BANCA SELLA

BIELLA
since 1886

REPORT AND FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

Joint stock company
Head office in Biella – capital and reserves euro 552.064.852
Participant of the Interbank Fund for the Protection of Deposits and the National Guarantee Fund
Enrolled on the Registers of Banks and of Banking Groups
Tax Code and VAT n. 02224410023
Subject to the direction and coordination of Banca Sella Holding S.p.A.

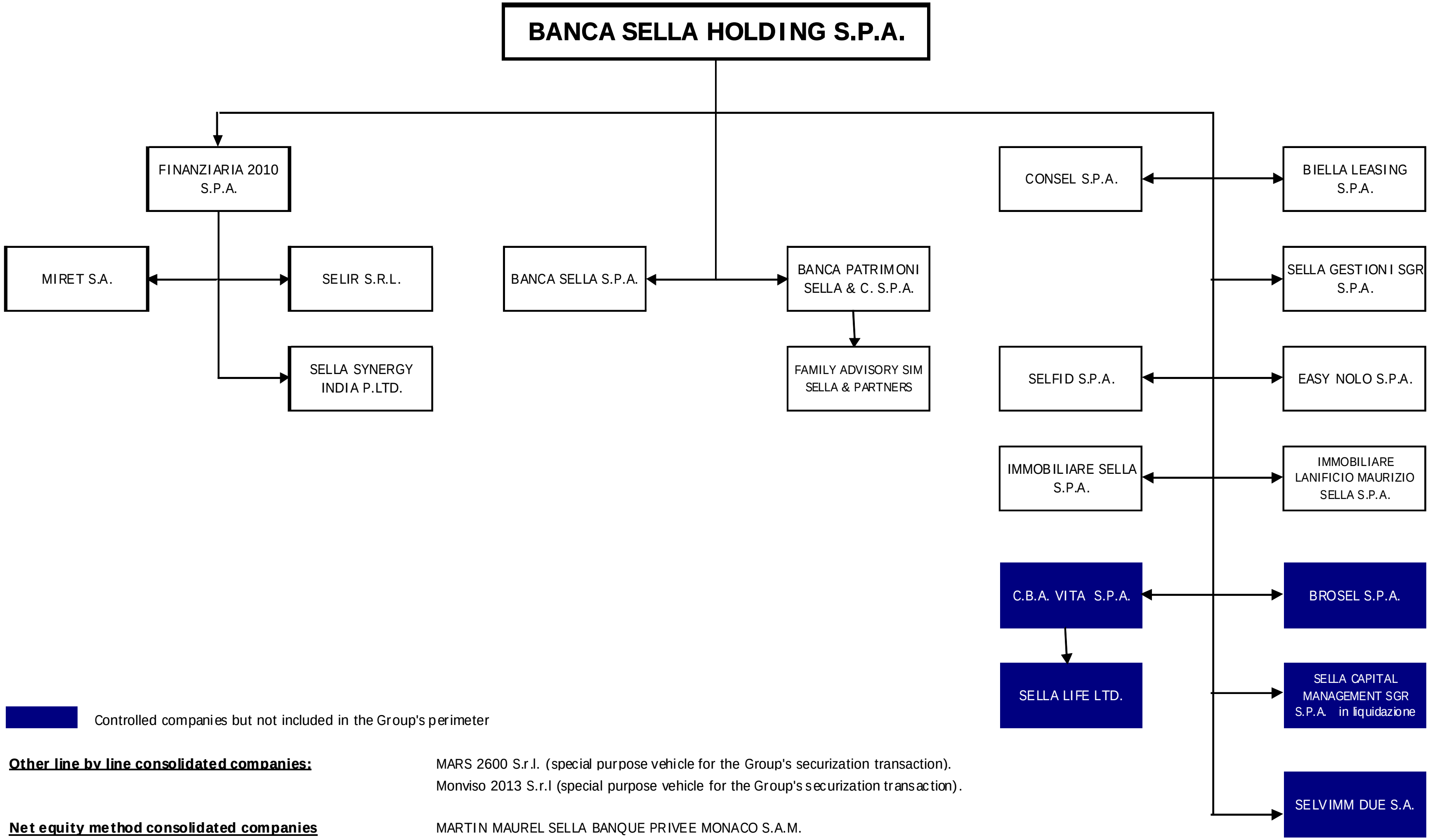
Piazza Gaudenzio Sella 1 - 13900 Biella (Italy)
Tel. 015 35011 – Fax 015 351767 – Swift SELB IT 2B
Internet site www.sella.it

BANCA SELLA GROUP

Index

Map of the Banca Sella Group

at the December 31, 2013



Other line by line consolidated companies:

MARS 2600 S.r.l. (special purpose vehicle for the Group's securization transaction).
Monviso 2013 S.r.l (special purpose vehicle for the Group's securization transaction).

Net equity method consolidated companies

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.

Banca Sella Main Corporate Boards

BOARD OF DIRECTORS

In office up the approval of the 2013 financial statements

Chairman	Maurizio Sella
Deputy Chairman	Franco Sella
Chief Executive Officer	Donato Valz Gen
Director	Elisabetta Galati
"	Luigi Gargiulo
"	Sergio Margarita
"	Antonio Papagno
"	Ferdinando Parente
"	Carlo Santini
"	Federico Sella
"	Pietro Sella
"	Sebastiano Sella
"	Giulio Seracca Guerrieri Arditi di Castelvetere
"	Silvana Terragnolo
"	Paolo Tosolini
"	Andrea Vicari
"	Attilio Viola

BOARD OF STATUTORY AUDITORS

In office up the approval of the 2013 financial statements

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

GENERAL DIRECTION

General Manager	Donato Valz Gen
Co – Generale Manager	Viviana Barbera
Co – Generale Manager	Claudio Musiari
Deputy General Manager	Giorgio De Donno

ORDINARY SHAREHOLDERS' MEETING

Notice of Call

The Shareholders are called to the Ordinary Meeting, to be held in Biella, Piazza Gaudenzio Sella 1, and possibly via tele/videoconference in Lecce, viale Marconi 25, or in Rome, via Bertoloni 9/11, or Trento, via Oss Mazzurana 63, at 3:00 pm on 29 April 2014 on first call and, if necessary, on 7 May 2014, at the same place and time, on second call, to discuss and resolve on the following

Agenda

1) decisions pursuant to Article 2364, 1st paragraph, point 1), of the Italian Civil Code;
2) decisions pursuant to Articles 2380-*bis* and 2364, 1st paragraph, points 2) and 3) of the Italian Civil Code;
3) assignment of the functions of the Supervisory Body pursuant to article 6, paragraph 4-*bis* of Italian Legislative Decree 231/2001 to the Bank's Board of Auditors;
4) Board of Directors' Report on the implementation of compensation policies;
5) review of the internal audit work on the methods for ensuring the conformity of compensation procedures with the regulatory context;
6) the internal control policies relating to risk activities and conflicts of interest in relation to associated subjects.

Biella, 10 April 2014

B A N C A   S E L L A
The Chairman

REPORT ON OPERATIONS

» SUMMARY DATA

Introduction

In regard to this Banca Sella financial statement, recall that during the year the sale of the business unit to Cassa di Risparmio di Bolzano/Sudtiroler Sparkasse took place, consisting of 26 bank branches and a private banking office located in the provinces of Trento, Bolzano and Belluno.

The tables below report the main equity data of the business unit sale to make it easier to compare the equity figures from financial year 2013 with those of the previous year.

	Assets (euro)		10-Jun-13
10	Cash and available liquidity		2.325.385
20	Financial assets held for trading		4.731
40	Financial assets available for sale		-
50	Financial assets held to maturity		-
60	Due from banks		110.724.242
70	Due from customers		232.446.148
80	Hedging derivatives		-
100	Equity investments		-
110	Tangible assets		92.749
120	Intangible assets		-
130	Tax assets		-
150	Other assets		11.445.601
	whose imbalance portfolio items	11.282.098	
	Total assets		**357.038.855**

	Liabilities (euro)	10-Jun-13
10	Due to banks	-
20	Due to customers	355.094.646
30	Outstanding securities	-
40	Financial liabilities held for trading	380.038
80	Tax liabilities	-
100	Other liabilities	492.323
110	Employee severance indemnities	1.071.848
120	Provisions for risks and charges:	-
130	Valuation reserves	-
160	Reserves	-
170	Share premiums	-
180	Share capital	-
200	Profit for the year	-
	Total liabilities	**357.038.855**

	Guarantees issued and commitments (euro)	10-Jun-13
	Guarantees given	17.292.423

	Indirect deposit (euro)	10-Jun-13
	Indirect deposit	401.925.175
	Repurchase agreement	3.783.750

SUMMARY DATA *(euro millions)*				
Item	**31/12/2013**	**31/12/2012**	**Change**	
			absolute	**%**
BALANCE SHEET				
Total assets	10.088.243,3	9.919.806,7	168.436,6	1,7%
Cash loans[1] (excluding repurchase agreements)	7.200.550,4	7.495.417,7	(294.867,3)	-3,9%
Guarantees given	269.661,0	322.432,4	(52.771,4)	-16,4%
Financial assets	1.261.689,0	872.334,1	389.354,9	44,6%
Tangible and intangible fixed assets	76.018,2	79.718,4	(3.700,2)	-4,6%
Direct deposit[2] (excluding repurchase agreements)	8.704.188,2	8.748.009,2	(43.821,0)	-0,5%
Repurchase agreement	260.009,2	246.378,5	13.630,7	5,5%
Indirect deposit [3]	11.221.406,7	11.347.114,1	(125.707,4)	-1,1%
Total deposit	20.185.604,1	20.341.501,8	(155.897,7)	-0,8%
Total Tier 1 capital	505.088,1	486.043,7	19.044,4	3,9%
Regulatory capital including Tier 3	804.733,2	775.182,1	29.551,1	3,8%
INCOME STATEMENT[4]				
Net interest income	197.405,0	200.609,8	(3.204,7)	-1,6%
Net income from services	172.059,7	171.144,2	915,5	0,4%
Net banking income	369.464,7	371.753,9	(2.289,2)	-0,6%
Operating costs [5]	242.851,7	256.107,2	(13.255,5)	-5,2%
Operating profit	126.613,0	115.646,7	10.966,3	9,5%
Net value adjustments for impairment losses	(105.726,0)	(98.530,2)	(7.195,9)	7,3%
Income tax	(13.988,8)	(4.395,7)	(9.593,1)	218,2%
Profit for the year (net)	20.408,7	6.982,3	13.426,4	192,3%

(1) *The aggregate represents the items 70 "Due from customers" of the Balance Sheet Assets.*
(2) *The aggregate represents the sum of the following items of the Balance Sheet Assets: 20 "Due to customers" and 30 "outstanding securities".*
(3) *The aggregate does not include the item "cash", relating to asset management, wich is included in the item "direct deposit". Instead includes the component relating to insurance funding, as a footnote to the table of Administration and dealing on behalf of third parties.*
(4) *As per items reported in the reclassified consolidated income statement.*
(5) *Given by the sum of the following items: "Administrative expenses" item 150, "Writedowns of tangible assets" item 170, Writedowns of intangible asset item 180, "Other operating expenses and income" item 190.*

STAFF AND BRANCHES				
Items	**31/12/2013**	**31/12/2012**	**Changes**	
			absolute	**%**
Employees	2.912	2.996	-84	-2,8%
Branches	293	319	-26	-8,2%

» ECONOMIC-FINANCIAL INDICATORS

ALTERNATIVE PERFORMANCE INDICATORS		
Item	**31/12/2013**	**31/12/2012**
PROFITABILITY RATIOS *(%)*		
R.O.E. (return on equity) [1]	3,8%	1,3%
R.O.A. (return on assets) [2]	0,2%	0,1%
Net interest income[3] / Net banking and insurance income[3]	53,4%	54,0%
Net income from services [3] / Net banking and insurance income [3]	45,6%	45,2%
Cost to income [4]	65,9%	66,1%
PRODUCTIVITY RATIOS *(in euro thousand)*		
Net banking and insurance income [3] / Average number of employees	125,1	131,1
Gross operating profit [3] / Average number of employees	49,3	40,8
Cash loans [5] / Number of employees at year end	2.472,7	2.501,8
Direct deposit / Number of employees at year end	2.989,1	2.919,9
Total deposit / Number of employees at year end	6.931,9	6.789,6
BALANCE SHEET RATIOS *(%)*		
Cash loans [5] / Direct deposit	82,7%	85,7%
Cash loans [5] / Total assets	71,4%	75,6%
Direct deposit / Total assets	86,3%	88,2%
CREDIT RISK RATIOS *(%)*		
Impaired assets / Cash loans [5]	6,8%	6,1%
Net value adjustments to loans / Cash loans	1,5%	1,3%
Coverage ratio non performing exposure	57,0%	59,8%
Coverage ratio NPLs	41,7%	42,2%
SOLVENCY RATIOS *(%)*		
Tier 1 capital ratio	12,73%	11,26%
Total Capital Ratio	20,29%	17,96%

[1] *Ratio between "Profit for the year" and the sum of items 160 "Reserves", 170 "Share premiums", 180 "Share capital", 190 "Own shares", ot the balance sheet liabilities.*

[2] *Ratio between "Net profit" and "Total assets".*

[3] *As per items reported in the reclassified consolidated Income Statement.*

[4] *Ratio between operating costs, net of IRAP and losses connected to operational risk, and net banking income.*

[5] *Cash loans excluding repurchase agreement*

» MACROECONOMIC SITUATION

World context

In 2013, the world economy continued to grow at a contained pace, in line with the growth rates seen in 2012. The advanced countries, after a weak period at the beginning of the year, showed a more or less generalised trend towards recovery: the euro area came out of recession, thanks in part to the slowing of fiscal discipline, the accommodating monetary policy of the European Central Bank and the gradual progress of the integration process, which contributed to containing tensions associated with the sovereign debt crisis and favoured consolidation of the recovery in the trust of economic operators. In the United States, the continuation of the recovery of the residential real estate market and the fair strength shown by private consumption partially compensated for the effects of the change in the tone of the budget policy, which became more rigid. In Japan, the implementation of a new path for economic policy imposed by the Abe government allowed the country to accelerate its growth trend. The situation in the emerging countries, which began in 2012 to show signs of weakness, continued to demonstrate fragility, in part accentuated by the prospect of the stabilisation of US monetary policy. Despite confirming themselves as an important driver in the world economy, the emerging countries saw GDP growth rates that were lower than those in the two-year period 2010-2011.

Analysing the main world economies in more detail, the following aspects can be noted:

- The **US economy** concluded 2013 with an average year-on-year gross domestic product rate of change of 1.9%, slowing in regard to the +2.8% year on year seen in 2012. The tightening of the budget policy (increases in tax rates for high income taxpayers and the removal of the reduced rate on pension contributions for workers starting from 1 January 2013, as envisaged in the American Taxpayer Relief Act, which took effect due to the automatic cuts in public spending starting from 1 March), in addition to translating into a negative contribution to growth from federal public spending, also contributed to the less dynamic personal spending observed in the first months of the year. Supported by the recovery in the financial wealth of households, both in the real estate segment and in the financial segment, as well as the gradual improvement in the employment market and the maintenance of the very accommodating monetary policy, private consumption overcame the period of weakness, progressively accelerating during the second half of 2013. Investments in machinery, showing weak performance for most of the year, accelerated in the last quarter of 2013, in the face of cooling signals seen at the end of the year for investments in infrastructure and housing. These latter, after having made a positive contribution to GDP growth for twelve consecutive quarters, ended the fourth quarter of 2013 with a 9.8% annualised quarter-on-quarter drop, reflecting the weakness seen in the openings of new work sites in previous quarters. The intensification of the debate within the Federal Reserve in regard to the appropriateness of moderating bond purchases ("tapering") in fact contributed to the increase in interest rates on mortgages and the slowing of indicators relative to activity and sales in the residential sector during the summer months. Subsequently, the adoption of a more cautious approach by the Fed compared to the start of tapering favoured a partial recovery in interest rates for mortgages and, at the same time, the restoration of more favourable conditions for the housing market. The Federal Reserve waited until the last monetary policy meeting of 2013, that of 17-18 December, to announce a reduction of 10 billion dollars, starting in January 2014, in its asset purchase plan in course, justifying its decision with the progress shown in the employment market since the start of quantitative easing 3. At the same time, the Fed reinforced its forward guidance on the policy rate, specifying that maintenance of the policy rate at the current level of 0-0.25% will still be appropriate once the unemployment rate has fallen below 6.5%, above all if expected inflation continues to be below the objective of 2%. With regard to budget policy, the start of fiscal year 2014 was marked by the closing of the Federal Government, or rather the suspension of the function of government spending functions not held to be essential, in the absence of an agreement between the House and the Senate on the law on financing federal agencies. The restoration of these activities was made possible by the agreement reached by Congress in extremis on 16 October, which involved the removal of the public debt ceiling through to 7 February 2014 and the financing of the federal budget at the current levels in effect before the closure, through to 15 January 2014.

