At every balance sheet date, the accounting items in foreign currency are measured as follows:

- monetary items are converted at the exchange rate on the balance sheet date;
- non-monetary items carried at their historical cost are translated at the exchange rate in force at the time of the operation; to translate the revenue and cost items an exchange rate that approximates the exchange rates at the transaction dates is often used, for example an average exchange rate for the period;
- non-monetary items carried at fair value are translated at the exchange rates obtaining at the balance sheet date.

Exchange rate differences deriving from the settlement of monetary items or from the translation of monetary items at rates different from the initial ones or from those of translation of the previous financial statements, are charged to the Income Statement of the period in which they arise.

When a gain or loss relating to a non-monetary item is booked to shareholders' equity, the exchange difference relating to this item is also recognised in shareholders' equity. On the contrary, when a gain or loss is recognised in the Income Statement, the associated exchange difference is also booked to the Income Statement.

12 – Other information

Employee benefits

Employee severance indemnities are entered on the basis of their actuarial value. For the purposes of discounting to the present, the projected unit credit method is used; this involves the projection of the future outflows on the basis of historical statistical analyses and of the demographic curves, and the financial discounting of these flows on the basis of a market interest rate. The difference between actuarial gains and losses is recognised directly in Shareholders' equity, while the remaining components (the discounting effect) are recognised in the Income Statement.

According to IAS 19, provisions for severance indemnities represent post-employment defined benefits, which must be recognised making use of actuarial methods.

In the light of the rules laid down in the 2007 Budget Law, severance indemnities accrued from 1st January 2007 destined for complementary pension funds and the INPS Treasury Fund are to be considered a "defined contribution plan" and are, therefore, no longer the subject of actuarial valuation.

According to the international accounting standards, in fact, severance indemnities may not be recognised for an amount corresponding to that accrued (assuming that all the employees leave the company at the balance sheet date); instead the liability in question must be calculated projecting the amount already accrued to the future moment of termination of the employment relationship and then discounting this amount to the present at the balance sheet date using the actuarial "Projected Unit Credit Method".

Recognition of revenues and costs

Revenues are recognised at the moment in which they are received or at least, in the case of sale of goods or products, when it is probable that the future benefits will be received and these benefits can be quantified in a reliable manner, in the case of performance of services, at the moment in which they are rendered. In particular:

- interest received is recognised pro rata temporis on the basis of the contractual or effective interest rate in the case of application of the amortized cost;
- any contractually envisaged default interest is accounted for in the income statement only at the moment in which it is actually collected;
- dividends are recognised in the income statement during the period in which their distribution is approved;
- fees received for services are recognised, on the basis of the existence of contractual agreements, in the period in which these services are rendered;
- gains and losses deriving from the trading of financial instruments are recognised in the income statement at the moment of conclusion of the sale, on the basis of the difference between the price paid or collected and the carrying amount of the instruments themselves;
- revenues deriving from the sale of non-financial assets are recognised at the moment of conclusion of the sale, unless most of the risks and benefits associated with the assets are maintained.

Costs are recognised in the income statement in the periods in which the associated revenues are accounted for. If the costs and revenues can be associated in a generic and indirect manner, the costs are booked over several periods with rational procedures and on a systematic basis. Costs which cannot be associated with revenues are immediately recognised in the income statement.

Accruals and deferrals

Accruals and deferrals that include charges and revenues accruing in the period to assets and liabilities are recognised to adjust the assets and liabilities to which they refer.

Expenses for improvements to third-party properties

The costs of renovating properties not owned are capitalized in consideration of the fact that for the duration of the rental contract the user company has control over the assets and can draw future economic benefits from them. The above costs, classified among Other assets as provided for in the Instructions of the Bank of Italy, are amortized for a period equivalent to the duration of the rental contract.

Provisions for guarantees issued and commitments

Provisions on a collective basis, in relation to the estimate of the possible outflows connected with the credit risk relating to the guarantees, determined applying the same criteria previously explained with reference to loans and receivables, are classified among Other liabilities, as envisaged in the instructions of the Bank of Italy.

Use of estimates and assumptions in the preparation of the annual financial statements

In drafting the financial statements, the Bank made use of estimates and assumptions which can have effects on the amounts recognised in the balance sheet and income statement. These estimates are prepared:

- using the information available;
- adopting measurements, based also on historical experience, used in formulating rational assumptions for the recognition of operating data.

In future periods the current values recognised may differ, even significantly, following changes in the valuations used, because, by their very nature, the estimates and assumptions used may vary from one year to another.

The main cases which most require the use of valuations are:

- for the reduction of the value of loans and other financial assets, the determination of losses;
- in determining the fair value of financial instruments not quoted on active markets, the use of valuation models;
- for goodwill and other intangible assets, the estimate of the congruity of the value;
- for provisions for personnel and for risks and charges, estimates of their value;
- for deferred tax assets, estimates and assumptions on their recoverability;

Definition and criteria for fair value measurement

On 12 May 2011, the IASB published IFRS 13 “Fair Value Measurement”, which provides a complete guide on how to measure the fair value of financial and non-financial assets and liabilities and the relative disclosure. IFRS 13 was approved by EU Regulation 1255/2012, issued by the Commission on 11 December 2012.

The new standard applies every time that another accounting standard requires measuring an asset or liability at fair value or requires additional information about the measurement of fair value.

On the basis of that envisaged in IFRS 13, fair value is defined as the *“price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”*

The standard establishes that when transactions that can be directly observed on the market exist, the determination of fair value is immediate. In the absence of these conditions, it is necessary to make use of measurement techniques. IFRS 13 identifies three widely used measurement techniques and establishes that each entity, to measure fair value, must use measurement techniques that are in line with one or more of these methods:

- *Market approach*: with this technique, prices and other information relative to transactions that involved identical or comparable financial assets or liabilities are made use of. Measurements based on determining market multiples fall within this category.
- *Cost approach:* the fair value is represented by the replacement cost of a financial asset.
- *Income approach*: the fair value is equal to the current value of future flows. These techniques can be based on current value.

In calculating fair value of a financial asset, IFRS 13 provides for the insertion of a credit value adjustment factor (CVA) which identifies the counterparty risk. This credit risk must be quantified as it would be determined by a market operator in defining the purchase price of a financial asset.

In determining the fair value of a financial liability, IFRS 13 envisages that a debt value adjustment factor (DVA) must also be quantified, which refers to own credit risk.

As already noted previously, on the basis of IFRS 13 the determination of fair value of financial instruments should use measurement techniques that maximise the use of inputs based on observable market data.

To that end, IFRS 13 establishes a hierarchy of fair value techniques, that classifies the input used for the techniques adopted to measure the fair value into three levels:

Level 1: quoted prices (not corrected) in active markets for identical assets and liabilities to which the entity has access at the measurement date.

Level 2: input other than quoted prices included in Level 1, directly or indirectly observable for the asset or liability. The prices of the assets or liabilities are inferred from listings on similar asset markets or through measurement techniques in which all the significant factors (credit spreads and liquidity) are inferred from observable market data.

Level 3: unobservable data for the asset or liability. The prices of the assets or liabilities are inferred using measurement techniques based on data processed using the best available information in regard to assumptions that market operators would use them to determine the price of the asset or liability (it involves, therefore, estimates and assumptions by management).

IFRS 13 defines an active market as “a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis”.

Input for the determination of fair value

Below are illustrated the various levels of input to use for determination of the fair value of the financial instruments to be measured at fair value:

(L1) Instruments whose fair value corresponds to the market value (instruments quoted on an active market):

- Securities listed on a regulated market or a multilateral trading facility (in which one or more market markets act continuously);
- Securities quoted on Bloomberg provided that the amount issued is higher than or equal to € 500 million and at least one market maker with regularly available prices exists;
- Funds for which the daily NAV or daily quotation are available;
- Investments listed on a regulated market;
- Derivatives quoted on regulated markets.

An “active market” means:

- A regulated market on which the instrument is traded and regularly listed;
- A multilateral trading facility on which one or more market makers act continuously;
- Those on Bloomberg provided that the amount issued is higher than or equal to € 500 million and at least one market maker with regularly available prices exists.

(L2) Instruments whose fair value is determined using inputs differing from the prices quoted in an active market, which are directly (as prices) or indirectly (derived from prices) observable in the market:

- Securities for which Bloomberg gives a quotation featuring an issued amount lower than € 500 million or securities for which, although featuring issued amounts higher than € 500 million, there is no Bloomberg market maker with regularly available prices.

- Securities listed on a multilateral trading facility on which there are no market makers with prices regularly available.
- Bonds issued by the Banca Sella Group, which are measured using the methods indicated below, used widely within the market;
  - ✓ Fixed rate bonds: “asset swap spread”;
  - ✓ Variable rate bonds: “discount margin”;
  - ✓ Structured bonds: “net present value” (for the bond component).

Structured bonds which, in addition to the bond component also incorporate an optional component (derivative), foresee the measurement of the latter on the basis of both prices used by market counterparties and on the basis of external (e.g. Black-Scholes) or proprietary measurement models.

- Securities defined as illiquid, explicitly measured using the model of input observable directly or indirectly on the market.
- Funds for which no daily NAV or daily quotation is available, but which periodically express a NAV or a reliable quotation.
- Investments that do not have an active market, for which a limited yet recurring number of transactions are known.
- OTC derivatives for which market parameters for measurement are available.

(L3) Instruments whose fair value is determined using input data that are not based on observable market values:

- Default or delisted securities, in the case in which the price communicated by the reference provider for the individual security is greater than 0. If, instead, this price is equal to 0, said securities are considered “not measured at fair value”.
- Securities defined as illiquid, explicitly measured using the model of non-observable input;
- Securities deriving from Mars 2600 and other ABS securitisations;
- Funds or Sicav specialising in ABS;
- Unlisted closed-end funds;
- Private equity funds;
- Investments that do not have an active market for which single transactions are carried out or for which valuation methods are used;
- OTC derivatives for which market parameters for measurement are not available.

Assessments regarding the congruence of the classification of the instrument with respect to the assigned input level is done on a half-yearly basis, in June and December, by the Securities Records Unit, which also ensures that any necessary changes are made to the specific information found in the securities records.

In order to determine the fair value of OTC derivatives according to accounting standard IFRS 13, they are divided into two levels:

- L2: plain vanilla OTC derivatives for which market parameters for measurement are available;

- L3: OTC derivatives for which market parameters for measurement are not available.

In order to apply the regulations foreseen in Regulation EU no. 575/2013, issued by the European Parliament and Council on 26 June 2013, relative to prudential requirements for credit institutions and investment companies (CRR), both OTC derivatives included in L2 and L3, as above, are to be measured using a mark-to-model procedure.

In relation to Regulation (EU) no. 648/2012, issued by the European Parliament and Council on 4 July 2012, on OTC derivatives, central counterparties and trade repositories (“EMIR”), only OTC derivatives in L3, as above, are measured using a model.

Measuring counterparty risk

In calculating fair value of a financial asset, IFRS 13 provides for the insertion of a credit value adjustment factor (CVA) which identifies the counterparty risk. This credit risk must be quantified as it would be determined by a market operator in defining the purchase price of a financial asset.

In determining the fair value of a financial liability, IFRS 13 envisages that a debt value adjustment factor (DVA) must also be quantified, which refers to own credit risk.

Relative to the bonds issued by the Banca Sella Group (structured and non-structured), the counterparty risk for the issuer is included in the spread. In defining the interest rate spread, which represents the margin on the variable rate subject to indexing (for variable rate securities) or the IRS rate with the same maturity (for fixed rate securities). This is determined in respect of the rule described below:

- For ordinary bonds, average weekly return for Italian fixed rate bonds with the same maturity (referring to the benchmark curve for generic Italian government bonds[4]) net of the average weekly IRS rate[5] (Euribor 6 months tenor) with the same maturity, plus a spread. This spread is determined as the average (rounded to the nearest 5 basis points) of the differentials between the average weekly return for each of the securities from a panel of ordinary bonds (including at least 3 securities) with adequate capital issued (>= € 100 million), issued by Intesa Sanpaolo and Unicredit[6] and the average weekly return on Italian fixed rate government securities with the same maturity.

- For subordinated Tier II bonds, average weekly return for Italian fixed rate bonds with the same maturity (referring to the benchmark curve for generic Italian government bonds[6]) net of the average weekly IRS rate[7] (Euribor 6 months tenor) with the same maturity, plus a spread. This spread is determined as the average (rounded to the nearest 5 basis points) of the differentials between the average weekly return for each of the securities from a panel of Tier II subordinate bonds (including at least 4 securities) with adequate capital issued (>= € 100 million), issued by Intesa Sanpaolo, Unicredit, UBI and Credem[7] and the average weekly return on Italian fixed rate government securities with the same maturity.

Relative to exposure to OTC derivatives, quantification of the CVA correctives (for exposures receivable) and DVA correctives (for exposures payable) is done by Dealer Wizard for all contracts, with the exception of those covered by netting and collateralisation agreements (e.g. ISDA, CSA, etc.).

[4] This refers to the Bloomberg GTITL ticker family --

[5] This refers to the Bloomberg EUSA ticker family --

[6] Intesa Sanpaolo and Unicredit are also used as a reference because the internal issuer credit quality rating for Banca Sella, as of the date of this document, is the same as the banks in question.

[7] To determine the spread on subordinated securities, securities issued by UBI and Credem are also included in the reference basket (which also have the same internal credit rating as the Banca Sella Group) in order to better take into account the specific characteristics of the securities in question. In fact, in contrast to ordinary bonds, subordinated bonds are subject to regulatory restrictions that limit the possibility of them being repurchased by the issuer. For this reason, and in consideration of the progressive distance seen on the market between securities from issuers of varying size, it was held appropriate to include securities issued by smaller issuers in the basket. This distancing could also be seen in the future for ordinary bonds. For this reason, during the first four months of 2016, the ALM Committee will determine whether or not to also expand the panel of issuers used to price ordinary bonds. We also note that in the case subordinated securities with amortised repayment are included in the basket of securities, the average maturity of the securities in question used is the weighted average of the maturities of the various tranches of residual amortisation.

The method used to calculate CVA/DVA correctives implemented in Dealer Wizard is based on the *Discounted cash flows approach*. This method, applied to all the types of derivatives used by the Group, foresees the application of a credit spread to discounting of expected cash flows and leads to the generation of a *Fair Value Risk Adjusted*. The difference between this and the *Fair Value Risk Free* is represented by the CVA/DVA.

The selection of the credit spread to be applied in discounting of the expected cash flows is connected to the direction of the flows, as well as the counterparty type. Specifically, based on whether the flows are "receive" or "pay", the spread applied must take into account the counterparty credit risk (in the case of receive) or the size (in the case of payment).

Relative to the types of counterparties, we list the possible reference cases used in attributing the relative credit spread:

- *Institutional counterparty WITHOUT a stipulated CSA*: the CDS quote taken from Bloomberg is used for the credit spread. If there is no specific quote for the counterparty the CDS quote for a counterparty considered to be comparable in terms of sector, size and rating is used;
- *Institutional counterparty with a stipulated CSA*: in this case, the spread assigned is zero, as counterparty risk is mitigated by the collateralisation contract, meaning the Fair Value Risk Adjusted is the same as the Fair Value Risk Free;
- *BSG Customer (retail or corporate)*: the internal rating provided by Risk Management - Credit Risk is used. Specifically, the internally estimated credit spread represents the return rate required to cover the two loss components (expected and unexpected) that determine credit risk. To quantify the impact of the expected loss, the default probability value associated with the specific customer's rating class is used (in the case in which the customer is subject to internal rating calculation), or the average default rate recorded over the last 24 months within the bank's loan portfolio (in the case that the customer is not subject to internal rating calculation). To quantify the impact of the unexpected loss, the value of the equity required to satisfy the profit objective required by the shareholders is estimated, in the case of a current account loan with a one year maturity.

Relative to the Banca Sella Group, the credit spread necessary as an input parameter to calculate the DVA corrective is determined in accordance with the spread applied on the same date to the ordinary bonds issued by the Group.

Measurement of the CVA/DVAs is done daily by the Banca Sella OTC Trading Unit. Risk Management carries out second level controls on a sampling basis, validating the methodology and market parameters used after the fact (shared with the Finance Unit). In regards to the net CVA/DVA impacts, please see the table found on page 115.

For measurements relative to implicit caps, while awaiting full automation of measurements by the Banca Sella Credit area and the relative Group companies, the Parent Company's Finance Area uses the discounted cash flows approach.

As these are options sold to customers (implicit in mortgages with the maximum interest rate), the corrective DVA is determined by applying the credit spread relative to the Banca Sella Group as shown in the table on page 115.

Frequency of fair value measurement

Measurement of fair value following the rules dictated in this Policy is generally done on a daily basis (generally weekly for bonds issued by the Group due to their limited volatility, unless a need for greater frequency is determined).

Loans: hedged fixed-rate loans

Relative to hedged fixed-rate loans, fair value measurement requires financial consistency between the assets hedged and the IRSs agreed upon for the hedge. At every measurement of the fair value, the cumulative stock of hedging IRSs and the cumulative stock of hedged loans are prepared, making sure that the amortisation profile of the IRSs corresponds to the amortisation profile of the hedged loans;

Subsequently, the weighted average fixed rate of hedging IRSs is calculated. Said rate represents the average effective market rate at the time of the agreement of the various IRSs and reflects the interest that was meant to be hedged at the time of loan hedging. In other words, such rate represents the actual part of interest hedged by the IRS, distinguishing it from the part of interest that is not hedged and corresponds to the spread (expressing customer risk rather than rate risk).

At this point, it is appropriate to prepare, beginning from the residual amortisation plan of the principal of all loans hedged, the amortisation plan of loans to be used for measuring the fair value. This plan shall be made up of loan principal flows (the difference between the residual debt of a period and the residual debt of the previous period according to the contractual amortisation plan) and the interest obtained applying the weighted average rate of hedging IRSs (expressing the hedged interest) to the residual debt for the period.

The instalments obtained can then be updated adopting the same yield curve used for measuring the fair value of hedging IRSs, and decreased in proportion to the actual hedging percentage at the date of the valuation (ratio between the “surfaces” – i.e. the sum of remaining principals for the respective duration days – of amortisation plans for the remaining IRS amount divided by the remaining loan credit), so as to obtain the current value of hedged loans. The remaining credit (multiplied by the hedging percentage) at the date of loan valuation shall be deducted from this value.

According to this procedure (current value of the instalments minus residual debt reduced by the hedging percentage), the fair value at the end of financial year T and the fair value at the end of financial year T-1 is calculated. The difference between these two figures is the fair value delta of the loans, which is then compared with the fair value delta of the IRSs.

A.3 – Disclosure on transfers between financial asset portfolios

At the end of the year, no transfers of portfolios existed.

A.4 – Fair value disclosure

Qualitative information

A.4.1 Fair value levels 2 and 3: measurement techniques and input used

Relative to the measurement techniques, input and relative adjustments used in measuring the fair value of instruments in level 2 and level 3, below we provide an extract of that specified in the Fair Value Policy adopted by the Group and currently in effect.

The asset swap spread model is used for the valuation of fixed-rate bonds, while the discount margin model is adopted for floating rate bonds. Having recourse to said models is motivated by the consideration that they represent the market standard for these types of securities in Europe.

The Euro swap rate curve used as the pricing input for fixed-rate bonds derives from the info-providers used in the Bank, while the spread levels used derive from the elaboration of variables connected with credit spread reported by info-providers. The purpose of such processing is to consider various variables that may affect pricing processes.

If the bonds contain an optional component, when possible the Bloomberg pricing model is used, so as to guarantee an estimate based on the method most widely used on the market. For this purpose, similarly to the previous cases, the option-adjusted-spread (OAS) used is the spread level deduced from the elaboration of variables connected with credit spreads reported by info-providers.

The bonds with a structure that cannot be priced with Bloomberg models are priced by dividing their structure into simpler components.

The valuation of said components is carried out using some valuations deduced from those provided by counterparties for the hedging instrument or, if they are not available, Monte Carlo simulations, using as inputs the values of the variables reported by the main info-providers.

The OTC derivatives that can typically be found in the financial statements concern swaps, rate options and exchange options.

Rate swaps are evaluated according to the discounted cash flow (DCF) method, which is the market standard and uses the swap rate curve relative to the contact currency as the input data. This curve is periodically drawn from the curve published by the main info-providers (Bloomberg/Reuters) in the Bank. If the swap structure is more complex, and such as to prevent a reasonable certainty in the estimate of the contract value, a valuation of the contract is requested to the counterparty of the transaction.

At present, rate options for BSG include only caps and floors and are measured using the Black model. This choice is based on the consideration that alternative models would present the problem of adjusting pricing parameters and would not provide significant improvement of the price estimate. Further elements supporting this choice are connected with the consideration that a wide amount of implicit volatility is reported by the main info-providers, together with the price of options themselves for standard maturity dates.

Both “plain vanilla” and “exotic” exchange options (European or American barrier options) are evaluated according to the Black&Scholes model. The necessary volatility curves for the calculation of implicit volatility for each option as well as the market rate and exchange quotations used for contract valuations are taken from the main info-providers in the Bank (Bloomberg). In the case of exotic options structures that are more complex and do not allow reasonable certainty about the value of the contract, when possible a measurement algorithm is developed internally or, when possible, an evaluation of the same is requested from a third party external to the transaction. These evaluations, when available, are part of the determination of the price together with the measurement provided by the counterpart in the transaction.

The fair value of ABS securities in the portfolio is measured according to Bloomberg pricing models. These models use a DCF (Discounted Cash Flow) method, using as input data the latest data provided by the company in charge of the securitisation.

The discount margin level used is deduced from the one reported by research done by financial analysts, according to secondary market spreads for similar securities as to underlying security, country and rating. This level may be rectified to take into consideration external factors (and typical factors of the security) such as the different quality of assets, the performance of the underlying security, etc.

The techniques adopted to measure investments classified as AFS each time are:

- the income approach, which determines the value of the company on the basis of its ability to yield income; to that end, the value of the company is calculated by discounting the expected income; average future earnings are estimated on the basis of corporate data (financial statements, interim reports, budgets, industrial plans); in addition to risk-free securities, the discount rate considers a premium for investments in business activities;

- multiple of earnings, which determines the company value on the basis of specific indicators relating market prices to financial statement values; multiple of earnings are expressed by a sample of quoted companies as similar as possible to the company to be evaluated; a number of factors are taken into account to establish sample homogeneity: belonging to the same economic sector, the size of the company, financial risks deriving from the corporate financial structure, market shares, geographical diversification, and so on.

- other measurement techniques commonly used by those participating in the market to give a price to companies if these techniques have demonstrated that the provide reliable estimates of the prices practices in current market transactions (these include the use of the equity method, which determines the value of the company on the basis of the algebraic balance between assets and liabilities; analysis on the basis of historic data obtained from company information; financial statements, half-yearly reports, budgets, industrial plans).

Unquoted close-end funds and private equity funds are evaluated on the basis of the data provided by the issuer or, if these data are not provided, according to the amount appropriated to the fund. Special attention will be paid to ABS funds where, as far as possible, the investor reports for the individual ABS will be analysed, which are available for individual funds in most cases.

In relation to the loans issued by each Bank in the Group and that subject to hedging, the determination of the fair value for the purposes of evaluating the efficacy of the same is done by using the discounted cash flow method. To that end, the same risk-free curve utilised to measure the hedges is used, and the spread paid is obtained from the security coupon according to that indicated in the hedging contract.

Relative to hedged fixed-rate loans, fair value measurement requires financial consistency between the assets hedged and the IRSs agreed upon for the hedge. At every measurement of the fair value, the cumulative stock of hedging IRSs and the cumulative stock of hedged loans are prepared, making sure that the amortisation profile of the IRSs corresponds to the amortisation profile of the hedged loans;

Subsequently, the weighted average fixed rate of hedging IRSs is calculated. Said rate represents the average effective market rate at the time of the agreement of the various IRSs and reflects the interest that was meant to be hedged at the time of loan hedging. In other words, such rate represents the actual part of interest hedged by the IRS, distinguishing it from the part of interest that is not hedged and corresponds to the spread (expressing customer risk rather than rate risk).

At this point, it is appropriate to prepare, beginning from the residual amortisation plan of the principal of all loans hedged, the amortisation plan of loans to be used for measuring the fair value. This plan shall be made up of loan principal flows (the difference between the residual debt of a period and the residual debt of the previous period according to the contractual amortisation plan) and the interest obtained applying the weighted average rate of hedging IRSs (expressing the hedged interest) to the residual debt for the period.

The instalments obtained can then be updated adopting the same yield curve used for measuring the fair value of hedging IRSs, and decreased in proportion to the actual hedging percentage at the date of the valuation (ratio between the “surfaces” – i.e. the sum of remaining principals for the respective duration days – of amortisation plans for the remaining IRS amount divided by the remaining loan credit), so as to obtain the current value of hedged loans. The remaining credit (multiplied by the hedging percentage) at the date of loan valuation shall be deducted from this value.

According to this procedure (current value of the instalments minus residual debt reduced by the hedging percentage), the fair value at the end of financial year T and the fair value at the end of financial year T-1 is calculated. The difference between these two figures is the fair value delta of the loans, which is then compared with the fair value delta of the IRSs.

A.4.2 Measurement processes and sensitivity

The use of the above described measurement techniques and models requires the selection and quantification of certain parameters, which vary based on the financial instrument to be measured.

These parameters are chosen and set up on the calculation software at the moment of a request for measurement of a new instrument.

The Risk Management service is responsible for validating the parameters defined.

Every time the fair value of the financial instrument is calculated, the above parameters are rechecked and updated both by the area that performs the calculation and by the Risk Management service.

By way of example, the main observable parameters can be linked to:

Rate Curve

This is a combination of yield rates for zero coupon synthetic securities, ordered in increasing order relative to the maturity dates of the same. These rates are obtained using consolidated “bootstrapping” methods from the market rates for deposits (for maturities no greater than 12 months) and market rates for IRSs (for maturities of no less than 2 years). For the purposes of the measurements, the mid rates are used. This is at the base of the measurement of all OTC derivatives.

Volatility Matrix

This consists of a table that indicates, for every maturity date and strike for the options considered, the relative value of the mid volatility quoted on the market. This table is the same for all cap/floor type options.

Spread

To measure bonds issued by the Group (structured or not), two types of spread are taken into consideration:

- *Rate spread*: represents the margin on the variable rate subject to indexing (for variable rate securities) or the IRS rate for the same maturity dates (for fixed rate securities).

- *Price spread*: represents the differential to be subtracted from the theoretical price to take into account the riskiness of the structure.

Implicit Volatility

This is the volatility of the option prices quoted for a specific underlying instrument.

For every maturity date, the value of the at-the-money options is considered, or a weighted average of the volatility of the prices of the options quoted (even with different strikes) for the same maturity date.

Dividend Yield

In the measurement methodologies, this is obtained as the annualised logarithm of the ratio between dividend and price, as reported by the main information providers (Bloomberg, Reuters, etc.), for maturity dates analogous to those of the derivative in question.

By way of example, the main non-observable parameters can be linked to:

Correlations

To calculate correlations, the logarithmic variations in the prices of the two assets (exchange rate and price of the underlying instrument) considered are used. To that end, data relative to the last 6 months is generally used.

Historic Volatility

In the case that the implicit volatility of the options is not quoted, the historic volatility of the underlying instrument is used, measured on the basis of the standard deviation of the logarithmic variations of the prices of the same.

There is no significant observable input used for fair value measurement of assets and liabilities in level 3.

A.4.3 Fair value hierarchy

Any transfers from a fair value hierarchy level to another occurs as a function of the evolution of the characteristics of each security and in relation to the criteria which determine classification in the various levels of the fair value hierarchy. They are identified twice a year, at the time of the half-yearly and annual financial statements. The input levels which determine classification in a given fair value level are listed in these financial statements, in Part A.2 – The Main Accounting Items, in the section Input for the determination of fair value.

At 31 December 2015, there were no securities that improved or worsened their liquidity and had changed their fair value hierarchy level with respect to 31 December 2014.

A.4.4 Other information

The Bank does not manage groups of financial assets or liabilities on the basis of their net exposure to market risks or credit risk.

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	31/12/2015			31/12/2014		
	L1	T2	T3	L1	T2	T3
1. Financial assets held for trading	20,434	38,871	2	6,197	43,995	2
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Financial assets available for sale	1,630,284	11,817	47,963	1,277,486	5,338	5,287
4. Hedging derivatives	-	10,282	-	-	14,177	-
5. Tangible assets	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**1,650,718**	**60,970**	**47,965**	**1,283,683**	**63,510**	**5,289**
1. Financial Liabilities Held for Trading	21	18,986	-	15	24,235	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	115,422	-	-	136,676	-
Total	**21**	**134,408**	**-**	**15**	**160,911**	**-**

Key
L1=Level 1
L2=Level 2
L3=Level 3

At 31 December 2015, there were no securities that have changed their fair value hierarchy level with respect to 31 December 2014.

The table below summarises the impacts of application of IFRS 13, divided by derivative type:

Net impact CVA - DVA *(in Euro)*

		31/12/2015	
		CVA	DVA
IRS		-253,608	-
CAP_FLOOR		-	16,353
COLLAR		-874	-
OPT_CURRENCY OPTION		-21,177	4,193
NDF_NON DELIVERABLE FORWARD		-134,710	7
OUTRIGHT		-215,332	994
IMPLICIT OPTIONS ON MORTGAGES		-	578,167
	Total	**-625,701**	**599,715**

a.4.5.2 Annual changes in financial assets at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Hedging derivatives	Tangible assets	Intangible assets
1. Opening balances	**2**	**-**	**5,287**	**-**	**-**	**-**
2. Increases	**-**	**-**	**42,709**	**-**	**-**	**-**
2.1. Purchases	-	-	1,250	-	-	-
2.2. Profits allocated to:						
2.2.1. Income Statement	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2. Shareholders' Equity	X	X	41,459	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-
3. Decreases	**-**	**-**	**33**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	-	-
3.2. Repayments	-	-	-	-	-	-
3.3. Losses allocated to:						
3.3.1. Income Statement	-	-	6	-	-	-
- of which capital losses	-	-	6	-	-	-
3.3.2. Shareholders' Equity	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	27	-	-	-
4. Closing balance	**2**	**-**	**47,963**	**-**	**-**	**-**

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis *fair value*	31/12/2015				31/12/2014			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	-	-	-	-	-	-	-	-
2. Due from banks	1,584,035	-	187,223	1,397,187	1,577,495	-	336,188	1,241,898
3. Due from customers	6,734,457	-	120	6,876,060	6,961,361	-	212	7,137,619
4. Tangible assets held for investment	5,171	-	-	8,197	5,368	-	-	2,829
5. Non-current assets and asset groups held for sale	-	-	-	-	-	-	-	-
Total	**8,323,663**	**-**	**187,343**	**8,281,444**	**8,544,224**	**-**	**336,400**	**8,382,346**
1. Due to banks	335,183	-	-	335,183	26,851	-	-	26,851
2. Due to customers	8,642,587	-	-	8,642,587	8,554,817	-	-	8,554,817
3. Securities in issue	678,825	-	681,617	67	954,848	-	971,462	68
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**9,656,595**	**-**	**681,617**	**8,977,837**	**9,536,516**	**-**	**971,462**	**8,581,736**

Key
VB=book value L1=Level 1 L2=Level 2 L3=Level 3

Part B – Information on the balance sheet

Assets

Section 1 – Cash and cash equivalents - item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2015	Total 31/12/2014
a) Cash on hand	130,426	130,632
b) Demand deposits at Central Banks	-	-
Total	**130,426**	**130,632**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: Product breakdown

Item/Value	Total 31/12/2015			Total 31/12/2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	20,387	20,231	2	6,181	20,725	2
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	20,387	20,231	2	6,181	20,725	2
2. Equity securities	-	-	-	-	-	-
3 UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements receivable	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**20,387**	**20,231**	**2**	**6,181**	**20,725**	**2**
B. Derivative instruments						
1. Financial derivatives:	47	18,640	-	16	23,270	-
1.1 held for trading	47	18,576	-	16	23,203	-
1.2 linked to fair value option	-	-	-	-	-	-
1.3 other	-	64	-	-	67	-
2. Credit Derivatives:	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 linked to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**47**	**18,640**	**-**	**16**	**23,270**	**-**
Total (A+B)	**20,434**	**38,871**	**2**	**6,197**	**43,995**	**2**

The item mainly consists of debt securities, in particular Italian government securities, senior bank bonds and bonds issued by banks within the Banca Sella Group. As 31 December 2015 the following types of securities are held:

- Italian government securities 46%;
- Senior bank bonds 4%;
- Banca Sella Group bonds 50%.