- The recession that had begun in the **euro area** in the last quarter of 2011 ended during the course of 2013, after six quarters. Sustained by the recovery of exports and the first indications of stabilisation of domestic demand, GDP returned to showing varying positive rates starting in the second quarter. Despite the fact that the indications of improvement extended during the course of the year to the peripheral countries and the domestic demand items showed signs of recovery, the recovery was of moderate intensity: the annual change rate for 2013 GDP was negative for the second consecutive year, to a slightly more contained degree compared to 2012 (-0.4% from -0.7% the previous year). In addition to the attenuation of the rigour of fiscal austerity policies, the growth of the monetary unit benefited from the stabilisation of private consumption and investments – the free-fall phase of which stopped – and the start of the restocking process. The contribution of net exports was positive but smaller than in the previous year, due to the joint effect of a stronger import trend and less dynamic exports. The fragility seen in consumption and investment trends during 2013 can be justified by the persistence of the difficult conditions in the employment market – even if during the second half of the year unemployment rates stabilised – and the continuation of restrictive conditions for the granting of loans. In reference to Italy, in the third quarter of 2013, the free-fall phase in economic activity, which had begun in the summer of 2011, came to an end. The improvement in the climate of trust for companies and consumers, which began during the first few months of 2013 and continued, even if up and down, through to the end of the year, and the trend towards recovery in industrial production observed in the final months of 2013 are in line with a return to moderate growth for economic activity. The critical factors relative to the employment market and the conditions for access to credit previously cited for the euro area, nonetheless, weigh on private consumption dynamics and investment also in Italy, and on the support that these GDP components can give to economic recovery in the future. The absence of demand pressures and the slowing of the more volatile components of the consumer price index contributed to the notable deceleration in inflation observed during the course of 2013. The average annual inflation rate was equal to 1.3% both for the aggregate of euro area countries and for Italy, down from 2.5% and 3.3% in 2012, respectively. The prospect of a prolonged period of low inflation induced the European Central Bank to intervene, at their monetary policy meeting on 7 November, with an unexpected interest rate cut of 25 basis points on the main refinancing operations (from 0.50% to 0.25%) and the marginal refinancing operations (from 1% to 0.75%). The rate on deposits was kept at 0%. At the same time, the ECB extended the period for fixed-rate refinancing operations and with full demand acceptance at least through to the first half of 2015. During the course of 2013, the ECB had already intervened in regard to the policy rate at its May monetary policy meeting, with a cut of 25 basis points, while at its 4 July meeting it had introduced a new communication tool, "forward guidance," affirming its intention to maintain interest rates at current or lower levels for an extended period of time. Guidance on policy rates, as formulated in July, was then confirmed in subsequent monetary policy meetings. In regard to the sovereign debt crisis, the worsening of tensions fed by the critical problems of the Cypriot banking system led, in March, to the creation of an agreement at the EU level to restructure the debt of the two largest banks in the country and the disbursement of 10 billion Euro to support a fiscal adjustment program. On the other hand, the financial aid plans in favour of Ireland and the Spanish banking system were concluded. In the case of Ireland, the advancement of the process of consolidating public accounts and the return of the country to capital markets allowed it to exit from the troika program without needing to make use of other forms of financial support. Spain, having reached the objectives defined for the banking system aid plan, had in turn decided to not make use of the residual funds totalling 100 billion Euro that had been made available to reform its domestic banks. The march towards the creation of the banking union project continued. In November the ECB, in cooperation with the national Supervisory Authorities, began an in-depth examination of the financial statements and risk profiles of the intermediaries that as of November 2014 will be directly supervised by the Institute in Frankfurt. At its December meeting, the European Council came to an agreement in regard to the establishment of a mechanism to resolve banking crises, hoping for its adoption within the end of the current European legislative session. The understanding calls for the creation of a single resolution fund which will reach its full financial capacity (55 billion Euro) after a transitional period of ten years and will initially consist of national compartments. During the transitional period, the financial resources necessary for the resolution of any banking crises will be made available by the governments or the European Stability Mechanism (ESM) fund.

- In Asia, Japan showed encouraging signs during 2013. The country's GDP once again accelerated during the first two quarters (+4.5% and +3.6% annualised quarter on quarter in the First and second quarter, respectively), followed by a significant slowing in between July and September (+1.1%), which the most up to date monthly indicators appear to indicate was temporary. Starting in April, it began to show a gradual recovery trend from the inflationary dynamic, with consumer price change rates becoming positive and stronger as time went on (+1.6% year on year for the general index and +1.3% net for fresh food in December), showing, beyond the impact of the increase in energy prices and questions of a methodological nature, a gearing effect on both import prices, which rose strongly, on the prolonged weakness of the Yen, and final prices, together with a slow rebalancing of demand and supply conditions. The improvement observed in the situation moved forward together with the expectations beforehand and then the start of the new path for economic policy of the Government led by Prime Minister Shinzo Abe, with a three point structure of an aggressively expansive monetary policy, a flexible fiscal policy and structural reforms. Coming out of the elections in December 2012, the new administration announced in January expansive fiscal measure totalling 20.2 trillion Yen (4.2% of GDP), including direct public spending of 10.3 trillion (2.1% of GDP) and, in December, with the intent of limiting the slowing effect deriving from the increase in VAT, scheduled for the coming April (from 5% to 8%), a stimulus package of 18.6 trillion Yen (of which public spending of 5.5 trillion). The Japanese Central Bank, under the guidance of the newly elected Governor Kuroda, at its meeting of 3-4 April inaugurate a new phase of “quantitative and qualitative” monetary slowing, with new and more substantial unconventional measures (mainly the purchase of public debt securities) aimed at favouring the domestic economy's exist from its prolonged deflationary status, in which it has stayed fro around 15 years and at leading it, by 2015, towards a 2% target for consumer price changes. In China, having registered the slowdown in the first half, 2013 ended with a 7.7% change in gross domestic product, similar to that of the previous year. Nonetheless, in the last months of 2013 the main growth indicators showed a gradual loss of vigour, which was also confirmed by the first indications relative to 2014. After a temporary acceleration in the autumn, at rates of over 3%, inflation in the country returned to acceptable levels in November and December, for a 2013 average of 2.6%, lower than the 2.7% in 2012 and the government's target of 3.5% for the year. In India, the deceleration of the first six months of 2013 were followed by timid signs of improvement in growth during the second half, which nonetheless do not alter the fundamental structure of an economy that is having difficulty in entering a sustainable expansion trend, in the face of weakness in particular in the domestic demand components, in a complex inflationary context. Between May and September, various emerging countries, including India, were involved in a notable outflow of foreign capital, at the same time that fears began to spread in regard to the start of a return from the exceptional expansive monetary measures in the US. The outflows affected the more vulnerable economies more intensely, that is those with large current deficits and a relative need for external financing. In this context, more than one Central Bank of an emerging country (India, Indonesia, Brazil, and Turkey), busy also with managing domestic inflation tensions, exacerbated by the weakness of the domestic currency, intervened on the cost of money (and sometimes the currency market), continuing then with the tightening of the monetary policy in the new year, with “tapering” begun.

THE FINANCIAL MARKETS

After an initial phase of stability and a subsequent downward trend observed between March and April, long term rates of return in the US showed upward movement, which was almost uninterrupted from May through to the beginning of September. The ten-year government interest rate went from 1.6% a the beginning of May, which was the minimum for the year, to levels near 3%, which had not been seen since the summer of 2011.

Behind the increase seen for US interest rates were the expectations of a reduction in monetary stimulus on the part of the Federal Reserve, fed by discussions within the board of the Central Institute in regard to a possible moderation of the purchase of bonds carried out in the context of the “quantitative easing 3” plan. The final part of 2013 was characterised by a re-entry phase for US returns, following the publication of uncertain macroeconomic figures for the US economy and the Fed's decision to maintain unchanged the purchases of bonds announced at the 17-18 September meeting, and a subsequent recovery that again brought the ten-year rate to almost 3%. The average ten-year rate in the USA was 2.33% in 2013, as compared with the average of 1.78% recorded in 2012. German long-term interest rates were affected by an upward trend similar to that of the US returns during the course of the spring and summer months, with the exception of the downward phase which arose in correspondence with the political tensions in Portugal which led to a flight to quality movement which benefited German government bonds, and by a subsequent fall. The recovery seen at the end of the year was more contained for German yields, in part reflecting the ECB's adoption of a monetary policy that was more expansive than expected. The average ten-year rate in Germany was 1.63% in 2013, as compared with the average of 1.57% recorded in 2012. Yields for government bonds in the peripheral countries of the euro area, supported by the signals of stabilising economic activity and progress in the implementation of the banking union project, continued the downward trend that began in the second half of 2012. The annual average ten-year rate in Italy was 4.3% in 2013, down from 5.47% in 2012.

In 2013, the stock markets saw an increase of approximately 20.3% (MSCI World). Stock markets benefited from the improvement of the situation of the advanced economies and the accommodating orientation that continued to characterise the monetary policy on the part of the main world Central Banks. These factors more than compensated for the fears associated with the prospects of the normalisation of the US monetary policy and the uncertainties fed by situations of structural problems and cyclical weakness in certain emerging economies.

THE BANKING SYSTEM

In this context, lending activities in the Italian banking system began a generalised shrinking dynamic from the start of the year, which progressively intensified as the months went on and was more severe in the business component. The trend for loans continued to suffer from low demand for investments on one hand, and of still restrictive supply conditions on the other. The recession continued to have effects on the quality of loans. The increase in credit risk weighed heavily on profitability, with consequent reflections on the supply policies of the banks, slowing the provision of credit and increasing the cost. Banking system funding remained healthy for most of the year, supported by the deposits component which nonetheless showed signs of slowing towards the end of the year.

Italian bank loans to the private residential sector in December 2013 stood at € 1,668 billion, recording an annual decline of 3.2%. The trend shows a net inversion compared to the growth of 0.6% seen in 2012. In 2013, loans to businesses fell by 5.9% to 814 billion, those to households fell by 1.3% to 602 billion. These trends were in part compensated for by modest growth in the residual categories of loans to other Financial Institutions (+1.5% to 252 billion) which in December 2013 accounted for approximately 15% of loans to private customers. In the household segment, the 1.3% drop in loans seen during the year remained in line with the contraction (-1.4%) recorded the previous year. In regard to loans to non-financial companies, the contraction in volumes (-5.9%) involved all maturities and was more severe for loans with maturity dates of less than 1 year which reached, at the end of December, an annual reduction of 7.7%, falling to 305 billion. The decline of loans with maturity of more than five years accelerated, going from -2.7% at the end of 2012 to -4.7%, while loans with maturity between 1-5 years saw slowed their fall, going from -8.5% at the end of 2012 to -5%.

In 2013, credit quality continued to decline. The volume of gross non-performing positions at year end stood at € 156 billion, up 24.7% on last year with a ratio of gross non-performing positions and loans of 8.07% (from 6.28% at end 2012) and a ratio of net non-performing positions and loans of 4.3% (from 3.4% at end 2012).

At the end of the year, deposits in Euro with Italian banks represented by residents’ deposits and bonds, reached 2,200 billion Euro, a 2.7% decline on an annual basis. Both the progressive reshaping of growth in the deposits and repurchase agreements component, which went from +8.8% at the end of 2012 to an increase of 2% in December 2013, and the reduction in the bonds component, which ended 2013 with a 9% drop to 866 billion Euro, contributed to this trend. Bonds suffered from the basic negative effect connected to the lack of sizeable state-backed bank issues which were carried out the previous year and held by the banks themselves, as they were used as collateral in the refinancing operations with the Central Banks.

In regard to the figures in the income statement, the main listed bank groups ended the first nine months with modest income and trending downwards compared to the corresponding period in the previous year. Net banking income fell by 7.9% as a consequence of the reduction in net interest income and the result of finance, which was only partially shored up by the improvement in net fees and the tentative made by banks to compensate for the decline in net interest income through carry trade operations on government securities. The shrinking of operating costs (-6.8%) lessened the impact of the reduction in income from operating profit. The cost of bad credit continued along the path of growth that began in the second half of 2011. Net adjustments on loans absorbed almost ¾ of operating profit, compared to 58% in the first 9 months of 2012.

Despite contained income, Italian banks continued with the process of equity reinforcement, mainly due to the effects of the reduction in risk-weighted assets. At the end of September, the average Core Tier 1 ratio for the 5 largest bank groups reached 11.6%.

» BALANCE SHEET DATA

RECLASSIFIED BALANCE SHEET *(euro thousand)*			
ASSETS	**31/12/2013**	**31/12/2012**	**Var % on 2012**
Financial assets [1]	1.261.689,0	872.334,1	44,6%
Due from banks	1.023.739,7	931.488,9	9,9%
Cash loans [2]	7.200.550,4	7.495.417,7	-3,9%
Tangible and intangible fixed assets [3]	76.018,2	79.718,4	-4,6%
Tax assets	155.484,5	116.015,6	34,0%
Other assets [4]	370.761,6	424.832,0	-12,7%
TOTAL ASSETS	**10.088.243,3**	**9.919.806,7**	**1,7%**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to banks	195.488,1	22.618,9	764,3%
Direct deposit [5]	8.964.197,4	8.994.387,7	-0,3%
Financial liabilities hel for trading	25.500,8	23.898,7	6,7%
Tax liabilities	50.931,8	33.914,8	50,2%
Other liabilities [6]	255.090,9	266.675,8	-4,3%
Provisions for specific purposes [7]	41.847,1	46.003,2	-9,0%
Shareholders' equity [8]	555.187,4	532.307,6	4,3%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10.088.243,3**	**9.919.806,7**	**1,7%**

(1) Given by the sum of the following balance sheet asset items: 20 "Financial assets held for trading", 40 "Financial assets available for sale" and 50 "Financial asset held to maturity".
(2) Given by the sum of the following balance sheet asset items: 70 "Due from customers" and 90 "Change in value
(3) Given by the sum of the following balance sheet asset items: 110 "Tangible assets" e 120 "Intangible assets".
(4) Given by the sum of the following balance sheet asset items: 10 "Cash and cash equivalents", 80 "Hedging derivatives", e 150 "Other assets".
(5) Given by the sum of the following balance sheet liabilities items: 20 "Due to customers" and 30 "Outstanding securities".
(6) Given by the sum of the following balance sheet liabilities items: 60 "Hedging derivatives" and 100 "Other liabilities".
(7) Given by the sum of the following balance sheet liabilities items: 110 "Employee severance indemnities" and 120 "Provisions for risks and charges".
(8) Given by the sum of the following balance sheet liabilities items: 140 "Valuation reserves"; 160 "Reserves", 170 "Share premiums", 180 "Share capital" and 200 "Profit for the year".

Banking business with customers saw loans fall by -3.9%, equal to 7,200.6 million Euro, compared to the 7,495.4 million Euro seen at the end of the previous year, net of the sale to Cassa di Risparmio di Bolzano, the decrease would have been -0.9%.

This item includes intra-group loans to Biella Leasing and Consel for 1,197.8 million Euro, net of which loans would have been 6,002.8 million Euro, compared to the 6,589.5 million Euro as at 31 December 2012.

Analysis of the balance sheet shows how the new liquidity portfolio management policy adopted in the last years continued, resulting in the following on the asset-side:

- an increase in financial assets (+44.6%), mainly due to the Board of Directors' decision to increase the size of the segment of financial assets held to maturity (+71.8%) for more stable investing, in that this category, due to its nature, does not suffer from market volatility;
- an increase in amounts due from banks (+9.9%), mainly due to the increase at the end of the year in the item relative to compulsory reserves;
- a decrease in cash loans, due to both the still difficult economic situation and a decrease in demand, as well as the sale of the branches to Cassa di Risparmio di Bolzano, as described in the introduction.

In liabilities, the increase in amounts due to banks is mainly due to the increase in repurchase agreements, due to the liquidity management policies for relations with the Parent Company.

Direct deposits remains essentially unchanged (-0.3%), in that a slight increase in amounts due to customers was counteracted by a decrease in securities in issue following a lack of renewal for securities that reached maturity.

Finally, as at 31 December 2013 shareholders' equity came to 555.2 million Euro, up 4.3% (22.9 million Euro), due to both profits and the improvements in the valuation reserve for financial assets available for sale.

Total Deposits

Breakdown of total deposit			
	31/12/2013	31/12/2012	Change % on 2012
Direct deposit (excluding repurchase agreements)	**8.704.188**	**8.748.009**	**-0,5%**
- Due to customers	7.850.416	7.517.179	4,4%
- Outstanding securities	1.113.782	1.230.830	-9,5%
Repurchase agreements	**260.009**	**246.379**	**5,5%**
Indirect deposit	**11.221.407**	**11.347.114**	**-1,1%**
- Portfolio management	1.476.247	1.266.130	16,6%
- Custody and admi nistration of securities	8.999.782	9.293.989	-3,2%
- Indirect deposit elated to income from insurance activities	745.378	786.995	-5,3%
Total indirect deposit (including repurchase agreements)	**20.185.604**	**20.341.502**	**-0,8%**

Total deposits declined slightly by 0.8% compared to December 2012, but gross of the component transferred during the year to Cassa di Risparmio di Bolzano/Sudtiroler Sparkasse, totalling approximately 757 million Euro, they would have increased by +3%.

A similar consideration can be made in regard to the trend of direct deposits, which excluding repurchase agreements declined slightly (-0.5%), also due to the cause of a lack of renewal of some securities in issue that reached maturity during the year. Gross of said transfer, direct deposits would have increased by 3.6%.

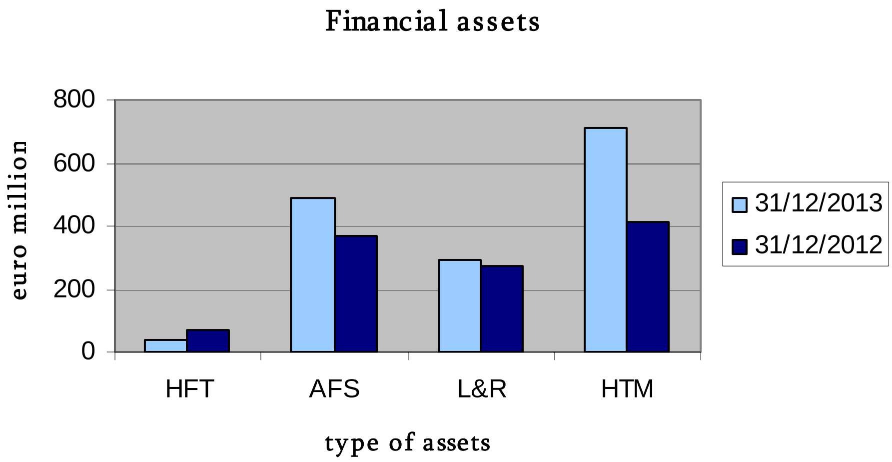
Indirect deposits (-1.1%) also were influenced by the sale, gross of which they would have increased by 2.4%. The component related to portfolio management improved notably, reversing the trend in the last few years, with customers tending towards the managed component rather than the administered one.

This was thanks to a climate of greater investor faith: in fact, in 2013 the stock markets trended upwards and benefited from the improvement in the situation of the advanced economies and the accommodating orientation that continued to characterise the monetary policies of the world's main Central Banks.

These factors more than compensated for the fears associated with the prospects of the United States normalising its monetary policy and the uncertainties fed by structural issues and cyclical weakness in some emerging economies.

Financial assets (debts securities)

Securities portfoglio (euro millions)	31/12/2013	31/12/2012	Change % on 2012
Held for trading	36,1	68,1	-47,0%
Available for sale	488,1	366,3	33,3%
Receivables from banks (loans and receivables)	289,7	272,3	6,4%
Receivables from customers (loans and receivables)	0,2	0,2	0,0%
Held to maturity	708,5	412,5	71,8%
TOTAL	**1.522,6**	**1.119,4**	**36,0%**



As at 31 December 2013 the bank held a debt securities portfolio of 1,522.6 million Euro which, in accordance with the accounting principles, was divided into the following categories:

Financial assets held for trading

This category mainly consisted of Italian government securities and bonds issued by the banks of the Banca Sella Group. As at 31 December 2013 the following types of securities were held:

- Italian government bonds 40%;
- Banca Sella Group bonds 60%;

The size of this segment decrease by around 32 million during the year. The largest change regarded the decrease in Senior Bank Bonds (-21.1 million Euro) which essentially eliminated the segment.

With regard to asset allocation, the variable component represented about 60%, while 40% was invested in fixed rate securities with short-term maturity. Exposure to interest-rate risk was very contained for the entire period in question.

Financial assets available for sale

This category consists of Italian government securities and bank bonds of high creditworthiness. As at 31 December 2013 the following types of securities were held:

- BOT 1.6%;
- CCT 57.7%;
- BTP 38.0%;
- Senior bank bonds 2.7%;

During the year, the size of this segment increased by around 122 million. The greatest changes involved BTPs (approximately +115 million Euro), CCTs (approximately +96 million Euro) and BOTs (approximately -67 million Euro).

With regard to asset allocation, the variable component represented about 58%, while the remaining 42% 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.

Due from banks

This category consists exclusively of bonds issued by Banca Sella Holding. During the year, the segment increased by about 17.4 million Euro.

Receivables from customers

This category consists exclusively of a 6% Confidi subordinate bond with maturity at 27 December 2018.

Financial assets held to maturity

Financial assets held to maturity include instruments held for long-term investment purposes and comply with the size parameters laid down in a framework resolution by the Board of Directors.

The securities included in this category amounted to 708.5 million Euro, and were exclusively Italian government securities, more specifically:

- CCT 58.2 million;
- BTP 650.3 million.

During the year, the balance of this segment grew significantly (approximately +296 million Euro) and is the main change in financial assets as a whole.

The Bank's liquidity

The year 2013 was characterised by a gradual attenuation of the tensions in relation to the banking system's liquidity situation. In particular, the notable tightening of the spread for the yield on Italian government securities, favoured by the renewed interest on the part of foreign investors for peripheral countries' securities, led to a general improvement of the average liquidity situation for Italian banks. In particular, during the course of the year the conditions for access to institutional funding constantly improved (both through unsecured issues and through covered securities or asset-backed securities (ABS)), on the part of Italian banks. In addition, the difference between the conditions accessible to medium and small banks compared to those which larger and better rated institutes continued to be sizeable. As a consequence of the lessening of tensions on the wholesale market, over the course of the year a decline in the cost of customer funding was seen. The unsecured interbank market continued, as in previous years, to record exchanges essentially concentrated only for extremely short maturity dates (mostly overnight) and for smaller amounts.

The European Central Bank continued its support of the banking system:

- lowering rates by 25 bps before April and again in November, bringing them to 0.25%;
- extending the method of assigning the Full Allotment funds for the Eurosystem financing operations to the middle of 2015;
- reducing the haircut on ABS securities held as collateral for the Eurosystem financing operations.

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 both liquidity risk management guidelines and the strategies to be followed in critical situations.

The process of liquidity management and control made it possible in 2013 to maintain an 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.

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

Credit policies and products

At the start of 2013, in the context of a more generalised update to the organisation chart, the Credit Policies and Products service was created, which has the dual tasks of acting as a leader in the context of credit disbursement and management in respect of corporate guidelines and of serving as a “factory” for credit products.

During the year, a review of internal regulations of credit policies was carried out, adjusting them to the requirements dictated by the external situation and that specified in the Group's guidelines. In this context, special credit policies for new types of companies were developed, such as innovative start-ups as defined by the legislation in effect.

Geographic and sector analysis activities were reinforced, also thanks to the acquisition of information from external providers, with the periodic formulation of the associated guidelines.

Special attention was placed on the importance of understanding the customer, as an indispensable element for the proper and complete evaluation of creditworthiness and for the provision of “consulting” in a financial environment aimed at “helping” the customer to choose virtuous behaviour. Similarly, a boost was given to the use of covenants in business loans as a tool to drive said behaviours.

Various actions focused on particular segments of the business portfolio were begun, characterised by specific elements of attention so as to act in anticipation of possible problems or, in a proactive manner, in suggesting virtuous behaviour and opportunities for success in a consulting-type manner.

In regard to credit products, activities continued regarding the offer of special products for customers connected to public initiatives such as *Fondo per la Casa*, and *Fondo di solidarietà per l’acquisto della prima casa* and association initiatives such as the *Accordo per il Credito 2013*. In addition, special products were used to support some initiatives at the local level in the context of specific agreements with entrepreneurial associations.

Cash loans

At the end of FY 2013, cash loans to ordinary customers came to 7,200.6 million Euro (7,495.4 as as at 31 December 2012) with a negative change of 3.9% compared to the previous year. As concerns unsecured loans, the total amount is 269.7 million Euro, -16,4% on 2012.

The reduction in cash and endorsement loans can be attributed to the extraordinary operation which sold 26 branches located in the provinces of Trento, Bolzano and Belluno to Cassa di Risparmio di Bolzano Sudtiroler – Sparkasse, which took place in June 2013.

In an economic situation that was even more difficult than that of 2012, the Group continued its support for households, small business and small/medium enterprises that demonstrated appropriate economic prospects and business continuity, disbursing short-term loans aimed at supporting companies in carrying out current activities, and medium/long-term loans to support households and companies in new investments and/or to restructure short-term debt.

Loans to businesses continued in collaboration with the leasing company of the Banca Sella Group and with Consel, the Group's consumer credit company, for the disbursement of consumer credit loans; this method is in addition to the possible disbursement with Consel of the product “salary-backed loans”.

Adhesion to the ABI-Consumer Associations respite continued to be an option for the suspension of mortgage instalments and to the New Measures for Credit to Small and Medium Enterprises agreement was implemented, intended to suspend instalments and extension the duration of loans, as well as for the financing of investments and the advance of receivables due from the public administration.

Also during the course of 2013, 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.

In view of the difficult economic context, a major boost was given to the training and involvement of staff operating in the credit sector and activities concerning the control of credit supplied were also very important.

LOANS PORTFOLIO QUALITY

In 2013, the analytical valuation parameters of impaired loans classed as watch list revoked and non-performing were reviewed.

This review led to an update of some of the valuation elements used for disputed loans.

The underlying principle of the impaired loan valuation process continues 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 action available, possibility of out-of-court agreements, etc.

This revision of the analytical valuation parameters means that the application of the valuation methods is suitable, even if the external scenario changes and in different macroeconomic contexts.

The results obtained applying the above methods are presented in detail in the section on Accounting Policies and in the Notes.

Non-performing loans

Net non-performing positions at year-end total 228.4 million Euro (including securitisation volumes), up 22.4% on a yearly basis, with an incidence on total loans for cash of 3.2%.

During the period in question, the amount of gross new non-performing loans totalled 182.8 million Euro, a 20% increase over the previous year. The increase in new non-performing loans was determined by the continuation of the crisis in the real economy, which continues to produce notable negative impacts on the credit quality of households and businesses.

Collections on non-performing positions amounted to about 31.2 million Euro, slightly up on last year.

In 2013, as in previous years, a series of positions were identified for which legal and amicable debt collection action has been concluded unsuccessfully or partially unsuccessfully, and in November these were sold without recourse. The operation involved a total of 2,521 positions with a total gross exposure, at the time of cancellation, of 34.4 million Euro, net exposure of 0.8 million and specific adjustment provisions of 33.6 million, deriving from value adjustments on receivables already debited to the income statement.

As at 31 December 2013, the number of non-performing positions was 9,208, of which 75.8% were below the threshold of 50,000 Euro. Finally, 33.5% were under the threshold of 5,000 Euro.

In December 2013, the coverage ratio referred to non-performing positions was 57%, whilst at the end of last year it was 59.7%. The change recorded during the year of 2.7 percentage points is due to the transfer of loans completed in November 2013, which, as in previous years, involved a batch of positions on which analytical adjustments had already been made, on average of 98%. The cancellation of theses receivables, almost entirely adjusted, resulted in a reduction of the coverage ratio of the non-performing positions. The anomalous loan hedge rate, intended as total value adjustments made to deteriorated loans for cash and gross loans disbursed, stands at 41.7%, whilst the figure as at 31 December 2012 was 42.2%.

Watch list loans

Revoked watch list positions totalled 60.8 million Euro at the end of the year (net cash exposures including securitisations). During the period in question, the amount of new entries totalled 193 million Euro, (gross exposures) a 9% increase over the previous year.

For this type of position, the Disputes Service continues to 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 non-performing at the same time.

In December 2013, the coverage ratio for revoked watch list positions was 35.97%, while at the end of the previous year it was 40.11%, with a downward change due to the presence of larger loans supported by real and cooperative guarantees.

The number of revoked watch list positions was 2,546, of which 84.96% were below the threshold of 50,000 Euro, and 37.74% were below 5,000 Euro.

Non-revoked watch list positions totalled 124.8 million Euro at the end of the year (net cash exposures including securitisations).

As at 1 January 2013, non-revoked watch list positions amounted to 151.1 million Euro. Compared to the figures at the start of the year, exposure to positions classified under this category is down 17%.

Early 2013, non-revoked watch list positions accounted for 2,69% of cash uses for positions that had not been cancelled by Banca Sella; as at 31 December 2013, this percentage had dropped to 2,33%.

Non-revoked watch list positions include 245 positions with total exposure of 76.7 million Euro, which benefit from collateral.

Due to the unique nature of the category in terms of supervisory notifications, the calculation of equity requirements and representation in the financial statements, for internal management purposes, the following types of without prejudice to are identified:

- subjective watch list positions, namely exposure towards customers that, on the basis of the elements in the Bank's possession, are believed to be in temporary difficulties that are forecast to be overcome within 12/18 months;
- objective watch list positions, whose situation of temporary difficulty is governed by Bank of Italy legislation.

As at 31 December 2013, the number non-revoked watch list positions involved 3,739 customers: 689 for total exposure of 116.7 million Euro are represented by customers classified as subjective watch list and 3,050 for total exposure of 8.1 million Euro by customers classified as objective watch list.

Of the subjective watch list positions 32, for total exposure of 30.4 million Euro, consist of businesses who presented the banks with a restructuring plan in accordance with art. 67 or art. 182-*bis* of the Bankruptcy Law.

In FY 2013, exposure to customers classified as subjective watch list reduced by 21.6% and exposure to customers classified as objective watch list increased by 19%.

At 1 January 2013, non-revoked watch list loans totalled 2,994. During 2013, the number of subjective watch list loans decreased by 417 (-37.7%) while objective watch list loans increased by 1,162 (+61.5%).

The 689 customers classified as subjective watch list present average exposure, as at 31 December 2013, of 0.02 million Euro. 309 of these have exposure in excess of 50,000 Euro and 380 have less.

The 3,050 customers classified as objective watch list present average exposure, as at 31 December 2013 of 8,052 Euro. 21 of these have exposure in excess of 50,000 Euro, 647 between 1,000 and 50,000 Euro and 2,382 less than 1,000 Euro.

The measurement of non-revoked watch list positions for the purpose of determining value adjustments is made analytically at the time of classification to watch list and subsequently each time new, significant events occur that make a new valuation necessary. The valuations to be applied to watch list positions by the Anomalous Credit service are marked by the determination of the real possibility of returning to a performing status and, where this possibility is in doubt, to quantify the possible loss after having taken action to recover. The evaluation of the adjustments is 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.

In all, analytical adjustments applied to the watch list population not revoked as at 31 December 2013, amounts to 9.8 million Euro. Average coverage for non-revoked watch list positions decreased during 2013, going from 10.4% of cash exposure at the beginning of 2013 to 7.3% as at 31 December 2013, while the average coverage of subjective watch list positions is 7.36% and average coverage of objective watch list positions is 7.04%.

In December 2013, the coverage ratio referred to total watch list positions was 19.5%, whilst at the end of last year it was 21.4%.

Restructured loans

During the course of 2013, 14 new positions were assigned to restructured loans. At year end, these loans amounted to 94 positions for an accounting balance of 27.9 million Euro. The new entries refer to 5 new positions subject to restructuring in a pool with other credit institutions, for an accounting balance of 4.4 million Euro and another 9 positions for which the Bank took action to renegotiate the original contractual conditions, with an accounting balance of 276 thousand Euro.

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

-4.7 million Euro in restructured loans;

-4.3 million Euro in SFP (participating financial instruments).

The write-down on these instruments totalled 1.9 million Euro.

As at 31 December 2013, the accounting balance of the Comital position was 3.6 million Euro, which had dropped in FY 2013 by 522 thousand Euro, as envisaged by the plan.