The amount of this component increased in absolute terms by around € 13.7 million, going from € 26.9 million at 31 December 2014 to € 40.6 million at 31 December 2015.

2.2 Financial assets held for trading: breakdown by debtors/issuers

Item/Value	Total 31/12/2015	Total 31/12/2014
A. CASH ASSETS		
1. Debt securities	**40,620**	**26,908**
a) Governments and Central Banks	18,672	6,176
b) Other public bodies	-	-
c) Banks	21,948	20,732
d) Other issuers	-	-
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCITS units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**40,620**	**26,908**
B. DERIVATIVE INSTRUMENTS		
a) Banks	9,679	10,145
b) Customers	9,008	13,141
Total B	**18,687**	**23,286**
Total (A + B)	**59,307**	**50,194**

Section 4 - Financial assets available for sale - Item 40

4.1 Financial assets available for sale: product breakdown

Item/Value	31/12/2015			31/12/2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	1,628,795	11,817	-	1,277,486	5,338	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,628,795	11,817	-	1,277,486	5,338	-
2. Equity securities	-	-	44,600	-	-	3,141
2.1 Carried at fair value	-	-	41,459	-	-	-
2.2 Carried at cost	-	-	3,141	-	-	3,141
3. UCITS units	1,489	-	1,250	-	-	-
4. Loans	-	-	2,113	-	-	2,146
Total	**1,630,284**	**11,817**	**47,963**	**1,277,486**	**5,338**	**5,287**

The item shows a significant increase, mainly due to the purchase of debt securities, with the objective of increasing portfolio profitability and pursuing a diversification strategy for financial assets, with particular attention paid to the quality of the bonds from banks and financial and corporate issuers in the portfolio. The sub-item debt securities mainly consists of Italian government securities and bank and corporate bonds with high creditworthiness. During the year, a small stock portion was also introduced through the purchase of units from certain specialised SICAVs. At 31 December 2015 the following types of securities are held:

- BOT 0.1%;
- CCT 29.4%;
- BTP 61.8%;
- Senior bank bonds 5.9%;
- Senior corporate bonds 2.8%.

During the year, the amount of this segment increased by around € 360.6 million, reaching a value of € 1,640.6 million at 31 December 2015. The greatest changes involve BTPs (Euro +406.6 million, approximately), CCTs (Euro -139.1 million, approximately), bank bonds (Euro +49.5 million, approximately) and corporate bonds (Euro +46 million, approximately). The latter category was introduced during the second half of 2015.

Equity securities also include the minority investments, which saw a significant increase given that in November 2015 Visa Inc. and Visa Europe (in which the Bank holds minority investments) announced that an agreement had been reached for the strategic acquisition of Visa Europe by Visa Inc., aimed at creating a single company that operates both on the US and European market. The transaction will involve the acquisition of Visa Europe shares by Visa Inc., leading to total potential capital gains of € 21.2 billion. Following this operation, extraordinary dividends will be distributed. € 11.5 billion will be paid in cash, while Visa Inc. shares worth around € 5 billion will be assigned when the operation is completed. A further earn-out of a maximum of € 4.7 billion will be distributed four years after the operation is completed. The transaction is subject to a series of regulatory authorisations and is planned to be completed by September 2016. At the end of December 2015, Visa released initial estimates of the proceeds accruing to the shareholders of Visa Europe. Based on this information, as a principal member, Banca Sella would receive cash of around € 32 million for the sale of its share in Visa Europe, as well as Visa Inc. shares with a value of around € 11 million. On the basis of these assumptions, the carrying value of the minority interest was updated, and the valuation reserve was also updated.

The item loans refers to the “ComitalSaiag S.P.A.” position, now “Cuki Group S.p.A.”, for which a restructuring agreement was signed in 2009 which generated a partial conversion of the total amount owed to the Bank equal to € 9 million, of which € 4.7 million in restructured loans and € 4.3 million in equity instruments (participating financial instruments). The write-down on these instruments totalled € 2.5 million. At 31 December 2015, the book value of the financial instrument was € 1.818 million. At 31 December 2014, it amounted to € 1.824 million.

Based on that required under the accounting standards, minority investments included under item 40 in the assets are subjected to impairment tests, as reported below.

Impairment tests on equity investments

As required by the IFRS, equity investments were subjected to impairment tests in order to ascertain whether there was objective evidence that might indicate that the book value of such assets was not fully recoverable. The impairment test aims at assessing the existence of impairment indicators. In particular, the impairment test is carried out on companies that reported negative economic results in the last financial year and/or companies whose Shareholders' Equity is lower than the carrying amount.

Below is a list of the companies subject to impairment tests (figures in thousands of euro):

Companies subject to impairment testing *(figures in thousands of euro)*				
Company	**CGU**	**Carrying value (before any adjustments in the year) A**	**Shareholders' equity amount B**	**Difference B-A**
CBA Vita	CGU A	2,133	1,697	-436

The accounting standards of reference state that the impairment test must be carried out comparing the book value of the CGU with its recoverable value. If this value is found to be less than the book value, a value adjustment must be recognised. The recoverable value of the CGU is the greater of its fair value net of selling costs and its value in use. Below is a list of methods to calculate the recoverable amount of the CGU and the results of the impairment tests:

Impairment test: CGU subject to further analysis			
CGU	**Recoverable value**	**Method of calculation used**	**Result of impairment test**
CGU A	Fair value	Sale value	The impairment test detected no loss in value

The table below shows the elements used for each CGU for calculating the recoverable amount:

CGU: elements used to calculate recoverable value			
CGU	**Basic assumptions**	**Method of determination**	**Note**
CGU A	Sale value	The measurement includes the disposal value and the forecast for dividends that the investee will distribute before its disposal.	At the end of November 2015, the parent company Banca Sella Holding signed a sale agreement with HDI for all the units in CBA Vita held by the group. The disposal is planned to be completed by the end of the first half of 2016.

Conclusions

From the analysis performed, it can be seen that the recoverable value of the CGU is greater than the carrying value.

4.2 Financial assets available for sale: breakdown by debtors/issuers

Item/Value	Total 31/12/2015	Total 31/12/2014
1. Debt securities	**1,640,612**	**1,282,824**
a) Governments and Central Banks	1,499,763	1,235,328
b) Other public bodies	-	-
c) Banks	86,438	40,649
d) Other issuers	54,411	6,847
2. Equity securities	**44,600**	**3,141**
a) Banks	-	-
b) Other issuers:	44,600	3,141
- insurance companies	2,133	2,133
- financial companies	41,993	534
- non-financial companies	259	259
- other	215	215
3. UCITS units	**2,739**	**-**
4. Loans	**2,113**	**2,146**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other entities	2,113	2,146
Total	**1,690,064**	**1,288,111**

As 31 December 2015, there were no equity securities issued by subjects classified as bad loans or unlikely to pay.

Section 6 - Loans to banks - Item 60

6.1 Loans to banks: product breakdown

Type of transaction/Value	Total 31/12/2015				Total 31/12/2014			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**-**
1. Term deposits	-	X	X	X	-	X	X	X
2. Statutory reserve	1	X	X	X	-	X	X	X
3. Repurchase agreements receivable	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	**1,584,034**	**-**	**187,223**	**1,397,187**	**1,577,495**	**-**	**336,188**	**1,241,898**
1. Loans	1,397,187	-	-	1,397,187	1,241,897	-	-	1,241,898
1.1 Current accounts and demand deposits	1,207,556	X	X	X	1,043,349	X	X	X
1.2 Term deposits	83,688	-	-	-	79,308	-	-	-
1.3. Other loans and advances:	105,943	X	X	X	119,240	X	X	X
- Repurchase agreements receivable	-	X	X	X	-	X	X	X
- Financial leasing	-	X	X	X	-	X	X	X
- Other	105,943	X	X	X	119,240	X	X	X
2. Debt securities	186,847	-	187,223	-	335,598	-	336,188	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	186,847	X	X	X	335,598	X	X	X
Total	**1,584,035**	**-**	**187,223**	**1,397,187**	**1,577,495**	**-**	**336,188**	**1,241,898**

Key: FV=fair value VB=book value

Debt securities consist exclusively of bonds issued by Banca Sella Holding. During the year, the segment decreased by about € 148.8 million. The decrease is entirely due to the maturity of bonds that were only partially renewed.

Section 7 - Loans to customers - Item 70

7.1 Due from customers: product breakdown

Type of transaction/Value	Total 31/12/2015						Total 31/12/2014					
	Book value			Fair Value			Book value			Fair Value		
	Non-impaired	Impaired		L1	L2	L3	Non-impaired	Impaired		L1	L2	L3
		Acquired	Other					Acquired	Other			
Loans	**6,174,638**	**-**	**559,699**	**-**	**-**	**6,876,060**	**6,400,814**	**-**	**560,334**	**-**	**-**	**7,137,619**
1. Current accounts	665,522	-	136,148	X	X	X	841,980	-	148,796	X	X	X
2. Repurchase agreements receivable	412	-	-	X	X	X	-	-	-	X	X	X
3. Mortgage loans	3,687,755	-	322,163	X	X	X	3,581,966	-	281,268	X	X	X
4. Credit cards, personal loans and loans on salary-backed loans	247,011	-	7,044	X	X	X	269,717	-	8,493	X	X	X
5. Financial leasing	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans and advances	1,573,938	-	94,344	X	X	X	1,707,151	-	121,777	X	X	X
Debt securities	**120**	**-**	**-**	**-**	**120**	**-**	**212**	**-**	**-**	**-**	**212**	**-**
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	120	-	-	X	X	X	212	-	-	X	X	X
Total	**6,174,758**	**-**	**559,699**	**-**	**120**	**6,876,060**	**6,401,026**	**-**	**560,334**	**-**	**212**	**7,137,619**

The growth in the item can be attributed to the increase in repurchase agreements, negotiated exclusively with the Clearing and Guarantee House, using liquidity created by reducing the compulsory reserves with the central bank, as explained above.

Other loans include advances in foreign currencies, and other receivables and payables associated with institutional counterparties.

The drop in mortgages issued to customers is due to maturities and early repayments which occurred during the year for loans existing with the subsidiaries Biella Leasing and Consel (in particular, the early repayments are associated with the latter). For operational reasons, these loans are renewed by Banca Sella, if necessary, which is the Group’s commercial bank.

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Value	Total 31/12/2015			Total 31/12/2014		
	Non-impaired	Impaired		Non-impaired	Impaired	
		Acquired	Other		Acquired	Other
1. Debt securities	**120**	**-**	**-**	**212**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public bodies	-	-	-	-	-	-
d) Other issuers	120	-	-	212	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	120	-	-	212	-	-
- insurances	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**6,174,638**	**-**	**559,699**	**6,400,814**	**-**	**560,334**
a) Governments	834	-	55	567	-	-
b) Other public bodies	9,504	-	3,223	14,597	-	26
c) Other entities	6,164,300	-	556,421	6,385,650	-	560,308
- non-financial companies	2,602,709	-	404,434	2,828,097	-	413,824
- financial companies	1,297,706	-	1,558	1,279,992	-	1,798
- insurances	4,006	-	-	20	-	-
- other	2,259,879	-	150,429	2,277,541	-	144,686
Total	**6,174,758**	**-**	**559,699**	**6,401,026**	**-**	**560,334**

Section 8 - Hedging derivatives - Item 80

8.1 Hedging derivatives: breakdown by hedge type and level

	FV 31/12/2015			NV 31/12/2015	FV 31/12/2014			NV 31/12/2014
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives								
1) Fair value	-	10,282	-	201,639	-	14,177	-	270,356
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**10,282**	**-**	**201,639**	**-**	**14,177**	**-**	**270,356**

Key: FV = fair value NV= notional value

8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transaction/Type of hedging	Fair value						Cash flows		Foreign investments
	Micro					Macro	Micro	Macro	
	interest rate risk	exchange rate risk	credit risks	price risk	more than one risk				
1. Financial assets available for sale	-	-	-	-	-	x	-	x	x
2. Receivables	-	-	-	x	-	x	-	x	x
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x
4. Portfolio	x	x	x	x	x	2,234	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	**-**	**-**	**-**	**-**	**-**	**2,234**	**-**	**-**	**-**
1. Financial liabilities	8,048	-	-	x	-	x	-	x	x
2. Portfolio	x	x	x	x	x	-	x	-	x
Total liabilities	**8,048**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	x	x	x	x	x	x	-	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	-	x	-	-

Section 9 - Fair value adjustment of financial assets subject to macrohedging in portfolios - Item 90

9.1 Fair value adjustments of hedged assets: breakdown by hedged portfolio

Value adjustments of hedged assets / Values	Total 31/12/2015	Total 31/12/2014
1. Increases	**110,546**	**133,803**
1.1 of specific portfolios:	110,546	133,803
a) receivables	110,546	133,803
b) financial assets available for sale	-	-
1.2 total	-	-
2. Decreases	**-**	**-**
2.1 of specific portfolios:	-	-
a) receivables	-	-
b) financial assets available for sale	-	-
2.2 total	-	-
Total	**110,546**	**133,803**

9.2 Assets subject to macrohedging for interest rate risk

Hedged assets	Total 31/12/2015	Total 31/12/2014
1. Receivables	623,447	668,409
2. Financial assets available for sale	-	-
3. Portfolio	-	-
Total	**623,447**	**668,409**

Section 11 – Property and equipment - Item 110

11.1 Property and equipment used in operations: breakdown of assets measured at cost

Asset/Amount	Total 31/12/2015	Total 31/12/2014
1.1. Owned assets	**33,828**	**34,825**
a) land	4,793	4,793
b) buildings	14,686	15,203
c) furniture	679	692
d) electronic equipment	8,792	9,087
e) other	4,878	5,050
1.2 Assets purchased under finance leases	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
Total	**33,828**	**34,825**

11.2 Tangible assets held for investment: breakdown of assets measured at cost

Asset/Amount	Total 31/12/2015				Total 31/12/2014			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**5,171**	**-**	**-**	**8,197**	**5,367**	**-**	**-**	**8,197**
a) land	2,708	-	-	3,109	2,699	-	-	3,190
b) buildings	2,463	-	-	5,088	2,668	-	-	5,007
2. Assets purchased under finance leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**5,171**	**-**	**-**	**8,197**	**5,367**	**-**	**-**	**8,197**

Tangible fixed assets are measured at cost. In order to verify the sustainability of the book value used in the balance sheet for fixed assets, the Bank annually commissions precise appraisals from important firms that are external to the Group.

11.5 Property and equipment used in operations: annual changes

Asset/Amount	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**4,793**	**22,784**	**16,645**	**86,644**	**42,636**	**173,503**
A.1 Total net reductions in value	-	(7,581)	(15,953)	(77,557)	(37,586)	(138,678)
A.2 Net opening balance	**4,793**	**15,203**	**692**	**9,087**	**5,050**	**34,825**
B. Increases	**-**	**170**	**251**	**4,413**	**1,409**	**6,243**
B.1 Purchases	-	170	251	4,406	1,409	6,236
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Increases in fair value charged to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	7	-	7
B.6 Transfers from properties held for investment	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**687**	**264**	**4,708**	**1,581**	**7,240**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	687	258	4,650	1,572	7,167
C.3 Impairment losses charged to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
C.4 Reductions in fair value charged to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	2	2
C.6 Transfers to:	-	-	-	-	-	-
- a) Tangible assets held for investment	-	-	-	-	-	-
- b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	6	58	7	71
D. Net closing balance	**4,793**	**14,686**	**679**	**8,792**	**4,878**	**33,828**
D.1 Total net impairments	-	(8,268)	(16,184)	(81,180)	(38,936)	(144,568)
D.2 Gross closing balance	**4,793**	**22,954**	**16,863**	**89,971**	**43,814**	**178,395**
E. Carried at cost	-	-	-	-	-	-

11.6 Tangible assets held for investment: annual changes

	Total	
	Land	Buildings
A. Opening balance	**2,699**	**2,668**
B. Increases	**9**	**24**
B.1 Purchases	9	24
- of which business combinations	-	-
B.2 Capitalised improvement expenses	-	-
B.3 Increases in fair value	-	-
B.4 Writebacks	-	-
B.5 Positive exchange differences	-	-
B.6 Transfers from buildings for business purposes	-	-
B.7 Other changes	-	-
C. Decreases	**-**	**229**
C.1 Sales	-	-
- of which business combinations	-	-
C.2 Depreciation	-	229
C.3 Reductions in fair value	-	-
C.4 writedowns from impairment	-	-
C.5 Negative exchange rate differences	-	-
C.6 Transfers from other asset portfolios	-	-
a) buildings for business purposes	-	-
b) non-current assets held for sale	-	-
C.7 Other changes	-	-
D. Closing balance	**2,708**	**2,463**
E. Carried at fair value	3,109	5,088

Section 12 – Intangible assets - Item 120

12.1 Intangible assets: breakdown by type of asset

Asset/Amount	Total 31/12/2015		Total 31/12/2014	
	Defined duration	Indefinite duration	Defined duration	Indefinite duration
A.1 Goodwill		13,755	x	14,197
A.2 Other intangible assets	37,903	-	34,027	-
A.2.1 Assets carried at cost:	37,903	-	34,027	-
a) Intangible assets generated internally	6,957	-	6,130	-
b) Other assets	30,946	-	27,897	-
A.2.2 Assets carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**37,903**	**13,755**	**34,027**	**14,197**

Information on impairment tests for goodwill and intangible assets with unlimited life

International Accounting Standards 36 ("IAS 36") establishes the accounting and information principles for the financial statements relative to impairment of certain types of assets, including goodwill, illustrating the principles that a company must follow to ensure that their assets are registered in the financial statements (carrying value) at a value that does not exceed the recoverable value.

On the basis of that required under IAS 36, it is necessary to compare the carrying value of the goodwill with its recoverable value each time that there is an indication that the asset may have been subject to impairment and in any case at least once per year, at the time that the financial statements are prepared (Impairment Test). The recoverable value of the goodwill is estimated in reference to the business units (Cash Generating Unit – CGU) in as much as the goodwill is not able to produce cash flow in an autonomous manner.

The CGU is the smallest identifiable group of assets able to generate financial inflows independent of incoming financial flows generated by other assets or groups of assets for which the Group has independent detection of the results through the management reporting systems. Below are indicated, with the aid of an appropriate summary table, the following:

- the CGUs identified and hence subjected to impairment tests with the relative goodwill allocated;
- the calculation methods used and the results of the impairment tests for each CGU;
- the description of the methods used;
- the elements used to calculate the recoverable value for each CGU;
- the sensitivity analysis performed;
- the conclusions obtained.

Entity subjected to impairment test and relative goodwill allocated *(figures in thousands of euro)*

Company	CGU	Goodwill allocated (before writedowns for the year)
Milan branch, Via Gonzaga[(1)]	CGU 1	542
former Cram branches [(2)]	CGU 2	3,209
S.Michele and Fasano branches [(3)]	CGU 3	1,938
Branches formerly BCC Camastra and Naro[(4)]	CGU 4	442
Branches formerly Banca Generoso Andria [(5)]	CGU 5	8,066
Total		**14,197**

[(1)] The entity subject to *impairment* test is the branch of Milan, Via Gonzaga, purchased by the Banco di Chiavari e della Riviera in 1999.

[(2)] The entity subject to *impairment* test is the group of branches purchased by the former-CRA Monreale in 1997.

[(3)] The entity subject to *impairment* test is the group of branches purchased by Credito Cooperativo di Ostuni in 2000.

[(4)] The entity subject to *impairment* test is the group of branches purchased by the former BCC Unione di Camastra e Naro in 2001

[(5)] The entity subject to *impairment* test is the group of branches purchased by the former-Banca Generoso Andria in 2001.

The accounting standards of reference state that the *impairment* test must be carried out comparing the book value of the CGU with its recoverable value. If this value is found to be less than the book value, a value adjustment must be recognised. The recoverable value of the CGU is the greater of its fair value net of selling costs and its value in use.

Below is a list of the CGU that were analysed and, on the side, the recoverable value calculation methods used and the results of the *impairment* test:

Impairment test: CGU subject to further analysis			
CGU	**Recoverable value**	**Method of calculation used**	**Result of impairment test**
CGU 1	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value
CGU 2	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value
CGU 3	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value
CGU 4	Value in use	Dividend discount model (excess capital version)	The impairment test showed a loss of value of € 442 thousand, equal to the full amount of the goodwill pertaining to CGU 4
CGU 5	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value

Method used.

The **Value in use** is defined as the present value of future cash flows expected to derive from an asset. The model used to determine the value in use is DDM (dividend discount model), to discount back distributable income flows after meeting the prescribed minimum capital requirement (excess capital).

The estimate of value in use incorporates the following elements:

- estimate of future financial flows that the company envisages will derive from the continuous use of the asset and its final sale: the most recent budget plans relative to the CGU as approved by the governing bodies of the company were used as references. Apart from the period covered by said plans, the projections of financial flows are estimated by using, for the following years, a steady “g” rate aligned with the expected long-term inflation rate (2%);
- discount rate (Ke): it was calculated according to the Capital Asset Pricing Model (CAPM). The formula used is: Ke = Rf + Beta * (RM- Rf) where:
  - Rf is the risk free rate determined using the average, recorded in the second half of 2015 of the return on ten-year BTPs. The value used was 1.75%;
  - (Rm – Rf) is the market risk premium. It is given by the difference between the yield of a diversified portfolio made up of all risky investments available in the market and the yield of a risk-free security. The value used was 5.5%;
  - Beta is the specific risk of the investment. Beta expresses the correlation between the yield of one risky investment and the yield of the market portfolio. The value used was 1.132.
- capital requirement for the estimate of distributable cash flows (when the excess capital method was used): it was defined using that envisaged in the Supervisory regulations.

Future cash flows were determined by using three-year plans for each CGU.

These three-year plans were prepared using reasonable and consistent preconditions representing the best estimate that the corporate management could make within the range of possible economic conditions that may occur during the useful life of each entity.

The table below shows the elements used for calculating the recoverable amount:

CGU: elements used to calculate recoverable value			
CGU	**Basic assumptions**	**Method of determination**	**Note**
CGU 1 CGU 2 CGU 3 CGU 4 CGU 5	Economic and balance sheet variables	Three-year plan (2015–2017) approved by the Board of Directors of the company. Estimates of future cash flows were adjusted to take into account under-returns that may be seen with respect to the expected results.	- Forecast data takes into account a gradual recovery in the profitability of the retail bank business of the CGUs, mainly deriving from improved net revenues from services connected with management of indirect funding and managed savings.
	Discount rate	Estimated using the Capital Asset Pricing Model (CAPM).	- The discount rate used was 8.0%, incorporating a Beta of 01.132.
	Profitability beyond the forecast period	Constant annual growth rate at 2%	

Sensitivity analysis

Since the value in use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses were carried out, as required by the IFRS.

In particular, the impact on the value in use of an increase in discounting rates and a decrease in the growth rate for terminal value purposes was verified.

The table below shows the sensitivity of the value in use of the various CGU to the increase/decrease in the discount rate or growth rate "g" to +/- 25 bps.

Sensitivity analysis				
CGU	**Change in discount rate**		**Change in profit growth rate**	
	Change considered	**% sensitivity of the value in use**	**Change considered**	**% sensitivity of the value in use**
CGU 1	+ 25 b.p.	3.80%	- 25 b.p.	3.2%
CGU 2	+ 25 b.p.	3.90%	- 25 b.p.	3.3%
CGU 3	+ 25 b.p.	3.70%	- 25 b.p.	3.1%
CGU 4	entity for which goodwill was entirely written down			
CGU 5	+ 25 b.p.	3.5%	- 25 b.p.	2.9%

In addition, analyses aimed at highlighting the value limits beyond which impairment testing of the CGU in question would require recognition of impairment. To this end the table below illustrates the "g" rate and the discount rate that would lead, assuming the same cash flows to be discounted, to values in use that are aligned to the book values.

Sensitivity analysis		
CGU	**Discount rate**	**"G" rate**
CGU 1	N.S. (> 25%)	N.S. (<-25%)
CGU 2	N.S. (> 25%)	N.S. (<-25%)
CGU 3	22.1%	N.S. (<-25%)
CGU 4	entity for which goodwill was entirely written down	
CGU 5	12.9%	-4.9%

Conclusions

From the analysis done, it was necessary to writedown the book value for all of the goodwill relative to the "former BCC Camastra and Naro" group of branches (CGU 4).

The sensitivity analysis revealed no indications of reduction in value requiring registration.

12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets:		Total
		Defined	Undefined	Defined	Undefined	
A. Gross opening balance	**15,245**	**12,145**	**-**	**143,882**	**-**	**171,272**
A.1 Total net reductions in value	(1,048)	(6,015)	-	(115,985)	-	(123,048)
A.2 Net opening balance	**14,197**	**6,130**	**-**	**27,897**	**-**	**48,224**
B. Increases	**-**	**3,365**	**-**	**12,925**	**-**	**16,290**
B.1 Purchases	-	3,365	-	12,925	-	16,290
- of which business combinations	-	-	-	-	-	-
B.2 Increases in internal intangible assets	x	-	-	-	-	-
B.3 Writebacks	x	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- at shareholders' equity	x	-	-	-	-	-
- to income statement	x	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**442**	**2,537**	**-**	**9,876**	**-**	**12,855**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Writedowns	442	2,537	-	9,795	-	12,774
- Amortisation/depreciation	x	2,537	-	9,795	-	12,332
- Write-downs	442	-	-	-	-	442
+ shareholders' equity	x	-	-	-	-	-
+ income statement	442	-	-	-	-	442
C.3 Reductions in fair value	-	-	-	-	-	-
- at shareholders' equity	x	-	-	-	-	-
- to income statement	x	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	81	-	81
D. Net closing balance	**13,755**	**6,957**	**-**	**30,946**	**-**	**51,658**
D.1 Total net adjustments	(442)	(8,553)	-	(125,791)	-	(134,786)
E. Gross closing balance	**14,197**	**15,510**	**-**	**156,737**	**-**	**186,444**
F. Carried at cost	-	-	-	-	-	-

Section 13 - Tax assets and liabilities - Item 130 of the assets and 80 of the liabilities

Current tax assets: breakdown

	Total 31/12/2015	Total 31/12/2014
Prepaid taxes	55,044	41,613
Credits for withholdings	-	-
Assets from inclusion in tax consolidation	-	20
Tax credits	10,422	10,380
Total	**65,466**	**52,013**

Current tax liabilities: breakdown

	Total 31/12/2015	Total 31/12/2014
Provisions for direct taxes	11,538	57,847
Provisions for indirect taxes	-	-
Total	**11,538**	**57,847**

13.1 Deferred tax assets: breakdown

	IRES	IRAP	OTHER	31/12/2015	31/12/2014
Losses on receivables	104,673	9,492	-	114,165	105,852
Provisions for sundry risks and liabilities	2,589	33	-	2,622	3,741
Depreciation and valuation of properties	1,932	93	-	2,025	1,908
Sundry administrative expenses	290	-	-	290	275
Personnel expenses	461	-	103	564	994
Collective valuations of sureties issued	413	-	-	413	396
Goodwill and costs related to purchase of company branch	331	66	-	397	401
Other assets	1,000	70	-	1,070	1,290
Total deferred tax assets (charged to income statement)	111,689	9,754	103	121,546	114,857
Depreciation and valuation of properties	1,525	307	-	1,832	1,832
Val. financial assets avail. for sale	3	1	-	4	-
Total deferred tax assets (charged to shareholders' equity)	**1,528**	**308**	**-**	**1,836**	**1,832**

13.2 Deferred tax liabilities: breakdown

	IRES	IRAP	OTHER	31/12/2015	31/12/2014
Different calculation of amortisation of tangible assets	449	90	-	539	539
Gain on sale of business unit	2,108	-	-	2,108	3,161
Writedowns of receivables	-	-	-	-	-
Goodwill	2,393	481	-	2,874	2,635
Other liabilities	-	-	-	-	7
Total deferred taxes (charged to Income Statement)	**4,950**	**571**	**-**	**5,521**	**6,342**
Measurement of available-for-sale financial assets	2,937	2,772	-	5,709	4,908
Depreciation and valuation of properties	746	150	-	896	897
Total deferred taxes (charged to Shareholders' Equity)	**3,684**	**2,922**	**-**	**6,605**	**5,805**

13.3 Changes in deferred tax assets (charged to income statement)

	Total 31/12/2015	Total 31/12/2014
1. Opening amount	**114,858**	**97,418**
2. Increases	**10,400**	**32,384**
2.1 Deferred tax assets recognised during the year	10,400	32,373
a) relating to previous years	198	64
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) other	10,202	32,308
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	11
3. Decreases	**3,712**	**14,945**
3.1 Deferred tax assets cancelled during the year	3,712	14,945
a) reversals	3,710	14,895
b) writedowns for unrecoverable items	2	50
c) changes in accounting policies	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
a) change in tax credits as per Law 214/2011	-	-
b) other	-	-
4. Closing amount	**121,546**	**114,858**

13.3.1 Changes in prepaid tax pursuant to Italian Law no. 214/2011 (charged to income statement)

	Total 31/12/2015	Total 31/12/2014
1. Opening amount	**106,251**	**90,940**
2. Increases	**8,316**	**27,943**
- of which business combinations	-	-
3. Decreases	**5**	**12,632**
3.1 Reversals	4	-
3.2 Transformation into tax receivables	-	-
a) deriving from period losses	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	1	12,632
- of which business combinations	-	-
4. Closing amount	**114,562**	**106,251**

Italian Law no. 225 of 2010, Art. 2, paragraphs from 55 to 56-bis, provided for the convertibility into tax credits of prepaid taxes recognised in the financial statements against writedowns of loans and goodwill, in particular when the individual financial statements show a loss for the year. This convertibility introduced an additional and supplementary method of recovery, which is capable of ensuring the recovery of these types of prepaid taxes in every situation, irrespective of the future profitability of the company. This convertibility is therefore, in every case, a sufficient condition for the recognition and maintenance in the financial statements of these kinds of prepaid taxes. The above arrangement was also confirmed in the joint Bank of Italy, Consob and ISVAP Document no. 5 of 15 May 2012 (issued in the context of the Coordination Forum on Application of the IASs/IFRSs), in relation to the “Accounting Treatment of Deferred Tax Assets deriving from Italian Law 214/2011”.

13.4 Changes in deferred taxes (charged to income statement)

	Total 31/12/2015	Total 31/12/2014
1. Opening amount	**6,342**	**7,010**
2. Increases	**383**	**386**
2.1 Deferred taxes recognized during the year	383	386
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) others	383	386
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,205**	**1,054**
3.1 Deferred taxes cancelled during the year	1,205	1,054
a) reversals	1,205	1,054
b) due to changes in accounting policies	-	-
c) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing amount	**5,521**	**6,342**

13.5 Changes in deferred tax assets (charged to shareholders' equity)

	Total 31/12/2015	Total 31/12/2014
1. Opening amount	**1,832**	**1,837**
2. Increases	**4**	**-**
2.1 Prepaid taxes during the year	4	-
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) others	4	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**5**
3.1 Prepaid taxes cancelled during the year	-	5
a) reversals	-	5
b) writedowns for unrecoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing amount	**1,836**	**1,832**

13.6 Changes in deferred tax liabilities (charged to shareholders' equity)

	Total 31/12/2015	Total 31/12/2014
1. Opening amount	**5,804**	**3,313**
2. Increases	**2,843**	**2,491**
2.1 Deferred taxes recognized during the year	2,843	2,491
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) others	2,843	2,491
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**2,042**	**-**
3.1 Deferred taxes cancelled during the year	2,042	-
a) reversals	2,042	-
b) due to changes in accounting policies	-	-
c) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing amount	**6,605**	**5,804**

Section 15 – Other assets - Item 150

15.1 Other assets: breakdown

	Total 31/12/2015	Total 31/12/2014
Payment orders to sundry others being debited	12,736	15,636
Current account cheques drawn against third parties	29,139	27,501
Current account cheques drawn against the bank	1,850	2,649
Fees, commissions and other income being debited	36,492	32,674
Expenses for improvements to third-party properties	1,315	1,233
Portfolio write-downs	305	421
Advances and receivables/suppliers	803	389
Charges/invoices to be issued to customers	3,324	1,441
disputed items not deriving from lending transactions	452	545
Deferrals on administrative expenses and fees	3,721	3,639
Receivables from policyholders, intermediaries and reinsurers	261	269
Deferred tax (no income tax)	61,500	50,873
Provisional payments guaranteeing pending judgements	188	188
Other	15,144	16,405
Total	**167,230**	**153,863**

Part B – Information on the balance sheet

Liabilities

Section 1 - Due to banks - Item 10

1.1 Due to banks: breakdown

Type of transaction/Value	31/12/2015	31/12/2014
1. Due to central banks	**-**	**-**
2. Due to banks	**335,183**	**26,851**
2.1 Current accounts and demand deposits	40,904	5,664
2.2 Term deposits	293,710	20,418
2.3 Loans and advances	23	23
2.3.1 Repurchase agreements payable	-	-
2.3.2 Other	23	23
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Other payables	546	746
Total	**335,183**	**26,851**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**335,183**	**26,851**
Total fair value	**335,183**	**26,851**

The item increased due to the growth in time deposits stipulated with the parent company.

Section 2 - Due to customers - Item 20

2.1 Due to customers: product breakdown

Type of transaction/Value	31/12/2015	31/12/2014
1. Current accounts and demand deposits	7,356,416	7,070,459
2. Term deposits	904,064	809,034
3. Loans	117,152	339,494
3.1 Repurchase agreements payable	46,251	297,286
3.2 Other	70,901	42,208
4. Liabilities for repurchase commitments of own equity instruments	-	-
5. Other payables	264,955	335,830
Total	**8,642,587**	**8,554,817**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**8,642,587**	**8,554,817**
Fair value	**8,642,587**	**8,554,817**

Direct deposits including repurchase agreements were essentially stable. The decrease in repurchase agreements was compensated for by the increase in current accounts and demand deposits.

2.3 Details of item 20 “Due to customers”: structured debt

	Total 31/12/2015	Total 31/12/2014
A. Due to customers		
A.1 Structured deposits	11,098	9,349

Section 3 - Outstanding securities - Item 30

3.1 Securities in issue: product breakdown

Type of securities / Values	Total 31/12/2015				Total 31/12/2014			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	678,758	-	681,617	-	954,780	-	971,462	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	678,758	-	681,617	-	954,780	-	971,462	-
2. Other securities	67	-	-	67	68	-	-	68
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	67	-	-	67	68	-	-	68
Total	**678,825**	**-**	**681,617**	**67**	**954,848**	**-**	**971,462**	**68**

The decrease in bonds is due to the fact that securities maturing during the year were not entirely replaced with new issues.

3.2 Details of item 30 "Securities issued": subordinated securities

	Total 31/12/2015	Total 31/12/2014
A. Outstanding securities		
Outstanding securities - Convertible	-	-
Outstanding securities - Subordinated	325,217	342,662

3.3 Details of item 30 Securities issued with specific hedges

	Total 31/12/2015	Total 31/12/2014
1. Securities subject to micro-hedging of fair value:	185,013	282,592
a) interest rate risk	185,013	282,592
b) exchange rate risk	-	-
d) other risks	-	-
2. Securities subject to micro-hedging of cash flows:	-	-
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-

Section 4 - Financial liabilities held for trading - Item 40

4.1 Financial liabilities held for trading: product breakdown

Type of transaction/Value	Total 31/12/2015					Total 31/12/2014				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	x	-	-	-	-	x
3.1.2 Other bonds	-	-	-	-	x	-	-	-	-	x
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	x	-	-	-	-	x
3.2.2 Other	-	-	-	-	x	-	-	-	-	x
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	x	21	18,986	-	x	x	15	24,235	-	x
1.1 Held for trading	x	21	18,986	-	x	x	15	24,235	-	x
1.2 Linked to fair value option	x	-	-	-	x	x	-	-	-	x
1.3 Other	x	-	-	-	x	x	-	-	-	x
2. Credit derivatives	x	-	-	-	x	x	-	-	-	x
2.1 Held for trading	x	-	-	-	x	x	-	-	-	x
2.2 Linked to fair value option	x	-	-	-	x	x	-	-	-	x
2.3 Other	x	-	-	-	x	x	-	-	-	x
Total B	**x**	**21**	**18,986**	**-**	**x**	**x**	**15**	**24,235**	**-**	**x**
Total (A+B)	**x**	**21**	**18,986**	**-**	**x**	**x**	**15**	**24,235**	**-**	**x**

Key

FV = fair value

FV* = fair value calculated excluding changes in value due to changes in credit worthiness of the issuer with respect to the issue date

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

As 31 December 2015, there were no positions relative to technical exposures.

Section 6 - Hedging derivatives - Item 60

6.1 Hedging derivatives: breakdown by hedge type and hierarchy level

	Fair Value	31/12/2015		NV	Fair Value	31/12/2014		NV
	L1	L2	L3	31/12/2015	L1	L2	L3	31/12/2014
A. Financial derivatives	**-**	**115,422**	**-**	**476,655**	**-**	**136,676**	**-**	**526,445**
1) Fair value	-	115,422	-	476,655	-	136,676	-	526,445
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**115,422**	**-**	**476,655**	**-**	**136,676**	**-**	**526,445**

Key

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

6.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transaction/Type of hedging	Fair Value						Cash flows		Foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange rate risk	Credit risks	Price risk	More than one risk				
1. Financial assets available for sale	-	-	-	-	-	x	-	x	x
2. Receivables	-	-	-	x	-	x	-	x	x
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x
4. Portfolio	x	x	x	x	x	115,422	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	**-**	**-**	**-**	**-**	**-**	**115,422**	**-**	**-**	**-**
1. Financial liabilities	-	-	-	x	-	x	-	x	x
2. Portfolio	x	x	x	x	x	-	x	-	x
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	x	x	x	x	x	x	-	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	-		-	-

Section 10 – Other liabilities - Item 100

10.1 Other liabilities: breakdown

	Total 31/12/2015	Total 31/12/2014
Amounts available to customers and banks for ongoing operations	4,233	2,628
Amounts payable to tax authorities on behalf of third parties	24,482	25,260
Accrued liabilities	-	8
Deferred income	1,466	1,486
Bank transfers and other payments due	51,238	52,883
Due from suppliers and fees to be charged to sundry	29,713	22,345
Debts for personnel expenses	10,011	11,176
Debts to collective valuations of guarantees and commitments	1,502	1,440
Fees payable to statutory auditors and directors	440	441
Contributions payable to sundry entities	7,348	7,301
Advances and deposits from customers	924	871
Other	5,414	6,000
Total	**136,772**	**131,838**

Section 11 - Provision for employee severance pay - Item 110

11.1 Employee severance indemnities: annual changes

	Total 31/12/2015	Total 31/12/2014
A. Opening balance	**35,505**	**30,531**
B. Increases	**229**	**6,116**
B.1 Provisions for the year	120	184
B.2 Other changes	109	5,932
C. Decreases	**3,724**	**1,143**
C.1 Payments paid	1,920	1,070
C.2 Other changes	1,804	73
D. Closing balance	**32,010**	**35,505**

As indicated in IAS Accounting Principle 19R (article 76), the hypotheses relative to the phenomena that determine the timing and the size of future costs which the company must sustain to pay benefits for its employees must represent the “best estimate” possible in terms of the future performance of the phenomena in question.

The technical outlines were reviewed at the time of this evaluation, observing the experience of Group companies relative to the period from 01.07.2011–30.06.2015. The parameters shown in the following sections were applied to each company in question.

Demographic assumptions

- **deaths**: the ISTAT survival rate tables were used, broken down by age and sex, updated in 2014;
- **retirement, resignations/dismissals, contract expiration**: these causes were deduced by observing corporate data, with the exception of retirement, for which that foreseen in the current regulations was assumed. For staff with non-permanent contracts, the time period was brought to the expiration of the contract (as no contractual terms guaranteed the continuation of the employment relationship) and no early dismissal was assumed before the expiration of the contract. The actuarial evaluation considered the start dates for pension arrangements envisaged in Decree Law 201 of 6 December 2011, containing *“Urgent Provisions for growth, fairness and the consolidation of public accounts”* converted, with amendments by Law 214 of 22 December 2011, as well as the regulations to adjust the requirements to access the pension system to the increases in life expectancy pursuant to article 12 of Decree law 78 of 31 May 2010, converted, with amendments by Law 122 of 30 July 2010.
- **Severance indemnity advances**: in order to take into account the effects that these advances may have on the timing of the severance pay and the discounting of the company’s debt, the probability for the disbursement of a part of accrued amounts was calculated. The annual advance frequency, deduced by observing corporate data, was 2%, (previously 1.9%) while the severance indemnity percentage requested as advance was reduced from 70% to 64%, which is the maximum percentage allowed under the current regulations;
- **complementary pensions**: those who have always paid all their severance indemnity contributions to supplementary pension funds relieve the Company from paying severance indemnities and, therefore, were not assessed. As regards other employees, the evaluation was carried out considering the choices made by employees as 31.12.2015;
- **Additional amount of remuneration (Qu. I. R.)**: the employee’s choice to exercise the option for a severance indemnity advance in their paystub may be made at any time between 1 March 2015 and 30 June 2018 and is irrevocable. Actuarial assessment was done considering the choices effectively made by employees as of the assessment date (31.12.2015) as communicated by Group companies, without making any hypotheses.

Economic - financial assumptions

The method established by IAS 19R requires the adoption of underlying economic - financial techniques that affect both the prospective flow development (following salary increases and foreseeable inflationary scenarios) and, above all, the discounting of the estimated debt of the Company as of the measurement date. The discount rate is, in fact, the main assumption significantly affecting the results of the processing.

More specifically, the following hypotheses are adopted in actuarial valuation:

1. inflation: a 1% rate was adopted for 2016 and 1.5% for the subsequent years, as the average scheduled inflation scenario taken from the "2015 Economy and Finance Update Note".
2. wage rises: this phenomenon was considered by taking into account two components: the first regarding merit and contractual issues, the second inflation.
   - with reference to the first component, we adopted an annual increase rate of zero.
   - as regards the second component mentioned, we considered inflation levels mentioned above in point 1.

   Please remember that the assumption relating to salary trends was only adopted for the companies of the Group not required to deposit severance indemnity with the INPS-managed Treasury Fund insofar as only for these the actuarial valuation of severance indemnity continues to consider the shares of future annual severance indemnities accrued by employees (and not paid into social security funds).
3. discount rates: determined with reference to the market yield of leading company bonds at the measurement date. In this connection, the AA Composite rate curve was used (source: Bloomberg) with reference to 31 December 2015.

Section 12 - Provisions for risks and charges - Item 120

12.1 Provisions for risks and charges: breakdown

Item/Value	Total 31/12/2015	Total 31/12/2014
1. Company pension funds	-	-
2. Other provisions for risks and charges	11,214	14,754
2.1 legal disputes and customer complaints	6,598	6,789
2.2 personnel expenses	965	3,005
2.3 operational risks	1,815	1,814
2.4 supplementary customer allowance and goodwill compensation for termination of agency relationship	254	197
2.5 other	1,582	2,949
Total	**11,214**	**14,754**

A list is provided below of the most significant contingent liabilities – deriving from disputes and litigation of a fiscal nature – which the Bank has assessed as possible but not probable and with reference to which, therefore, no provisions have been set aside:

- the former Banca Arditi Galati merged by incorporation in 2011: tax assessment notice with findings pertaining to the IRES taxable base. Period 2005. Total disputed amount (including taxes, interest and fines): approximately € 0.7 million. Amounts paid provisionally while judgement is pending: approximately € 0.2 million. Judgement of first instance favourable Awaiting judgement of second instance.

12.2 Provisions for risks and charges: annual changes

Item/Component	Pension funds	Legal disputes and customer complaints	Operational risks	Personnel expenses	Supplementary customer allowance and goodwill compensation for termination of agency relationship	Other	Total
A. Opening balance	**-**	**6,789**	**1,814**	**3,005**	**197**	**2,949**	**14,754**
B. Increases	**-**	**1,327**	**1**	**791**	**76**	**237**	**2,432**
B.1 Provisions for the year	-	1,311	-	668	76	237	2,292
B.2 Changes due to passing of time	-	7	-	-	-	-	7
B.3 Changes due to fluctuations in discount rate	-	9	1	-	-	-	10
B.4 Other changes	-	-	-	123	-	-	123
- Company aggregation operations	-	-	-	-	-	-	-
- exchange difference (-)	-	-	-	-	-	-	-
- Other changes (+)	-	-	-	123	-	-	123
C. Decreases	**-**	**1,518**	**-**	**2,831**	**19**	**1,604**	**5,972**
C.1 Utilization in the period	-	930	-	2,826	19	1,565	5,339
C.2 Changes due to fluctuations in discount rate	-	-	-	-	-	-	-
C.3 Other changes	-	588	-	5	-	39	633
- Company aggregation operations	-	-	-	-	-	-	-
- exchange difference (-)	-	-	-	-	-	-	-
- other changes (-)	-	588	-	5	-	39	633
D. Closing balance	**-**	**6,598**	**1,815**	**965**	**254**	**1,582**	**11,214**

Section 14 - Corporate Equity - Items 130, 150, 160, 170, 180, 190 and 200

14.1 “Capital” and “Treasury shares”: breakdown

	31/12/2015			31/12/2014		
	Shares issued	Shares subscribed and not yet paid up	Total	Shares issued	Shares subscribed and not yet paid up	Total
A. Capital						
A.1 ordinary shares	334,228	-	334,228	281,597	-	281,597
A.2 Savings shares	-	-	-	-	-	-
A.3 preference shares	-	-	-	-	-	-
A.4 Other shares	-	-	-	-	-	-
B. Treasury shares						
B.1 ordinary shares	-	-	-	-	-	-
B.2 Savings shares	-	-	-	-	-	-
B.3 preference shares	-	-	-	-	-	-
B.4 Other shares	-	-	-	-	-	-

14.2 Capital - Number of shares: annual changes (in Euro)

Item/Type	Ordinary	Other
A. Total shares at start of period	**563,193,010**	**-**
- fully paid up	563,193,010	-
- not fully paid up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening	**563,193,010**	**-**
B. Increases	**105,263,158**	**-**
B.1 New issues	105,263,158	-
- for payment	105,263,158	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	105,263,158	-
- free of charge	-	-
- for employees	-	-
- for directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of businesses	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing	**668,456,168**	**-**
D.1 Treasury shares (+)	-	-
D.2 Total shares at end of period	668,456,168	-
- fully paid up	668,456,168	-
- not fully paid up	-	-

Following the capital increase, completed in December, note that the 105,263,158 shares subscribed all have “single votes”, while the previous 563,193,010 shares were converted into “multiple vote” shares (3 votes per share).

At the end of the financial year, the share capital requirements due to the suspended tax regime were € 8,235 thousand, illustrated below:

- Restrictions deriving from the incorporation of Banca Sella Sud Arditi Galati made in 2011 of € 5,784 thousand, consisting of:
  - property revaluation reserve under law no. 266 of 2005, art. 1, paragraph 469: € 5,090 thousand;
  - revaluation reserve under law no. 413 of 1991: € 694 thousand
- Restrictions deriving from the incorporation of Banca Sella Nord Est Bovio Calderari made in 2012 of € 2,451 thousand, consisting of:
  - ✓ property revaluation reserve under Law no. 413 of 1991; € 1,457 thousand;
  - ✓ revaluation reserve under Law no. 72 of 83; € 62 thousand;
  - ✓ revaluation reserve under Law no. 576 of 75; € 28 thousand;
  - ✓ property realignment reserve under Law no. 266 of 2005, art. 1, paragraph 469: € 904 thousand.

14.3 Capital: other information (in Euro)

	Total 31/12/2015	**Total 31/12/2014**
Par value per share (zero if the shares have no nominal value)	0.5	0.5
- Fully paid up:		
Number	668,456,168	563,193,010
Of which with single vote	*105,263,158*	*563,193,010*
Of which with multiple vote	*563,193,010*	-
Value	334,228,084	281,596,505
Contracts in place for the sale of shares:		
Number of shares under contract	-	-
Total value	-	-

The Bank does not hold, nor has it held, nor bought or sold during the period, any treasury shares or shares of the parent company Banca Sella Holding.

14.4 Retained earnings: other information

of profits:	31/12/2015	31/12/2014
Legal Reserve	35,666	27,959
Statutory Reserve	93,571	67,879
Extraordinary reserve	34,604	11,542
Free	*31,559*	*8,497*
Restricted under the terms of Law 266/05 Art 1 paragraph 469	*3,045*	*3,045*
Reserve pursuant to Lgs. Dec. 218/90 Art. 7	1,145	1,145
Reserve for purchase of company divisions from Group companies	(1,274)	(1,274)
Reserve, application of IAS 8 - change in discounting criteria severance indemnity	(1,102)	(1,102)
IAS/IFRS adoption reserve	(1)	(1)
Profits/losses carried forward, application of IAS 8	(4,127)	(4,127)
Deficits from previous years	(416)	(416)
Total profit reserves	**158,066**	**101,605**
other reserves:	**31/12/2015**	**31/12/2014**
Group company merger deficit reserve	(70,614)	(70,614)
Reserve for purchase of company divisions from Group companies	(63,380)	(63,380)
Reserve for the transfer of company divisions to Group companies	244	244
Total other reserves	**(133,750)**	**(133,750)**
Total profit and other reserves	**24,316**	**(32,145)**

Proposed allocation of profit

	31/12/2015	31/12/2014
Profit for the year	6,012,219.83	64,230,089.61
to the Legal Reserve, pursuant to Articles of Association	1,202,443.97	25,692,035.84
to the Legal Reserve, pursuant to Articles of Association	721,466.38	7,707,610.75
to Shareholders		
€ 0.00539 dividend per share	3,602,978.75	7,698,848.45
number of shares	668,456,168	563,193,010
to the Fund for charity and sundry donations	70,000.00	70,000.00
the remainder to the Extraordinary reserve	415,330.73	23,061,594.57

Given the nature of the disclosure, the table is shown in Euro cents, with the exception of the dividend and the number of shares.

Breakdown of Reserves use (prepared pursuant to article 2427, paragraph 7-bis of the Italian Civil Code)

	Amount	Possibility of utilization (*)	Proportion available for distribution	Summary of utilizations in the three previous years	
				To cover losses	For other reasons
Capital	**334,228**				
Equity reserves					
Share premium reserve	366,090	A - B - C	366,090	-	-
Profit reserves					
Legal reserve	35,666	A (1) - B	-	-	-
Statutory reserve	93,571	B	-	-	-
Extraordinary reserve	34,604	A - B - C	34,604	-	-
Restricted extraordinary reserve, article 7, Amato	1,145	A - B(2) - C(3)	1,145	-	-
Reserve for conferment of company division from Group companies	(1,274)	---	(1,274)	-	-
Application reserve, IAS 8	(1,102)	---	(1,102)	-	-
Reserve, application of IAS 8 - change in discounting	(4,126)	---	(4,126)	-	-
IAS/IFRS adoption reserve, Legislative Decree 38/05, article 7, paragraph 4	(1)	---	(1)	-	-
Valuation reserves					
Valuation reserve, assets available for sale, Legislative Decree 38/05, article 7, paragraph 2	44,418	---(5)	-	-	-
Group company merger surplus reserve	(70,614)	---	(70,614)	-	-
Actuarial reserve for severance indemnity provision	(3,896)	---	(3,896)	-	-
Other reserves					
Reserve for the transfer of company divisions to Group companies	244	A - B(2) - C(3)	244	-	-
Reserve for conferment of company division from Group companies	(63,380)	---	(63,380)	-	-
Total	**765,573**		**258,835**		
Proportion not available for distribution pursuant to Art 2426 no. 5 C.C.			-		
Remainder of proportion available for distribution			258,835		

(*) Key: A: for capital increase B: to cover losses C: for distribution to shareholders

(1) Can be used for capital increase (A) for the portion that exceeds one fifth of share capital.

(2) If used to cover losses (B) no profits can be distributed until the reserve has been reinstated or its amount correspondingly reduced. The reduction must be made after a resolution made by an extraordinary shareholders' meeting, without following the provisions of paragraphs 2 and 3 in article 2445 of the Civil Code.

(3) If not allocated to capital the reserve may be reduced only in accordance with the provisions of paragraphs 2 and 3 of Art. 2445 of the Civil Code. If distributed to shareholders it counts towards the taxable income of the company.

(5) The reserve is unavailable pursuant to article 6 of Legislative Decree 38/2005.

Other information

1. Guarantees issued and Commitments

Transactions	Amount 31/12/2015	Amount 31/12/2014
1) Financial guarantees issued	32,603	64,431
a) Banks	16	16,837
b) Customers	32,587	47,594
2) Commercial guarantees issued	174,561	187,765
a) Banks	1,058	454
b) Customers	173,503	187,311
3) Irrevocable commitments to disburse funds	191,788	276,457
a) Banks	2,147	6,015
i) usage certain	2,147	6,015
ii) usage uncertain	-	-
b) Customers	189,641	270,442
i) usage certain	22,951	122
ii) usage uncertain	166,690	270,319
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as collateral for third-party obligations	-	500
6) Other commitments	-	-
Total	**398,952**	**529,153**

2. Assets pledged as collateral against own liabilities and commitments

Portfolios	Amount 31/12/2015	Amount 31/12/2014
1. Financial assets held for trading	-	-
2. Financial assets carried at fair value	-	-
3. Financial assets available for sale	5,856	11,787
4. Financial assets held to maturity	-	-
5. Due from banks	37,970	282,000
6. Due from customers	-	-
7. Tangible assets	-	-

4. Management and broking for third parties:

Type of services	Amount 31/12/2015	Amount 31/12/2014
1. Orders carried out on behalf of customers	**-**	**-**
a) purchases	-	-
1. settled	-	-
2. not settled	-	-
b) sales	-	-
1. settled	-	-
2. not settled	-	-
2. Portfolio management	**1,731,760**	**1,621,176**
a) Individual	1,731,760	1,621,176
b) Collective	-	-
3. Custody and administration of securities	**23,028,584**	**22,871,239**
a) third-party securities on deposit as custodian bank (exclusive of portfolios managed)	-	-
1. securities issued by the reporting bank	-	-
2. other securities	-	-
b) third party securities on deposit (excluding portfolio management): other	9,679,000	9,630,461
1. securities issued by the reporting bank	398,510	506,982
2. other securities	9,280,490	9,123,479
c) third-party securities deposited with third parties	10,815,825	10,765,484
d) own securities deposited with third parties	2,533,759	2,475,294
4. Other transactions	**107,757,497**	**105,134,135**

The item Other transactions includes the volume of work of receiving and sending orders, which is divided as follows:
- purchases: 54,573,829 thousand
- sales: 53,183,668 thousand

The table below shows a breakdown of indirect funding for the Bank:

Indirect deposits, breakdown

	31/12/2015	31/12/2014
a) Indirect deposits from management and broking for third parties (see previous table)		
- Portfolio management	1,731,760	1,621,176
- Custody and administration of securities:		
- third-party securities on deposit as custodian bank (exclusive of assets managed) - Other securities	-	-
- other third-party securities on deposit (excluding asset management): other - Other securities	9,280,490	9,123,479
b) Indirect deposits from insurance policies	1,059,294	823,717
Total indirect deposits	**12,071,544**	**11,568,372**

5. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar

Technical types	Gross amount of financial assets (a)	Net amount of financial assets netted in the balance sheet (b)	Net amount of financial assets shown in the balance sheet (c=a-b)	Related amounts not subject to netting in balance sheet		Net amount 31/12/2015 (f=c-d-e)	Net amount 31/12/2014
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	19,962	-	19,962	19,962	-	-	-
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2015	**19,962**	**-**	**19,962**	**19,962**	**-**	**-**	**x**
Total 31/12/2014	**24,323**	**-**	**24,323**	**24,323**	**-**	**x**	**-**

6. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar

Technical types	Gross amount of financial liabilities (a)	Net amount of financial liabilities offset in the balance sheet (b)	Net amount of financial liabilities reported in the balance sheet (c=a-b)	Related amounts not subject to netting in balance sheet		Net amount 31/12/2015 (f=c-d-e)	Net amount 31/12/2014
				Financial instruments (d)	Cash deposits made as collateral (e)		
1. Derivatives	124,684	-	124,684	19,962	104,722	-	6,608
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2015	**124,684**	**-**	**124,684**	**19,962**	**104,722**	**-**	**x**
Total 31/12/2014	**150,051**	**-**	**150,051**	**24,323**	**119,120**	**x**	**6,608**

Within the derivatives item found in the previous tables, OTC contracts consisted of swap, options on rates and options on currencies.

Rate swaps are evaluated according to the discounted cash flow (DCF) method, which is generally the market standard and uses the swap rate curve relative to the contact currency as the input data. This curve is periodically drawn from the curve published by the main info-providers (Bloomberg/Reuters) in the Bank. If the swap structure is more complex, and such as to prevent a reasonable certainty in the estimate of the contract value, a valuation of the contract is requested to the counterparty of the transaction.

The rate options are only represented by cap and floor, and are evaluated according to the Black&Schole model. This choice is based on the consideration that alternative models would present the problem of adjusting pricing parameters and would not provide significant improvement of the price estimate. Further elements supporting this choice are connected with the consideration that a wide amount of implicit volatility is reported by the main info-providers, together with the price of options themselves for standard maturity dates.

Both “plain vanilla” and “exotic” exchange options (European or American barrier options) are evaluated according to the Black&Scholes model. The necessary volatility curves for the calculation of implicit volatility for each option as well as the market rate and exchange quotations used for contract valuations are taken from the main info-providers in the Bank (Bloomberg). In the case of exotic options structures that are more complex and do not allow reasonable certainty about the value of the contract, when possible a measurement algorithm is developed internally or an evaluation of the same is requested from a third party external to the transaction. These evaluations are part of the determination of the price together with the measurement provided by the counterpart in the transaction.

Relative to exposure to OTC derivatives, quantification of the CVA correctives (credit value adjustment) for exposures receivable and DVA (debit value adjustment) for exposures payable is carried out for all contracts, with the exception of those covered by netting and collateralisation agreements (e.g. ISDA, CSA, etc.).

Based on that established in IAS 32, paragraph 42: “An asset and a financial liability must be offset and the net balance shown in the balance sheet when and only when an entity:

(a) currently has an exercisable right to offset for amounts recognised for accounting purposes;

(b) intends to settle net, or realise the asset and simultaneously settle the liability.

In recognising an operation to transfer a financial asset that does not meet the conditions required for its elimination, the entity must not offset the asset transferred and the associated liability (see IAS 39, paragraph 36)”.

The Bank does not make use of such netting and therefore does not hold it necessary to provide the information requested in circular 262/05 and subsequent updates.

Part C - Information on the Income Statement

Section 1 – Interest – Items 10 and 20

1.1 interest receivables and similar income: breakdown

Item/Technical type	Debt securities	Loans	Other transactions	Total 31/12/2015	Total 31/12/2014
1. Financial assets held for trading	361	-	880	1,241	776
2. Financial assets available for sale	15,123	16	-	15,139	12,815
3. Financial assets held to maturity	-	-	-	-	18,721
4. Due from banks	1,653	3,981	-	5,634	8,882
5. Due from customers	10	218,944	-	218,954	256,270
6. Financial assets carried at fair value	-	-	-	-	-
7. Hedging derivatives	x	x	6,877	6,877	7,512
8. Other assets	x	x	133	133	99
Total	**17,147**	**222,941**	**7,890**	**247,978**	**305,077**

The main decrease (-14.6%) regards interest on loans to customers following both a decrease in volumes and in average rates for interest receivable. In addition, interest income on securities held to maturity was also eliminated following the disposal of said portfolio in the second half of 2014.

Below are details on interest accrued on bad loans, unlikely to pay positions, past-due/loans in excess of thresholds and restructured exposures:

Interest receivables and similar income: breakdown of interest accrued on impaired loans

Item	31/12/2015	31/12/2014
- accrued on bad loans	115	74
- accrued on unlikely to pay positions	11,060	9,774
- accrued on loans past-due/overdue	802	1,353

1.3.1 Interest income on financial assets in foreign currencies

Item	31/12/2015	31/12/2014
Interest income on financial assets in foreign currencies	2,256	476

1.4 Interest expense and similar charges: breakdown

Item/Technical type	Payables	Securities	Other transactions	Total 31/12/2015	Total 31/12/2014
1. Due to central banks	-	x	-	-	-
2. Due to banks	516	x	-	516	989
3. Due to customers	34,561	x	-	34,561	55,574
4. Securities in issue	x	19,454	-	19,454	26,121
5. Financial liabilities held for trading	-	-	741	741	211
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and provisions	x	x	122	122	1
8. Hedging derivatives	x	x	24,267	24,267	24,597
Total	**35,077**	**19,454**	**25,130**	**79,661**	**107,493**

The reduction in interest expense (-25.9%) is a consequence both of the continued trend of lower funding costs, despite increased direct deposit volumes, and the decrease in the stock of outstanding securities.