Situation at 31.12.2013	Nr. Position	Account balance	the expected loss
Restructured positions in pool	18	24.842	1.573
Restructured positions objective	76	2.304	277
Total	**94**	**27.146**	**1.850**

For pool restructured positions, full recovery of the credit is assumed, net of any reduction envisaged by the agreement. The foregoing arises from the assumption that in the majority of cases, these agreements (pursuant to art. 67, paragraph 3, letter d) of the bankruptcy law, pursuant to art. 182-*bis* of the bankruptcy law), reached by customers and a pool of creditor banks, are implemented on the basis of a plan able to assure the restoration of the debt exposure of the business and ensure a restoration of the balance of its financial situation, the reasonableness of which is certified by a professional registered on the professional rolls of auditors meeting the requirements set out under art. 28, letter A and B, in accordance with art. 2501-*bis*, paragraph 4 of the Italian Civil Code. There are some positions what while being pool restructured positions, total recoverability is not assumed. The book value of the loan rescheduled is discounted – IAS 39 – on the basis of the new rescheduling of the debt and new rate compared with the original contractual conditions.

For objective restructured positions, namely agreements reached by the debtor and the bank aimed at renegotiating debt exposure, classified under “restructured exposures” in accordance with circular 272 of 30 July 2008, is formulated applying the internal principles of “Classification, management and valuation of watch list positions” to determine forecast recovery. The book value thus determined is discounted – IAS 39 – on the basis of the new maturity of the debt and new rate compared with the original contractual conditions.

Past-due and/or deteriorated loans overdue granted

Past due and deteriorated loans overdue granted totalled 49.2 million Euro at the end of the year (net cash exposures including securitisations).

As at 1 January 2013, past due and deteriorated loans overdue granted amounted to 38 million Euro. Compared to the figures at the start of the year, exposure to positions classified under this category is up by 29.5%.

At the start of the 2013, past due and loans overdue accounted for 0.63% of cash uses for positions that had not been cancelled by Banca Sella, while as at 31 December 2013, this percentage had risen to 0.86%.

Past-due and loans overdue include 322 positions with total exposure of 31.1 million Euro, which benefit from collateral.

As at 31 December 2013, the number of past due and loans overdue for Banca Sella corresponded to 1,790 customers.

These had an average exposure, as at 31 December 2013, of 27,550 Euro. 248 of these had exposure in excess of 50,000 Euro and 1,542 had less exposure.

The measurement of past due and loans overdue for the purpose of determining value adjustments is made analytically at the time of initial classification to watch list and subsequently each time new, significant events occur that make a new valuation necessary. The valuations to be applied to past due and loans overdue by the Anomalous Credit service are marked by the determination of the real possibility of returning to a performing status and, where this possibility is in doubt, to quantify the possible loss after having taken action to recover. The evaluation of the adjustments is 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.

In all, analytical adjustments applied to the total of past-due and loans overdue of Banca Sella amounted, as at 31 December 2013, to 1.6 million Euro.

At December 2013 the coverage ratio with reference to past-due loans was 3.14%, a decrease compared to the previous year, when it was 5.02%.

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 (+4.4% compared to the previous year), and substantial stability compared to the previous year for transactions carried out with credit cards. This trend confirms the ever more widespread habit of Italian consumers to use cards that foresee immediate withdrawal of funds from current accounts, compared to the use of cards that foresee an accumulative withdrawal at the end of the month. Volumes, which as a whole grew compared to the previous year, on one hand highlight the slowing in consumption that had already been seen in 2012, and on the other were supported by good commercial activities to authorise new operators, carried out both by the network of Branches and the network of agents authorised by the Bank.

Activities relative to debit and credit cards issued by the Bank, similar to the phenomenon seen for the POS acquiring component, saw good spending trends with debit cards, rising by 19% compared to the previous year, against a 5% increase seen in transactions carried out with credit cards.

During the year, the e-commerce sector saw contrasting trends. In terms of volumes, 2013 featured a positive trend (+9% compared to the previous year), even if lower than the increase seen the previous year, due to lower than expected turnover on the part of some large customers. Profitability, vice versa, due to notable increases in the costs of managing transactions applied by the international circuits, was essentially in line with that seen the previous year.

The acquisition of new customers, thanks to the extension of the commercial offerings, obtained through the release of new functions which make Banca Sella's services among the most complete on the international market, increased by +50% compared to the previous year.

During the year, authorisation continued of operators qualified to accept payments by means of smart phone at their sales outlets (physical and online), by means of our “UpMobile” platform that continues to represent a new feature on the domestic market and which is proving to be of interest to numerous private and institutional customers.

Shareholders' equity and regulatory capital

Shareholders' equity: breakdown by type *(euro thousand)*			
Items	**31/12/2013**	**31/12/2012**	**Var %**
Capital	281.597	281.597	0,0%
Share premiums	298.722	298.722	0,0%
Profit reserves	(49.401)	(53.139)	7,0%
Equity instruments	-	-	-
(Treasury shares)	-	-	-
Valuation reserves Financial assets available for sale	4.889	(389)	1356,8%
Actuarial profits (losses) on defined benefit pension plans	(1.028)	(1.465)	29,8%
Profit (loss) for the year (+/-) of the	20.409	6.982	192,3%
Shareholders' equity	**555.188**	**532.308**	**4,3%**

As at 31 December 2013 Banca Sella's equity book value, including profits for the period, totalled 555.2 million, an increase of 22.9 million Euro (+4.3%) compared to 31 December 2012. The change in the items is partly due to the improvement in the profits seen during the year and the valuation reserves for assets available for sale, which has improved, going from -0.4 million Euro to 4.9 million Euro, thanks to the favourable trend of the financial markets.

Regulatory capital *(euro thousand)*			
Items	31/12/2013	31/12/2012	Var %
Tier 1 capital	505.088	486.044	4%
Tier 2 capital	299.010	290.146	3%
Total Tier 1 and Tier 2 ineligible items	-	(2.133)	-
Tier 3 capital	635	1.125	-44%
Regulatory capital	**804.733**	**775.182**	4%
Credit and counterparty risk	275.065	302.615	-9%
Market risks	890	1.576	-44%
Operational risk	41.358	41.120	1%
Total capital requirements	317.312	345.310	-8%
Risk weighted assets	3.966.399	4.316.377	-8%
Tier 1 capital/Risk weighted assets (Tier 1 capital ratio)	12,73%	11,26%	13%
Regulatory capital including Tier 3/Risk weighted assets (Total capital ratio)	20,29%	17,96%	13%

The regulatory capital and capital ratios have been calculated on the basis of the figures in the balance sheet and income statement determined by applying the IAS/IFRS international accounting standards, in accordance with Circular no 155/91 of the Bank of Italy, and later updates, containing “Instructions for preparing reports on regulatory capital and prudential ratios”. The weighted amounts and ratios as at 31 December 2013 were calculated on the basis of the Basel II standard.

The totals for single risks were reduced by 25%. This reduction has been granted by the Bank of Italy to banks belonging to banking groups which comply with consolidated capital requirements.

The amount of total risk weighted assets was determined as the product of prudential requirements and 12.5 (the inverse of the minimum mandatory ratio of 8%).

As of 1 January 2014, the new regulatory norms known a Basel III took effect, which foresee the new definition of Common Equity Tier 1, that is the main capital component, which mainly represents ordinary capital paid in, the relative share premium reserve, profit for the period, the reserves, minority interests (calculable within certain limits) and other regulatory adjustments, as envisaged in the CRR Regulations and the Circular 285. As a consequence, the Common Equity Tier 1 or CET 1 ratio, represents the coefficient of solvency expressed by the ratio between CET 1 and the weighted risk activities calculated on the basis of the Basel III regulations, in application of that envisaged in the CRR Regulations, directive CRD IV and Circular 285.

Taking into account the provisions outlined above, the calculation of the Bank's CET 1 ratio as at 31 December 2013 was 9.77%, greater than the required minimum of 5.125% established under the new regulations.

» INCOME STATEMENT DATA

RECLASSIFIED INCOME STATEMENT *(euro thousand)*

Item	31/12/2013	31/12/2012	% Change over 2012
10 Interest and similar income	333.462,8	346.326,7	-3,7%
20 Interest and similar expenses	(136.333,4)	(145.716,9)	-6,4%
70 Dividends and similar income	275,6	-	-
NET INTEREST INCOME AND DIVIDENDS	**197.405,0**	**200.609,8**	**-1,6%**
40 Fee income	235.396,6	232.276,5	1,3%
50 Fee expenses	(72.794,1)	(73.821,2)	-1,4%
Net fee	**162.602,5**	**158.455,3**	**2,6%**
80 Net gains/(losses) on trading activities	5.660,6	8.380,3	-32,5%
90 Net gains/(losses) on hedging activities	395,3	1.115,2	-64,6%
Net income from service	**3.401,3**	**3.193,4**	**6,5%**
100 Gains/(losses) on sale or repurchase of:	**(200,0)**	**(399,5)**	**-49,9%**
- loans & receivables	2.774,1	3.103,7	(0,1)
- financial assets available for sale	827,2	489,2	0,7
- financial liabilities	172.059,7	171.144,2	0,0
NET INTEREST AND OTHER BANKING INCOME	**369.464,7**	**371.753,9**	**-0,6%**
150 Administrative expenses:			
a) Personnel expenses	(150.354,3)	(152.414,5)	-1,4%
IRAP on personnel and seconded personnel expenses (1)	(5.334,3)	(5.445,7)	-2,0%
Total personnel expenses and IRAP	**(155.688,6)**	**(157.860,2)**	**-1,4%**
b) Other administrative expenses	(123.046,7)	(119.501,7)	3,0%
Recovery of stamp duty and other taxes (2)	31.228,0	24.753,5	26,2%
Total other administrative expenses and recovery stamp duty	**(91.818,6)**	**(94.748,2)**	**-3,1%**
170 Value adjustments on tangible assets	(7.003,7)	(7.267,3)	-3,6%
180 Value adjustments on intangible assets	(11.721,1)	(11.905,9)	-1,6%
190 Other operating expense/income (after deducting "Recovery of stamp duty and other taxes")	23.380,3	15.674,3	170,5%
Operating costs	**(242.851,7)**	**(256.107,2)**	**-5,2%**
OPERATING PROFIT/(LOSS)	**126.613,0**	**115.646,7**	**9,5%**
160 Net provisions for risks and charges	(3.552,8)	(4.047,5)	-12,2%
130 Net value adjustments for impairment on:			
- loans and receivables	(105.726,0)	(98.530,2)	7,3%
- financial assets available for sale	(2,6)	-	-
- other financial transactions	(1.939,7)	(1.676,1)	15,7%
210 Gains/(losses) on equity investments	-	-	-
230 Impairment of goodwill	-	-	-
240 Gain/(loss) on disposal of investments	(20,4)	(14,9)	37,0%
Income from sales of business	19.026,0	-	-
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES	**34.397,5**	**11.378,0**	**202,3%**
260 Income taxes for the period on continuing operations (after deducting "IRAP on personnel and seconded personnel expenses")	(13.988,8)	(4.395,7)	218,2%
PROFIT FROM CONTINUING OPERATIONS AFTER TAXES	**20.408,7**	**6.982,3**	**192,3%**
280 Profit/(losses) on asset disposal groups held for sale after tax	-	-	-
PROFIT/(LOSS) FOR THE YEAR	**20.408,7**	**6.982,3**	**192,3%**

(1) *Separeted from the item "Income taxes for the period on continuing operations".*

(2) *Separated from the item "Other operating expense/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 similar income” which full under interest income totals;
- IRAP on the costs for personnel which is separated from the item “Income taxes for the period; on continuing operations and classified in personnel expenses”;
- the item “recovery of stamp duties and other taxes” which is separated from the item “other operating income and expenses.”
- item 100. “Profit/(loss) from the sale or repurchase of” previously reclassified after operating profit/loss was returned to net income from services. For more uniform comparison, 2012 was also reclassified.

PROFITABILITY

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

The total result for the year was approximately 20.4 million Euro, a net improvement compared to 31 December 2012. As a consequence, the ROE level was 3.8%.

The year, as previously explained, featured the sale of the distribution business unit of Trentino Alto Adige and part of Veneto to Cassa di Risparmio di Bolzano/Sudtiroler Sparkasse, which influenced various items in the income statement and led to profits deriving from the sale of approximately 19 million Euro.

Analysing the items, we see a general reduction of the interest margin, including on a system level, in the case of Banca Sella, the reduction was limited (-1.6% as compared with the figures as at 31 December 2012). The reduction is due mainly to a drop in the volumes of loans together with a decline in market rates; in fact, again in 2013 protracted weakness in the demand by businesses and households was confirmed both due to the continuation of the crisis and the high supply conditions applied following the increased risk parameters.

Net fees were quite stable, in fact they increased by 2.6%.

Net banking income suffered from the low performance of trading activities, which despite arriving at 5.7 million Euro still decreased by 32.5% compared to 2012.

In regard to operating costs, containment action continued. In fact, they fell by 5.2% compared to 31 December 2013. The reduction can also be partially attributed to the operation to sell the branches, described above.

Net interest income

As at 31 December 2013 net interest income amounted to 197.4 million Euro, down by 1.6% compared with the previous year. If the sale to Cassa di Risparmio di Bolzano is considered, with net interest totalling around 1.6 million Euro, the interest margin is substantially in line with 2012, with a tiny decrease of 0.5%.

The impact on net banking income fell from 54% in December 2012, to 53.4% in December 2013.

Net income from services

The trend in net income from services, which amounted to a total of 172.1 million Euro, showed a rise of 0.5% compared with the 2012, in which it was 171.1 million Euro. The result can be generally considered positive in that it was influenced by the sale of part of the branches, which made a positive contribution to the item.

This component represented 45.6% of net banking and insurance income (45.2% as at 31 December 2012).

Net income from services: main components (in millions of euro)	31/12/2013	31/12/2012	Var %
Payment services	65,3	63,0	3,6%
Asset management, brokerage and advisory services	21,6	20,3	6,3%
Asset management	11,5	10,2	12,6%
Insurance products	6,8	7,6	-10,4%
Trading and hedging activities	6,1	9,5	-36,2%
Current accounts holding and management	22,8	23,6	-3,2%
Keeping and management accounts	25,4	25,9	-1,7%
Other services	12,5	11,0	13,7%
Total	**172,1**	**171,1**	**0,5%**

Despite the effect of the crisis striking the average Italian family and reducing its spending power and consequently slowing consumption, the commission part of payment services recorded a good trend (+3.6%), characterised by an increase in transactions carried out with debit cards and stability compared to the previous year for transactions carried out with credit cards. This trend confirms the ever more widespread habit of Italian consumers to use cards that foresee immediate withdrawal of funds from current accounts, compared to the use of cards that foresee an accumulative withdrawal at the end of the month.

Income from assets managed stood at 11.5 million Euro, with good growth compared to 2012. In fact, customers were more interested in the managed component, rather than the administered one. This was also due to a climate of greater faith for investors. In 2013, the stock markets had good upward trends, favouring this change.

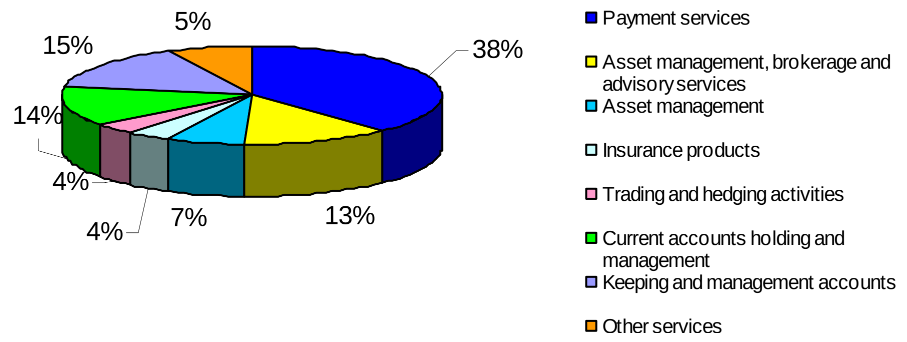
Commissions for the placing of insurance products declined by 10.4% compared to the previous year, reflecting the performance of the insurance segment.

Trading and hedging activities had good performance (+6.3%), despite them being penalised in 2013 by lower yields from Italian government securities, the lack of corporate bond issues on the domestic market and the tightening of the Tobin tax. In addition, placement of the Italy BTP continued with great success.

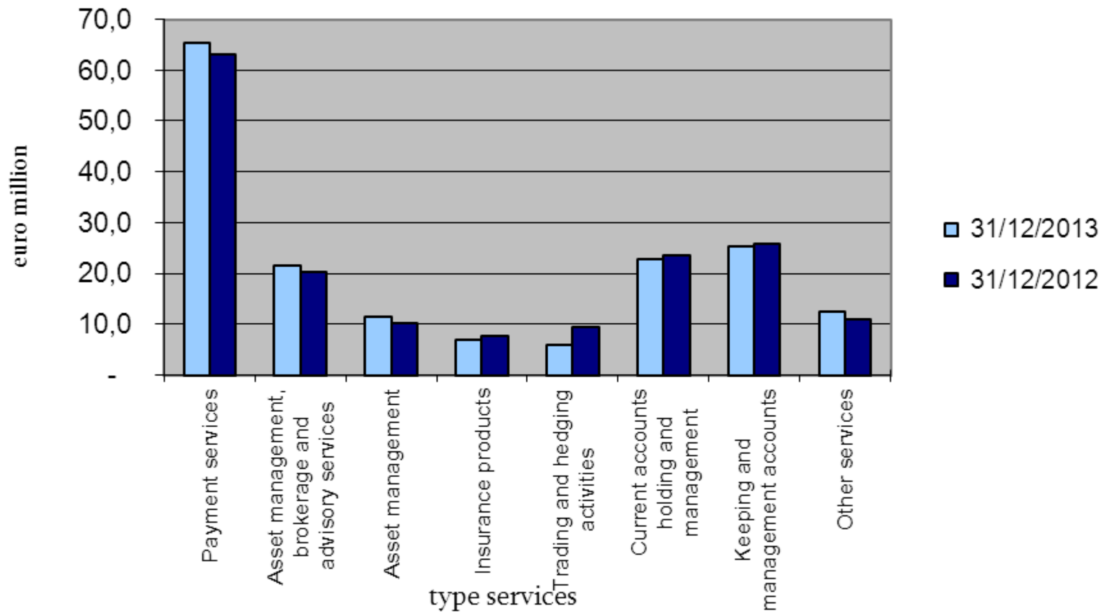
The remaining “other” category includes commission charged on holding and managing current accounts and commission on loans granted to customers.

It also includes profits and losses from sales or repurchases of credits, financial assets held for sale and financial liabilities for a net amount of 3.4 million Euro.

net income from services - weight of service



Net income for services



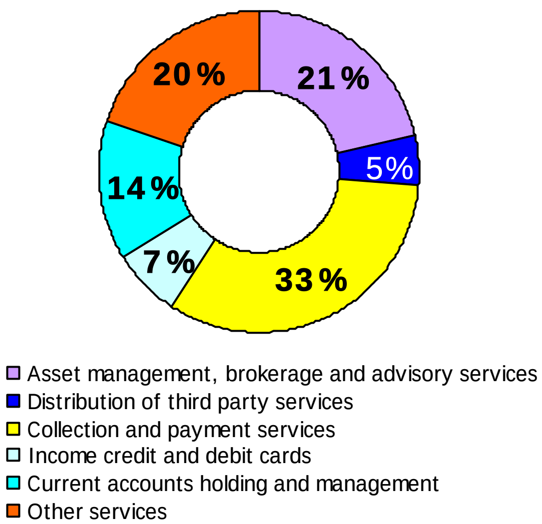
Net banking income

Net income from money management, together with net income from services, led to total net income of 369.5 million Euro, a very slight decrease (-0.6%) compared to 31 December 2012, in line with that seen on average in the Italian banking system.

The positive performance of net fees, which grew by 2.6%, more than compensated for the non-positive performance of the results of trading activities, which shrank by 32.5%.

Also in the case of net banking income it is necessary to keep in mind the component sold in June 2013 to Cassa di Risparmio di Bolzano/Sudtiroler Sparkasse, equal to approximately 3.7 million Euro, which would have brought net banking income to +0.4%.

composition of net commissions %



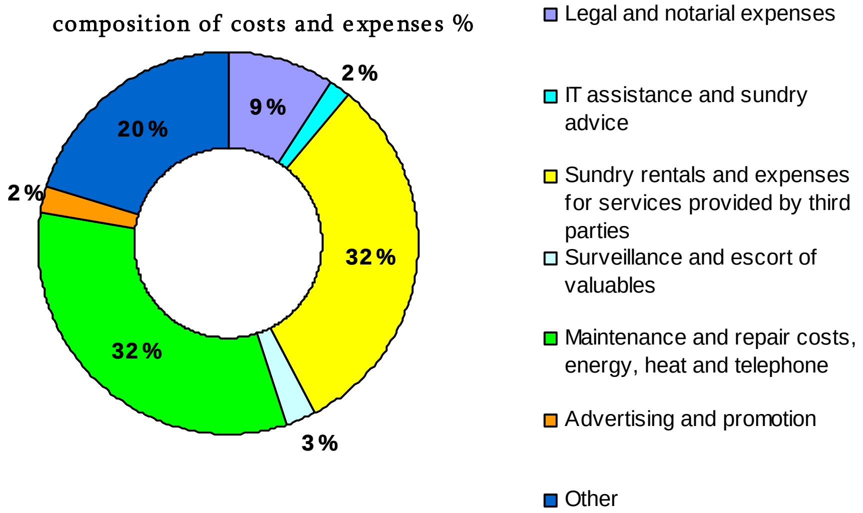
Operating costs

Operating costs, amounting to 242.9 million Euro, net of the positive contribution of 23.4 million Euro of the item "Other operating expenses/income", decreased by 5.2%.

The efficiency indicator known as the cost-to-income ratio, which is the ratio of operating costs (after deducting IRAP on personnel costs), net of losses linked to operational risks and net banking, comes in at 65,9%, substantially in line with the 66.1% recorded as at 31 December 2012.

Breakdown of operating costs *(euro thousand)*

	31/12/2013	31/12/2012	Change %
Administrative expenses:			
a) Personnel expenses	(150.354,3)	(152.414,5)	-1,4%
IRAP on net personnel and seconded personnel expenses	(5.334,3)	(5.445,7)	-2,0%
Total personnel expenses and IRAP	**(155.688,6)**	**(157.860,2)**	**-1,4%**
b) Other administrative expenses	(123.046,7)	(119.501,7)	3,0%
Recovery of stamp duty and other taxes	31.228,0	24.753,5	26,2%
Total other administrative expenses and other taxes	**(91.818,6)**	**(94.748,2)**	**-3,1%**
Value adjustments on fixed assets	(7.003,7)	(7.267,3)	-3,6%
Value adjustments on intangible fixed assets	(11.721,1)	(11.905,9)	-1,6%
Other operating expenses/income (after deducting "Recovery of stamp duty and other taxes")	23.380,3	15.674,3	49,2%
Operating costs	**(242.851,7)**	**(256.107,2)**	**-5,2%**



Operating profit

The operating result amounted to 126.6 million Euro, an improvement of 9.5% compared with the figure as at 31 December 2012.

Operating profit *(euro thousand)*

	31/12/2013	31/12/2012	Change %
- net banking income	369.464,7	371.753,9	-0,6%
- operating costs	(242.851,7)	(256.107,2)	-5,2%
Operating profit	**126.613,0**	**115.646,7**	**9,5%**

Allocations and adjustments

Net allocations to provisions for risks and charges

During the year provisions of 3.6 million Euro were set aside for risks and charges, a decrease over 2012, for the most part allocated against operational risk.

Value adjustments for credit impairment

Net value adjustments on loans and advances amounted to 105.7 million Euro, up by 7.3% compared to the 98.5 million Euro of the previous year.

This item represents 1.5% of total lending. The generalised crisis context and difficulty experienced by households and businesses has meant that value adjustment have once again had a major impact on the period result.

Value adjustments for credit impairment *(euro thousand)*			
	31/12/2013	31/12/2012	Change %
- loans and receivables	(105.726,0)	(98.530,2)	7,30%
- available-for-sale financial assets	(2,6)	-	-
- other financial transactions	(1.939,7)	(1.676,1)	15,73%

Income taxes

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 40.7%.

The so-called “Robin Hood tax” introduced by Legislative Decree no. 112 25/06/2008 (turned into Law no. 133 of 06/08/08) which implies that 4% of interest expenses is non-deductible, caused an increase in taxes of approximately 1.3 million Euro, corresponding to about 3.8 percentage points in the tax rate.

Decree Law 30/11/2013 no. 133 (turned into Law 5 of 29/01/2014) introduced an additional IRES of 8.5% for credit and financial entities, with reference to the period in course as at 31/12/2013, and led to greater taxes of 1.9 million Euro, corresponding to a negative impact of 5.6 percentage points on the tax rate.

Without the effect of the above-mentioned components, the tax rate would have been around 31.3%.

We also note that with Law 27/12/2013 no. 147, important changes were introduced in regard to the deductibility of IRES and IRAP in regard to write-downs and losses on credits. In particular, in reference to IRAP, starting in 2013 deductibility of adjustments on amounts due from customers classified under item 130 a) of the Financial Statements is possible (if over 5 years). In 2013, this regulatory change led to the elimination of what would otherwise have been an approximately 5.8 million increase in taxes, corresponding to 17 percentage points of the tax rate. In the absence of this change and the effect of the components cited in the sections above, the tax rate would have been approximately 48.3%.

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

A more detailed analysis of the significance and the impact of the application of deferred taxation is contained in the Notes to the Accounts.

Overall profitability

	ITEMS	31/12/2013	31/12/2012
10.	**Net income (loss)**	**20.408.737**	**6.982.298**
	Other comprehensive income (net of tax) not reattributions to income statements		
20.	Tangible assets	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	436.427	(3.465.383)
50.	Non-current assets held for sale	-	-
60.	with net equity method	-	-
	Other comprehensive income (net of tax) reattributions to income statements		
70.	Hedges of foreign investments	-	-
80.	Foreign exchange differences	-	-
90.	Cash flow hedges	-	-
100.	Financial assets available for sale	5.278.534	13.385.137
110.	Non-current assets held for sale	-	-
120.	Share of valuation reserves connected with investments meaured with net equity method	-	-
130.	**Total other comprehensive income (net of tax)**	**5.714.962**	**9.919.754**
140.	**Total comprehensive income (item 10+130)**	**26.123.698**	**16.902.052**

The amount which refers to financial assets available for sale (item 100) consists of the change in the valuation reserves relative to said portfolio (above all traceable to the component related to Italian public debt securities). The positive but declining trend of the item above all relates to the public debt securities component, which in 2012 benefited from the reduction of the BTP-BUND spread, particularly during the second part of the year, which was an extraordinary event that was not repeated in 2013.

The small increase in rates also had a positive effect on the actuarial component of severance indemnity.

Distribution channels and commercial model

During 2013, the distribution network was involved in the sale of 26 bank branches and a private banking office located in the provinces of Trento, Bolzano and Belluno to Cassa di Risparmio di Bolzano/Sudtiroler Sparkasse AG. The desired objective was to rationalise the Bank's distribution network as well as reinforcing the Bank and the Group's equity. Excluding the cited operation, the distribution did not undergo any notable changes.

Commercial and distribution policies focussed on the development of an integrated commercial model, namely of an open system at the centre of a group of relations between customers and the bank, which allows for the more efficient management of the customer's information, obtaining greater interaction and better coordination of operative channels and assistance, involving the customer more, better overseeing pricing and, finally, supplying more effective central support to consultants, bankers, cash operators and other operators for quality service. Hence, during the course of 2013 a reorganisation of the Bank's commercial department took place.

As at 31 December 2013, the situation of Bank branches is as shown in the following table:

Breakdown by region and branch region				
	31/12/2013		31/12/2012	
REGION	**Number of branches**	**Weight % region on total**	**Number of branches**	**Weight % region on total**
Piemonte	132	45,1%	131	41,1%
Sardegna	3	1,0%	3	0,9%
Toscana	11	3,8%	11	3,4%
Valle d'Aosta	6	2,0%	6	1,9%
Emilia Romagna	15	5,1%	15	4,7%
Lazio	16	5,5%	16	5,0%
Liguria	8	2,7%	8	2,5%
Lombardia	17	5,8%	17	5,3%
Veneto	12	4,1%	24	7,5%
Trentino Alto Adige	0	0,0%	15	4,7%
Friuli Venezia Giulia	1	0,3%	1	0,3%
Abruzzo	1	0,3%	1	0,3%
Marche	5	1,7%	5	1,6%
Molise	1	0,3%	1	0,3%
Campania	15	5,1%	15	4,7%
Puglia	29	9,9%	29	9,1%
Sicilia	21	7,2%	21	6,6%
TOTAL	**293**	**100,0%**	**319**	**100,00%**
ITALY				
North	191	65,2%	217	68,0%
Central	33	11,3%	33	10,3%
South & Islands	69	23,5%	69	21,6%
TOTAL	**293**	**100,0%**	**319**	**100,00%**

Below is a description of the various services available to customers and the activities carried out during the course of the year.

Commercial markets

Households and Private Market

The Households and Private Market represents individuals with total assets held at the Bank of less than 50 thousand Euro. 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.

In 2013, the external context saw difficulties become more entrenched associated with the decline in the workforce, the limited growth of salaries, the reduction in investments and the simultaneous increase in the propensity for savings. All this was combined with a social context that changed radically over the last few years due to the increase in separations and divorces, and as a consequence the increase of cohabitation and common-law marriages. In addition, at least 7 million young people between 18 and 34 years of age live with at least one parent – a phenomenon that continues to grow. (Source – ISTAT data – latest report on social cohesion).

At the same time, the demand for consulting, relations and personalisation of some services has grown. The need for supplementary pensions (also following the reform of the pension system), damages/unemployment insurance and e-cash is growing.

That being said, the direction of the market is towards an open approach in regard to customers, placing their real needs at the centre, and responding through a standard of offerings that are able to meet all requirements, through:

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

In 2013, the figures assigned to these activities were established (Household and Private Market Representatives) and a Market Manager was assigned.

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, the plan to cover gaps emerging from the knowledge survey, and insurance certification.

In 2013, a great deal of attention was focused on the release of instruments and services able to provide the right commercial support. In particular, the Commercial Workstation and the Household and Private Market Community were launched – devices that indicate the evolution in the role of commercial employees towards a proactive stance with customers.

In regard to the updating and evolution of the array of offerings, in cooperation with Banca Assicurazione a new set of products was launched, aimed at covering personal risks, assets, and health care assistance.

Banking requirements were also an important focus, with the extension of services made available to customers, as well as the possibility of accessing them.

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

Businesses Market

The Businesses Market is mainly represented by Companies with turnover in excess of 2.5 million Euro and/or loans in excess of 250 thousand Euro. This segment is supervised at the commercial level by the Businesses Sales Professionals.

This role, in an economic situation that continues to be complex, while offering numerous commercial opportunities, remains strategically important.

The Businesses Market requires more than ever, on the part of the Bank and its commercial employees, a proactive approach to the different requirements, combined professional knowledge able to adequately provide support on the basis of the various sector, size, and specific requirements of each Company, as well as a complete and in-depth view of the offerings available.

The activities of the Businesses Sales Professionals therefore are increasingly structured in accordance with a consulting model, that is able to identify opportunities for the company by carefully listening to the client, in order to offer added value proposals, updating the offers over time based on the changes in the requirements of both the company and the market in which said company operates.

In this context, a forward looking stance and action are equally important, to identify and carefully monitor possible problematic elements, in order to prevent risks connected to the disbursement of credit and to guide, if possible, the company towards the most appropriate solutions to mitigate situations of impairment.

The objective of the Market is to assist and support small/medium enterprises in the process of internationalisation, which is by now indispensable for many companies.

The establishment of the Foreign Specialist, with a purely commercial nature and operating at the local level, has contributed to providing customers adequate consulting, not only in regard to incoming and outgoing payment systems and foreign merchandise operations, but also regarding exchange rate risk management, thanks to the products provided by the Customer Desk Service, as well as commercial insolvency, through the adoption of insurance solutions provided by the companies of the Brosel Group, specialised in insurance brokering.

In regard to financial solutions for companies that operate overseas, in addition to Sella Export financing, supported by SACE guarantees under the terms of the Convention recently renewed and dedicated to investments for internationalisation projects, the Sella Made in Italy product was confirmed, also for financing of intangible expenses, such as the participation in fairs overseas, market research, brochures, catalogues, collections, internationalisation training courses and events.

In addition, the Businesses Sales Professionals paid special attention to small and medium enterprises with the offering of financial products to support employment – the "Salary Financing" for holiday pay and to support the greater financial requirements connected to the decrease in turnover during the summer holiday period was the subject of dedicated commercial campaigns. In 2012, this loan was also extended to financial necessities that companies may have to discharge the obligation to pay annual severance indemnity funds to employees who make use of Banca Sella Group products.