1.5 Interest expense and similar charges: differentials relative to hedging transactions

Item	31/12/2015	31/12/2014
A. Positive differentials on hedging transactions	6,877	7,512
B. Negative differentials on hedging transactions	24,267	24,597
C. Balance (A-B)	**(17,390)**	**(17,085)**

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities in foreign currencies

Item	31/12/2015	31/12/2014
Interest expense on financial liabilities in foreign currencies	1,587	1,326

Section 2 - Commissions - Items 40 and 50

2.1 Commission income: breakdown

Type of service/Value	Total 31/12/2015	Total 31/12/2014
a) sureties issued	3,623	3,454
b) credit derivatives	-	-
c) asset management, brokerage and advisory services:	76,504	67,016
1. financial instruments trading	61	-
2. currency trading	1,517	1,361
3. portfolio management	14,635	12,506
3.1. individual	14,635	12,506
3.2 collective	-	-
4. custody and administration of securities	1,691	1,817
5. depositary bank	15	-
6. placement of securities	25,067	18,684
7. activities related to receiving and sending orders	21,613	23,132
8. consultancy activities	77	63
8.1 regarding investments	77	63
8.2 regarding financial structure	-	-
9. distribution of third party services	11,828	9,453
9.1 portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2 insurance products	9,963	8,078
9.3 other products	1,865	1,375
d) collection and payment services	114,923	106,026
e) servicing of securitisation transactions	1	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) activities for management of multilateral trading facilities	-	-
i) current account keeping and management	22,803	23,057
j) other services	39,695	39,431
Total	**257,549**	**238,984**

Fee and commission income increased with respect to 31 December 2014, thanks to greater net revenues from investment services, the increase in indirect funding volumes and an excellent trend in asset management. A positive contribution was also provided from electronic payment systems, due to an increase in e-commerce and POS volumes, as well as increased volumes from foreign payment systems. On the other hand, accessory fees on loans fell, due to a reduction in volumes contracted.

Below is the breakdown of the subitem relative to other services:

Fee and commission income: detail of the item "Other services"

	31/12/2015	31/12/2014
- credit and debit cards	10,898	10,933
- expense recovery on loans to customers	1,118	1,200
- fees and commissions on relations with credit institutions	567	600
- safe deposit box leasing	201	183
- recovery of postal, printing and similar expenses	1,841	1,839
- fees on loans to customers	20,967	20,593
Other	4,103	4,083
Total "other services"	**39,695**	**39,431**

2.2 Fee and commission income: product and service distribution channels

Channel/Amount	Total 31/12/2015	Total 31/12/2014
a) at own branches		
1. portfolio management	14,635	12,506
2. placement of securities	25,051	18,676
3. third party products and services	11,083	9,055
b) off-site sales		
1. portfolio management	-	-
2. placement of securities	16	9
3. third party products and services	201	227
c) other distribution channels		
1. portfolio management	-	-
2. placement of securities	-	-
3. third party products and services	544	171

2.3 Fee expense: breakdown

Service/Amount	Total 31/12/2015	Total 31/12/2014
a) sureties received	320	344
b) credit derivatives	-	-
c) asset management and brokerage services:	26,260	22,543
1. financial instruments trading	6,616	6,501
2. currency trading	-	-
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated by third-parties	-	-
4. custody and administration of securities	460	432
5. placement of financial instruments	78	-
6. off-site sales of financial instruments, products and services	19,106	15,610
d) collection and payment services	55,925	51,801
e) other services	1,833	1,573
Total	**84,338**	**76,261**

Below is the breakdown of the subitem relative to other services:

Fee expense: breakdown of subitem “Other services”

		31/12/2015	31/12/2014
Relations with banks		565	385
Loans		-	1
Other		1,268	1,187
	Total “Other services”	**1,833**	**1,573**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Item/Income	Total 31/12/2015		Total 31/12/2014	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	73	-	80	-
C. Financial assets carried at fair value	-	-	-	-
D. Equity investments	-	x	-	x
Total	**73**	**-**	**80**	**-**

The Bank holds only minority investments classified among financial assets available for sale.

Section 4 - Net income (losses) from trading activities - Item 80

4.1 Net gains (losses) on trading activities: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial assets held for trading	**117**	**65**	**(230)**	**(28)**	**(76)**
1.1 Debt securities	117	65	(230)	(28)	(76)
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans and advances	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange rate differences	**x**	**x**	**x**	**x**	**5,750**
4. Derivative instruments	**3,108**	**8,235**	**(2,620)**	**(8,290)**	**1,751**
4.1 Financial derivatives:	3,108	8,235	(2,620)	(8,290)	1,751
- On debt securities and interest rates	3,108	8,235	(2,620)	(8,290)	433
- On equity securities and stock indices	-	-	-	-	-
- On currencies and gold	x	x	x	x	1,318
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**3,225**	**8,300**	**(2,850)**	**(8,318)**	**7,425**

Section 5 – Result of hedging activity - Item 90

5.1 Net gains (losses) on hedging activities: breakdown

Income components/Amounts	Total 31/12/2015	Total 31/12/2014
A. Income from:		
A.1 Fair value hedging derivatives	24,074	2,906
A.2 Hedged financial assets (fair value)	-	37,402
A.3 Hedged financial liabilities (fair value)	4,369	3,965
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total hedging income (A)	**28,443**	**44,273**
B. Expenses from:		
B.1 Fair value hedging derivatives	4,995	40,903
B.2 Hedged financial assets (fair value)	23,256	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total expenses for hedging activities (B)	**28,251**	**40,903**
C. Net gains (losses) on hedging activities (A-B)	**192**	**3,370**

Section 6 - Profit (loss) from sale/repurchase - Item 100

6.1 Profit (loss) from sale/repurchase: breakdown

Item/Income component	Total 31/12/2015			Total 31/12/2014		
	Gains	Losses	Net income/losses	Gains	Losses	Net income/losses
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	464	371	93	-	-	-
3. Financial assets available for sale	21,143	3,302	17,841	10,192	782	9,410
3.1 Debt securities	21,143	3,302	17,841	10,185	782	9,403
3.2 Equity securities	-	-	-	7	-	7
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans and advances	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	76,288	1,164	75,124
Total assets	**21,607**	**3,673**	**17,934**	**86,480**	**1,946**	**84,534**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	81	-	81
3. Securities in issue	28	654	(626)	45	3,889	(3,844)
Total liabilities	**28**	**654**	**(626)**	**126**	**3,889**	**(3,763)**

Section 8 - Net value adjustments for impairment - Item 130

8.1 Net writedowns for impairment of loans: breakdown

Transactions/Income components	Writedowns (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		31/12/2015	31/12/2014
	Write-offs	Other		To	B	To	B		
A. Due from banks									
- Loans	-	-	-	-	-	-	225	225	(397)
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers									
Impaired loans acquired									
- Loans	-	-	x	-	-	x	x	-	-
- Debt securities	-	-	x	-	-	x	x	-	-
Other receivables									
- Loans	(2,027)	(131,600)	-	16,063	16,051	-	2,544	(98,969)	(103,107)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(2,027)**	**(131,600)**	**-**	**16,063**	**16,051**	**-**	**2,769**	**(98,744)**	**(103,504)**

A= from interest B= other write-backs

Writedowns improved, despite the revision of the analytical assessment parameters used for bad loans and unlikely to pay positions with revocation of credit lines, as already noted in the Report on Operations and in Part A - Accounting Policies of these Financial Statements. This had an effect on the amounts of adjustment provisions, also as a consequence of the loan disposal operation which occurred in December 2015.

8.2. Net writedowns due to deterioration of financial assets available for sale: breakdown

Transactions/Income components	Writedowns (1)		Write-backs (2)		Total 31/12/2015	Total 31/12/2014
	Specific		Specific			
	Write-offs	Other	To	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	-	-	-	-	-
C. UCITS units	-	-	x	x	-	-
D. Loans to banks	-	-	x	-	-	-
E. Loans to customers	-	(6)	-	-	(6)	(600)
F. Total	**-**	**(6)**	**-**	**-**	**(6)**	**(600)**

A= from interest B= other write-backs

The position refers to the writedown on the Comital Saiag (now Cuki Group) financial instrument, less than that in the previous year. For details on this position, please refer to the Report on Operations in these financial statements.

8.4 Net writedowns for impairment of other financial transactions: breakdown

Transactions/Income components	Writedowns (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		31/12/2015	31/12/2014
	Write-offs	Other		To	B	To	B		
A. Sureties issued	-	-	(62)	-	-	-	-	(62)	(405)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	(1)	-	-	1	-	-	-	(110)
E. Total	**-**	**(1)**	**(62)**	**-**	**1**	**-**	**-**	**(62)**	**(515)**

A= from interest B= other write-backs

Section 9 - Administrative Expenses - Item 150

9.1 Expenses for personnel: breakdown

Type of expense/Amount	Total 31/12/2015	Total 31/12/2014
1) Employees	155,731	152,116
a) Wages and Salaries	113,174	111,224
b) Social security contributions	28,471	26,898
c) Severance indemnities	2,920	3,557
d) Pension expenses	1,089	1,509
e) Provision for severance indemnities	120	184
f) Provision for pensions and similar obligations:	-	-
– defined contribution	-	-
- defined benefit	-	-
g) Payments into external supplementary pension funds:	5,200	4,797
– defined contribution	5,200	4,797
- defined benefit	-	-
h) Costs deriving from payment agreements based on own equity instruments	-	-
i) other employee benefits	4,757	3,946
2) Other current personnel	992	288
3) Directors and auditors	544	547
4) Retired personnel expenses	-	-
5) Recovery of costs of employees on secondment to other companies	(2,493)	(1,906)
6) Recovery of costs of employees on secondment within the Company	2,855	2,288
Total	**157,630**	**153,331**

9.2 Average number of employees per category

	Total 31/12/2015	Total 31/12/2014
1) Employees	**2,855**	**2,773**
a) executives	35	28
b) middle managers	773	714
c) remaining employees	2,047	2,031
2) Other personnel	**18**	**17**
Total	**2,873**	**2,790**

9.4 Other employee benefits

Type of expense/Amount	Total 31/12/2015	Total 31/12/2014
- early retirement incentives and provision to support income	106	94
- benefits for dependent children	91	85
- benefits in kind	1,651	1,446
- insurance expenses	1,545	1,379
- professional training courses	641	704
- travel expenses	64	16
Other	659	221
Total	**4,757**	**3,945**

9.5 Other administrative expenses: breakdown

Type of service/Value	Total 31/12/2015	Total 31/12/2014
Legal and notarial expenses	6,351	6,305
IT assistance and sundry advice	3,042	3,480
Printing and stationery	443	363
Leasing of electronic machines and software licences	504	403
Sundry rentals and expenses for services provided by third parties	35,072	30,072
Fees for data transmission and telephone	3,357	3,086
Postal and telegraphic expenses	3,114	3,410
Transport expenses	431	575
Cleaning of premises	876	910
Surveillance and escort of valuables	2,519	2,373
Electricity and heating	3,014	3,147
Rent of premises	18,195	18,606
Sundry insurance policies	1,004	1,003
Advertising and promotion	2,736	1,973
Entertainment expenses	233	224
Donations	102	236
Membership fees	830	772
Subscriptions and books	89	47
Information and inspections	2,649	1,935
Travelling expenses	1,826	1,704
Expenses for interbank network service	659	644
Expenses for web site	16	5
Pension expenses for financial promoters	105	-
Other	2,454	1,749
Maintenance and repair expenses	**8,196**	**8,255**
- Properties owned	240	336
- Movables	3,052	2,771
Hardware and software	4,904	5,148
Indirect taxes	**46,847**	**38,996**
- Stamp duty	36,997	36,664
- Substitute tax Pres. Dec. 601/73	1,381	1,224
- Single municipal tax (IMU)	302	255
- DGS and SRF contribution	7,356	-
- Other indirect taxes and duties	811	853
Total	**144,664**	**130,274**

The administrative expenses component increased, mainly due to Legislative Decrees no. 180 and 181 taking effect on 16 November 2015, which implemented in Italian legislation Directive 2014/59/EU (Banking Resolution and Recovery Directive, “BRRD”), creating a framework to restore and resolve credit institutions and investment companies and establishing the National Resolution Fund managed by the Bank of Italy. In 2015, these contributions amounted to around € 7.3 million, divided between the Single Resolution Fund (SRF), with € 1.3 million as the ordinary portion and € 4 million as the extraordinary portion, and the Deposit Guarantee Scheme (DGS), with € 2 million as an ordinary contribution. There was also an increase in costs associated with consulting, training, work assigned to Selir for outsourced activities and legal/dispute expenses connected with still high credit risk.

In accordance with art. 2427, paragraph 16-bis of the Italian Civil Code, the information required in relation to fees paid to the independent auditing firm are disclosed in the Explanatory Notes to the consolidated financial statements of the Banca Sella Group.

Section 10 - Net allocations to provisions for risks and charges - Item 160

10.1 Net provisions for risks and charges: breakdown

	Balances as of: 31/12/2015	Balances as of: 31/12/2014
Provisions for risks and charges for revocations	104	99
Provisions for personnel expenses	668	3,000
Provisions for legal disputes	943	1,143
Provisions for customer complaints	279	84
Provisions for employee disloyalty	1	-
Provisions for FISC	76	41
Other provisions	238	2,210
Reattributions to Income Statement relating to provisions for revocations	(10)	-
Reattributions to Income Statement relating to provisions for personnel expenses	(5)	-
Reattributions to Income Statement relating to legal disputes	(515)	(378)
Reattributions to Income Statement relating to customer complaints	(64)	(121)
Reattributions to Income Statement relating to other provisions	(39)	-
Total	**1,676**	**6,078**

The main reason for the decrease in the item is the reduction in allocations made to provisions for personnel expense with respect to 2014, the year in which it was necessary to establish a provision for employee resignations.

Section 11 - Net value adjustments on tangible assets - Item 170

11.1 Net writedown on tangible assets: breakdown

Asset/Income component	Amortisation/depreciation (a)	Impairment writedown (b) (b)	Write-backs (c)	Net income/losses (a + b + c) 31/12/2015
A. Tangible assets				
A.1 Company owned	7,395	-	-	7,395
- For business purposes	7,166	-	-	7,166
- For investment	229	-	-	229
A.2 Assets acquired through financial leasing	-	-	-	-
- For business purposes	-	-	-	-
- For investment	-	-	-	-
Total	**7,395**	**-**	**-**	**7,395**

Section 12 - Net value adjustments on intangible assets - Item 180

12.1 Net writedowns on intangible assets: breakdown

Asset/Income component	Amortisation/depreciation (a)	Impairment writedown (b) (b)	Write-backs (c)	Net income/losses (a + b + c) 31/12/2015
A. Intangible assets				
A.1 Company owned	12,333	-	-	12,333
- Generated internally by the company	2,538	-	-	2,538
- Other	9,795	-	-	9,795
A.2 Assets acquired through financial leasing	-	-	-	-
Total	**12,333**	**-**	**-**	**12,333**

Section 13 - Other operating income and expenses - Item 190

Other operating expenses/income

	31/12/2015	31/12/2014
Total other operating expenses	3,615	5,513
Total other operating income	67,904	68,239
Other operating expenses/income	**64,289**	**62,726**

13.1 Other operating expenses: breakdown

	Total 31/12/2015	Total 31/12/2014
Amortisation of expenses for improvements on third party assets	483	746
Losses connected to operating risk	2,288	3,487
Refunds of interest on collection and payment transactions	-	6
Penalties payable for contract defaults	2	2
Restitution of Fund/SICAV incentives to customers (MIFID)	-	449
Other charges	842	823
Total	**3,615**	**5,513**

13.2 Other operating income: breakdown

	Total 31/12/2015	Total 31/12/2014
Rents and instalments receivable	504	509
Charges to third parties and refunds received:	37,533	37,660
- taxes recovered	37,474	36,651
- insurance premiums and refunds	59	1,009
Expenses recovered and other revenues on current accounts and deposits	9,007	10,011
Income for software services	6,006	5,552
Recoveries of interest on collection and payment transactions	6	7
POS fees receivable	2,363	2,512
Administrative services rendered to third parties	5,871	5,595
Penalties receivable for contract defaults	19	15
Expenses recovered for services rendered in relation to credit recovery	3,140	3,383
Recovery of other expenses	-	1,859
Other income	3,455	1,136
Total	**67,904**	**68,239**

Section 16 - Writedowns on goodwill - Item 230

16.1 Writedowns on goodwill

	31/12/2015	31/12/2014
Goodwill impairment branches	442	1,048
Total	**442**	**1,048**

The item included the effects of the writedown on goodwill relative to the Camastra and Naro branches acquired in 2001 from the former BCC Unione di Camastra e Naro.

Section 17 - Profit (loss) from disposal of investments - Item 240

17.1 Profit (loss) from disposal of investments: breakdown

Income component/Amount	Total 31/12/2015	Total 31/12/2014
A. Properties	-	-
- Gains on sales	-	-
- Losses on sales	-	-
B. Other assets	12	5
- Gains on sales	12	6
- Losses on sales	-	(1)
Net income/losses	**12**	**5**

Section 18 - Income taxes for the period on current operations
Item 260

18.1 Income taxes for the year on continuing operations: breakdown

Income components/Amounts	Total 31/12/2015	Total 31/12/2014
1. Current taxes (-)	(9,617)	(58,259)
2. Change in current taxes of previous years (+/-)	111	2,845
3. Decreases in current taxes for the year (+)	-	20
3. bis Reduction in current taxes for the year for tax credits pursuant to law 214/2011 (+)	135	64
4. Changes in prepaid taxes (+/-)	6,686	17,429
5. Changes in deferred taxes (+/-)	822	667
6. Taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(1,863)	(37,234)

The trend for income taxes, which fell considerably (-95%) with respect to the previous financial year, can mainly be explained by a reduction in the result before taxes.

18.2 Reconciliation between theoretical tax burden and actual tax burden in the financial statements

Description	taxable amount	rate	Income taxes
Pre-tax profit from current operations	7,875		
Nominal rate (*)		33.06%	2,603
IRES adjustments			
Effects net of the participation exemption and dividend taxation		-0.21%	-17
Non-deductible interest expense		6.88%	542
Non-deductible costs		6.62%	521
Other changes - Ires taxable base		-0.62%	-49
Lower taxes of previous years		-3.90%	-307
Adjusted rate		41.82%	3,293
IRAP non-deductible personnel expense		6.34%	499
Other changes - Irap taxable base		-24.51%	-1,930
Effective rate		23.65%	1,862

Part D - Comprehensive income

Comprehensive income breakdown

COMPREHENSIVE INCOME BREAKDOWN

	Item	Gross amount	Income taxes	Net amount
10.	**Profit (loss) for the period**	**X**	**X**	**6,012**
	Other comprehensive income without transfer to income statement			
20.	Tangible assets	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	2,086	(848)	1,238
50.	Non-current assets held for sale	-	-	-
60.	Share of valuation reserves in relation to investments evaluated via the equity method	-	-	-
	Other comprehensive income with transfer to income statement			
70.	**Foreign investment hedging**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
80.	**Exchange rate differences:**	**-**	**-**	**-**
	a) changes in value	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
90.	**Cash flow hedging:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
100.	**Financial assets available for sale:**	**35,265**	**(798)**	**34,467**
	a) fair value changes	50,234	(5,742)	44,492
	b) transfer to income statement	(14,969)	4,944	(10,025)
	- impairment losses	-	-	-
	- realized income/losses	(14,969)	4,944	(10,025)
	c) other changes	-	-	-
110.	**Non-current assets held for sale:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
120.	**Share of valuation reserves in relation to investments evaluated via the equity method:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	- impairment losses	-	-	-
	- realized income/losses	-	-	-
	c) other changes	-	-	-
130.	**Total other comprehensive income**	**37,350**	**(1,646)**	**35,705**
140.	**Comprehensive income (Items 10 +130)**			**41,717**

Part E – Information on risks and related hedging policies

Introduction

Banca Sella places great importance on the management and control of risk, as a condition to guarantee sustainable value creation in a context of controlled risk.

Risk management and control are carried out by the corporate second level (Compliance and Risk Management) and third level (Internal Audit) control departments. Specifically, the Parent Company's Risk Management department has the mission of actively contributing to the achievement of effective risk management and an efficient risk/return profile, through the identification, measurement and control of the First and Second Column Risks under Basel III, operating in close connection with the management of economic and equity variables and in constant respect for adaptation to changes imposed through the regulations and in line with system best practices. The Risk Management function is distinct and independent from the corporate functions assigned to manage operating risk and reports directly to the Managing Director.

The Banca Sella Group's culture of control and risk is widespread at all levels. Corporate strategies focus on careful training work and continuous professional updating. Particular attention is paid to resources, whether directly operating as audits or in operative departments, ensuring constant professional growth through the use of external training and constant professional and regulatory updates, also through participation in inter-banking work groups.

The change in the organisational structure for the Non-Performing Exposures service, which already started in 2014, is aimed at meeting the need to effectively manage non-performing loans while harmonising and integrating interventions. The NPE service is responsible for non-performing loans in all the various categories of criticality, managing and assessing impaired loans.

Relative to this latter aspect, the NPE service uses a structured combination of parameters to assess non-performing loans classified as past due, unlikely to pay and bad loans.

This combination of non-performing loan assessment parameters includes:

- specific lump-sum adjustments applied exclusively to smaller loans in the categories of impaired, past due and unlikely to pay, without revocation of credit lines
- specific analytical adjustments to be applied to larger loans in the categories of impaired, past due and unlikely to pay without revocation, and specific analytical adjustments to be applied to all unlikely to pay loans with revocations and bad loans.

These parameters, used throughout all the Group's banks through the Credit Regulations, make it possible to identify the elements to be evaluated to express the recoverability of the credits, the methods to evaluate these elements, and the frequency with which the evaluation of the credits should be updated in a detailed and careful way, so as to update the allocations made to the relative adjustment provisions in a timely manner.

On an annual basis, the Loan Administration service verifies the congruence of these evaluation parameters, through statistical checks on the own portfolio.

This activity, which is monitored over time, makes is possible to refine the combined assessment parameters and establish an appropriate provisioning policy that takes into account unfavourable conditions in the external situation, various macroeconomic factors, and organisational and process changes.

Section 1 – Credit risk

Qualitative information

1. General aspects

Banca Sella considers the measurement and management of credit risk to be of crucial importance. The activity of loan supplies has always looked towards traditional business forms, supporting household financing needs and providing the necessary support to businesses – in particular small and medium sized enterprises – in order to support growth projects, consolidation phases and financial needs during negative phases of the economic cycle. With regard to the credit risk, no operations are present in innovative or complex financial products.

The lending policies and processes for the disbursement and monitoring of loans are consequently defined so as to combine customer needs with the need to ensure the maintenance of quality for the lending business.

Specifically, credit risk control activities are the responsibility of the Risk Management and Audit (Credit Risk Management Unit and Credit Risk Control Unit) of Banca Sella Holding and Credit Area of Banca Sella.

Within the Risk Management Service, activities are structured as follows:

- The Credit Risk Management Office is responsible for quantifying and monitoring credit risk at the portfolio level. Monitoring is done also with benchmarking tools aimed at assessing positioning with respect to system figures. In addition, on the basis of the evidence resulting from analysis, risk management guidelines are identified.
- The Credit Risk Control Office is responsible for verifying the effectiveness of the credit risk management process and the adequacy of the writedowns applied to impaired positions.

The Credit Area is responsible for credit disbursement policies, product development, credit support system development, management of performing and impaired loans, as well as being responsible for monitoring credit risk through specific organisational structures (the Banca Sella Quality and Credit Control Service). This monitoring involves traditional first-level checks, mainly focussed on ensuring effective application of the bank’s policies, analysing individual positions and trend analysis of variables held to be significant for the purposes of controlling credit risk.

2. Credit risk management policies

2.1 Organisational Aspects

In general, requests for financing are presented directly to the branches of the Bank.

In the process of credit disbursement, applications must first be assessed by a specific decision-making structure in the branch. In support of the valuation process, the bank has equipped itself with scoring and rating systems that are applied differently to the different categories of customers: *retail, small business, SME and Corporate.*

Starting in May 2011, the Credit Centre office was established, which is responsible for business credit line inquiries as well as those for large loans to private individuals. This office also provides support to the branches as they conclude the credit line process.

In accordance with the limits of its autonomy, the branch may accept the application, reject it or, sometimes, modify it (for example requesting further guarantees or proposing a reduction in the amount applied for or a different type of loan or advance).

Depending on the amount and type of credit requested, applications for loans or advances are decided by different bodies within the structure of the Bank, from the branches up to the Board of Directors. If the procedure provides for the acquisition of guarantees in the form of pledges, sureties or mortgages, the process requires detailed examination of the documents acquired. The conclusion of this examination is necessary for the application process to be completed and for the guarantees themselves to be used for the weighting of capital absorption.

After disbursement, borrowing positions must be reviewed regularly in order to check maintenance of the creditworthiness and to evaluate any new needs of the customer. In support of this activity, at the beginning of each month an automatic procedure refers the dossiers to be reviewed to the relevant branches.

In order to monitor the trend of the account, an internal procedure is available to classify customers precisely according to the anomalies that may arise from their accounts. Four risk categories were defined and a detailed sheet with possible irregularities is available to all customers. Depending on the seriousness of the problem, a specific management process was defined so as to guarantee customer service and eliminate trend anomalies.

2.2 Systems of management, measurement and control

The systems for managing, measuring and controlling exposure to credit risk involve the entire loan process, including the following stages: initial proceedings, regular review, trend verification and any management of problem loans, revocation and recovery.

The Parent Company's Risk Management Service has the task of developing credit risk measurement methods and supporting the creation of specific models for the assessment of risk components on the individual loan portfolios.

The Risk Management Service also prepares reports on trends and monitors the main variables that impact credit risk, concentration risk and residual risk. In addition, the activities performed by the Risk Management Service include defining forecast analysis methods, preparing forecasts and analysing differences with respect to final figures, as well as carrying out analysis and research on specific risk profiling issues and preparing metrics for the Risk Appetite Framework and the risk limits system.

In terms of assessing insolvency risk, there are management processes and analysis tools which are selected on the basis of internal customer segmentation. The segmentation of customers enables, amongst other aspects, the distinguishing between businesses into four different dimension classes, based on their exposure and turnover, referred to in increasing order: small business, small/medium enterprises, corporate business and large corporate business.

Each company is assigned a summary risk judgement which is attributed through the use of one of the two internal ratings model in use at Banca Sella. One is for small business and small/medium businesses and the other for corporate and large corporate customers. The process of assigning ratings covers all types of companies in a generalised way: in fact, the assessments cover enterprises operating in the industrial, commercial, service and multi-year production segments, as well as farms, cooperatives, non-profit organisations and financial companies.

The internal rating in place at Banca Sella is an automatic judgement integrated into the company information systems and consists of the following components that are measured differently in measurement according to the type of counterparty (small business and small and medium enterprises or corporate and large corporate):

- Financial information (accounting data). For corporate and large corporate enterprises a real and proper statutory accounting rating is calculated; this can be calculated for every customer or potential customer. An indispensable premise for calculation of the statutory accounting rating is possession of financial statements containing a Balance Sheet and an Income Statement. The statutory accounting score is also the maximum level of detail obtainable for the following categories of customer: financial companies, leasing companies, factoring companies and holdings companies. For small business customers and small/medium-sized enterprises a number of statutory accounting indicators are calculated, contributing to the final assessment of the customers' creditworthiness.

- Qualitative information For corporate and large corporate enterprises an enterprise rating is calculated. This derives from the integration between the statutory accounting rating and the qualitative component obtained after the account manager fills in a specific questionnaire. Like the statutory accounting rating, the enterprise rating is calculated on every corporate and large corporate borrower or potential borrower. In the case of a new customer, it is comparable to an “acceptance rating” as it is based on quantitative and qualitative data that do not depend on performance variables. For small business customers and small/medium-sized enterprises compilation of the qualitative questionnaire is provided for but this information does not affect the final judgement on the customer.

- Performance information (the bank’s internal data and Central Credit Register data). For corporate and large corporate businesses, integration between the enterprise rating and the behavioural component makes it possible to determine the overall rating which represents the most detailed assessment possible of the creditworthiness of a corporate or large corporate customer. For small business customers and small/medium-sized enterprises a number of performance indicators are calculated, contributing to the final assessment of the customers’ creditworthiness. The performance component can only be calculated for companies with performance data that is valued for at least three months out of a six-month time frame.

The internal ratings models in place with Banca Sella include nine classes for performing loans: from SA1 (lowest risk customers) to SA9 (highest risk customers) for small businesses and small and medium enterprises, from AAA (lowest risk customers) to C (highest risk customers) for corporate and large corporate businesses.

No rating is assigned if one of the essential elements for determination of the rating – such as for example definitive financial statements valid at the time – is missing.

A performance scoring model for continuous assessment of the probability of default associated with Private Customers is also going to be added to the credit disbursement and monitoring processes (only for information purposes). Like the internal rating, the performance scoring leads to a summary final classification made up of nine classes. The main difference with respect to the internal rating lies in the fact that, as it concerns a precise customer segment, the relative weight of the single components of the model takes into due consideration the different risk characteristics of the counterparties.

In 2015, the Credit Risk Control Committee was established, with the objective of favouring coordinated monitoring of the credit risk profile of all the entities with credit exposure within the Banca Sella Group. During committee meetings, trends and forecasts for macroeconomic variables are discussed in relation to the evolution of loan risk profiles and risk metrics. The committee monitors differences between final monthly figures and expected figures relative to the Risk Appetite Framework (RAF) forecasts and for loan adjustments. It maintains a register which shows any major issues identified and responsibilities assigned, monitors respect for deadlines and the effectiveness of corrective actions for anomalies or after controls carried out pursuant to Circular 285 (former 263/2006). It plans research in regards to specific areas requiring attention and verifies whether the entities comply with the governance rules established in the Parent Company’s risk management policy. During the course of 2015 the work of the Ratings Committee continued, providing both advice and making decisions and whose main functions include resolving to override the rating assessment of business customers. Override resolutions take place in accordance with the powers assigned to the Committee and in compliance with specific guidelines. Causes must lie in a specific list of grounds and there will be an audits system in place in order to guarantee the homogeneity, integrity and efficiency of these measures, in any case only to be implemented with regard to residual cases that are not easy to standardise or not considered by the model.

The supervisory regulations, known as Basel III, were immediately interpreted as an opportunity to refine the credit risk measurement techniques and to ensure supervision through the use of techniques with a growing degree of sophistication.