The attention paid to the needs of the Businesses Market in the production districts was enormous, as well as cooperation with the Category Associations and Institutions. Biella and the Biella area, as well as Salerno were the subjects of a "Territory Bond" issue, which allowed companies operating in these districts and members of the local Industrial Associations, to access loans with special rates for investments to support internationalisation and employment.

Similarly, local initiatives aimed at favouring the Bank/Company relationship continued, thanks in part to company check-ups, followed by proposals and possible creditworthiness evaluations.

In addition, 2013 saw the three-year sponsorship by the Bank of the notable "Milano Unico" project, an international fabric fair held in Milan in February and September. The commitment represents the Bank's desire to support the development of the fabric sector and excellence Made in Italy. The organisation of workshops in this area on issues of general interest for companies and the constant presence of Businesses Sales Professionals at the fairs, together with the subsequent commercial activity, confirms the importance of listening to needs and consulting accompanied by personalised offers.

Training of Businesses Sales Professionals continued in regard to Extraordinary Finance (M&A, mergers, acquisitions), both on the part of the Banca Sella Holding Corporate Finance Division, specialising in serving companies in this area, and the newly-established Business Finance Service, operating within Banca Sella since the start of the past year, and created with the goal of offering even more professional consulting in regard to Risk Management and Extraordinary Finance services.

Sella Corporate Finance organised, in cooperation with the Business Finance Service and the Businesses Sales Professionals, three interesting meetings which saw the participation of managers and industrial professionals from some companies that represent the best of Italian entrepreneurs.

The theme of the evenings, which were held in Bologna, Milan and Turin, was "The challenge of internationalisation and the instruments to support the strategic development of companies."

The initiative allowed the Banca Sella Group to create relationships with some important companies, while simultaneously consolidating the Bank's image as a full service company, offering services ranging from credit, to strategic consulting, through to company finance and private banking.

Thanks to Sella Corporate Finance's participation in the international network of merchant banks, known as Terra Alliance, which our Group is also a founding partner of, we can offer high-level professional services to all companies interested in evaluating M&As, joint ventures, and strategic agreements at the international level.

In addition, certain innovative alternative finance instruments were improved, such as the so-called Minibond, which will be available to customers starting from the year in course.

The issue of digitalisation of companies continues to be a focus. During 2013, the Businesses Sales Professionals structure continued its consulting activities in regard to this issue, also carried out on the occasion of certain themed events and local meetings dedicated to entrepreneurs interested in learning more about the subject.

In particular, the offerings were focused on those services that can contribute to increasing company business, such as e-commerce, which allows companies to approach foreign markets with investment costs that are more contained compared to physical commercial networks. In addition, innovative payment solutions were successfully introduced, in particular to utilities which offer services such as transport, energy, and waste disposal, but also to companies that manage canteens and car parks.

These new instruments, which allow payment via mobile phones, make it easier for the customer that make use of the service, while improving corporate efficiency.

To allow companies to finance the investments necessary for development and organisational efficiency, dedicated digitalisation financing was confirmed, with medium and long-term repayment options.

The Businesses Sales Professionals network was able to offer companies financial support and assistance thanks to the institution's adhesion to the Credit Agreement, signed on 1 July 2013, which replaced the Agreement signed on 28 February 2012.

The new agreement has the objective of creating interventions able to give "financial breathing room" to companies and to support those that benefited from the measures foreseen in previous agreements to return to regular relations with the Bank. The measures are aimed at companies which, while having real financial difficulties, have prospects for business continuity and growth.

Finally, to improve access to credit with special conditions, over the past year Banca Sella continued to access the funds made available by the EIB, to finance business projects intended to carry out investment plans.

Affluent Market

The Affluent Market is represented by private individuals with resources available at our institute that exceed 50 thousand Euro, and generally settle at around 500 thousand Euro. This segment is supervised at the commercial level by the Affluent Sales Professionals.

The external context in 2013 saw the emergence of an ever greater request for consulting on the part of affluent customers, in order to preserve and grow their assets over time, especially due to the weak expectations for future growth deriving from the current crisis (low GDP, increased unemployment, low salary growth, compulsory saving through social security, increased tax burden). This is combined with a social context that changed radically over the last few years due to the increase in separations and divorces, and as a consequence the increase in cohabitation and common-law marriages. In addition, at least 7 million young people between 18 and 34 years of age live with at least one parent – a phenomenon that continues to grow. (Source – ISTAT data – latest report on social cohesion). Therefore, issues regarding financial, insurance, and inheritance planning for more mature customers took on ever greater importance.

The focus on Banking Services increased, especially in regard to the Online and Mobile channels, as well as the sensitivity to products with insurance, protection and social security content (the latter also thanks to the unchanged advantages of the tax deduction, in the light of the most recent decree law on tax deductions for insurance policies and the instability in regard to employment).

All this meant that in 2013 savers tended to place their long term investments in managed savings, which increased by 29% in 2013, around 65 billion Euro.

The role of the Affluent Sales Professionals, in an economic context that continues to be complex but offers numerous commercial opportunities, takes on greater strategic importance, with the goal of caring for the relationships with customers in the segment through a consulting model that necessarily includes carefully listening to the customer and satisfying their needs.

In fact, the Affluent Sales Professionals are responsible for proactively managing the relationship which, in addition to increasing customer loyalty through the offerings of dedicated products and services, allows for timely and proper management of the customer, with the objective of guiding them in their choices, sharing appropriate financial and insurance planning.

In particular, professional growth was supported through the provision of an appropriate level of training: ad hoc courses were organised for dedicated roles, with the cooperation of SDA Bocconi and Newton in regard to the consulting approach and for technical issues such as the macroeconomic situation, asset classes and the construction of a portfolio, and the financial markets (in 2014, SDA Bocconi will continue with the issues of insurance planning and financial assets taxes). A day was organised (AFFLUENT DAY), in order to align the role and positioning of the affluent market, studying their mission in-depth, and to create a team. At the end of the year, and planned to continue in 2014, a day was organised dedicated to managed savings products (issues: external situation, positioning and evolution of the affluent market, financial planning, focus on asset management, UCITs, insurance and social security products). Starting in October and in cooperation with the Banking and Investment Services Area, a monthly Affluent Market Alignment meeting was established, with recurring discussions on: Financial Markets and Situation, updates and in-depth information about products/services, trends, Commercial initiatives.

A great deal of attention was paid in 2013 to the release of instruments and services able to provide the proper commercial support. The start of the Commercial Workstation was important, which guarantees a united vision and approach to the customers' requirements. The new Affluent Community was launched, which takes on importance as a repository for technical assistance in regard to market vision, the construction of model portfolios, and the selection of the most appropriate financial instruments. It also hosts news and articles about financial and extra-financial issues, and in 2014 will begin to host forums and/or blogs. The Workstation and Community are an indication of the Sales Professionals' evolution towards a proactive stance in regard to the customer.

In regard to the updating and evolution of the range of offerings, in cooperation with Sella Gestioni the new Star Collection line was launched (fund of funds – no captive). Towards the end of the year, the commercialisation of the new CBA Multi-branch Policy “Star Multiple Choice” was begun, an evolution of the previous policy, which features a life insurance component and a component connected to the performance of the Star collection funds. The release of certain variants of some UCITs is being researched, as well as some asset management lines which foresee the detachment of the proceeds, considering the increased market demand for the same.

The issue of digitalisation continues to be a focus, with new possibilities for Affluent customers, with an eye to online consulting, the launch of education and online courses with the start-up of personal finance pages, and above all the spread of usage of the new mobile App.Sella.it application for remote consulting.

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.

Each Small Business Sales Professional is entrusted a number of customers that they are responsible for. The total number of Customers entrusted to the reference Sales Professionals defines the Market area.

The structure is responsible for preparing, for its relevant professional community and target customers:

- the dedicated line of offerings;
- the ad hoc training plan;
- the commercial plan for the Market;
- the Market Community;
- the commercial strategy;
- the communication strategy (in concert with marketing).

The Small Business Sales Professional, given the varied nature of the customers that they serve, use multiple approaches. In regard to the world of freelance professionals, the needs-based approach is mainly defined by the professional dimension that typifies the activities carried out by the customer.

From this point of view, liquidity and credit requirements are closely connected. Knowledge of credit is fundamental, in the context of consulting regarding assets and liabilities planning and for investments. For the target customers, the banking aspect takes on importance in the context of dedicated account and service offers divided by professional segment (for artisans, freelance professionals, shop owners), with specific responsibilities in regard to the development of incoming and outgoing payment systems, especially online.

The Small Business Sales Professional offers consulting to customers focused on increasing efficiency and developing their sales channels, sustainability of debt and investments, the search for financing – including extra-bank financing, and hedging of the risks connected with their activities.

The Small Business Sales Professional has specific responsibilities in spreading the use of online and independent instruments for accounting services and orders with low added value.

In regard to the world of companies, the Small Business Sales Professional organises consulting services dedicated to scaling customer businesses, the development of new markets and new business and the evolution of company activities in the world of the digital revolution, as well as coverage of risks connected with the entrepreneurial activities carried out.

Along with credit knowledge, of equal importance is specific sector knowledge (e.g. agricultural/food) and that connected to the internationalisation of markets (supported by the reference market and the Credit Service).

For all the types of customers falling within this Market, the Small Business Sales Professional offers consulting regarding insurance issues, specifically:

- for the world of freelance professionals: developing their awareness and working towards risk protection, in particular those resulting from professional activities and the loss of production capacity;
- for the world of freelance professionals, small/medium businesses, and their employees: developing a culture and services related to supplementary and complementary social security insurance;
- for the world of businesses: developing the offerings, including extra captive, of protection tools for corporate assets and instrumental goods, or connected to credit insurance; developing products and services to hedge against specific interest rate and exchange rate risks.

The complexity and variety of the Market brings with it, for the Small Business Sales Professional, and with the support of the reference Market, the development of specialist skills to be integrated within the area of the commercial relationships for which they are responsible. Specifically, the Small Business Sales Professional works through cooperation with the Specialists on other issues (foreign, agricultural and food/agricultural, digital economy) or with other Markets (for issues related to liquidity management, treasury and investments) or with the Group companies (for finance operations, capital, brokering, leasing, etc.).

The Small Business Sales Professional is responsible for developing services and consulting in regard to their personal sphere, including the families of the individuals that carry out productive and business services. In the case in which particularly complex issues or assets develop from the relation, they work with the Affluent and Privates Market Specialists. In any case, in the context of the service dedicated to freelance professionals, professional studios and professional associations, the Small Business Sales Professional takes advantage of the network of relationships and skills that may arise from these, also with an eye to referrals.

In the case that the trends of the company take on characteristics and feature that would be better met by the skills and experience of the Businesses Market Sales specialists, they work to transfer the relationship and the context to the Businesses Market area.

The Small Business Sales Professional uses the Workstation as a tool to manage their customers, to activate contacts including multichannel, to plan development and service activities, and to control the efficacy of the relationships. The Workstation offers an integrated view of the centres of interest connected to the customer, suggesting development activities. Development is not an individual attitude or an expression of a capacity, but rather comes from a vision of the customer as an individual within a professional, social and family context, that is dynamic and full of relationships.

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 the Community, the sales professional can provide information about successful commercial initiatives or news of general interest, to make them common knowledge. Within the Community, the sales professional can also indicate area where training is lacking. Evaluating the requirements, through the Training service, the market may put into effect appropriate activities or create ad hoc appropriate sections within the community, always with an eye to a shared experience.

A good part of the small business market activity in 2013 was concentrated on the Community and the functions of the Workstation, in symbiosis with the commercial organisation, to refine the two main tools for daily work. In 2013, again in regard to the available tools, the market also worked with management control to render operational the new objective monitoring of the new Board platform, to allow sales professionals to have a new better performing tool that helps them to more quickly and more accurately analyse the commercial activities that they carry out day after day.

At the start of 2013, the Small Business Market prepared the commercial plan, accompanied by the action that would be put into production during the course of the year. This plan was presented to the various regions/districts/branches in the context of periodic meetings, personalising the presentations on the basis of the needs and particularities agreed upon with the various regional managers.

To implement the 2013 commercial plan, given the characteristics of the market, it was necessary to adopt a variety of approaches and dedicated offerings, within a single vision of consulting-based service.

The guidelines adopted in 2013 for the preparation of the commercial plan involved multiple areas and issues. For example, for Small and Medium Business market competition takes on new aspects, innovative business models, an increase in distribution channels, internal efficiency changes, the response to a sizing issue that is crucial today, better asset balance, greater coverage of risks, new markets. In summary, the reference framework requires consulting as a necessary corollary to credit, and serves as the foundation for extraordinary possibilities for development and service.

Private banking

2013 ended with net deposits totalling 237.7 million Euro, with a growth rate 5.1% over the stock as at 31 December 2012. Total deposits at 2013 settled at 4.650 billion Euro.

In addition to the net deposits figure, the results of managed savings was even more significant, with deposit flows of approximately 290 million Euro, which is equal to an 18.60% increase compared to 2012, equally divided between UCITs and asset management, bringing the managed savings segment (including the insurance component) to 40.45% of total deposits.

Also in relation to the acquisition of target customers, 2013 yielded very good results, with a positive net change of 455 openings of new contracts.

The year's economic results are particularly satisfactory, recording banking income exceeding 22.5 million Euro, a 11.25% increase compared to the previous year. The trend of revenues from services is worthy of note, with a significant increase (21.25% gross and 23.68% net) over last year, with all income components increasing, not only those from investment services.

In summary, the growth trends for volume and economic aggregates that began in 2009 were confirmed.

Another item which improved decidedly is Own income, which grew by 9.70% compared to the previous year.

From an organisational point of view, activities to strengthen the local specialist structures continued, in particular through the addition of an additional external resource to the Verona and Vicenza team.

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

Continuing with the experience of the previous year, a customer event was organised in one of the Group's historic squares: Vercelli. In this case too, results were positive in terms of developing new relations and deposit flows.

Asset management

As at 31 December 2013, Banca Sella's asset management volumes, including liquid funds, were 1,476.2 million Euro, of which 1,157.8 million (76%) were placed by the Private Banking service and 365.7 million (24%) were placed by the branch network. Aggregate volumes show an increase of around 13.2% compared to the figure as at 31 December 2012, thanks to the good deposits figure and the positive effect of the markets.

For the entirety of 2013, the Bank saw positive deposits for Private Banking of 162 million Euro, thanks above all to the opening of new management. On the other hand, for the entirety of 2013 deposits for retail management were negative by 4.8 million Euro, due above all to the closures from customers transferred through the Sparkasse operation (118 customers closed their positions, for a total of 11.3 million Euro).

2013 featured further strengthening of the stock markets in the developed countries, in particular in the United States where the indexes reached new historic highs. Tensions were seen in the emerging countries, penalised by the liquidity-injection reduction plan by the American Central Bank. The currencies of those countries suffered in particular, rendered weaker in regard to the Euro and the US dollar.

The tensions in the euro area slowly lessened and the spread in the peripheral countries gradually fell to levels seen prior to the development of the crisis. The stock markets continued to recover and the German stock index reached a new historic high. Problems still continue in regard to economic growth which remains low due to weak demand, as well as a drop in prices, with inflation below 1%. In this market context, in terms of both volumes and revenues, the trend was positive for the management of the Equilibrio Private range and the Retail Funds range, which involve investments in stock market, which compensated for the decrease in revenues from management of Short Term and “Multilinea” Bonds. The initial charges applied to new openings also had a very positive impact.

In regard to returns, 73.7% of assets managed had yields gross of tax effects and fees greater than the reference benchmark in 2013, with 17.6% of assets having a net yield that exceeded the benchmarks.

In 2013, the array of asset management options offered to private customers was not subject to enlargement. 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.

Online Trading

Online trading business in 2013 was influenced by the introduction of the Tax on Financial Transactions (“Tobin Tax”), which was applied starting in March on shares and in September on derivative instruments. The tightening of tax treatment led, above all in the Italian stocks sector, to a partial movement of operations towards foreign markets which, for the moment, do not have this tax.

At the system level, 2013 saw a decrease in trades, above all in the derivatives segment. In that regard, Borsa Italiana saw an overall decrease in volumes for the year in the amount of 1% for the stocks segment and of 12% for derivatives, in comparison to the previous year.

Despite this context, Banca Sella saw an online trading margin in line with the previous year.

The On Line Trading Service activities developed mainly in the following directions:

- consolidation of the service levels intended as an improvement of the system stability and the performance in sending orders;
- innovation in the product array offered and increasing the number of instruments tradable online;
- execution of commercial initiatives aimed at acquiring new Trade customers, carried out in part through

the organisation of training events to support customer operations.