Banca Sella is also aware of the importance of all the risk factors that are connected with credit risk but not measured by the instruments provided in the First Pillar of Basel 3, such as the concentration risk (in its dual single-name and segment meaning) and residual risk (the risk that credit mitigation techniques prove to be less effective than expected). Alongside scrupulous observance of the supervisory legislation on the subject of large risks and the quantification of internal capital to cover concentration risk under the terms of the Second Pillar of Basel 3, the Parent Company has defined precise guidelines designed to mitigate concentration risk through fragmentation, both at the level of single entities, and in terms of business sector/geographical area. The loan disbursement process also provides for growing decision-making limits on the basis of the amounts being lent. Individual loan applications for which the total exposure of the debtor and of any group of customers associated with it exceeds certain thresholds are always examined by the Parent Company. Exposure to concentration risk is monitored monthly on the basis of objective indicators, such as the Herfindahl index, of which precise thresholds have been set to limit the overall exposure in individual business sectors/geographical areas and dimensional classes. As far as residual risk is concerned, the Parent Company has adopted a special process with the purpose of checking the acceptability of guarantees according to each specific and general requirement prescribed by the Supervisory Authority.

At the same time as drafting the ICAAP Report (analysis of capital adequacy in accordance with the Second Pillar of Basel 3) and therefore at least once a year, the Parent Company carries out stress tests on the consolidated loan portfolio. The stress test procedures consist of analysing the sensitivity of internal capital against the credit risk should specific negative events occur that, although extreme, are plausible (such as, for example, a deterioration in the decline rate of the loans portfolio).

During 2015, activities continued to ensure full implementation of the 15th update to Bank of Italy circular 263/2006, now included in Circular 285/2013, specifically:

- implementation of second level controls on credit risk by the Parent Company's Risk Management Service;
- assessment of the coherence between the RAF for significant operations and loan disbursement/renewal under the responsibility of the Board of Directors.

Furthermore, with regard to control at individual level, Banca Sella has equipped itself with an Anomalous Credit Managers service, now included in the Non-Performing Exposures area, which assists branches in managing relations with clientèle that have high levels of credit anomalies.

The Banca Sella Quality and Credit Control service, through the Credit Control service, carries out actions to verify the adequacy of credit risk supervision, with constant monitoring of performance and customer data and with controls on the operations of the Banca Sella distribution network and the Credit Area services assigned to disburse credit and manage non-performing loans. The activities performed by Credit Control are also provided to Banca Patrimoni Sella & C., Biella Leasing and Consel, through outsourcing.

More specifically, the service operates through:

- remote control of the correct supply of loans and management of branches in most anomalous trends;
- control of the correct exercise of delegated powers;
- control of compliance with internal regulations on the disbursement and management of loans;
- systematic controls on customer positions with anomalous trends and monitoring the timeliness of interventions by the distribution network and the Credit area services responsible for managing non-performing loans, requesting resolution and if necessary beginning escalation processes;

- sharing actions and schedules for resolving problems with managers responsible for customer relations;

- identifying proactive and early actions and associated procedure management;

- managing follow-up for activities performed.

The various monitoring purposes, the different areas to be observed and reporting timing are such as to require the adoption of different and complementary instruments, whose use and specific operation techniques are such as to avoid report overlaps.

Within the scope of its trend monitoring work, the Credit Quality Service employs the following information procedures:

ARC – AUTOMATIC RISK CLASSIFICATION – procedure.

The procedure classifies all positions in the Credit Portfolio of the Group Banks (borrowers or with overdrafts in use) into 4 classes on the basis of the credit risk:

- ARC class 1 (green): positions with no anomalies and positions with a low level of anomalies;

- ARC class 2 (yellow): positions with more serious anomalies, not such as to jeopardise continuation of the relationship, but which need to be remedied;

- ARC class 3 (red): anomalous positions which provide for action on the basis of the type of anomaly in being, the amount of the exposure and the amount past-due understood as the sum of instalments unpaid and unauthorised current account overdraft;

- ARC class 4 (black): positions with significant anomalies such as to require immediate action to remedy them.

Purpose: The ARC procedure is aimed at:

- classifying the loan portfolio according to the credit risk associated with customers;

- making available a customer risk record useful for monitoring and managing credit risk; the record is integrated into the platform in CRM and enables all the indicators used to calculate policies to be displayed on one screen, together with other information useful for managing the position.

Data update frequency: once a week.

Credit risk monitoring: The credit risk management process is carried out on the CRM platform, where there is a section devoted to monitoring credit risk, referred to as “Credit Alarms”.

The contacts are included with anomalies relating to: ARC risk and the exceeding of current account thresholds and unpaid instalments.

Through CRM, timely contact is provided to work to reduce the risk of losses on credits, in CRM information is given on the customers, including commercial information, thereby ensuring a complete overview of the customer. The following are involved in the CRM monitoring process: the branch, phone collection, anomalous loan auditors and decision-makers.

Performance anomaly classes aim to immediately identify any customer positions showing significant performance anomalies within the classifications already made by the ACR – Automatic Risk Classification procedure. They make it possible to:

- define the seriousness of the relationships;
- set action priorities.

The 12 classes represent probability of default in the short term. A higher class corresponds to a more critical customer relationship. Class 12, in fact, includes all positions marked as “Unlikely to pay, without revocation”. The class can be viewed in the ARC risk record integrated into the CRM.

Data update frequency: once a week.

TABLEAU DE BORD

This tool enables viewing of the trend of specific performance data with the possibility of segmenting the portfolio reports at the level of the Bank, a Territory, a District and a Branch.

- Purpose: the Tableau de Bord has the purpose of monitoring the trend of specific performance anomalies and measuring the achievement of the targets assigned (unauthorised current account overdrafts, Frozen current accounts, Delinquency Ratio, Past-due invoices, Past-due resolutions, Past-due foreign loans, Subject-to-collection portfolio non-payments, Loan performance by ARC risk classes, non-revoked unlikely to pay, Past-due)
- Users: the data contained in the Tableau de Bord are available to the internal Offices and the Distribution Network.
- Data updating period: the data are updated every month and refer to the figures in being at the end of the month. Unauthorised overdrafts and Delinquency ratios are instead updated daily.

Special care is dedicated to indicators of tension represented by current account overdrafts and late payment of instalments, through the development of computer signalling procedures that are able to guarantee more timely intervention. This intervention aims to solve the trend anomaly, seeking the best solution with the customer to allow him to obtain regular reimbursement of the benefit he has enjoyed, at the same time safeguarding the portfolio credit risk.

2.3 Credit risk mitigation techniques

In the light of the significant attention paid to the work of loan disbursement, approval for credit is granted only after a particularly detailed initial selection of possible borrowers. In the first place, the assessment of creditworthiness is founded on the actual ability of borrowers to fulfil the commitments assumed exclusively on the basis of their capacity to generate adequate cash flows. However, in the process of disbursement and monitoring of loans, forms of protection from credit risk given by the technical type and by the presence of sureties are not neglected, above all with reference to customers associated with a higher probability of default.

The guarantees normally acquired from counterparties are those typical of the banking business, primarily: personal guarantees and real guarantees on property and financial instruments. Banca Sella does not have recourse to the use of netting agreements related to balance-sheet and “off-balance-sheet” transactions nor to the purchase of credit derivatives.

Banca Sella is well aware that credit risk mitigation techniques are more effective if they are acquired and managed so as to comply with the requirements of the Basel 3 standard in all its aspects: legal, rapid realisation, organisational and specific to each guarantee. Effective compliance with the admissibility requisites is the result of a complex process, which is differentiated on the basis of the type of credit risk attenuation technique, which involves numerous players: from the Distribution staff who deal with the guarantee acquisition process to the Parent Company’s Risk Management Service which handles the stage of verifying the admissibility of these guarantees.

With specific reference to the guarantee acquisition stage, the process is backed by a special software procedure which intervenes between the approval stage and the stage of disbursement of the loan and manages acquisition of the guarantees (pledges, mortgages and sureties), tying disbursement to a positive outcome of the controls envisaged.

As regards the guarantee admissibility verification stage, starting out from the input data from the software procedure supporting the acquisition of new guarantees, the Parent Company's Risk Management Service works in two ways:

- statistical revaluations (known as surveillance) of the value of properties mortgaged for all contracts for which the Regulation 575/2013 permits recourse to this type of valuation. To this end the Group makes use of a database on property market trends divided by geographical area and type of property acquired from an external supplier;
- checks on the general and specific admissibility of all credit risk mitigation tools. To this end a special software procedure has been developed which, for each guarantee, certifies compliance with the general and specific admissibility requisites at each date of calculation of capital requirements.

With specific reference to personal guarantees, the specific admission requirements for guarantors are quite strict and, substantially, they exclusively recognise guarantees issued by sovereign states, public bodies, multilateral development banks, supervised brokers and companies with good credit rating for the purposes of capital requirement mitigation against credit risk. Banca Sella has continued, also in 2015, to make use of, when possible, the guarantees issued by the Guarantee Fund for SMEs, which, thanks to the presence of the Italian State as counter-guarantor, allow for mitigating the credit risk to comply with regulatory ratios. With the belief that the personal guarantees issued by entities that do not fall within the standard list may as well provide effective credit risk mitigation for management purposes, it shall be common practice to also accept individual persons or companies without external rating as guarantors, if necessary.

As a general rule, the credit disbursement procedure does not include the purchase of guarantees involving contractual obligations that may undermine their validity. The process for verifying admissibility of guarantees involves the analysis by legal experts both in standard and non-standard contracting (of which one example can be seen in the individual conventions stipulated with Confidi). Additionally, to further monitor the requirement for legal certainty, a second level control is carried out on every individual contract, in regards to the completeness and correctness of the documentation. This is done by the Banca Sella Guarantee Control Service, within the Credit Area, and by the Group's Service Centre.

No concentration conditions were recognised for guarantee categories (in terms of credit or market risk). In particular:

- real guarantees on property: both mortgage loans and real-estate leasing transactions are mainly aimed at private customers or small enterprises. This allows maintaining a high level of risk sharing;
- real guarantees on financial instruments and personal guarantees: despite the diversification of issuers and guarantors, we highlight that the Italian government is the issuer/guarantor towards whom the loan portfolio is most exposed.

As a general rule, the credit disbursement procedure does not include the purchase of guarantees involving contractual obligations that may undermine their validity. The process for verifying admissibility of guarantees involves the analysis by legal experts both in standard and non-standard contracting (of which one example can be seen in the individual conventions stipulated with Confidi). In addition, to further monitor the requirement for legal certainty, every mortgage, pledge and surety guarantee acquired by Banca Sella receives a first level check in terms of completeness and correctness of the documentation, carried out by the Quality and Credit Control service, through the Guarantee Control service, in order to guarantee mitigation of the associated credit risk and ensure that the guarantees required to reduce capital absorption are allowed under Basel regulations. These activities are also provided to Banca Patrimoni Sella & C., in outsourcing.

2.4 Impaired financial assets

Following the change to the organisational structure, activities performed by the Non-Performing Exposures service are aimed at meeting the need to achieve effective management of non-performing loans, harmonising and integrating actions, starting from the moment the initial signs of impairment are seen, through to situations with more serious and/or irreversible problems.

The Non-Performing Exposures service is responsible for non-performing loans in all the various categories, managing and assessing impaired loans.

The structure within Banca Sella carries out activity for Banca Sella itself and, for collection activities for disputed loans relative to revoked unlikely to pay positions and bad loans, it provides services through outsourcing to Banca Patrimoni Sella & C. and Biella Leasing.

The Non-Performing Exposures Service is divided into 4 services:

- Anomalous Loan Managers Service: composed of local specialised workers who manage relationships with non-performing customers classified as unlikely to pay and past due with amounts exceeding € 10,000, supporting and cooperating with the Distribution Network. Similar figures at the head offices provide coordination and control activities;
- Phone Collection Service: composed of individuals located at the head offices and the Group's Services Centre, managing phone collection for non-performing loans of non-significant amounts;
- Restructured Loans Service: composed of specialised workers at the head office responsible for significant positions, with exposures that involve multiple credit institutions or exposures that have special legal/economic aspects. They also work with customers in cooperation with the Anomalous Loan Managers and corporate employees in the Distribution Network;
- Dispute Service: composed of workers at the head office responsible for all positions for which a forced recovery stage has been begun, as the actions of the previous services did not obtain definitive resolution of the customer's problems.

Relative to the category of customers with lower exposures, support from Phone Collection makes it possible to manage a high number of customers effectively and continuously, as soon as the initial signs of impairment appear, while also allowing the Distribution Network to maintain focus on developing sales. The Phone Collection structure makes use of the Group's Services Centre with personnel working throughout the day, with consequent improvement in collection performance for smaller overdue amounts.

Where do not appear to be concrete prospects to return positions to performing, the transfer to the dispute service is made, to begin foreclosures.

For the positions involving larger exposures, the Anomalous Loan Managers from the Non-Performing Exposures have the objective of working with the Distribution Network, promptly taking on direct management of impaired customers to resolve problems and identifying solutions to return these exposures to performing status.

In particular, management of these positions by Anomalous Loan Managers and the Restructured Loans sector is intended to:

- assess debtors' future prospects;
- adjusting the due dates of financial commitments to adjust them to situations of temporary difficulty;
- contribute to resolving performance anomalies identified;
- acquiring guarantees that mitigate credit risk;
- participate at the negotiating table with customers and the banking structure;
- analyse the documents provided by the customer and appointed consultants, in order to assess business and financial plans proposed to restore the debts;

- prepare appropriate investigations in the electronic credit line system to be submitted to the relevant decision-making bodies, with the solutions identified or being prepared by the customers;
- guarantee pricing adequate to the risk profile;
- not increasing the overall risk level when concrete prospects for recovery do not exist;
- determine proper impairment classification for the loan during trading;
- assess proper recoverability, applying the provisioning policy;
- assessing whether to start collections on the loan when performance and the overall situation for the customer lead to the decision to extricate the bank from the relationship.

In this latter case, and every time the requirements are met, non-performing positions must be transferred to the dispute office, which has the task of:

- revoking credit lines;
- acting in a timely manner to recover loans in default and acquiring further guarantees to cover exposure;
- beginning foreclosures in order to enforce guarantees, when the requirements to grant adjustments to payment schedules and/or other similar actions are no longer met;
- promptly calculating expected losses in an analytical manner at the level of individual customer accounts;
- periodically checking the adequacy of the recovery forecasts and the terms of recoverability of the credit;
- optimising the costs/results of the legal measures taken to recover the credit;
- making losses recorded at the end of court and out-of-court procedures definitive.

Decision-making responsibilities relative to the assessment of collections for non-performing customers and settlement proposals, in regards to Banca Sella spa, are granted directly to the manager of the service, with the exception of settlements for significant amounts. In this case, decision-making responsibilities are given to monocratic bodies within the context of the powers granted to the individual CEOs of Banca Sella.

For disputes associated with other companies managed through outsourcing, the powers are granted to the individual CEOs of the companies.

Forecasts for the recoverability of disputed loans is done through an analytical evaluation process, without using estimation models for expected cash flows. Instead, a specific repayment schedule is drawn up on the basis of the features of each position, taking into account the guarantees given and/or acquirable and any agreements reached with the customers.

In particular, this evaluation takes the following into consideration:

- the amount of the recovery value as the sum of the expected cash flows estimated on the basis of the types of guarantees given and/or acquirable, their estimated realisation value, the costs to be sustained and the debtor's willingness;
- the recovery times estimated on the basis of the types of guarantees, the in-court or out-of-court liquidation methods for the guarantees, bankruptcy proceedings and the geographical area to which the loan belongs;

- discounting rates; for all credits measured at the amortised cost the original effective rate of return is used, whereas for revocable credit lines the interest rate considered is that at the moment of default.

At the first implementation of the IASs, as regards analytical assessments and the definition of the effective interest rate – seeing the objective impossibility to retrieve original rates from impaired loan accounts as no electronic format was available – the Banca Sella Group decided to use:

- the nominal rate applied at 31 December 2004 in the bank records, relatively to the individual default account: depending on the case, such a rate may correspond to the rate adopted at the time of default, the rate deducible at the injunction or the one agreed upon with the customer with a discharge plan; however, such rates have been reduced to the rate usury limit at 31 December 2004;

- the last rate present on the contract prior to zeroing if available for all contracts that, as at 31 December 2004, had a zero rate; for lack of this data, the legal rate has been adopted.

Qualitative information

A. Credit quality

For the purpose of providing quantity information on credit quality, the term “credit exposure” is used excluding capital securities and units of UCITs, whilst the term “exposure” includes these elements.

A.1 Impaired and performing loans: amounts, writedowns, changes, economic and territorial breakdown

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/Quality		Bad loans	Unlikely to pay	Impaired past-due loans	Other non-impaired exposures	Non-impaired exposures	Total
1. Financial assets available for sale		-	1,818	-	-	1,640,907	1,642,725
2. Financial assets held to maturity		-	-	-	-	-	-
3. Due from banks		-	-	-	-	1,584,035	1,584,035
4. Due from customers		305,461	242,995	11,243	156,624	6,018,134	6,734,457
5. Financial assets carried at fair value		-	-	-	-	-	-
6. Financial assets held for sale		-	-	-	-	-	-
Total	**31/12/2015**	**305,461**	**244,813**	**11,243**	**156,624**	**9,243,076**	**9,961,217**
Total	**31/12/2014**	**253,834**	**288,931**	**19,392**	**25,953**	**9,235,715**	**9,823,825**

Non-impaired past-due exposures at 31/12/2015 amounted to € 156.6 million.

These mainly relate to exposures deriving from mortgages for around 74%, while the remaining derive from current accounts, subsidies, and commercial advances.

Exposures mainly fall into the category of past-due within 90 days, in particular the segment between 1 and 30 days overdue, which account for around 60% of exposures recognised.

As illustrated above, mortgages and loans account for most of this initial segment - technical types with repayment through instalments. It should be specified that, in the case of mortgages and loans, there may also be situations of “technical” past-due items that derive from misalignment between the due date for the instalment and the date the funds arrive in the account (for direct deposit of salaries and pensions), which lead to quickly covered past-due amounts.

Exposures falling in the next segment of past-due items, which on the other hand may indicate signals of deterioration in creditworthiness, are much more limited and decline progressively.

The remaining exposures are those that are past-due for more than 90 days, which are for minimal amounts that fall below the threshold for past-due recognition.

The portion of non-impaired past-due exposures supported by guarantees is sizeable, deriving from the type of technical form.

Non-impaired past due exposures with a total balance (past due and not past due) exceeding € 50,000 represent around 70% of exposures recognised, while in the remaining cases average exposure is much lower.

Relative to management of non-impaired past-due exposures, please refer to the qualitative information provided above.

A.1.2 Breakdown of credit exposure by portfolio and credit quality (gross and net amounts)

Portfolio / Quality		Impaired assets			Non-impaired assets			Total (net exposure)
		Gross exposure	Specific writedowns	Net exposure	Gross exposure	Portfolio write-downs	Net exposure	
1. Financial assets available for sale		1,818	-	1,818	1,640,907	-	1,640,907	1,642,725
2. Financial assets held to maturity		-	-	-	-	-	-	-
3. Due from banks		-	-	-	1,584,212	(177)	1,584,035	1,584,035
4. Due from customers		1,073,975	(514,276)	559,699	6,208,292	(33,533)	6,174,758	6,734,457
5. Financial assets carried at fair value		-	-	-	X	X	-	-
6. Financial assets held for sale		-	-	-	-	-	-	-
Total	**31/12/2015**	**1,075,793**	**(514,276)**	**561,517**	**9,433,411**	**(33,710)**	**9,399,700**	**9,961,217**
Total	**31/12/2014**	**1,010,445**	**(448,288)**	**562,157**	**9,298,158**	**(36,490)**	**9,261,668**	**9,823,825**

Portfolio / Quality		Assets with evident low creditworthiness		Other assets
		Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading		-	9	59,298
2. Hedging derivatives		-	-	10,282
Total	**31/12/2015**	**-**	**9**	**69,580**
Total	**31/12/2014**	**-**	**192**	**64,179**

A.1.3 Cash credit and off balance sheet exposures to banks: gross and net amounts and past-due segments

Type of exposure/amounts	Gross exposure					Specific writedowns	Portfolio writedowns	Net exposure
	Impaired assets				Non-impaired assets			
	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Bad loans	-	-	-	-	X	-	X	-
- of which: exposures subject to forbearance	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: exposures subject to forbearance	-	-	-	-	X	-	X	-
c) Impaired past-due loans	-	-	-	-	X	-	X	-
- of which: exposures subject to forbearance	-	-	-	-	X	-	X	-
d) Non-impaired past-due loans	X	X	X	X	-	X	-	-
- of which: exposures subject to forbearance	X	X	X	X	-	X	-	-
e) Other non-impaired exposures	X	X	X	X	1,692,598	X	(177)	1,692,421
- of which: exposures subject to forbearance	X	X	X	X	-	X	-	-
TOTAL A	**-**	**-**	**-**	**-**	**1,692,598**	**-**	**(177)**	**1,692,421**
B. OFF BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) non-impaired	X	X	X	X	21,037	X	(1)	21,036
TOTAL B	**-**	**-**	**-**	**-**	**21,037**	**-**	**(1)**	**21,036**
TOTAL (A+B)	**-**	**-**	**-**	**-**	**1,713,635**	**-**	**(178)**	**1,713,457**

A.1.6 cash credit and off balance sheet exposures to customers: gross and net amounts and past-due segments

Type of exposure/amounts	Gross exposure					Specific writedowns	Portfolio writedowns	Net exposure
	Impaired assets				Non-impaired assets			
	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Bad loans	557	-	-	762,567	X	(457,663)	X	305,461
- of which: exposures subject to forbearance	-	-	-	37,954	X	(17,642)	X	20,312
b) Unlikely to pay	186,730	39,100	34,114	39,982	X	(55,113)	X	244,813
- of which: exposures subject to forbearance	116,516	22,331	16,962	18,670	X	(21,548)	X	152,931
c) Impaired past-due loans	1,485	6,205	4,207	847	X	(1,500)	X	11,243
- of which: exposures subject to forbearance	122	485	-	-	X	(9)	X	598
d) Non-impaired past-due loans	X	X	X	X	158,848	X	(2,224)	156,624
- of which: exposures subject to forbearance	X	X	X	X	20,066	X	(734)	19,332
e) Other non-impaired exposures	X	X	X	X	7,622,585	X	(31,309)	7,591,276
- of which: exposures subject to forbearance	X	X	X	X	117,136	X	(4,946)	112,190
TOTAL A	**188,772**	**45,305**	**38,321**	**803,396**	**7,781,433**	**(514,276)**	**(33,533)**	**8,309,417**
B. OFF BALANCE SHEET EXPOSURES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Impaired	7,148	-	-	-	X	-	X	7,148
b) non-impaired	X	X	X	X	410,702	X	(1,501)	409,201
TOTAL B	**7,148**	**-**	**-**	**-**	**410,702**	**-**	**(1,501)**	**416,349**
TOTAL (A+B)	**195,920**	**45,305**	**38,321**	**803,396**	**8,192,135**	**(514,276)**	**(35,034)**	**8,725,766**

A.1.7 Cash credit exposure to customers: trend of gross impaired loans

Description/Category	Bad loans	Unlikely to pay	Impaired past-due loans
A. Opening gross exposure	**629,086**	**360,262**	**21,097**
- of which: exposures sold but not derecognised	1,908	513	-
B. Increases	**227,155**	**203,542**	**11,969**
B.1 inflows from performing exposures	-	135,568	11,113
B.2 transfers from other categories of impaired loans	200,320	13,359	448
B.3 other increases	26,835	54,615	408
- of which business combinations	-	-	-
C. Decreases	**93,117**	**263,878**	**20,322**
C.1 outflows to performing exposures	-	36,072	6,016
C.2 Write-offs	53,797	590	-
C.3 collections	34,955	25,981	137
C.4 realizations through sales	2,177	-	-
C.5 losses on disposal	371	-	-
C.6 transfers to other categories of impaired loans	-	200,766	13,359
C.7 other decreases	1,817	469	810
- of which business combinations	-	-	-
D. Closing gross exposure	**763,124**	**299,926**	**12,744**
- of which: exposures sold but not derecognised	3,042	5,523	165

A.1.8 Cash credit exposure to customers: trend of total writedowns

Description/Category	Bad loans	Unlikely to pay	Impaired past-due loans
	Total	Total	Total
A. Initial total adjustments	**375,253**	**71,330**	**1,705**
- of which: exposures sold but not derecognised	723	48	-
B. Increases	**164,434**	**36,351**	**1,477**
B.1 writedowns	119,872	25,762	-
B.2 losses on disposal	371	-	-
B.3 transfers from other categories of impaired loans	43,068	834	131
B.4 other increases	1,123	9,755	1,346
C. Decreases	**82,023**	**52,567**	**1,682**
C.1 writebacks on valuation	21,787	7,423	-
C.2 writebacks on collection	4,424	851	27
C.3 gains on disposal	464	-	-
C.4 Write-offs	53,797	590	-
C.5 transfers to other categories of impaired loans	-	43,199	834
C.6 other decreases	1,551	504	821
D. Final total adjustments	**457,664**	**55,114**	**1,500**
- of which: exposures sold but not derecognised	826	205	7

A.2 Classification of exposures by external and internal ratings

Banca Sella makes use of the external credit rating agencies Fitch Rating Ltd and Cerved Rating Agency, the latter solely for determining weighting ratios when calculating capital requirements for exposures with companies classified as capital companies.

The table below shows the distribution of exposures by external rating classes assigned by Fitch and by Cerved of the customers of Banca Sella.

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

Exposures	External rating classes						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash credit exposures	**57**	**382,859**	**1,769,306**	**378,901**	**23,695**	**1,520**	**7,448,240**	**10,004,578**
B. Derivatives	**-**	**2,553**	**528**	**721**	**-**	**-**	**25,169**	**28,971**
B.1 Financial derivatives	-	2,553	528	721	-	-	25,169	28,971
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Sureties issued	**-**	**42,025**	**10,731**	**22,676**	**991**	**116**	**130,625**	**207,164**
D. Commitments to disburse funds	**-**	**11,045**	**1,840**	**6,173**	**1,267**	**12**	**171,451**	**191,788**
E. Other	**-**	**-**	**90**	**-**	**-**	**-**	**9,372**	**9,462**
Total	**57**	**438,482**	**1,782,495**	**408,471**	**25,953**	**1,648**	**7,784,857**	**10,441,963**

External rating classes are shown based on the ECAI rating maps recognised by the Bank of Italy.

The mapping shown in the table is relative to the long-term ratings assigned by Fitch Ratings and Cerved Rating Agency:

- creditworthiness class 1 includes Fitch ratings from AAA to AA-;
- creditworthiness class 2 includes Fitch ratings from A+ to A- and Cerved ratings from A1.1 to A3.1;
- creditworthiness class 3 includes Fitch ratings from BBB+ to BBB- and Cerved ratings B1.1;
- creditworthiness class 4 includes Fitch ratings from BB+ to BB- and Cerved ratings from B1.2 to B2.2;
- creditworthiness class 5 includes Fitch ratings from B+ to B- and Cerved ratings C1.1;
- creditworthiness class 6 includes Fitch ratings CCC+ and lower and Cerved ratings from C1.2 to C2.1.

Note that over 80% of exposures with counterparts rated by Fitch Ratings or Cerved Rating Agency have ratings equal to or better than investment grade. Additionally, we note that over 37% of Banca Sella's unrated exposures are associated with companies within the Banca Sella Group scope of consolidation.

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

Exposures	Internal rating classes									Without rating	Total
	AAA/SA1	AA/SA2	A/SA3	BBB/SA4	BB/SA5	B/SA6	CCC/SA7	CC/SA8	C/SA9		
A. Cash exposures	**213,170**	**277,184**	**470,737**	**547,928**	**397,035**	**203,880**	**105,036**	**30,802**	**9,310**	**7,746,756**	**10,001,838**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**28,971**	**28,971**
B.1 Financial derivatives	-	-	-	-	-	-	-	-	-	28,971	28,971
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-	-
C. Sureties issued	**40,937**	**19,809**	**20,925**	**22,101**	**17,046**	**7,458**	**1,834**	**397**	**468**	**76,188**	**207,164**
D. Commitments to disburse funds	**11,665**	**10,625**	**5,838**	**7,764**	**3,586**	**1,221**	**627**	**72**	**3,529**	**146,860**	**191,788**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,463**	**9,462**
Total	**265,772**	**307,618**	**497,500**	**577,793**	**417,667**	**212,559**	**107,497**	**31,271**	**13,307**	**8,008,237**	**10,439,223**

With regard to internal ratings, almost all banks of the Group have an internal model for assigning corporate and large corporate companies a creditworthiness rating and a model for small business and small/medium enterprises. These models are used to calculate the collective measurements of performing positions. The internal rating system includes, for terminological conformity with the scale adopted by external rating agencies, nine credit rating classes for creditworthy customers, from AAA/SA1 (the least risky) to C/SA9 (the riskiest). At present, internal ratings are not used for calculating capital requirements.