In reference to the development of the offerings, in 2013 special attention was paid to developing offerings on the bond markets (introducing trading of bonds in currencies other than the Euro or US dollar and with specific functions including real-time calculation of effective yields for bonds and government securities, security forms, advanced bond searching) and derivatives markets (extending the number of options on shares on the Eurex market and offering the possibility of trading US derivatives using a current account in Euro).
In addition, further developments involved specific innovations in the trading platforms, carrying out the integration of the SellaXTrading platform to tablets and implementing the base version of the new SellaExtreme 5 platform.

With reference to activities aimed at ensuring the commercial development of new relations and the delivery of quality training to customers, in 2013 again teaching meetings were organised, held by the best market professionals, both within the Banca Sella Group and externally, with 68 training days involving 1,397 people (customers or potential customers). In addition, as in previous years, the online trading area participated in the two main sector fairs.

Mutual Funds and SICAVs

2013 essentially confirmed the values of net deposits seen in 2012 for these financial instruments, although with some notable differences. The greatest volumes were concentrated in the first 5 and last 2 months and an important new aspect is represented by the diversification of funding. While customer portfolios have historically shown a preponderance of bond and monetary funds, more so than the system average, 2013 funding was not almost exclusively focused on these asset classes, as in the past. The sum of net volumes for balanced and share-based funds exceeded that of the two more prudent macro-categories.

Revenues deriving from placement of funds hence increased compared to 2012. Total net deposits in 2013 were 245 million Euro, with 254 million in UCITs of companies not part of the Group, while net deposits on funds managed by Sella Gestioni was negative, if only just by a bit.

Net UCTS deposit Banca Sella	2013			2012		
Category	Group UCTS	Third Party U	TOTAL	Group UCTS	Third Party U	TOTAL
share	-9,5	68	58,5	-13	13,4	0,4
balanced	-2,5	103,8	101,2	-9,3	14,5	5,2
flexible	-2,6	3,7	1,1	-9,4	17	7,5
monetary	-20,7	3,4	-17,3	-60,2	5,7	-54,6
bonds	26,8	74,9	101,7	101,8	232,3	334,2
Total	**-8,5**	**253,8**	**245,3**	**9,8**	**283**	**292,8**
Amounts in euro million						

Online Savings

The online channels represented an advantage in the placement of mutual funds. Net deposits for the year were 45 million Euro, almost double that of the positive figure seen in 2012.

The array of funds available increased further, and so-called accessory services, in particular accumulation plans, continued to be of interest to customers. Completing the positive situation, the success of the remote consulting service for investment funds should be highlighted.

Administered savings

The aggregate of third-party securities in deposit, excluding asset management, SICAVs and financial insurance savings, reached 8,354 million Euro as at 31 December 2013, falling by -2.74% on the figure of 8,589 million Euro at the end of 2012. With regard to the main underlying trends, there was a major reduction in the bond component maturing within one year (-644 million Euro less than in 2012), a growth in the bond component with maturity between 1 and 5 years (+108 million Euro over 2012), a growth in the bond component with maturity after 5 years (+101 million Euro over 2012) and an increase in the share component (+200 million Euro over 2012).

Marketing and commercial organisation

Commercial organisation

During 2013, the project which involves the entire Bank continued, coordinated by the Commercial Organisation Service, aimed at reducing the weight of administrative activities on the branches, thanks to both optimisation of processes and innovation in solutions, as well as to an increase in operations carried out independently by customers, through electronic channels.

The year was heavily focused on the introduction of the portfolio project, which gave each worker with a Commercial role direct responsibility for a portfolio of customers, with the objective of favouring a change away from a transactional approach in customer/bank relations, towards a consulting model.

The adoption of the new Commercial Workstation was completed in all the branches, which constitutes the main work environment for the network, in which immediacy, the circularity of information and the value of relationships are the key elements. This innovative tool favours and takes advantage of the new consulting service model begun with the portfolio project.

During the second half of the year, the adoption of a new geographic organisation began, 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 for customers.

Contact Centre

Also in 2013, the growth of calls to the Contact Enter continued, increasing by 6% compared to 2012.

In addition to alternatives to the telephone such as chat, email, and video communication, the possibility of receiving assistance through the main social networks was added for customers.

The percentage of orders carried out by operators of the Telephone Banking service remained stable at 72%, while there was a 14% reduction in orders carried out directly on the automatic answering service.

The SAS (Development Support) service has strengthened its commercial development activities, increasing products emitted in support of the network by 45% and dedicating its work to engaging with customers with the goal of setting appointments in branches.

Marketing

During 2013, the Marketing service carried out initiatives related to various lines. The first involves the Digital Economy and involved the implementation of fairs, events, advertising campaigns and meetings with both private customers and companies.

Another involves the importance of relationships:

- from the point of view of the companies, relations have been created with industrial associations to create a privileged channel for cooperation and establish us as a Bank that understands the business projects of its customers. In particular, we recall the cooperation with Milano Unica and Assofranchising.
- From the point of view of private customers, events dedicated to them were carried out.

Private Digital Economy

The most important initiative during the year was the acquisition of private customers through advertising campaigns.

The campaign going by the name of "*Con Banca Sella navighi due volte*" [With Banca Sella you surf twice] was designed to acquire private customers both online and offline, as well as for branding activities, that is to reinforce awareness of the Banca Sella brand among both current and potential customers. The flagship products were the online current account "WebSella.it" and the "*Conto Tuo Famiglia*" [Your Family Account]. In addition to strengthening the aforementioned channels, the campaign also included a radio sport and a prize operation for new and existing customers.

To again confirm itself as one of the 4 most important national banks for online trading, Banca Sella participated at the ITF Rimini, ITF Winter and TOL Expo fairs. In addition, it organised, in cooperation with Borsa Italiana [the Italian Stock Market], four large events dedicated to specific sector themes. Over 40 training days aimed at customers were carried out, divided into thematic courses, aimed at creating culture and awareness of trading, as well as operational techniques.

Company Digital Economy

To confirm Banca Sella's position as a leader in the payment system sector, the marketing service, in cooperation with the product areas, chose to participate in some important national trade shows and continued its collaboration with Netcomm and Milan Polytechnic. In addition, numerous events aimed at increasing literacy with regard to digital economy issues were executed.

In regard to the acquisition of Business Customers, a new e-commerce line was created which has three separate levels: STARTER, PROFESSIONAL AND UNLIMITED. To communicate the line, a website and an online campaign using search engines, video placement and banner ads were created.

Relationships and personal rapport are two of Banca Sella's distinctive features, which characterise its way of banking. This is why marketing organised special meetings dedicated to private customers and potential customers.

Two important collaborations with Milano Unica and Assofranchising were approved. The decision to sponsor Milano Unica was made to create a reminder and consolidate the Bank's relationship with the textile industry in Biella and to create openings with other national textile areas as a partner for successful projects. The second allowed Banca Sella to create inroads with the important sector of Italian franchises, especially for complementary pensions and managed savings.

Customer satisfaction

With the aim of measuring customer satisfaction, each year the marketing service carries out a customer satisfaction survey in order to gather customer suggestions and comments and verify where intervention is needed to ensure continuous improvement.

Branch Image

From the results of the customer satisfaction survey, the need to restyle the branches became clear, as their image does not allow for identification with the concept of an innovative bank. Therefore, the marketing service took part in the start of a multi-year project to remodel the image of the branches. In 2013, 42 branches were restyled and 3 were transferred to more appropriate locations.

Direct channels

The direct channels service with the responsibility of creating/extending the array of services that allow customers to carry out “do it yourself” transactions, decreasing both time and space constraints, and extending the methods of interacting with customers, began numerous projects and strategic initiatives during the year.

Relative to Mobile banking, new functions were introduced, including the possibility of viewing the account statement and paying the public television fee, as well as projects aimed at further simplifying the user experience, by also improving the technical performance of the application. In addition, two new sections dedicated to signing up for funds were released, including through “recommendations” as well as the possibility to view one's existing insurance positions.

Also for mobile banking, the household budget was enriched with a function that automatically categorises movements.

In regard to the projects relative to “customer intelligence,” during 2013 the “churn” models became part of the commercial activities cycle in our network and the first model that evaluates the propensity to purchase certain products was created.

The extension of the functions available within Internet Banking continued. This made it possible to increase the number of customers by over 5%. Among the most important projects we note the creation of an RC-Auto policy renewal function and the possibility to visualise recommendations provided from the reference sales person.

In regard to the development of the Group's portals, in concert with the initiatives and marketing investments in advertising, sections of the sella.it portal were reviewed, in particular those dedicated to the offerings regarding the websella.it account, and the review of the corporate sections was completed, in particular the content regarding the Gestpay offerings.

Towards the end of 2013, a new educational section was created which, through the publication of a series of video tutorials, has the goal of making it easier to show the Bank's offerings to customers, including potential ones.

Social Media Banking

In 2013 the new Social Media Banking service was established with the objective of evolving and making current the products and services offered to customers through the use of new methods of communication (social media). The service also had the goal of identifying new businesses born from the combination of services, digital products and the potential of social media.

The creation of a dedicated unit was necessary following the growing importance of social media also at the level of the banking system. This can be directly seen also in the Group's figures – during the course of 2013 the fan/follower base doubled and interactions with these pages saw a notable increase. During the year, projects were carried out that made it possible to increase the level of brand visibility, through overall repositioning, as well as changing the structure of communication, advertising and customer assistance methods. In addition, the social customer care service on Facebook was launched.

Projects in course will make it possible to identify and create banking products and services to be displayed directly on social media, for example Home Banking Sella.it on Facebook.

Sella Lab

This is an initiative to support Start-ups which has the objective of bringing (useful/effective) innovation to the Banca Sella Group and, more generally, creating and supporting local economic development. Sellalab carries out research, development and innovation activities to support the business areas of the Banca Sella Group to help them to rapidly take advantage of emerging innovations and opportunities for development, as well as idea accelerators, supporting start-ups and small and medium businesses, helping them to seize the advantages of the digital economy.

Sellalab 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. The numeric objectives mainly regard the number of people who use the co-working space and the activation of digital economy banking products and services with the assistance of the managers.

RISK MANAGEMENT AND INTERNAL AUDIT SYSTEM

Attention to risk management and mitigation continued in 2013 thanks to constant monitoring on the part of the internal audit departments established at the Parent Company and with the collaboration of the Control and Follow Up service discussed previously.

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 companies of the Group, for several years has used the organisational process known as the "Control Cycle" for the regulation of anomalies, the removal of the effects and causes generating them.

Once again in 2013 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 to end[1];
- 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 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 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;
- 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).

Protection against operational risk is discussed in detail in Part E of the Notes to these Financial Statements.

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 (the Credit Risk unit) of the Parent Company and to the 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 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 Service, the evolutionary maintenance of the IT processes and procedures which support credit risk evaluation continued throughout 2013, including:

- the creation of an internal LGD (loss given default) model to determine loss in the case of default on the basis of historic data
- methodological refinement of value adjustments on performing loans;

[1] The process is defined as end-to-end when it is set up in such a way as to form a "value flow" in a 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.

- the creation of risk sheets for credit disbursement/renewal investigations under the responsibility of the Board of Directors;
- IT procedure for identifying legal and economic bonds existing among customers;
- monitoring of risk-adjusted return;
- procedures to check the admissibility requirements of credit-risk mitigation techniques.

For the whole of 2013, attention paid to credit quality and prudence in disbursing loans remained high. From the organisational viewpoint, this attention is pursued by the adoption of adequate credit assessment processes – including the Group's Rating Committee – based on the immediate, complete and accurate acquisition of the information necessary for customer assessment.

Banca Sella also has a service for the management of anomalous loans, whose purpose is to assist the Bank management to guarantee the quality of the credit granted, taking direct action in the 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 customers 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.

Protection against the credit risk is discussed in detail in Part E of the Notes to these Financial Statements.

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 service 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 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.

The subject is discussed in detail in Part E of the Notes to these Financial Statements.

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 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.

In addition, we note that, in the case brought by some minority shareholders of Banca Sella Sud Arditi Galati S.p.A. to the Court of Lecce, a company that has now merged by incorporation into Banca Sella S.p.A., 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.

Compliance risk

Compliance risk is the risk of exposure to judicial or administrative sanctions, relevant financial losses or reputational damage due to violations of compulsory compliance regulations (laws or regulations), or auto-regulation (e.g. statutes, codes of conduct, auto-discipline codes).

This unit governs a cross-sector multi-functional process that involves numerous aspects of company life. In fact, carrying out conformance requirements, 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-conformance deriving from the introduction of new relevant regulations or amendments to existing ones;
- transform the new regulatory context into opportunities and benefits for the customers and the company;
- carry out effective and efficient organisational and cultural adaptation.

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

1) knowledge of the regulations;
2) alert activities;
3) gap analysis;
4) organisational planning, successive changes, and full release of the same;
5) adaptation control (compared to deadlines);
6) 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, to present the company bodies with the report on activities, in accordance with the provisions of legislation governing the industry;

- to draw up regular reports on instances of non-compliance detected.

To supervise non-conformance risks, Banca Sella has established the BSE Compliance department, permanent and independent, reporting to General Management.

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 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. 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 Banca Sella 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.

During the course of 2013, project activities aimed at the implementation and adaptation of procedures and processes in regard to Bank of Italy provisions regarding appropriate customer verification and proper maintenance of the single electronic archive were carried out.

Controls and follow up

In 2013, Banca Sella's Controls and Follow Up Service continued and expanded its second-level control activities for the companies of the Group, including the use of outsourced controls aimed at containing operating risk and credit risk, as well as continuing activities to optimise service by reducing overall costs.

In the context of rationalisation of second level controls, the service began implementing a system of risk indicators, aimed at identifying behaviours that do not comply with internal procedures and the overall evaluation of the risk assumed by the branches, in particular in reference to issues regarding operating and fraud risks. The new system will be introduced in the first quarter of 2014.

In addition, during the year operating risk controls were reinforced through the introduction of new “alarms” for terminal and ATM balancing. These alarms highlight possible problems with the operating unit involved, which must see to the necessary investigations and/or resolutions.

In addition, during 2013 second level controls were reinforced on the contracts signed by customers in the credit area, through the introduction of systematic verifications of the main types of contracts that have a great deal of manual insertion of information.

The risk monitoring and mitigation indicated above were also carried out through the execution of second-level controls, among which so-called “alarm-bells” are of note (automatic processes intended to identify and/or prevent internal and/or external anomalies).

Information technology and research and development activities

During the course of the year, Information Technology's activities focused on updating existing applications and developing new applications, with special attention paid to 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 both internal and external productivity of the IT structure.