The previous table shows the distribution of exposures by rating classes of the corporate or large corporate customer companies and of the Small Business and Small/Medium Enterprises companies that are customers of Banca Sella. The "No rating" column includes both exposures to companies with no internal rating and exposures to customers belonging to segments other than the "corporate and large corporate" and "Small Business and Small/Medium Enterprises" segments. In addition, note that for Banca Sella the percentage of coverage of the "Corporate and Large Corporate" segment is around 97% of total exposures, while coverage of the "Small Business and Small/Medium Enterprise" segment is around 95% of total exposures.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.2 Guaranteed credit exposures to customers

Part1

	Net exposure value	Collateral securities (1)				Personal guarantees (2)		
						Credit derivatives		
							Other derivatives	
		Real estate, mortgages	Real estate, financial leasing	Securities	Other collateral	CLN	Governments and Central Banks	Other public bodies
1. Guaranteed cash credit exposures:	3,843,300	2,782,114	-	125,020	33,807	-	-	-
1.1. totally guaranteed	3,734,613	2,776,598	-	108,070	29,509	-	-	-
- of which impaired	446,425	334,666	-	1,125	319	-	-	-
1.2. partially secured	108,687	5,516	-	16,950	4,298	-	-	-
- of which impaired	18,538	4,246	-	684	185	-	-	-
2. Off balance sheet guaranteed credit exposures:	145,594	12,901	-	14,456	9,738	-	-	-
2.1. totally guaranteed	75,538	1,048	-	9,063	6,871	-	-	-
- of which impaired	2,748	984	-	68	74	-	-	-
2.2. partially secured	70,056	11,853	-	5,393	2,867	-	-	-
- of which impaired	2,096	-	-	6	150	-	-	-

A.3.2 Guaranteed credit exposures to customers

Part2

	Personal guarantees (2)						Total (1)+(2)
	Credit derivatives		Endorsement loans				
	Other derivatives						
	Banks	Other entities	Governments and Central Banks	Other public bodies	Banks	Other entities	
1. Guaranteed cash credit exposures:	-	-	-	1,294	324	828,577	3,771,136
1.1. totally guaranteed	-	-	-	794	280	793,484	3,708,735
- of which impaired	-	-	-	249	-	103,527	439,886
1.2. partially secured	-	-	-	500	44	35,093	62,401
- of which impaired	-	-	-	-	24	10,432	15,571
2. Off balance sheet guaranteed credit exposures:	-	-	-	17	95	86,729	123,936
2.1. totally guaranteed	-	-	-	17	95	58,445	75,539
- of which impaired	-	-	-	-	-	1,622	2,748
2.2. partially secured	-	-	-	-	-	28,284	48,397
- of which impaired	-	-	-	-	-	1,650	1,806

B. Distribution and concentration of credit exposures

B.1 Sectorial distribution of credit exposure of cash and "off balance" sheet to customers (book value)

Part1

Exposure/Counterparty		Governments			Other public bodies			Financial companies		
		Net exposure	Specific value adjustments	Portfolio writedowns	Net exposure	Specific value adjustments	Portfolio writedowns	Net exposure	Specific value adjustments	Portfolio writedowns
A. Cash exposures										
A.1 Bad loans		-	-	x	-	-	x	924	(1,073)	x
- of which exposures subject to forbearance		-	-	x	-	-	x	-	-	x
A.2 Unlikely to pay		54	(6)	x	3,219	(189)	x	621	(361)	x
- of which exposures subject to forbearance		-	-	x	773	(45)	x	84	(20)	x
A.3 Impaired past-due loans		1	(1)	x	4	-	x	13	(4)	x
- of which exposures subject to forbearance		-	-	x	-	-	x	-	-	x
A.4 Non-impaired loans		1,519,269	x	(5)	9,503	x	(25)	1,324,049	x	(335)
- of which exposures subject to forbearance		-	x	-	-	x	-	166	x	(19)
Total A		**1,519,324**	**(7)**	**(5)**	**12,726**	**(188)**	**(25)**	**1,325,607**	**(1,437)**	**(335)**
B. Off balance sheet exposures										
B.1 Bad loans		-	-	x	-	-	X	-	-	X
B.2 Unlikely to pay		-	-	x	-	-	X	-	-	X
B.3 Other impaired assets		-	-	x	-	-	X	-	-	-
B.4 Non-impaired loans		2,147	X	-	499	X	(2)	14,466	x	(33)
Total B		**2,147**	**-**	**-**	**499**	**-**	**(2)**	**14,466**	**-**	**(33)**
Total (A+B)	**31/12/2015**	**1,521,471**	**(7)**	**(5)**	**13,225**	**(188)**	**(27)**	**1,340,073**	**(1,437)**	**(368)**
Total (A+B)	**31/12/2014**	**1,248,166**	**-**	**(2)**	**15,159**	**-**	**(20)**	**1,318,783**	**(648)**	**(627)**

B.1 Sectorial distribution of credit exposure of cash and "off balance" sheet to customers (book value)

Part2

Exposure/Counterparty		Insurance companies			Non-financial companies			Other entities		
		Net exposure	Specific value adjustments	Portfolio writedowns	Net exposure	Specific value adjustments	Portfolio writedowns	Net exposure	Specific value adjustments	Portfolio writedowns
A. Cash exposures										
A.1 Bad loans		-	-	x	228,538	(335,675)	x	75,999	(120,915)	x
- of which exposures subject to forbearance		-	-	x	14,101	(13,534)	x	6,210	(4,108)	x
A.2 Unlikely to pay		-	-	x	171,204	(42,359)	x	69,715	(12,198)	x
- of which exposures subject to forbearance		-	-	x	103,950	(14,697)	x	48,124	(6,785)	x
A.3 Impaired past-due loans		-	-	x	6,511	(735)	x	4,714	(760)	x
- of which exposures subject to forbearance		-	-	x	589	(6)	x	9	(3)	x
A.4 Non-impaired loans		4,006	x	(12)	2,631,197	X	(26,773)	2,259,876	x	(6,383)
- of which exposures subject to forbearance		-	x	-	71,592	X	(4,288)	59,763	x	(1,373)
Total A		**4,006**	**-**	**(12)**	**3,037,449**	**(378,769)**	**(26,773)**	**2,410,305**	**(133,874)**	**(6,383)**
B. Off balance sheet exposures										
B.1 Bad loans		-	-	x	918	-	x	554	-	x
B.2 Unlikely to pay		-	-	x	4,493	-	x	458	-	x
B.3 Other impaired assets		-	-	x	501	-	x	224	-	x
B.4 Non-impaired loans		1,097	x	(4)	266,720	X	(1,400)	114,810	x	(62)
Total B		**1,097**	**-**	**(3)**	**272,633**	**-**	**(1,400)**	**116,046**	**-**	**(62)**
Total (A+B)	**31/12/2015**	**5,103**	**-**	**(15)**	**3,310,082**	**(378,769)**	**(28,173)**	**2,526,351**	**(133,874)**	**(6,445)**
Total (A+B)	**31/12/2014**	**1,133**	**-**	**(8)**	**3,591,415**	**(318,775)**	**(31,283)**	**2,562,205**	**(128,864)**	**(5,586)**

B.2 Sectorial distribution of cash and off balance sheet exposures to customers (book value)

Part1

Exposure/Geographical area		Italy		Other European Countries		America
		Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure
A. Cash exposures						
A.1 Bad loans		304,822	(456,990)	541	(545)	5
A.2 Unlikely to pay		244,589	(55,095)	224	(17)	-
A.3 Impaired past-due loans		11,223	(1,495)	16	(4)	4
A.4 Non-impaired loans		7,685,441	(32,226)	44,683	(1,196)	6,027
Total A		**8,246,075**	**(545,806)**	**45,464**	**(1,762)**	**6,036**
B. Off balance sheet exposures						
B.1 Bad loans		1,472	-	-	-	-
B.2 Unlikely to pay		4,951	-	-	-	-
B.3 Other impaired assets		725	-	-	-	-
B.4 Non-impaired loans		397,938	(1,501)	380	-	1,258
Total B		**405,086**	**(1,501)**	**380**	**-**	**1,258**
Total A+B	**31/12/2015**	**8,651,161**	**(547,306)**	**45,844**	**(1,762)**	**7,294**
Total A+B	**31/12/2014**	**8,682,260**	**(485,110)**	**35,829**	**(529)**	**7,368**

B.2 Sectorial distribution of cash and off balance sheet exposures to customers (book value)

Part2

Exposure/Geographical area		America	Asia		Rest of the world	
		Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures						
A.1 Bad loans		(7)	-	-	93	(121)
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due loans		(1)	-	-	-	-
A.4 Non-impaired loans		(20)	1,288	(2)	10,461	(89)
Total A		**(28)**	**1,288**	**(2)**	**10,554**	**(210)**
B. Off balance sheet exposures						
B.1 Bad loans		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-
B.4 Non-impaired loans		-	-	-	162	-
Total B		**-**	**-**	**-**	**162**	**-**
Total A+B	**31/12/2015**	**(28)**	**1,288**	**(2)**	**10,716**	**(210)**
Total A+B	**31/12/2014**	**(21)**	**659**	**(1)**	**10,746**	**(151)**

B.2 Sectorial distribution of cash and off balance sheet exposures to customers (book value)

Exposure/Geographical area		North West Italy		North East Italy		Central Italy		Southern Italy and Islands	
		Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures									
A.1 Bad loans		125,419	(185,812)	52,406	(73,185)	50,205	(70,460)	76,792	(127,533)
A.2 Unlikely to pay		99,104	(28,412)	41,916	(6,039)	43,324	(9,079)	60,245	(11,565)
A.3 Impaired past-due loans		5,227	(775)	593	(98)	2,015	(237)	3,388	(385)
A.4 Non-impaired loans		3,813,552	(16,195)	571,313	(4,141)	2,142,610	(3,532)	1,157,966	(8,358)
Total A		**4,043,302**	**(231,194)**	**666,228**	**(83,463)**	**2,238,154**	**(83,308)**	**1,298,391**	**(147,841)**
B. Off balance sheet exposures									
B.1 Bad loans		1,152	-	111	-	160	-	50	-
B.2 Unlikely to pay		2,779	-	1,033	-	522	-	617	-
B.3 Other impaired assets		394	-	170	-	45	-	116	-
B.4 Non-impaired loans		235,108	(996)	28,041	(76)	54,863	(218)	79,926	(211)
Total B		**239,433**	**(996)**	**29,355**	**(76)**	**55,590**	**(218)**	**80,709**	**(211)**
Total (A+B)	**31/12/2015**	**4,282,735**	**(232,190)**	**695,583**	**(83,539)**	**2,293,744**	**(83,526)**	**1,379,100**	**(148,052)**
Total (A+B)	**31/12/2014**	**4,444,158**	**(206,059)**	**725,949**	**(76,918)**	**2,086,090**	**(69,571)**	**1,426,063**	**(132,562)**

B.3 Geographical distribution of cash and "off balance" sheet exposures to banks (book value)

Part1

Exposure/Geographical area		Italy		Other European Countries		America
		Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure
A. Cash exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due loans		-	-	-	-	-
A.4 Non-impaired loans		1,634,012	-	56,363	(177)	-
Total A		**1,634,012**	**-**	**56,363**	**(177)**	**-**
B. Off balance sheet exposures						
B.1 Bad loans		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-
B.4 Non-impaired loans		20,696	-	339	(1)	-
Total B		**20,696**	**-**	**339**	**(1)**	**-**
Total A+B	**31/12/2015**	**1,654,708**	**-**	**56,702**	**(178)**	**-**
Total A+B	**31/12/2014**	**1,628,008**	**-**	**50,622**	**(404)**	**-**

B.3 Geographical distribution of cash and "off balance" sheet exposures to banks (book value)

Part2

Exposure/Geographical area		America	Asia		Rest of the world	
		Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due loans		-	-	-	-	-
A.4 Non-impaired loans		-	1,990	-	56	-
Total A		**-**	**1,990**	**-**	**56**	**-**
B. Off balance sheet exposures						
B.1 Bad loans		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-
B.4 Non-impaired loans		-	-	-	-	-
Total B		**-**	**-**	**-**	**-**	**-**
Total A+B	**31/12/2015**	**-**	**1,990**	**-**	**56**	**-**
Total A+B	**31/12/2014**	**-**	**1,780**	**-**	**79**	**(1)**

B.3 Geographical distribution of cash and “off balance” sheet exposures to banks (book value)

Exposure/Geographical area		North West Italy		North East Italy		Central Italy		Southern Italy and Islands	
		Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures									
A.1 Bad loans		-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-
A.3 Impaired past-due loans		-	-	-	-	-	-	-	-
A.4 Non-impaired loans		1,593,748	-	14,904	-	25,360	-	-	-
Total A		**1,593,748**	**-**	**14,904**	**-**	**25,360**	**-**	**-**	**-**
B. Off balance sheet exposures									
B.1 Bad loans		-	-	-	-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-	-	-	-
B.4 Non-impaired loans		20,651	-	45	-	-	-	-	-
Total B		**20,651**	**-**	**45**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**31/12/2015**	**1,614,399**	**-**	**14,949**	**-**	**25,360**	**-**	**-**	**-**
Total (A+B)	**31/12/2014**	**1,592,011**	**-**	**12,173**	**-**	**23,824**	**-**	**-**	**-**

B.4 Large exposures

	31/12/2015
a) amount (book value)	5,193,235
b) amount (value weighted)	126,778
c) number	2

The two positions refer to Group companies and the Tesoro dello Stato.

C. Securitisations

Qualitative information

Beginning in financial year 2000 the Group carried out six securitisation transactions of a traditional kind.

Two of these, concluded before 1 January 2006, were carried out by Banca Sella S.p.A., now Banca Sella Holding S.p.A., and involved performing mortgage loans. The assets associated with these transactions were conferred, on 1 January 2006, by Banca Sella Holding S.p.A. (formerly Sella Holding Banca S.p.A.) to the “new” Banca Sella S.p.A.

On 31 October 2010, the securitisation carried out with Secursel S.r.l. in 2000 was concluded. Banca Sella bought back the loans from the vehicle company, which provided for the early reimbursement of the securities still existing.

On 4 April 2008, 8 January 2009, 09 January 2012 and 09 April 2014, Banca Sella S.p.A. completed four transfer transactions, again of performing mortgage loans.

The transactions were conducted in order to diversify the types of funding in order to improve the correlation of maturities between funding and lending.

On 23 January 2014, 30 January 2014 and 23 April 2015, the operations begun in 2008, 2009 and 2005, respectively, were concluded. Banca Sella bought back the loans from the vehicle company, which provided for the early reimbursement of the securities still existing.

The role of servicer in various securitisation transactions was always played by the originators (Banca Sella S.p.A.).

Banca Sella S.p.A, as the originator of the operations, subscribed the entire amount of the junior titles issued in relation to the various securitisations. Junior securities for existing operations are still held by the same. In addition, in regard to the securitisations of 2008, 2009 and 2012, the Bank subscribed the entire amount of the securities issued. In relation to the 2014 operation, the Bank fully subscribed the fixed rate senior tranche, while the variable rate senior tranche was placed on the market with institutional investors. The securities subscribed by the originator can be used as collateral for repurchase agreements with the ECB.

The risk of the assets sold is still borne by Banca Sella S.p.A., which, consequently, monitor performance constantly, preparing also regular reports.

The assets sold continue to be represented in the financial statements in that the sale did not substantially transfer the risks to third-parties.

A brief account of the securitisation transactions before mentioned.

Banca Sella S.p.A. securitisation of performing loans – financial year 2014

The transaction was completed at two subsequent moments: the purchase of the loans was completed by the special purpose vehicle Mars 2600 S.r.l. on 09 April 2014, while the securities were issued on 12 June 2014.

The portfolio, which was sold without recourse, consisted of performing residential mortgage loans granted by Banca Sella S p A to residents of Italy.

The transaction entailed the sale without recourse to the special purpose vehicle, of receivables guaranteed by mortgages for a total of around € 489.0 million, inclusive of the principal amount of the loans and the interest accrued up to the date of sale.

In exchange for this transaction, Mars 2600 S.r.l. issued class A1 notes amounting to € 216.0 million, class A2 notes amounting to € 216.0 million, and Class D notes in the amount of € 67.7 million.

The Class A1 and A2 notes are quoted on the Luxembourg stock exchange. Moody's currently gives the following ratings: Aa2 both for class Aa2 and class A2 notes. The same securities have the following ratings from DBRS: AA both for class A1 and class A2 notes. Class D notes are not listed and have no rating.

Banca Sella S.p.A. subscribed the fixed rate class A2 securities, and the class D securities, while the variable rate class A1 securities were placed on the market with institutional investors. The sum paid for the subscription of the class D securities was used for the creation of a cash reserve.

At 31 December 2015, the Class A1 and A2 notes earned interest of about € 5.6 million. Class D notes earned interest of € 8.6 million in 2015. Banca Sella is responsible for collecting the receivables sold and for the cash desk and payment services, as well as collecting disputed receivables, under the terms of a servicing agreement which as consideration provides for a servicing fee, to be paid quarterly, equivalent to 0.45% of the amount of the collections of the performing pecuniary loans and 0.05% of the amount of collections relative to disputed receivables achieved by Banca Sella S.p.A. during the reference quarter. At 31 December 2015, the servicing fees collected by Banca Sella S.p.A. were approximately € 0.45 million.

C.1*bis* Other self-securitisation operations not under quantitative information

a) Banca Sella S.p.A. securitisation of performing loans – financial year 2012

The transaction was completed at two subsequent moments: the purchase of the loans was completed by the special purpose vehicle Mars 2600 S.r.l. on 09 January 2012, while the securities were issued on 14 March 2012.

The portfolio, which was sold without recourse, consisted of performing residential mortgage loans granted by Banca Sella S p A to residents of Italy.

The transaction entailed the sale without recourse to the special purpose vehicle, of mortgage-backed loans for a total of € 398.8 million, inclusive of the principal amount of the loans and the interest accrued up to the date of sale.

In exchange for this transaction, Mars 2600 S.r.l. issued class A1 notes amounting to € 112.9 million, class A2 notes amounting to € 235.4 million, and class D notes amounting to € 48 million.

The Class A1 and A2 notes are quoted on the Luxembourg stock exchange. Moody's currently gives the following ratings: Aa2 both for class A1 and class A2 notes. The same securities have the following ratings from DBRS: AA both for class A1 and class A2 notes. Class D notes are not listed and have no rating.

The total amount of the notes was subscribed by Banca Sella S.p.A. The sum paid for the subscription of the class D securities was used for the creation of a cash reserve.

At 31 December 2015, the Class A1 and A2 notes earned interest of about € 4.4 million. In financial year 2015, class D securities earned interest for around € 3.9 million. Banca Sella S.p.A. is responsible for collecting the receivables sold and for the cash desk and payment services, as well as collecting disputed receivables, under the terms of a servicing agreement which as consideration provides for a servicing fee, to be paid quarterly, equivalent to 0.45% of the amount of the collections of the performing pecuniary loans and 0.05% of the amount of collections relative to disputed receivables achieved by Banca Sella S.p.A. during the reference quarter. At 31 December 2015, the servicing fees collected by Banca Sella S.p.A. were approximately € 0.26 million.

Quantitative information

C.1 Exposures deriving from main “own” securitisation operations divided by type of securitised assets and type of exposures

Part 1

Type of securitised assets/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks
A. Subject to total cancellation from the financial statements	-	-	-	-	-	-
B. Subject to partial cancellation from the financial statements	-	-	-	-	-	-
C. Not cancelled from the financial statements						
C.1 Mars 2600 S.r.l.						
- Performing loans	158,057	-	-	-	67,700	(210)

C.1 Exposures deriving from main “own” securitisation operations divided by type of securitised assets and type of exposures

Part2

Type of securitised assets/Exposures	Guarantees issued					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks
A. Subject to total cancellation from the financial statements	-	-	-	-	-	-
B. Subject to partial cancellation from the financial statements	-	-	-	-	-	-
C. Not cancelled From financial statements						
C.1 Mars 2600						
- Performing	-	-	-	-	-	-

C.1 Exposures deriving from main “own” securitisation operations divided by type of securitised assets and type of exposures

Part 3

Type of securitised assets/Exposures	Credit lines					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks
A. Subject to total cancellation in the financial statements	-	-	-	-	-	-
B. Subject to partial cancellation in the financial statements	-	-	-	-	-	-
C. Not cancelled from the financial statements						
C.1 Mars 2600 S.r.l.						
- Performing loans	-	-	-	-	-	-

C.3 Special purpose vehicle for the securitisation

Company name	Registered office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzanine	Junior
SPV - Mars 2600 Srl	Treviso	SI	612,265	-	54,534	511,488	-	115,700

D. Disclosure on structured entities not consolidated for accounting purposes (other than special purpose vehicles for the securitisation)

Qualitative information

The Bank has exposures with non-consolidated structured entities due to investments in units issued by investment funds (UCITS), which are classified as structured entities under IFRS 12.

Quantitative information

Disclosure on structured entities not consolidated for accounting purposes (other than special purpose vehicles for the securitisation)

balance sheet item/type of structured entity	accounting portfolio of assets	total assets (A)	accounting portfolio of liabilities	total liabilities (B)	net book value (C=A-B)	maximum exposure to risk of loss (D)	difference between exposure to risk of loss and book value (E=D-C)
UCITS	AFS	2,739	-	-	2,739	2,739	-

E. Disposals

The disclosure pursuant to this part regards all the sale transactions (including securitisation operations).

A. Financial assets sold but not fully derecognised

Qualitative information

With the exception of amounts due from customers, "financial assets sold but not fully derecognised," refer to repurchase agreements with customers (with underlying debt securities issued by the parent company or Italian government securities).

Quantitative information

E.1 Financial assets sold but not cancelled: book value and full value

Part 1

Technical type/Portfolio	Financial assets held for trading			Financial assets carried at fair value		
	To	B	C	To	B	C
A. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
B. Derivative instruments	**-**	**-**	**-**	**x**	**x**	**x**
Total 31/12/2015	**-**	**-**	**-**	**-**	**-**	**-**
of which impaired	-	-	-	-	-	-
Total 31/12/2014	**-**	**-**	**-**	**-**	**-**	**-**
of which impaired	-	-	-	-	-	-

A = financial assets sold and fully recognized (book value)
B = financial assets sold and partially recognized (book value)
C = partially recognized financial assets (full value)

E.1 Financial assets sold but not cancelled: book value and full value

Part 2

Technical type/Portfolio	Financial assets available for sale			Financial assets held to maturity		
	To	B	C	To	B	C
A. Cash assets	**5,856**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	5,856	-	-	-	-	-
2. Equity securities	-	-	-	x	x	x
3. UCITS	-	-	-	x	x	x
4. Loans	-	-	-	-	-	-
B. Derivative instruments	**x**	**x**	**x**	**x**	**x**	**x**
Total 31/12/2015	**5,856**	**-**	**-**	**-**	**-**	**-**
of which impaired	-	-	-	-	-	-
Total 31/12/2014	**11,787**	**-**	**-**	**-**	**-**	**-**
of which impaired	-	-	-	-	-	-

A = financial assets sold and fully recognized (book value)
B = financial assets sold and partially recognized (book value)
C = partially recognized financial assets (full value)

E.1 Financial assets sold but not cancelled: book value and full value

Part 3

Technical type/Portfolio	Due from banks			Due from customers			Total	
	To	B	C	To	B	C	31/12/2015	31/12/2014
A. Cash assets	**37,970**	**-**	**-**	**364,329**	**-**	**-**	**408,155**	**795,778**
1. Debt securities	37,970	-	-	-	-	-	43,826	293,787
2. Equity securities	x	x	x	x	x	x	-	-
3. UCITS	x	x	x	x	x	x	-	-
4. Loans	-	-	-	364,329	-	-	364,329	501,991
B. Derivative instruments	**x**	**x**	**x**	**x**	**x**	**x**	**-**	**-**
Total 31/12/2015	**37,970**	**-**	**-**	**364,329**	**-**	**-**	**408,155**	**x**
of which impaired	-	-	-	7,591	-	-	7,591	x
Total 31/12/2014	**282,000**	**-**	**-**	**501,991**	**-**	**-**	**x**	**795,778**
of which impaired	-	-	-	3,524	-	-	x	3,524

A = financial assets sold and fully recognized (book value)
B = financial assets sold and partially recognized (book value)
C = partially recognized financial assets (full value)

E.2. Financial liabilities against financial assets sold but not derecognised: book value

Liability/Asset portfolio		Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Financial assets held to maturity	Due from banks	Due from customers	Total
1. Due to customers		**-**	**-**	**5,857**	**-**	**38,158**	**157,900**	**201,915**
a) against fully recognized assets		-	-	5,857	-	38,158	157,900	**201,915**
b) against partially recognized assets		-	-	-	-	-	-	**-**
2. Due to banks		**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) against fully recognized assets		-	-	-	-	-	-	**-**
b) against partially recognized assets		-	-	-	-	-	-	**-**
3. Securities in issue		**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) against fully recognized assets		-	-	-	-	-	-	**-**
b) against partially recognized assets		-	-	-	-	-	-	**-**
Total	**31/12/2015**	**-**	**-**	**5,857**	**-**	**38,158**	**157,900**	**201,915**
Total	**31/12/2014**	**-**	**-**	**11,829**	**-**	**283,772**	**219,638**	**515,239**

E.3 Sale transactions with liabilities having recourse only to the assets sold: fair value

Part 1

Technical type/Portfolio		Financial assets held for trading		Financial assets carried at fair value		Financial assets available for sale		Financial assets held to maturity (fair value)
		To	B	To	B	To	B	To
A. Cash assets		**-**	**-**	**-**	**-**	**5,856**	**-**	**-**
1. Debt securities		-	-	-	-	5,856	-	-
2. Equity securities		-	-	-	-	-	-	x
3. UCITS		-	-	-	-	-	-	x
4. Loans		-	-	-	-	-	-	-
B. Derivative instruments		**-**	**-**	x	x	x	x	x
	Total Assets	**-**	**-**	**-**	**-**	**5,856**	**-**	**-**
C. Associated liabilities		**-**	**-**	**-**	**-**	**5,857**	**-**	**-**
1. Due to customers		-	-	-	-	5,857	-	-
2. Due to banks		-	-	-	-	-	-	-
	Total Liabilities	**-**	**-**	**-**	**-**	**5,857**	**-**	**-**
Net Value	**31/12/2015**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**
Net Value	**31/12/2014**	**-**	**-**	**-**	**-**	**(42)**	**-**	**-**

A = financial assets sold and fully recognised
B = financial assets sold and partially recognised

E.3 Sale transactions with liabilities having recourse only to the assets sold: fair value

Part 2

Technical type/Portfolio	Financial assets held to maturity (fair value)	Loans to banks (fair value)		Loans to customers (fair value)		Total	
	B	To	B	To	B	31/12/2015	31/12/2014
A. Cash assets	**-**	**37,970**	**-**	**364,329**	**-**	**408,155**	**293,787**
1. Debt securities	-	37,970	-	-	-	43,826	293,787
2. Equity securities	x	x	x	x	x	-	-
3. UCITS	x	x	x	x	x	-	-
4. Loans	-	-	-	364,329	-	364,329	-
B. Derivative instruments	x	x	x	-	x	**-**	**-**
Total Assets	**-**	**37,970**	**-**	**364,329**	**-**	**408,155**	**293,787**
C. Associated liabilities	**-**	**38,158**	**-**	**157,900**	**-**	-	-
1. Due to customers	-	38,158	-	157,900	-	-	-
2. Due to banks	-	-	-	-	-	-	-
Total Liabilities	**-**	**38,158**	**-**	**157,900**	**-**	**201,915**	**295,601**
Net Value 31/12/2015	**-**	**(188)**	**-**	**206,429**	**-**	**206,240**	-
Net Value 31/12/2014	**-**	**(1,772)**	**-**	**-**	**-**	-	**(1,814)**

A = financial assets sold and fully recognised
B = financial assets sold and partially recognised

B. Financial assets sold and cancelled fully with recognition of continuous involvement

During the year, the Bank did not have this type of asset.

Section 2 – Market risks

Market risk relates to unexpected variations in market factors such as interest rates, exchange rates and share prices that may cause fluctuations in the value of a position held in the trading book and in the values of investments arising from commercial operations and strategic choices (banking book).

2.1 Interest-rate risk and price risk – regulatory trading book

For the compilation of this section we consider only financial instruments (assets and liabilities) held in the "regulatory trading book", as defined in the provisions on market risk regulatory reporting (see Bank of Italy Circular no. 286 of 17 December 2013). As a consequence, operations are excluded that are recognised in the trading portfolio (for example, credits or derivatives separated from assets or liabilities carried at the amortised cost, securities issued), but that do not fall under the above definition of regulatory capital. These operations are included in the information regarding the "banking book".

Qualitative information

A. General aspects

This section deals with the risk that a fluctuation in interest rates may have a negative effect on the value of the regulatory trading book arising from the financial positions assumed by the Banca Sella within the assigned limits and powers.

The price risk inherent in the trading book is mainly a result of trading on the bank's own behalf in debt securities.

The Bank's trading book includes assets held as financial instruments for its own account. Most of these instruments can be traded on regulated markets (fixed and variable-income securities).

The goals and strategies underlying the trading activity involving the own securities portfolio aim to limit risks and maximise returns on the portfolio itself in the restricted and prudential field of action laid down in the Group rules on the subject.

At the same time as drafting the ICAAP statement (analysis of the suitability of equity in accordance with the Second Pillar of Basel III) and therefore at least once a year, the Parent Company carries out, at the consolidated level, stress tests on the trading book for regulatory purposes.

B. Management processes and methods for measuring interest rate risk and price risk

The management and control of market risks (interest-rate risk, price risk, exchange rate risk) is provided for by Group Policy which lay down the rules under which Banca Sella, as the other Group companies may expose themselves to these types of risk.

The Parent Company's Risk Management Unit is responsible for the market risk monitoring of all Group companies, and also has an advisory and recommendatory role in the definition of methodological guidelines for the creation of Group risk measurement and control models.

For prudential purposes to measure the interest rate and price risks inherent in the regulatory trading book, the Banca Sella Group applies the "standardized approach" defined in Bank of Italy Circular no. 285/2013, and subsequent updates. Hence, capital absorption to cover market risk is represented by the sum of the capital requirements for each individual risk that makes up market risk, on the basis of the so-called building block approach.

Quantitative information

1. Regulatory trading book: distribution for remaining duration (re-pricing date) of the financial assets and liabilities in cash and financial derivatives

As allowed by Circular 262/2005 and subsequent updates, this table was not prepared in that in the Notes an analysis of the sensitivity to interest-rate risk is provided on the basis of internal models or other methodologies.

2. Regulatory trading book: distribution of exposures in equity securities and equity indices by main quotation market countries

As allowed by Circular 262/2005, this table was not prepared in that in the Notes an analysis of the sensitivity to interest-rate risk is provided on the basis of internal models or other methodologies.

3. Regulatory trading book - internal models and other methods used for sensitivity analysis

For management purposes, the trading book market risk is measured and monitored on the basis of the VaR (value at risk), which is basically assessed according to the historical simulation approach. VaR measures the maximum potential loss which, within a certain confidence interval, may occur if a certain portfolio is kept unchanged for a certain period of time. Historical simulation involves daily revaluation of position on the basis of the market price trends over an appropriate time interval. The empirical distribution of gains/losses that results is analysed to determine the effect of extreme market swings on the portfolios. The percentile distribution corresponding to the confidence interval set gives the VaR.

The Group's Risk Management carries out checks on VaR trends (time horizon: 10 days and 3 months and confidence level: 99%) on the own portfolios of companies in the Banca Sella Group, and carries out sensitivity analysis, including: portfolio duration, effects of sudden interest rate shocks and finally the check on the operational limits on investment in securities.

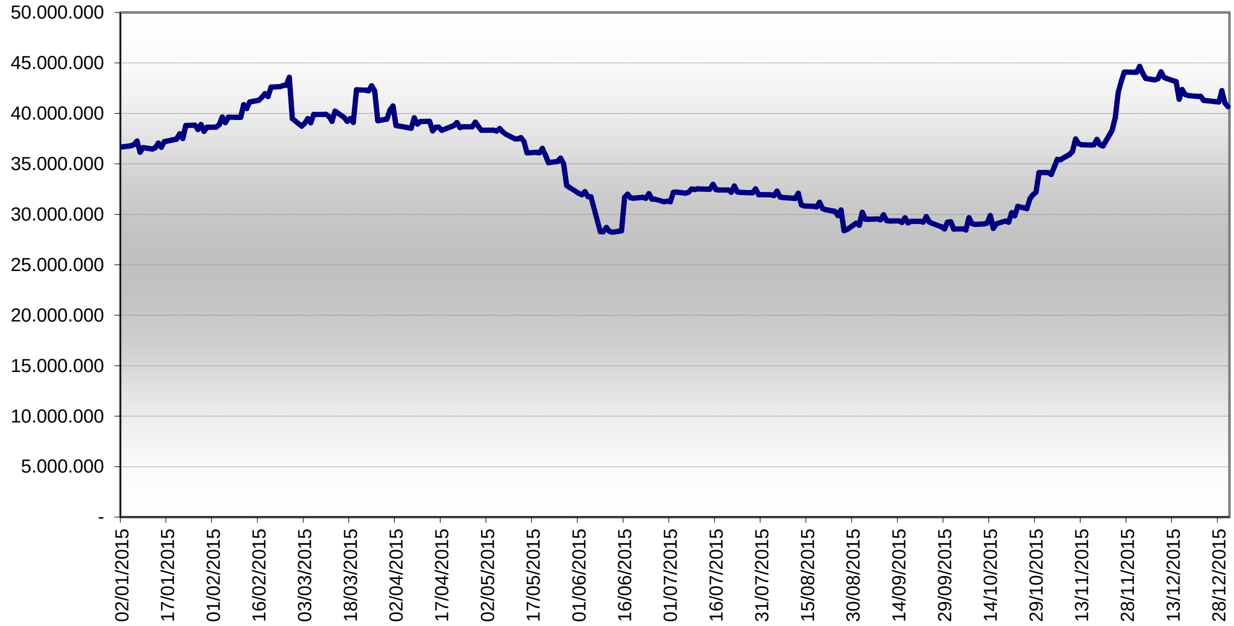
The average duration of the Banca Sella trading book is equal to 1.15 years while sensitivity, estimated on a parallel movement of +100 basis points in the yield curve, is approximately € 19.11 million (about 1.15% of the portfolio).

The trend in the VaR of the Banca Sella (confidence interval 99%, time horizon three months, historical method) is shown in the chart below.

During the course of the year, the prudential limits approved by the Parent Company were not exceeded.

Banca Sella – Trading Book[8]

Market Risks VaR (time horizon three months – confidence interval 99%)



2.2 Interest rate and price risks – banking book

The banking book consists of all the financial instruments (assets and liabilities) not included in the trading portfolio, pursuant to section 2.1.

Qualitative information

A. Management processes and methods for measuring interest rate risk and price risk

The main sources of interest rate risk generated in the banking book can be traced back to:

• maturity mismatches (risk connected with the exposure of positions to changes in the slope and the shape of the yield curve);

• mismatches arising from the imperfect correlation between changes in charged and paid interest rates on the various instruments (indexing risk).

Interest rate risk is mainly generated by securities in the banking book, customer deposits (in current accounts, savings accounts and bonds) and loans to customers (mortgages), as well as derivative instruments contracted to mitigate exposure to the fair value rate risk generated by them**.** The Company's policy is to provide a high hedge to fixed-rate items, while strategic and management choices are aimed at minimising the volatility of the total economic value when the rate structure changes.

The Banca Sella Group carries out, at the consolidated level, stress tests to measure and control interest-rate risk for the banking book at least once a year, at the time the ICAAP Report is prepared. The variables used for the stress tests can be taken from external valuations (e.g. forecasts provided by ABI) or prepared internally with the assistance of the Group's Financial Analysis service. Stress tests may envisage parallel and immediate shock situations on the rate curve, impacts that may exceed 200 basis points.

[8]These refer to the components (Held For Trading and Available For Sale) of the company portfolio.

B. Fair value hedging activities

Hedging transaction strategies are mainly aimed at mitigating the exposure to interest-rate risk inherent in financial instruments, deriving predominantly from forms of disbursement of credit (general hedges, such as mortgage loans) or bonds issued (specific hedges).

Exposure to interest rate risk inherent in the disbursement of credit is hedged by derivative instruments such as amortizing interest rate swaps and cap options, on the basis of the amount of the loan portfolio disbursed and the average maturities of this portfolio. Other interest rate swaps are implemented when fixed-rate bond loans are issued. Additional hedges are established with the goal of mitigating interest-rate risk generated by the forms of funding. *Further hedging is put in place to mitigate interest-rate risk* or exchange rate risk through simple derivative products such as domestic currency swaps, currency options, or overnight interest swaps traded by customers of the Group's banks.

The Bank generally adopts measurement methods and techniques based on the Black-Scholes, Monte Carlo and Net Present Value models using a number of parameters, which vary depending on the financial instrument to be measured. These parameters, which are approved by the Parent Company Risk Management Service, are chosen and set up on the calculation software at the moment of a request for measurement of a new derivative instrument. At every periodic calculation of the fair value of the financial instrument, first and second level controls are carried out on the aforesaid parameters.

C. Cash flow hedging activities

Due to the substantial balance of assets and liabilities, no hedging is provided for interest-rate risk on cash flow generated by variable rate items.

D. Foreign investment hedging activities

Due to the minor amount of foreign investments, no hedging is provided for the interest-rate risks arising from them.

Quantitative information

1. Banking book: distribution for remaining duration (re-pricing date) of the financial assets and liabilities

As allowed by Circular 262/2005 and subsequent updates, this table was not prepared in that in the Notes an analysis of the sensitivity to interest-rate risk is provided on the basis of internal models or other methodologies.

2. Banking book: internal models and other methods used for sensitivity analysis

Internal interest-rate risk management and audit processes are based on an organisational structure, which provides that the information is analysed at operational level and critically assessed by the Group's ALM Committee every month. This Committee also provides appropriate operational guidelines. For management purposes, besides the 20% risk indicator limit defined in the regulations, the internal organisation has been provided with more prudential danger thresholds, which, when exceeded, lead to the assessment of operational strategies aimed at reducing the exposure.

The rate risk is measured using owned models for the processing of items in liabilities with undefined contractual due dates (on demand items). For all other assets and liabilities items, the rules defined by Bank of Italy Circular no. 285/2013, as subsequently amended, are used. The audit is carried out taking into consideration all the positions assumed on and off the balance sheet, but limited to interest-bearing assets and liabilities.

To calculate the internal capital, parallel shifts are hypothesised to the rate curve, respectively of +200 basis points (rise) and -35 basis points (lowering, defined as the difference between the marginal refinancing rate and the European Central Bank deposit rate).

The sensitivity analysis figures at 31.12.2015 show a low risk for the Banca Sella banking book (see the table below for total and percentage impact on the economic value).

Shift	Total Sensitivity	Regulatory Capital	Sensitivity %
+200 bps / -35 bps	14.67	929.1	1.6%

Amounts in Euro millions

The Banca Sella bank portfolio contains no financial instruments subject to price risk.

2.3 Exchange rate risk

All the assets and liabilities (both on and “off-balance-sheet”) in currencies fall under this risk profile, including operations in Euro indexed to the performance of currency exchange rates. Operations in gold are considered as similar to currency operations.

Qualitative information

A. General aspects, management processes and methods of managing the risk of exchange rate

Currency transactions mainly take place at the Finance Department of the Parent Company, in which the Treasury carries out lending and inter-bank funding operations in foreign currency, and manages the exchange risk connected with currency imbalances.

Foreign exchange risk is monitored with the “standardized method” indicated by the Bank of Italy in Circular no. 285/2013. During 2015, the limit of 2% of regulatory capital defined for positions in foreign currency held by Banca Sella Holding was not surpassed. Therefore, no capital requirements were generated in regards to foreign exchange risk.

The Risk Management division of the Group monitors exchange risk exposure values and reports them to the Group’s ALM Committee. Such body, with the assistance of the Parent Company Treasury, assesses possible hedging action, should the exposures towards currencies be judged as too high.

B. Exchange rate risk hedging activities

Banca Sella hedges transactions in foreign currency daily. The only assets of the Bank subject to this risk are loans and deposits in currency which correspond to a minimum part of the banking portfolio.

Quantitative information

1. Distribution by currency of denomination of assets, liabilities and derivatives

Item	Currency					
	USD	AUD	CHF	GBP	NOK	OTHER CURRENCIES
A. Financial assets	**144,658**	**4,792**	**19,686**	**14,135**	**414**	**7,444**
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans and advances to banks	129,616	55	14,674	13,833	414	5,362
A.4 Loans and advances to	15,042	4,737	5,012	302		2,082
A.5 Other financial assets						
B. Other assets	**2,059**	**181**	**984**	**942**	**93**	**3,113**
C. Financial liabilities	**145,312**	**4,708**	**21,410**	**12,501**	**501**	**4,945**
C.1 Due to banks	56	1,515	2	-		2,032
C.2 Due to customers	145,256	3,193	21,408	12,501	501	2,913
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities	**225**	**-**	**-**	**8**	**-**	**1,068**
E. Financial derivatives	**(310)**	**18**	**703**	**(2,574)**	**(4)**	**(959)**
- Options						
+ Long positions	67,045	2,139	2,282	2,382		10,708
+ Short positions	66,913	2,110	2,307	2,392		10,738
- Other derivatives						
+ Long positions	150,654	3,244	3,527	3,856	104	15,173
+ Short positions	151,096	3,255	2,799	6,420	108	16,102
Total Assets	**364,416**	**10,356**	**26,479**	**21,315**	**611**	**36,438**
Total Liabilities	**363,546**	**10,073**	**26,516**	**21,321**	**609**	**32,853**
Imbalance (+/-)	**870**	**283**	**(37)**	**(6)**	**2**	**3,585**

2.4 Derivatives instruments

The tables below show the stand alone financial and credit derivatives and derivatives incorporated into hybrid instruments.

A. Financial derivatives

A.1 Regulatory trading book: notional amounts at end of period

Underlying assets/Type of derivatives	Total 31/12/2015		Total 31/12/2014	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**287,450**	**-**	**438,699**	**-**
a) Options	75,830	-	66,986	-
b) Swaps	211,620	-	371,713	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**765,079**	**-**	**576,194**	**-**
a) Options	442,488	-	290,056	-
b) Swaps	36,066	-	49,938	-
c) Forward	286,525	-	236,200	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**1,052,529**	**-**	**1,014,893**	**-**

A.2 Banking portfolio: notional amounts at end of period

A.2.1 For hedging

Underlying assets/Type of derivatives	Total 31/12/2015		Total 31/12/2014	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**678,294**	**-**	**796,801**	**-**
a) Options	-	-	-	-
b) Swaps	678,294	-	796,801	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**678,294**	**-**	**796,801**	**-**

A.2.2 Other derivatives

Underlying assets/Type of derivatives	Total 31/12/2015		Total 31/12/2014	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**2,793,207**	**-**	**3,203,784**	**-**
a) Options	2,793,207	-	3,203,784	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**11,368**	**-**	**9,909**	**-**
a) Options	11,368	-	9,909	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**2,804,575**	**-**	**3,213,693**	**-**

A.3 Financial derivatives: gross positive fair value - breakdown by product

Portfolio/Type of derivatives	Positive fair value			
	Total 31/12/2015		Total 31/12/2014	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A Regulatory trading book	**14,225**	**-**	**19,327**	**-**
a) Options	5,268	-	4,499	-
b) Interest Rate Swaps	5,295	-	9,728	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	3,459	-	4,243	-
f) Futures	-	-	-	-
g) Other	203	-	857	-
B. Banking portfolio - hedging	**10,282**	**-**	**14,177**	**-**
a) Options	-	-	-	-
b) Interest Rate Swaps	10,282	-	14,177	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**4,463**	**-**	**3,960**	**-**
a) Options	4,463	-	3,960	-
b) Interest Rate Swaps	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**28,969**	**-**	**37,464**	**-**

A.4 Financial derivatives: gross negative fair value - breakdown by product

Portfolio/Type of derivatives	Negative fair value			
	Total 31/12/2015		Total 31/12/2014	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A Regulatory trading book	**14,791**	**-**	**20,084**	**-**
a) Options	5,333	-	4,564	-
b) Interest Rate Swaps	5,549	-	10,256	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	2,704	-	4,204	-
f) Futures	-	-	-	-
g) Other	1,205	-	1,060	-
B. Banking portfolio - hedging	**115,422**	**-**	**136,676**	**-**
a) Options	-	-	-	-
b) Interest Rate Swaps	115,422	-	136,676	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**4,216**	**-**	**4,325**	**-**
a) Options	4,216	-	4,325	-
b) Interest Rate Swaps	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**134,429**	**-**	**160,925**	**-**

A.5 OTC financial derivatives - Regulatory trading book: notional values, gross positive and negative fair value by counterparty - contracts not covered by netting agreements

Contracts not covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	-	11,000	-	128,533	4,192
- positive fair value	-	-	-	893	-	4,417	73
- negative fair value	-	-	-	-	-	218	18
- future exposure	-	-	-	55	-	562	6
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	-	-	342,312	34,663
- positive fair value	-	-	-	-	-	2,713	848
- negative fair value	-	-	-	-	-	5,186	108
- future exposure	-	-	-	-	-	2,626	377
4. Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives - Regulatory trading book: notional values, gross positive and negative fair value by counterparty - contracts included under netting agreements

Contracts covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	143,725	-	-	-	-
- positive fair value (before netting)	-	-	252	-	-	-	-
- negative fair value (before netting)	-	-	5,637	-	-	-	-
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value (before netting)	-	-	-	-	-	-	-
- negative fair value (before netting)	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	388,104	-	-	-	-
- positive fair value (before netting)	-	-	5,029	-	-	-	-
- negative fair value (before netting)	-	-	3,624	-	-	-	-
4. Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value (before netting)	-	-	-	-	-	-	-
- negative fair value (before netting)	-	-	-	-	-	-	-

A.7 OTC financial derivatives - banking book: notional values, gross positive and negative fair value by counterparty - contracts not included under netting agreements

Contracts not covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	53	-	40,405	-	885,803	1,525,246
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	59	4,157
- future exposure	-	-	-	-	-	-	-
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	-	-	6,932	4,436
- positive fair value	-	-	-	-	-	35	29
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	67	44
4. Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives - banking book: notional values, gross positive and negative fair value by counterparty - contracts included under netting agreements

Contracts covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	1,019,994	-	-	-	-
- positive fair value	-	-	14,681	-	-	-	-
- negative fair value	-	-	115,422	-	-	-	-
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
4. Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional values

Underlying asset/Residual life		Up to 1 year	From 1 year to 5 years	More than 5 years	Total
A Regulatory trading book		**790,903**	**189,299**	**72,327**	**1,052,529**
A.1 Financial derivatives on debt securities and interest rates		40,520	174,603	72,327	287,450
A.2 Financial derivatives on equity securities and equity indices		-	-	-	-
A.3 Financial derivatives on exchange rates and gold		750,383	14,696	-	765,079
A.4 Financial derivatives on other securities		-	-	-	-
B. Banking book		**221,843**	**685,307**	**2,575,719**	**3,482,869**
B.1 Financial derivatives on debt securities and interest rates		210,475	685,307	2,575,719	3,471,501
B.2 Financial derivatives on equity securities and equity indices		-	-	-	-
B.3 Financial derivatives on exchange rates and gold		11,368	-	-	11,368
B.4 Financial derivatives on other securities		-	-	-	-
Total	**31/12/2015**	**1,012,746**	**874,606**	**2,648,046**	**4,535,398**
Total	**31/12/2014**	**1,055,066**	**938,416**	**3,031,903**	**5,025,385**

B. Credit derivatives

At 31 December 2015 and during the year, the Bank did not have any operations of this type.

C. Financial and credit derivatives

C.1 Financial derivatives and credit derivatives: net fair values and future exposure by counterparty

	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Bilateral financial derivatives							
- positive fair value	-	-	19,962	-	-	-	-
- negative fair value	-	-	124,684	-	-	-	-
- future exposure	-	-	12,372	-	-	-	-
- net counterparty risk	-	-	26,261	-	-	-	-
2) Bilateral credit derivatives							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) “Cross product” agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-

Section 3 – Liquidity risk

Qualitative information

A. General aspects, management processes and methods for measuring liquidity risk

Liquidity risk corresponds to the risk arising from the inability to meet promises to pay, which may be caused by the inability to raise funds (funding liquidity risk) or by the presence of asset liquidity limits (market liquidity risk).

Liquidity monitoring and management operations for Banca Sella are formalised in the Group's Liquidity Policy, which contains both liquidity risk management guidelines and the strategies to be followed in critical situations. Such strategies are an integral part of the emergency plan called *Contingency Liquidity Plan.*

The governance model defined for managing and controlling the Banca Sella Group's liquidity risk is based on the following principles:

- conformity of liquidity risk management and monitoring processes and methods with prudential regulatory indications;
- decision-sharing and distinction of responsibilities among management, controlling and operating bodies;

Monitoring of the Group's liquidity is done in compliance with the directives found in Circular 285/2013 (Part II, chapter 11) and subsequent updates. These regulations, in addition to the rationalisation of national legislation previously in effect (mainly Circular 263/2006) pursue the objective of implementing and integrating the standards found in Regulation EU 575/2013 (CRR).

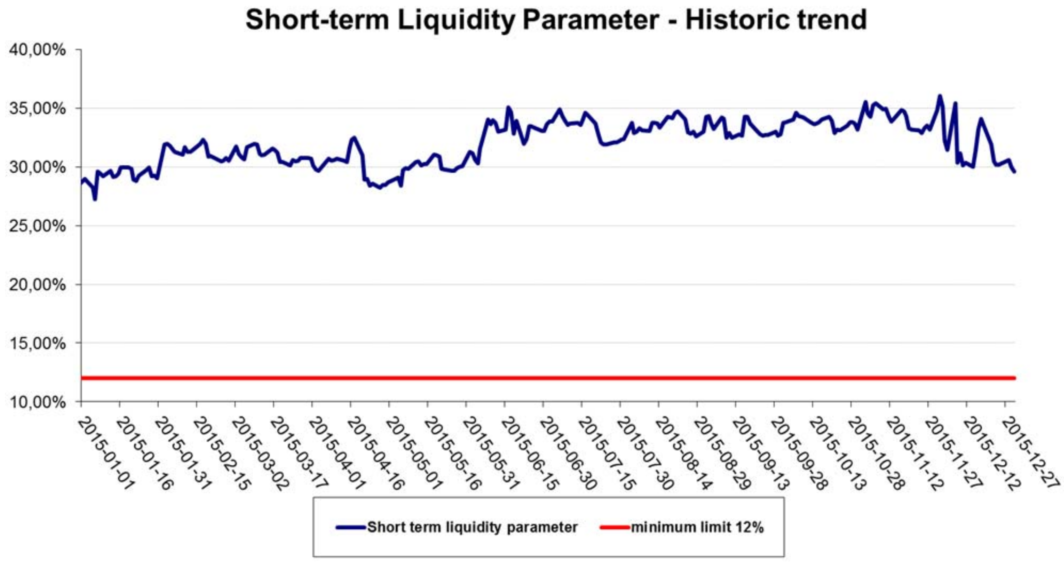
The liquidity level is managed by the Banca Sella Holding Finance Department which in case of need promptly takes remedial action with the support of the ALM Committee. The second level audits of liquidity risk are performed by the Parent Company Risk Management Service.

The Group Liquidity Policy includes, besides the traditional analysis of short-term liquidity indicators, the constant monitoring of a wide number of indicators focused on the trend of short- and medium/long-term systemic and specific liquidity.

Below is the trend of the Banca Sella Group short-term liquidity indicator, which provides indications about the ability to fulfil the obligations taken both with regular customers and banks in case of a sudden liquidity strain. The minimum limit for said indicator was prudentially established at 12%. The effective level of the indicator was always over this threshold during the course of the year, testifying to the fact that the liquidity reserves are sufficient to account for the commitments made, even under conditions of stress.

This indicator, a management one, is calculated daily by the Parent Company Risk Management Service.

Banca Sella short-term liquidity indicator trend



In addition to the information provided by liquidity indicators, the Risk Management service at the Parent Company and the Finance Department of Banca Sella Group are responsible for carrying out stress analyses on the liquidity reserve of the Group itself.

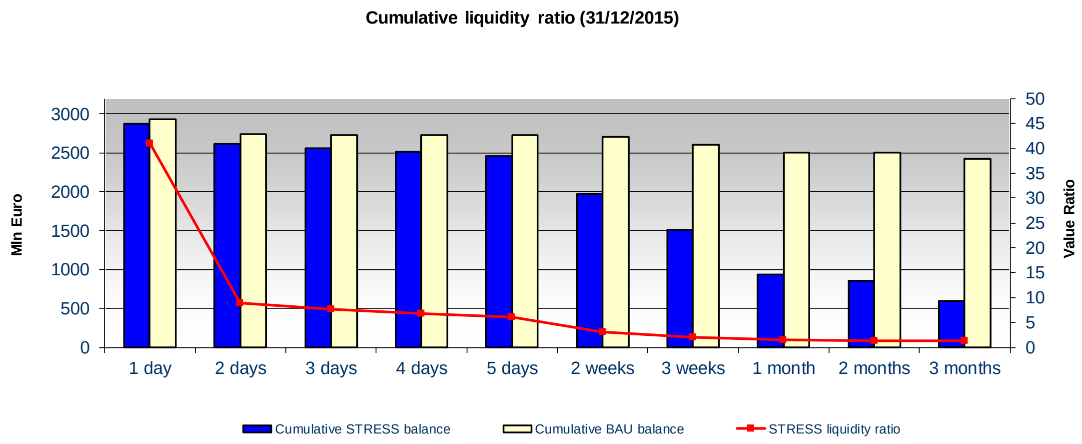
The approach underlying the stress analysis consists in assessing, through the use of a Maturity Ladder[9], the ability to withstand a liquidity crisis (measured in days), of the entire Banca Sella Group if a systemic or specific crisis situation arises. The ability to withstand is calculated with the assumption that the business structure and capital profile of the Group will not be altered. The stress scenarios used are based on those envisaged in Basel III, integrated with internal hypotheses in order to make the analysis better representative of the Bank's operations.

The Maturity Ladder is realised through the time-band mapping (horizon up to 3 months) of current and expected cash flows, together with items regarded as "potential liquidity reserves". This instrument allows assessing in various operational scenarios (business as usual and stress scenario) the net financial position as to liquidity in different time buckets.

The stress test has always demonstrated cash and cash equivalents or easily cashed assets for the Group that are adequate to face any crises, of either systemic or specific origin.

[9] A Maturity Ladder is the projection of the net financial position over time

Stress Scenario: Projection of cumulative net financial position and liquidity ratio (Stress test at 31 December 2015)



The scenario analysis envisaged by the Banca Sella Group is structured from different stress hypotheses, in compliance with the provisions of Bank of Italy Circular no. 285/2013 (New provisions of prudential supervision for banks, Title III, Chapter 1), as subsequently amended, and consider the onset of events that may alter some items during the various bands comprising the maturity ladder.

The two hypotheses, which are linked to an equal number of occurrence configurations (frequency of onset) and severity (impact on the bank) are:

- acute tension in individual banks that requires extraordinary counter-measures, often linked to interventions lying outside the actual bank;
- systemic crisis, involving the market as a whole.

In the light of Basel III, the Bank monitors the performance of the LCR (liquidity coverage ratio) and NSFR (net stable funding ratio), refining and constantly updating the calculation rules, in accordance with the indications provided in the current regulations. At the end of 2015, the two indicators were amply greater than that currently envisaged in Basel III.

Quantitative information

1. Time distribution of financial assets and liabilities by residual contractual term

Currency: EURO

Item/ Time band	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	No fixed term
Cash assets	**2,347,255**	**66,798**	**95,619**	**232,231**	**582,780**	**468,175**	**949,696**	**3,229,061**	**2,052,777**	**1**
A.1 Government securities	6	-	-	-	3,547	30,670	328,212	883,001	256,002	-
A.2 Other debt securities	23	-	7,503	2,164	25,915	32,513	132,690	135,905	10,715	-
A.3 UCITS units	2,739	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	2,344,487	66,798	88,116	230,067	553,318	404,992	488,794	2,210,155	1,786,060	1
- Banks	1,166,377	-	1	83,691	23	-	-	-	-	1
- Customers	1,178,110	66,798	88,115	146,376	553,295	404,992	488,794	2,210,155	1,786,060	-
Cash liabilities	**7,365,246**	**15,867**	**32,330**	**45,446**	**194,834**	**195,367**	**261,806**	**1,176,187**	**174,246**	**-**
B.1 Deposits and current accounts	7,270,781	8,851	16,440	33,394	128,568	125,112	151,736	675,914	1,219	-
- Banks	34,730	-	-	-	-	-	-	293,472	-	-
- Customers	7,236,051	8,851	16,440	33,394	128,568	125,112	151,736	382,442	1,219	-
B.2 Debt securities	67	243	7,673	2,300	54,136	54,253	97,665	386,997	79,094	-
B.3 Other liabilities	94,398	6,773	8,217	9,752	12,130	16,002	12,405	113,276	93,933	-
Off balance sheet transactions										
C.1 Financial derivatives with equity swaps										
- Long positions	-	12,990	21,755	19,800	53,607	47,045	56,706	3,669	260	-
- Short positions	-	11,794	21,760	22,574	60,198	50,102	62,012	3,109	-	-
C.2 Financial derivatives without equity swaps										
- Long positions	5,635	190	-	-	982	797	1,517	4,668	3,463	-
- Short positions	5,873	2,935	-	-	2,632	5,307	9,987	58,290	40,400	-
C.3 Deposits and loans receivable										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to provide funds										
- Long positions	128,286	297	4	105	901	2,985	5,923	25,916	25,223	-
- Short positions	104,844	1,458	-	-	26,868	15,318	41,152	-	-	-
C.5 Financial guarantees issued	-	-	9	-	-	-	10	33	190	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Time distribution of financial assets and liabilities by residual contractual term

Currency: OTHER CURRENCIES

Item/ Time band	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	No fixed term
Cash assets	**167,738**	**1,449**	**2,002**	**6,371**	**10,442**	**2,239**	**-**	**25**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	167,738	1,449	2,002	6,371	10,442	2,239	-	25	-	-
- Banks	162,898	-	-	-	-	-	-	-	-	-
- Customers	4,840	1,449	2,002	6,371	10,442	2,239	-	25	-	-
Cash liabilities	**130,983**	**-**	**362**	**505**	**15,060**	**22,991**	**19,474**	**-**	**-**	**-**
B.1 Deposits and current accounts	129,706	-	362	505	15,060	22,991	19,474	-	-	-
- Banks	3,858	-	-	-	-	-	-	-	-	-
- Customers	125,848	-	362	505	15,060	22,991	19,474	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1,277	-	-	-	-	-	-	-	-	-
Off balance sheet transactions										
C.1 Financial derivatives with equity swaps										
- Long positions	-	10,070	24,674	23,548	71,595	53,724	66,283	3,309	-	-
- Short positions	-	13,407	24,672	20,631	64,670	49,074	60,722	3,292	-	-
C.2 Financial derivatives without equity swaps										
- Long positions	203	-	-	-	-	-	-	-	-	-
- Short positions	1,205	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to provide funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 4 – Operational risks

Qualitative information

A. General aspects, management processes and methods of measuring operational risk

Operational risk is the risk of suffering losses deriving from the inadequacy or failure of procedures, human resources and internal systems, or from external events. This type includes, among others, losses deriving from internal/external frauds, human errors, business interruptions, unavailability of systems, contractual non-fulfilment and natural catastrophes. Operational risk includes legal risk, but does not include strategic and reputational risks.

The Parent Company, Banca Sella Holding, performs a function of management and coordination for the control of exposure to the risks assumed by the Banca Sella Group companies in carrying on their ordinary and extraordinary business, delegating the operational aspects to the Risk Management service. This service has the responsibility to measure, monitor and manage the Group's exposure to the risks indicated under the First and Second Pillars of Basel III, continuously improving the instruments and methods for assessing quantitative and qualitative risk exposure aspects.

The operational risk measurement, management and control systems adopted by the Banca Sella Group can be summed up in the operational risk management framework, which is made up of:

- collection of quantitative data related to operating loss and the income statement;
- mitigation and control organisational structures;
- operational risk exposure assessment;
- output and tools to assist in managing operational risk.

Through the data collection activity the necessary information is collected to assess the exposure to operational risk of the Group as a whole and of individual Companies. In addition, the data collection activity allows to promptly inform the Risk Management service about operational risks taking place inside the Group and the respective operating loss, in order to take remedial action. The operational risk detection instruments include:

- the computer applications for the collection of operating losses (Anomaly Detection procedure to support the "Control Cycle");
- operating risk loss data from external sources (DIPO – Italian Operational Loss Database, joined by the Banca Sella Group)[10];
- the factors of the operating context and the internal control system, that is specific KPIs *(Key Performance Indicators*) or KRIs (*Key Risk Indicators*) that reflect improvement or worsening of the bank/group's risk profile following actions taken or reinforcement of controls (e.g.: service level indicators, anomalies and inspection findings, process ratings and business growth).

The Control Cycle is an internal process that has been effectively adopted by the entire Group for several years for the processing of anomalies and removing the effects and the causes that generated them. This process, through the use of a specific software application, presides over the work of surveying, monitoring and managing all the anomalous events that occur in all the Group companies, so as to facilitate the consequent follow-up activities.

Ex ante and ex post organisational protections, established to mitigate and control operational risk, make it possible to monitor and limit the occurrence of operational risk events and their associated losses. In

[10] DIPO information also allow comparing internal operating loss data and system operating loss data (DIPO – Italian Operational Loss Database).

fact, effective organisational protections allow for timely identification of any inefficiencies and the establishment of appropriate mitigation strategies.

Among the main organisational supervisory items adopted by the Banca Sella Group to mitigate and control operating risk, in addition to the above-mentioned Control Cycle process, are activities of mapping and validating company processes, certifying and reporting service levels and line controls, and controls by means of the “alarm bells” (automatic processing and/or KRIs relative to accounting, movement of accounts, use of products and access to services with the goal of identifying and/or preventing possible operational anomalies, generated by subjects external and/or internal to the company).

In the context of company process validation, each process is “assigned” a rating of the operational risk inherent in a process (which assesses the risk factors on the process without taking into account the mitigating effect of existing audits) and a rating of the residual operational risk of the process (obtained by assessing the mitigating effect of audits of the inherent risks). The risk ratings are measured on a discrete scale with values from 1 (minimum risk) to 5 (maximum risk). The introduction of new processes or the modification of existing processes with a residual operational risk rating equal to or higher than 4, is previously examined and assessed by the Operational Risk Committee.

With a view to intercepting symptoms of process vulnerability in advance and having an immediate perception of the areas most greatly exposed to risks, end to end mapping of business processes was carried out[11]. These activities foresee that the process be grouped into macro-processes, and then further into macro-classes, and the assignment of an operating risk rating is envisaged not only for the individual process, but also for the higher level groups, with a view to providing an overview of the areas of intervention under the scope of the entire process chain and planning action to reduce comprehensive exposure to operating risk.

In addition, the activities carried out by the Banca Sella “Controls and Follow Up” function also contribute to the mitigation of operational risk, aimed at maintaining adequate supervision over operational risk control. The activities carried out by this service consist in targeted and second level controls over the activities carried out by Banca Sella.

Monitoring of the risk translates also into specific reporting functions at all levels of the corporate organisation, in accordance with the legislation which states that timely information must be provided on the subject of operational risks. The Control Cycle provides the information basis which, at the occurrence of the anomaly and according to a precise escalation, generates and sends communication flows to the parties concerned.

In addition, in order to ensure an assessment of the performance of the management of operational risk, the Risk Management service produces regular summary and detailed statements which summarise for each Group company and the Group as a whole, the degree of risk assumed in relation to:

- anomalous events and operating losses reported in the Audit Cycle database (highlighting the more serious anomalies);
- the outcome of line audits;
- the trend in service levels;

This evidence is disclosed, at different levels of details and according to severity, to the managers overseeing risks, the CEOs, appointed committees and corporate bodies.

Regarding legal issues, note that the Bank is involved in a number of legal proceedings of various types and legal proceedings originating from the ordinary performance of their activities. In as much as it is not possible to predict the final results with certainty, it is held that any unfavourable results of said

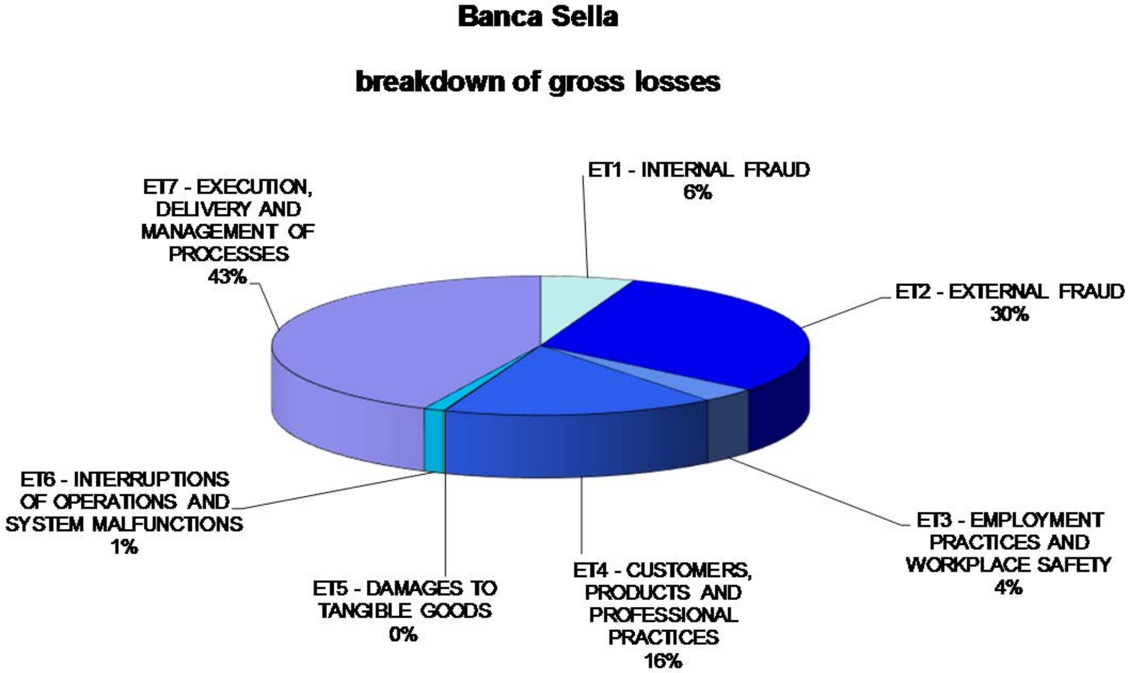
[11] The process is defined as end-to-end when it is set up in such a way as to form a “value flow” in complete logic of satisfying the intended purposes of the customer, whether internal or external, starting from the request and running through to delivery of the service.

proceedings would not have, either singularly or as a whole, important negative effects on the financial and economic situation of the Bank.

For the purposes of calculation of the capital requirement to cover exposure to operational risk, the method adopted is the Basic Indicator Approach (BIA). In the Basic method, capital requirements are calculated by applying a fixed regulatory ratio of 15% to the three-year average of the indicator in question[12].

Quantitative information

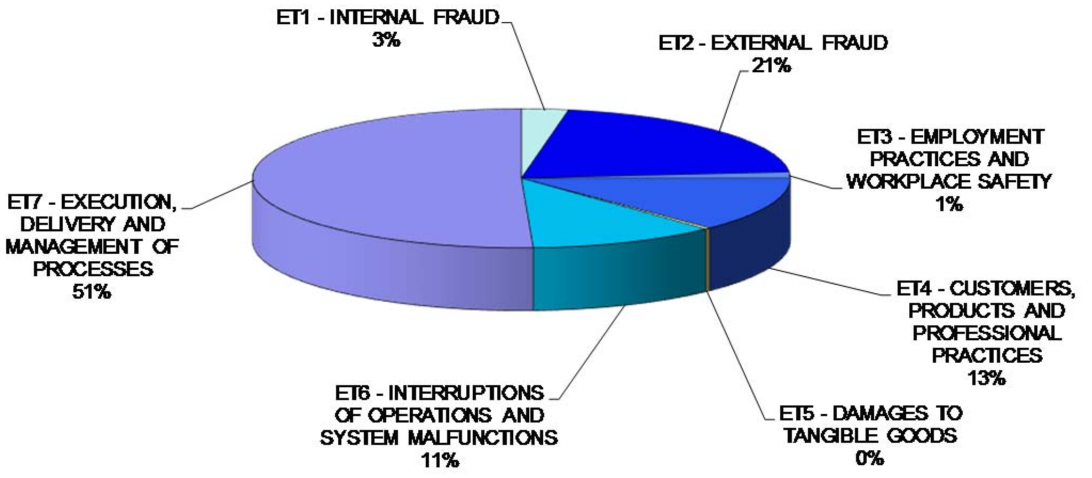
The graphs below, resulting from the processing of the information contained in the Loss Data Collection, illustrate the operating loss data relevant to the period 01/01/2015–31/12/2015, classified by type of event according to Basel 3 and subdivided in terms of impact and frequency.



[12] Article 316 - Title III - PART THREE of Regulation EU 575/2013 of the European Parliament and Council of 26 June 2013 details the elements to be added together to calculate the indicator in question. Table 1 of this article shows: 1) interest and similar income; 2) interest and similar expense; 3) income from shares, units and other securities with variable/fixed income; 4) income from fees/commissions; 5) charges from fees/commissions; 6) profit (loss) from financial operations; 7) other operating income.

Banca Sella

composition frequency



Part F – Information on consolidated equity

Section 1 – Company equity

A. Qualitative information

As of 1 January 2014, the new harmonised regulations for banks and investment companies took effect as found in regulation 575/2013 (CRR) and in directive 2013/36/EU (CRD IV), which implement within the European Union the standards defined by the Basel Committee for bank supervision (Basel 3).

To implement and support the application of the new EU regulations, as well as to fully revise and simplify supervisory regulations for banks, the Bank of Italy issued Circular 285 “Supervisory provisions for banks” and subsequent updates which:

i) implement the regulations of CRD IV, which the Bank of Italy is responsible for enacting, pursuant to the Consolidated Banking Act;

ii) indicates the methods in which discretion was used, as granted to national authorities in the EU regulations;

iii) outlines a complete, organic and rational regulatory framework, integrated with the directly applicable EU rules, so as to make it easier to use by operators.

Within Banca Sella, capital adequacy is ensured through Capital Management activities.

The Capital Management plan is defined together with the strategic plan and the Risk Appetite Framework (RAF) and is made concrete through assessing the impact of ordinary operations and defining any extraordinary operations with an eye to meeting the capitalisation objectives (represented by the Common Equity Tier 1 ratio) held to be necessary and adequate to ensure the Bank has a solid and sustainable situation, both now and in the future.

The Capital Management plan is systematically monitored by the Parent Company Risk Management area, through activities that supervise capital amounts and absorption, including:

i) monthly calculation of final figures, based on operating profit achieved;

ii) quarterly simulation of future trends, aimed at preventing any situations in which the established levels are not respected.

The Bank’s solvency ratios are included in the monthly reports prepared for the Board of Directors and for the Group’s Alignment and Trend Verification Meeting.

B. Quantitative information

B.1 Corporate equity: breakdown

Item/Value	Amount 31/12/2015	Amount 31/12/2014
1. Capital	334,228	281,597
2. Share premiums	366,090	298,722
3. Reserves	24,316	(32,145)
- of profits	158,066	101,605
a) legal	35,666	27,959
b) statutory	93,571	67,879
c) treasury shares	-	-
d) other	28,829	5,767
- other	(133,750)	(133,750)
3.5 Advances on dividends	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	40,522	4,817
- Financial assets available for sale	44,418	9,951
- Actuarial profits (losses) in relation to defined benefit pension plans	(3,896)	(5,134)
7. Profit (loss) for the period	6,012	64,230
Total	771,168	617,221

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

Asset/Amount	Total 31/12/2015		Total 31/12/2014	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	5,810	-	9,951	-
2. Equity securities	38,616	-	-	-
3. UCITS units	-	(8)	-	-
4. Loans	-	-	-	-
Total	**44,426**	**(8)**	**9,951**	**-**

B.3 Valuation reserves of financial assets available for sale: breakdown: annual changes

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balances	**9,951**	**-**	**-**	**-**
2. Increases	**6,227**	**38,616**	**-**	**-**
2.1 Increases in fair value	6,215	38,616	-	-
2.2 Reversal to income statement of negative reserves	12	-	-	-
- from impairment	-	-	-	-
- realised	12	-	-	-
2.3 Other changes	-	-	-	-
- of which business combinations	-	-	-	-
3. Decreases	**10,368**	**-**	**8**	**-**
3.1 Reductions in fair value	331	-	8	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to income statement from positive reserves: following realization	10,037	-	-	-
3.4 Other changes	-	-	-	-
- of which business combinations	-	-	-	-
4. Closing balance	**5,810**	**38,616**	**(8)**	**-**

B.4 Revaluation reserves related to defined benefit plans: annual changes

	31/12/2015
1. Opening balances	**-5,134**
2. Increases	2,655
2.1 Positive valuation component	2,601
2.2 New entries	53
3. Decreases	**1,417**
3.1 Negative valuation component	-
3.2 New exits	1,417
4. Closing balance	**-3,896**

Section 2 - Own funds and capital adequacy ratios

2.1 Own funds

A. Qualitative information

1. Common Equity Tier 1 (Common Equity Tier 1 – CET1)

Below are the main features of the shares included in Banca Sella's Common Equity Tier 1 – CET1 at 31 December 2015:

• 563,193,010 ordinary shares with multiple votes and 105,263,158 ordinary shares with single votes, with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 767,495,651.

2. Additional Tier 1 (Additional Tier 1 – AT1)

There were not calculable financial instruments in Additional Tier 1 Capital at 31 December 2015.

3. Tier 2 capital (T2)

Tier 2 - T2 included subordinated loans issued by Banca Sella at 31 December 2015 for an amount of € 228,148,443.

No.	Interest rate applied %	Interest rate type	Book value as at 31/12/2015	Computability	Issue date	Start date of prudential amortisation	Maturity date	Subject to straight line refund	Computed balance
1	0.22	variable	6,000,000	Computable (following transitional provisions)	30/09/08	30/09/11	30/09/16	SI	4,501,027
2	3.50	fixed	1,000,000	Computable (following transitional provisions)	21/05/09	21/05/11	21/05/16	SI	388,775
3	4.55	fixed	1,000,000	SI	21/05/09	21/05/14	21/05/19	NO	677,437
4	0.99	variable	4,300,000	SI	03/06/09	03/06/14	03/06/19	NO	2,943,593
5	0.75	variable	2,130,000	SI	15/07/09	15/07/14	15/07/19	NO	1,507,097
6	0.75	variable	210,000	SI	15/07/09	15/07/14	15/07/19	NO	148,587
7	0.63	variable	2,500,000	SI	31/07/09	31/07/14	31/07/19	NO	1,790,800
8	0.59	variable	2,500,000	SI	04/09/09	04/12/14	04/12/19	NO	1,963,308
9	4.075	fixed	1,000,000	SI	04/09/09	04/12/14	04/12/19	NO	785,323
10	0.59	variable	10,000,000	SI	10/09/09	10/12/14	10/12/19	NO	7,886,090
11	0.57	variable	930,000	SI	16/09/09	16/12/14	16/12/19	NO	736,462
12	4.10	fixed	2,500,000	SI	05/10/09	05/01/15	05/01/20	NO	2,007,119
13	4.10	fixed	5,000,000	SI	15/10/09	15/01/15	15/01/20	NO	4,041,621
14	4.10	fixed	5,000,000	SI	26/10/09	26/01/15	26/01/20	NO	4,071,742
15	4.10	fixed	2,500,000	SI	26/10/09	26/01/15	26/01/20	NO	2,035,871
16	4.10	fixed	10,000,000	SI	29/10/09	29/01/15	29/01/20	NO	8,159,912
17	4.10	fixed	5,000,000	SI	23/11/09	23/02/15	23/02/20	NO	4,148,412
18	4.00	fixed	5,000,000	SI	16/12/09	16/03/15	16/03/20	NO	4,206,349
19	2.95	fixed	2,500,000	SI	12/10/10	12/10/12	12/10/17	NO	891,292
20	2.50	variable	5,000,000	SI	20/10/10	20/10/12	20/10/17	NO	1,804,491
21	3.15	fixed	1,000,000	Computable (following transitional provisions)	22/11/10	22/11/12	22/11/17	SI	900,000
22	3.70	fixed	10,000,000	SI	14/01/11	14/01/12	14/01/17	NO	2,079,912
23	4.65	fixed	10,000,000	Computable (following transitional provisions)	15/03/11	15/03/16	15/03/21	SI	9,710,000
24	4.30	fixed	4,960,200	Computable (following transitional provisions)	15/06/11	15/06/13	15/06/18	SI	4,061,062
25	5.20	fixed	1,200,000	Computable (following transitional provisions)	25/10/11	25/10/12	25/10/17	SI	1,090,909
26	5.10	fixed	3,920,400	Computable (following transitional provisions)	11/11/11	11/11/12	11/11/17	SI	3,655,247
27	5.75	fixed	8,000,000	Computable (following transitional provisions)	12/12/11	12/12/12	12/12/17	SI	7,798,467
28	5.60	fixed	4,000,000	Computable (following transitional provisions)	30/12/11	30/12/12	30/12/17	SI	3,734,800
29	5.40	fixed	12,000,000	NO	17/01/12	17/01/13	17/01/18	SI	0
30	5.50	fixed	3,000,000	NO	01/02/12	01/02/13	01/02/18	SI	0
31	5.00	fixed	9,000,000	NO	14/02/12	14/02/13	14/02/18	SI	0
32	4.45	fixed	4,000,000	NO	01/03/12	01/09/12	01/09/17	SI	0
33	4.15	fixed	4,000,000	NO	13/03/12	13/09/12	13/09/17	SI	0
34	4.55	fixed	5,000,000	SI	31/08/12	28/02/13	28/02/18	NO	2,163,198
35	3.50	fixed	10,000,000	SI	15/11/12	15/11/13	15/11/18	NO	5,750,274
36	3.45	fixed	5,000,000	SI	10/12/12	10/12/13	10/12/18	NO	2,943,593
37	3.25	fixed	15,000,000	SI	07/01/13	07/01/14	07/01/19	NO	9,060,789
38	3.05	fixed	2,500,000	SI	17/01/13	17/07/13	17/07/18	NO	1,271,906
39	3.00	fixed	5,000,000	SI	31/01/13	31/01/14	31/01/19	NO	3,085,980
40	3.20	fixed	10,000,000	SI	31/01/13	31/01/15	31/01/20	NO	8,170,865
41	3.15	fixed	15,000,000	SI	22/03/13	22/03/14	22/03/19	NO	9,668,675
42	3.30	fixed	10,000,000	SI	03/05/13	03/05/15	03/05/20	NO	8,675,424
43	3.20	fixed	15,000,000	SI	17/05/13	17/05/15	17/05/20	NO	13,128,079
44	2.90	fixed	8,000,000	NO	19/08/13	19/08/14	19/08/19	SI	0
45	3.10	fixed	5,000,000	SI	04/10/13	04/10/14	04/10/19	NO	3,759,584
46	2.75	fixed	4,000,000	NO	04/10/13	04/10/14	04/10/19	SI	0
47	3.10	fixed	5,000,000	SI	22/10/13	04/10/14	04/10/19	NO	3,759,584
48	3.00	fixed	10,000,000	SI	06/11/13	16/11/14	16/11/19	NO	7,754,655
49	3.00	fixed	7,500,000	SI	13/11/13	13/11/14	13/11/19	NO	5,803,669
50	1.95	fixed	4,541,000	SI	29/05/14	29/05/15	29/05/20	NO	4,004,133
51	3.25	fixed	900,000	NO	15/12/14	15/12/16	15/12/21	SI	0
52	3.25	fixed	5,100,000	SI	23/04/15	23/04/16	23/04/21	NO	5,100,000
53	3.25	fixed	3,000,000	SI	15/05/15	15/05/15	15/05/20	NO	2,622,332
54	3.40	fixed	10,200,000	SI	29/05/15	29/05/16	29/05/21	NO	10,200,000
55	5.325	variable	25,000,000	SI	27/10/15	27/10/20	27/10/25	NO	25,000,000
56	3.875	fixed	3,500,000	SI	09/11/15	09/11/16	09/11/21	NO	3,500,000
57	5.298	variable	5,000,000	SI	11/11/15	11/11/20	11/11/25	NO	5,000,000
Overall total			338,391,600						228,148,445

B. Quantitative information

Regulatory Capital - B. Quantitative information

	Total 31/12/2015	Total 31/12/2014
A. Common Equity Tier 1 – CET1 before application of prudential filters	**767,496**	**609,451**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(401)	(539)
C. CET1 gross of elements to be deducted and the effects of the transitional regime (A +/- B)	**767,095**	**608,912**
D. Elements to be deducted from CET1	**48,783**	**45,588**
E. Transitional regime – Impact on CET1 (+/-)	**(28,966)**	**(9,951)**
F. Total Common Equity Tier 1 (Common Equity Tier 1 – CET1) (C – D +/- E)	**689,346**	**553,373**
G. Additional Tier 1 – AT 1, gross of elements to be deducted and the effects of the transitional regime	**-**	**-**
of which AT1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime – Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 (Additional Tier 1 – AT1) (G – H +/- I)	**-**	**-**
M. Tier 2 – AT 2, gross of elements to be deducted and the effects of the transitional regime	**228,148**	**239,287**
of which T2 instruments subject to transitional provisions	**35,840**	**37,333**
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime – Impact on T2 (+/-)	**11,589**	**11**
P. Total Tier 2 – T2 (M - N +/- O)	**239,737**	**239,298**
Q. Total own funds (F + L + P)	**929,083**	**792,671**

On the basis of prudential regulatory provisions, the total requirement is equal to the sum of the capital requirements prescribed against credit and counterpart, adjustment of credit measurement, regulatory, market and operating risk.

In general, methods used to calculate capital requirements refer to the standardised approach and basic indicator approach (BIA), in terms of operating risk.

Banca Sella's capital management policies have the goal of guaranteeing that the capital base is in line with the level of risk taken on, while complying with regulatory requirements and company development plans.

2.2 Capital adequacy

A. Qualitative information

As 31 December 2015, the capital ratios exceeded the minimum requirements foreseen in the regulations in effect as of the reporting date:

- Common Equity Tier 1 ratio: 14.67%, against a minimum level of 5.125%;
- Tier 1 ratio: 14.67%, against a minimum level of 6.625%;
- Total Capital ratio: 19.77%, against a minimum level of 8.625%.

The significant improvement in the ratios is due to the increase both in Tier 1 equity (CET 1), connected to the share capital increase, and the decrease in risk-weighted assets, which occurred due to the drop in loans and also due to the decision in December 2015 to make use of the external credit rating agency Cerved Rating Agency to determine weighting ratios to determine capital requirements for exposures associated with companies classified as capital companies.

B. Quantitative information

2.2 Capital adequacy - B. Quantitative information

Categories/Amounts	Non-weighted amounts		Weighted amounts / requirements	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
A. RISK ASSETS				
A.1 Credit and Counterparty Risk	10,637,674	10,563,872	3,931,284	4,296,555
1. Standard method	10,637,674	10,563,872	3,931,284	4,296,555
2. Methodology based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			314,503	343,724
B.2 Credit evaluation adjustment risk			-	4,119
B.3 Regulatory Risk			-	-
B.4 Market risks			2,462	2,194
1. Standard method			2,462	2,194
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operating risk			58,905	59,588
1. Basic method			58,905	59,588
2. Standard method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			375,870	409,625
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			4,698,375	5,120,313
C.2 Tier 1 capital/Risk-weighted assets (CET 1 capital ratio)			14.67%	10.81%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			14.67%	10.81%
C.4 Total own funds//Risk-weighted assets (Total capital ratio)			19.77%	15.48%

Part G - Business combinations involving business or company divisions

Section 1 – Operations carried out during the year

In 2015, no business combination transactions occurred.

Section 2 – Operations completed after year end

No business combination transactions occurred after the end of financial year 2015.

Section 3 – Retrospective adjustments

During 2015, as no business combination transactions occurred, there were no retrospective adjustments.

Part H – Related party transactions

1. Information on the remuneration of managers with strategic responsibility

In accordance with IAS 24, the types of related parties, with reference to the specific organisational structure and governance, comprise:

a) Banca Sella Holding S.p.A. as the parent company which controls Banca Sella S.p.A.;

b) directors, statutory auditors and top management of Banca Sella S.p.A. (managers with strategic responsibilities);

c) companies controlled by or associated with one of the subjects referred to in point b);

d) close family members of one of the subjects referred to in point b);

e) directors, statutory auditors and top management of the controlling company Banca Sella Holding (managers with strategic responsibilities);

f) the companies of the Group in as much as, together with Banca Sella S.p.A., subject to the direction and coordination of Banca Sella Holding S.p.A.;

With the 9th update, on 12 December 2011, the Bank of Italy introduced into Circular no. 263 “New regulations for the prudential supervision of banks”, the new TITLE V - Chapter 5 (Section IV) “Risk activities and conflict of interest with regards to related parties” in application of CICR Resolution no. 277 of 29 July 2008 and Art. 53, paragraphs 4, 4-ter and 4-quater of Italian Legislative Decree no. 385 of 1 September 1993.

The Bank introduces these provisions, explaining that “The regulation of related party transactions aims to monitor the risk that the nearness of some subjects to the bank’s decision-making units may compromise the objectivity and impartiality of the decisions relating to the granting of loans and other transactions with regards to said subjects, with possible distortion of the resource allocation process, exposure of the bank to risks that have not been adequately measured or monitored and potential damages for investors and shareholders”.

As parent company, Banca Sella Holding S.p.A. has prepared suitable group procedures to ensure compliance with the above provisions, the general rules of which are dictated by two internal regulatory documents: the “Group Regulation for the management of related party transactions” and the “Internal Controls Policies”.

Both documents have been approved by the Board of Directors of the parent company and subsequently enacted by the Bank.

The table below indicates the fees received by managers with strategic responsibilities. The managers with strategic responsibilities also include directors and statutory auditors.

Fees paid to managers with strategic responsibilities *in Euro thousands*

Item	Total 31/12/2015
a) Short-term employee benefits	656
b) Post-employment benefits	-
c) Other long-term benefits	-
d) Severance indemnities	38
e) Share-based payments	-
Total	**694**

Fees paid to Directors and Statutory Auditors *in Euro thousands*

Item	Total 31/12/2015
Directors	335
Statutory Auditors	112
Total	**447**

2. Information on transactions with related parties

Transactions with related parties were carried out, as a rule, on the basis of terms equivalent to those applied for operations performed with independent third parties.

Transactions with related parties at 31 December 2015

	BUSINESS ACTIVITY	LIABILITIES	GUARANTEES GRANTED	GUARANTEES RECEIVED	INCOME	EXPENSES
Parent company and entities that have joint control or significant influence	1,254,571	271,797	-	1,200	3,267	318,302
Affiliates and other entities in the same group	1,179,937	305,542	156	-	50,165	46,956
Associates and joint ventures	47	318	-	-	-	-
Managers with strategic responsibilities for the entity or its parent	5,429	3,228	2,046	7,160	2,776	668
Other related parties	-	3	1,200	12,698	1,398	59

Outsourcing Contracts

Banca Sella provides various services to Group companies through outsourcing, and in turn receives services, mainly from:

- Banca Sella Holding (Corporate Secretary, Inspectorate, Computer Security and Bond Loan Issues);
- Easy Nolo (payment systems - P.O.S.);
- Selir (IT development and administrative services).

These activities, which are governed by specific contracts, are carried out following assessments of mutual benefit, in line with market terms, with the aim of creating value within the Group.

The fees which Banca Sella paid for outsourced services are summarised below:

Outsourcing fees paid by Banca Sella *(in Euro thousands)*

Company	amount at 31/12/2015
Banca Sella Holding S.p.A.	869
Easy Nolo S.p.A.	7,198
Banca Patrimoni Sella & C.	312
Brosel S.p.A.	24
Family Advisory SIM S.p.A. - Sella & Partners	281
Selir S.r.l.	4,806

The fees which Banca Sella received for services provided through outsourcing are summarised below:

Outsourcing fees received by Banca Sella *(in Euro thousands)*

Company	amount at 31/12/2015
Banca Sella Holding S.p.A.	2,208
Easy Nolo S.p.A.	1,050
Banca Patrimoni Sella & C.	1,244
Biella Leasing S.p.A.	162
Sella Gestioni SgR	250
Consel S.p.A.	356
Selir S.r.l.	99

Part I – Payment Agreements Based On Own Equity Instruments

The Bank does not use this type of agreement.

Part L – Segment information

Segment information, as allowed under Circular 262/05, as updated, is optional for Banca Sella and is prepared at the Group level. Please see the consolidated financial statements for the Banca Sella Group.

Other information

Parent company or community credit enterprise

Company name

Banca Sella Holding S.p.A.

Registered Office

Piazza Gaudenzio Sella n.1 – BIELLA
Biella Companies Register number and Tax Code 01709430027
Enrolled on the Register of Banking Groups under no. 03311

Financial statements of the company performing the work of direction and co-ordination

Attached are the Balance Sheet and Income Statement of Banca Sella Holding S.p.A. relating to financial years 2014 and 2013, as the company which as 31 December 2015 performed the work of direction and coordination.

BALANCE SHEET ASSETS

Assets	31/12/2014	31/12/2013	Difference %
20. Financial assets held for trading	594,420,994	706,205,493	-15.83%
40. Financial assets available for sale	704,428,359	363,519,157	93.78%
50. Financial assets held to maturity	-	202,562,272	-100.00%
60. Due from banks	1,411,566,068	620,149,213	127.62%
70. Due from customers	224,838,030	406,703,228	-44.72%
80. Hedging derivatives	571,758	534,002	7.07%
100. Equity investments	838,804,223	840,010,080	-0.14%
110. Tangible assets	36,738,375	38,258,460	-3.97%
120. Intangible assets	1,539,440	910,009	69.17%
of which:			
- goodwill	-	-	0.00%
130. Tax assets	18,704,118	26,068,370	-28.25%
a) current	5,356,044	12,679,935	-57.76%
b) deferred	13,348,074	13,388,435	-0.30%
of which Law 214/2011	9,679,642	9,899,469	-2.22%
150. Other assets	15,437,356	17,590,753	-12.24%
Total assets	**3,847,048,721**	**3,222,511,037**	**19.38%**

BALANCE SHEET LIABILITIES

Liabilities and shareholders’ equity	31/12/2014	31/12/2013	Difference %
10. Due to banks	2,330,560,139	1,673,896,682	39.23%
20. Due to customers	39,188,065	93,858,544	-58.25%
30. Securities in issue	439,135,632	427,707,515	2.67%
40. Financial liabilities held for trading	263,215,500	296,536,372	-11.24%
80. Tax liabilities	9,365,291	5,069,824	84.73%
a) current	6,293,268	3,288,287	91.38%
b) deferred	3,072,023	1,781,537	72.44%
100. Other liabilities	119,800,290	94,832,904	26.33%
110. Provision for severance indemnities	2,625,242	2,490,031	5.43%
120. Provisions for risks and charges:	20,519,234	20,363,106	0.77%
a) pensions and similar obligations	-	-	0.00%
b) other provisions	20,519,234	20,363,106	0.77%
130. Valuation reserves	5,463,380	3,283,299	66.40%
160. Reserves	388,440,935	373,806,720	3.91%
170. Share premiums	105,550,912	105,550,912	0.00%
180. Capital	107,013,670	107,013,670	0.00%
200. Profit (Loss) for the year (+/-)	16,170,431	18,101,458	-10.67%
Total liabilities and Shareholders’ Equity	**3,847,048,721**	**3,222,511,037**	**19.38%**

Financial statements of the company performing the work of direction and co-ordination

INCOME STATEMENT

Item	31/12/2014	31/12/2013	Difference %
10. Interest receivables and similar income	33,516,199	39,441,559	-15.02%
20. Interest payable and similar charges	(14,758,897)	(19,870,012)	-25.72%
30. Net interest income	**18,757,302**	**19,571,547**	**-4.16%**
40. Fee and commission income	14,556,008	16,696,306	-12.82%
50. Fee and commission expenses	(11,394,673)	(12,464,016)	-8.58%
60. Net fees	**3,161,335**	**4,232,290**	**-25.30%**
70. Dividends and similar income	10,767,041	15,580,716	-30.90%
80. Net gains (losses) on trading activities	10,331,685	13,599,390	-24.03%
90. Net gains (losses) on hedging activities	18,308	8,082	126.53%
100. Profit (loss) from sale or repurchase of:	22,355,834	3,524,728	534.26%
a) receivables	-	3,793	-100.00%
b) financial assets available for sale	7,425,192	3,505,504	111.82%
c) financial assets held to maturity	14,949,657	-	0.00%
d) financial liabilities	(19,015)	15,431	-223.23%
120. Net banking income	**65,391,505**	**56,516,752**	**15.70%**
130. Net value adjustments for impairment of:	(3,678,820)	(457,822)	703.55%
a) receivables	(2,027)	(2,740)	-26.05%
b) financial assets available for sale	(3,461,596)	(251,358)	1277.16%
c) financial assets held to maturity	-	-	0.00%
d) other financial transactions	(215,197)	(203,723)	5.63%
140. Net financial operating gains (losses)	**61,712,685**	**56,058,932**	**10.09%**
150. Administrative expenses:	(35,857,444)	(35,235,889)	1.76%
a) personnel expenses	(17,323,900)	(18,096,038)	-4.27%
b) other administrative expenses	(18,533,544)	(17,139,851)	8.13%
160. Net provisions for risks and charges	(868,950)	(55,971)	1452.50%
170. Net value adjustments on tangible assets	(1,935,659)	(2,032,029)	-4.74%
180. Net value adjustments on intangible assets	(455,968)	(323,381)	41.00%
190. Other operating expenses/income	2,865,362	2,974,355	-3.66%
200. Operating costs	**(36,252,659)**	**(34,672,915)**	**4.56%**
210. Profit (loss) on equity investments	(2,771,671)	(149,923)	1748.73%
240. Profit (loss) from disposal of investments	(8,267)	20	-41435.00%
250. Profit (loss) on continuing operations before tax	**22,680,088**	**21,236,114**	**6.80%**
260. Income taxes for the period on continuing operations	(6,509,657)	(3,134,656)	107.67%
270. Profit (loss) on continuing operations after tax	**16,170,431**	**18,101,458**	**-10.67%**
290. Profit (Loss) for the period	**16,170,431**	**18,101,458**	**-10.67%**

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORTPURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
BANCA SELLA S.p.A.

Report on the Financial Statements

We have audited the accompanying financial statements of Banca Sella S.p.A., which comprise the balance sheet as at December 31, 2015, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended and the related explanatory notes.

Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11, paragraph 3, of Italian Legislative Decree n° 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banca Sella S.p.A. as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations with the financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations, which is the responsibility of the Directors of Banca Sella S.p.A., with the financial statements of Banca Sella S.p.A as at December 31, 2015. In our opinion the report on operations is consistent with the financial statements of Banca Sella S.p.A. as at December 31, 2015.

DELOITTE & TOUCHE S.p.A.

Signed by

Claudio Crosio
Partner

Turin, Italy
April 5, 2016

This report has been translated into the English language solely for the convenience of international readers.