The most significant activities carried out during the year include:

- the successful completion of the project to sell some Banca Sella branches to Sparkasse;
- in the context of Green IT, activities to migrate from physical servers operating in Windows and Linux environments to the Private Cloud structure continued; these activities, combined with other actions in the same context led to 23.9% savings in energy used by the Data Centres compared to the previous year, as well as simplification and optimisation of Disaster Recovery and Business Continuity procedures, and a significant reduction in provisioning times for the new servers;
- an additional number of advanced ATMs, which led to an increase in the total number of transactions carried out using this channel;
- In the area of mobile solutions, we note the extension of functions that can be used through the Mobile Banking platform, which were significantly enriched during the year. In particular, we note the Funds Online function which was integrated into the same, as well as the Mobile Payment solution, which improved notably in terms of the cases which can be handled;
- The expansion of the commercial desk solution intended for the branch sales network, for which the logics and processes for customer management were reviewed, including the aspects connected to the views, which were organised in accordance with the logic used to manage the portfolios assigned to each member of commercial staff;
- In the Online Trading area, we note the Beta release of the professional trading platform SellaExtreme5, and the release of the dedicated interface for tablet-based trading and, more generally, using mobile devices that fall between traditional desktops and smart phones in terms of size;
- In regard to institutional trading services, we note the creation of a trading platform for institutional customers, using Fix technology, called SellaFixGateway;
- constant monitoring of response times for the applications used by customers, both through the internal network and the internet, combined with the technological renewal carried out on the central components and the projects to continuously improve applications, in particular those relative to the online components of Trading and Home/Mobile Banking, which significantly reduced average response times, above all during peak application usage times;
- constant quest for innovative solutions and the implementation of the same in the infrastructure, together with action leading to an increase in internal productivity in the context of software development groups, made it possible to achieve an overall decrease in operational costs;
- continuation of activities to optimise printing processes, in particular in reference to increasing the use of electronic versions by customers, available on the SellaBox application, and review of communication aggregation mechanisms aimed at optimising the production of hard copies, has resulted in an overall 5% reduction of volumes printed compared to last year and the consequent reduction of environmental impacts;
- continuous evolution of the multi-bank computer system aimed at maintaining compliance with new regulatory requirements;
- the extension of the number of software services using the Corporate IT System in order to pursue separate lines of application development marrying the user and customer experience with business needs;
- the revision of the IT processes linked to the provision of services relative to ITIL, with the introduction of an infrastructural solution for governing them for the Service Operation component;
- the introduction, in the production area, of a Business Process Management (BPM) tool which, starting in the new year, will be used to carry out a structural review of processes, which will also include measurement of effective process "crossing" times. The project to submit processes to the BPM tool and review them will proceed gradually through the 2014-2016 period;
- updating of the Data Centre by renovating the central server technology, with the purpose of keeping them suitable in terms of technology and supporting the growth in volumes, also allowing a reduction in energy consumption with Green IT solutions;

- the progressive adoption of open source software in production areas;
- the continuation of the process to adopt an organisational model for the Application Development sector, aimed at clarifying the separation between operational activities and the project component, with a consequent improvement in project delivery times and an increase in the efficiency and quality under the scope of the management of application procedures;
- a focus on growing the new Business Analyst roles, at companies external to the Group, in order to obtain greater efficiency in creating design solutions and training investment for the necessary engineering techniques based on best practices;
- the industrialisation of the productivity monitoring process regarding Application Development, through the use of Function Point measurement;
- the adoption of a new leasing model for Group printers, present at both the branches and the central offices, aimed at obtaining a notable reduction in printing costs and a decisive improvement in service levels, thanks also to the complete renovation of the entire fleet. The new functions inserted include "follow-me" for printouts at Group offices and the ability to print from mobile devices;
- In regard to the plan to improve internal productivity in IT development, we note the main activities which contributed to the positive results during the year for the associated key performance indicators: the progressive introduction of a new tool to gather and manage user requirements, the introduction of a software solution to automate part of the non-regression check-lists, the establishment of an internal community of business architects, the extension of the Group's application map in regard to the coverage of the domain, activities focused on consolidating the Group's Enterprise Architecture standard in favour of reusing solutions and simple and clean architecture for systems and solutions;
- The establishment of a team dedicated to integrating certain functions into social networks, in the context of the structure that develops mobile IT solutions. The first goal will be integrated release of some of the initial functions on Facebook.

Chennai branch

During 2013, the Chennai Branch (IT Division) of Banca Sella continued to provide Information Technology Services and IT support services for its Banca Sella offices. These actions led to profits of 3 million Euro in 2013, slightly lower than the 3.3 million Euro of 2012. This -7% decrease can mainly be attributed to the conversion rates from the Indian currency which depreciated 18% against the Euro (on average) during 2013.

In 2013, the Branch also earned 0.1 million Euro as interest on deposits with the banks.

Expenses incurred during the period related to personnel costs in the amount of 2.1 million Euro and 0.9 million Euro in other operating costs, leading to a margin of 0.2 million Euro.

As at 31 December 2013, net profits after taxes were 0.1 million Euro, if the amortisation of the goodwill is considered, while if the amortisation is not considered, net profits after taxes would have been equal to 0.3 million Euro.

» HUMAN RESOURCES

Management and development

As at 31 December 2013, the Bank staff totalled 2,912 employees (including the 199 employees of BSE Chennai Branch). With reference to the total of 2,912, 58 employees (none of BSE Chennai Branch) are not working due to maternity or other leave. The net decrease compared to the number in force as at 31 December 2012 amounted to 84 persons.

The change in staff in 2013 was influenced above all by the extraordinary operation which sold a company business unit consisting of 26 Banca Sella branches in the provinces of Trento, Belluno and Bolzano and a private banking office in Trento to Cassa di Risparmio di Bolzano Sudtiroler Sparkasse on 10 June 2013, which involved 93 employees.

During 2013, internal personnel was mainly used to cover the positions of outgoing employees due to natural turnover.

New employees hired during the year numbered 88, of whom 54 in BSE Chennai Branch. Of the 34 new employees hired in Italy, 24 were formalised on an open-ended contract (of whom 22 due to transfers from other Group companies), 5 on a fixed-term contract and 5 on a professional apprenticeship contract.

79 employees left (of whom 22 relating to BSE Chennai Branch), not considering the extraordinary operation described above, of whom:

- 49 resigned (of whom 21 relating to BSE Chennai Branch);
- 4 for retirement/early incentivised retirement;
- 4 terminated the contract by mutual agreement;
- 3 dismissal for just cause;
- 15 for transfers to other companies of the Group;
- 4 for other reasons (of whom 1 relating to BSE Chennai Branch).

At the end of the year, the average age of employees, excluding BSE Chennai Branch, stood at 41 years and 11 months, the average age over the years is increasing, also partly due to the slowing in hiring new employees; average seniority of service (considering the employment date within the Group) stands at 14 years and 4 months.

Human resources	31/12/2013	31/12/2012
Precise occupation at the end of the period	2.912	2.996
part time	364	355
average age	41 years and 11 months	40 years and 6 months
average term of service	14 years and 4 months	13 years and 4 months
average cost per employee (in euro)	51.632	50.873
training (in hours)	104.157	76.350
in the classroom	83.810	57.677
online and live meeting	33.815	34.132

Training

In 2013, the activities of the Corporate University continued, located at the former Lanificio Sella in Biella, with a significant increase in the training activities compared to the previous year: 104,157 person hours were disbursed (+36% compared to 2012). In particular, classroom training increased by 45% (83,810 person hours), that provided through the e-learning platform increased by 6%, while training provided in virtual classrooms remained essentially unchanged (around 33,815 person hours). Employees involved in training courses during the course of the year totalled 2,953 (including employees of BSE Chennai Branch), of which 2,807 in force as at 31 December 2013 (96% of total staff).

The average number of training hours per employee was around 35, the training areas most focussed on were:

- insurance, financial consulting and credit;
- sales;
- digital economy and payment systems
- legislative changes, with particular reference to money-laundering, security, transparency and privacy
- management control, with particular reference to the use of budgeting, summarising and reporting tools;
- program and project management;
- information technology;
- development of individual skills.

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

- the specialist training course aimed at employees in the Affluent Sales Specialist roles, with a plenary event organised in Biella at the Corporate University headquarters, which involved all those participating in the course together with commercial management, subsequently involving various presentations of a technical, financial and commercial nature, given by qualified external instructors;
- the “Days” aimed at employees in Small Business and Business Sales Specialist roles, events aimed at consolidating identification with the roles, alignment compared to the specific commercial strategies and objectives, and updating the specialist and commercial skills connected to the role;
- the training project, designed internally, aimed at District and Branch Managers, aimed at consolidating the culture of the new service model and aligning the consulting activities carried out by the new commercial markets structure with a support and coordination role;
- further instruction in regard to anti-money laundering knowledge, carried out through a pragmatic approach focused on analysis of practical cases and reflection on the operational impacts of the application of the regulations on daily activities.

» BUSINESS OUTLOOK

The scenario

The world economy should show a slight acceleration in its growth in 2014.

In the United States, the progressive strengthening of private demand and the minor efforts to correct public accounts justify the expectations for GDP growth at higher levels than those seen in 2013. Nonetheless, the risks connected to a possible tightening of financial conditions should be noted, following the reduction of the Fed's monetary stimulus and the persistent critical factors in the employment market that could weigh on the dynamic of private consumption. The euro area economy should confirm the signals of moderate recovery which emerged during 2013, benefiting from the expected recovery of global commerce and the gradual improvement in domestic demand. However, the intensity of the euro area recovery will be slowed by the necessary adjustments to budgets in the public and private sectors, the weak conditions of the job market and the risks which affect the prospects for growth for foreign economies. Italy's exit from the recession will be supported by the positive contribution of net exports and the manifestation of the initial signals of a restoration of domestic demand, in particular in the investment component, while spending for Italian households will continue to suffer from the fragility of the employment market. The emerging countries should see moderately accelerating GDP growth rates, while still at levels that are likely lower than those of 2010-2011, due to an international context that is less favourable compared to the recent past. Situations of stress could involve countries with unbalanced accounts with foreign countries, that are more dependant on inflows of foreign capital.

In regard to consumer prices, the excess unused production capacity and the expectations of a lack of price pressure for raw materials should justify inflation remaining at contained levels in the advanced countries, in particular in the euro area. In this context, the ECB will maintain an extremely accommodating monetary policy, in line with the indications contained in the forward guidance for policy rates. The Federal Reserve should progressively reduce monthly purchases of government bonds and mortgage-backed securities, while simultaneously confirming its intention to maintain policy rates at current levels for an extended period of time. The improvement of the cyclical conditions of the world economy and the prospects of the normalisation of the US monetary policy should favour a moderate rise in long-term return rates in the US and Germany.

With the consolidation of the improvement of market conditions for Italian public debt securities and the presumable start of a moderate recovery for domestic demand in Italy, it is plausible to expect a lessening of tensions regarding credit disbursement conditions in the country during 2014. The still weak improvement in the quality of credit, the persistent needs to rebalance the funding and loans held by certain banks and the only gradual recovery of the demand for investment loans will continue, nevertheless, to act as obstacles to the development of loans to businesses, probably protracting the stagnation of this variable for the entirety of the year.

Coherently with the improved climate on the financial market, indirect deposits should show a positive trend, whilst deposit growth should show signs of stabilisation. In the lack of exceptional events, banks should continue to pay back the funds disbursed by the Eurosystem through greater use to bond issues, both guaranteed and not, also making use of the normalisation of the wholesale market.

In this context, the volumes of weak loans and low interest rates will weigh on the net interest income from traditional banking activities. However, this effect could be mitigated by the normalisation of bank funding given that the substitution of ECB financing with market issues should serve as a counterbalance to rates on deposits that are on average lower than those used during the apexes of the recent crises by many banks. Normalisation of the yield premium on Italian public securities could also bring benefits for the income statements of banks. The still high cost of credit will, on the other hand, make it indispensable to continue working towards increased efficiency in operating structures and cost containment, so as to be able to protect profitability and with this the capital requirements of banks.

During 2013, implementation of the 2013-2015 Strategic Plan began; it was based on five strategic guidelines, which are summarised below.

- **Capital Strengthening;**
- **Improvement of risk management;**
- **Focus on human capital, mentality and organisation;**
- **Structural cost reduction, increasing productivity;**
- **Investments to increase net banking income and change the business mix.**

In order to achieve the objectives underlying these strategic guidelines, during 2013 specific strategic initiatives were implemented, which, for the most part, were an evolution of initiatives already begun in the previous strategic plan, extended and completed when necessary.

A strategic initiative contributed to the strengthening of capital: the

- **Capital Management Plan**, which foresees the continuation of the capital strengthening already begun. The main projects carried out in 2013 which fall under this initiative were the sale of the Banca Sella branches to Sparkasse, the sale of Sella Bank AG, and the Banca Sella Holding capital increase (reserved for shareholders, employees/pensioners, and fixed collaborators of the Group), as well as the usual high level of self-financing.

The following initiatives contributed and will continue to contribute to risk management:

- **Credit Quality:** this initiative, which began mid-2011, is part of efforts to continue to improve credit quality. The initiative is intended to accompany timeliness and rigour, the spread of a proactive culture and the adoption of appropriate preventive action.
  In 2013, various projects were begun which will continue throughout 2014. For example: preventive action that makes it possible to prevent the creation of financial difficulties that could prejudice customers' ability to pay their debts; the adoption of check-lists to improve the quality of visits to customers and to achieve better standardisation of the information acquired; the systematic use of sector and geographic analysis, with at least quarterly updates as of 2013;
- **Credit process review:** through this initiative, begun in 2013, which in addition to better risk management also works towards the goal of recovering productivity and reducing costs, the Group aims to carry out an in-depth and substantial review of the credit processes in all of their phases (disbursement, ordinary management, anomalous performance management and disputes). The review of these processes should allow the Group, making a break with the past, to make a concrete "organisational leap," which should be accompanied by a "widespread credit culture," so as to reduce the cost of credit risk, achieve better profitability for loans, reduce functional costs and improve productivity;
- **IRB (Internal Rating Based): adoption of advanced credit management models:** the focus of this initiative is to adopt advanced risk measurement models for better overall credit management. In 2013, the operational stage was begun and will continue in 2014 and 2015.

The following initiative contributed to Human Capital:

- **Human Resources:** in 2013, this initiative saw the continuation of the action begun in 2012, working to motivate, incentivise, develop, grow and care for human capital. Among the activities carried out in 2013, we note:
  - the review of the incentive system for the Banca Sella distribution network, with a view to continuously improving its alignment with the Group's values and objectives;
  - the assessment and review of management and development processes;
  - the renewal of the instruments and processes connected with holiday time management, supporting a reduction in the provisions foreseen for the three-year budget;
  - the start of the solidarity initiative through suspension of working activity, which was the subject of the Memorandum of Understanding signed with the union organisations on 24 April 2013.

The following initiatives have contributed to achieving rationalisation and efficiency:

- **Organisation**: changes to Group organisation aims, in line with compliance with the cost-cutting objectives, to significantly improve productivity, in particular by means of a major revision and increased efficiency of processes. Among the activities carried out in 2013, we note:
    - the adoption of the Group's new regulatory system, with a strong correlation between internal regulations and the structure of processes,
    - the start of work to adapt to that foreseen in the 15th update of the New Rules on Prudential Supervision for Banks (Circular 263/2006).
- **Efficiency and quality through regulation**: the initiative, launched in 2011, is focused on reviewing and rationalising the production and management of the “regulatory corpus”. Following the introduction of the new regulatory model in 2012, during 2013 around 80% of the macro-process policies were prepared and approved.
- **2012-2014 Management Control:** the initiative, which began in 2012, aims to achieve excellent quality levels in Planning and Control services. During 2013, the following important objectives were achieved:
    - elimination of the Dynamic Planning procedure, which was replaced with the Corporate Performance Management Board tool, which is currently used with greater efficacy for summarising, forecasting and budget processes at both the consolidated level and at the level of the individual companies of the Group, achieving automation objectives and increasing the quality of the reports produced, freeing up efforts that can be dedicated to trend analysis. in 2014 the Board is also to be used to manage the income statement and the preparation of reports from the Banca Sella network of branches;
    - additional notable reconciliation of the process to align accounting and management data;
    - the start of training activities and organisational action aimed at personnel growth, to increase skills and professionalism of the management control analysts throughout the Group;
    - further improvement of operating process, with particular reference to strategic planning (budget and infra-annual forecasting processes).

The following contributed to business development:

- **New commercial model:** through this initiative, started back in 2011, a major change in the Commercial Bank network model (Banca Sella) is in course, which is intended to implement an entirely new way of working with customers, in order to ensure improved professionalism, increase customer satisfaction, and increase the quality of the consulting offered for commercial development. Important objectives that were met in 2013 in regard to the New Commercial Model initiative were:
    - start of the portfolio project: the first part of the project was completed, in which a new type of responsibility for customers was introduced, with members of the commercial department becoming responsible for an entire group (portfolio) of customers;
    - workstation: the release of the new front end of the branch IT system was completed;
    - family budget: an online tool that helps customers in financial planning. During 2013, the first part of the project was completed that includes the option of classifying customers' current account movements, and the release of a mobile funds app, with related consulting services
- **The bank in the digital revolution**: in order to make the most of business opportunities connected with the Digital Economy, a dedicated initiative has been launched, which fully embraces all scopes, which, in different ways, are connected with innovation and the internet. Important objectives that were met in 2013 in regard to the initiative were:
    - the creation of a customer care services aimed at customers using social networks;
    - a new Gestpay offer for e-commerce;
    - a new "up mobile" release: an innovative payment system for mobile devices that allows payment via a smart phone using QR codes;
    - the Sella Lab project to support ideas and projects developed by start-ups, and Group research and development projects;
    - an online trading platform for tablets;
    - an internal community with the goal of sharing documents and information;
    - an informative home-banking service on Facebook, the first in Italy.

Going concern: bank 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 reduced 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 a disclosure relating to financial risks, impairment tests and uncertainties in the use of estimates, please refer to the information given in this report, to the comments on operating trends and/or the specific sections of the Notes to the statements.

Events subsequent to the balance sheet date

In January, the Banca Sella Board of Directors approved the following changes to the organisation chart.

Areas and Services supporting General Management

- The **Security, Controls and Operating Risk Management** area takes on the following structure: to the pre-existing Control and Follow Up, Security, Cash Management Activities Supervision areas were added the **Protection and Prevention** and **Anti-Money Laundering and AUI (single electronic archive)** areas.

BSE Corporate Finance and Institutional Services

- The Bank Service and Institutional service was organised in the **Banking Service and Institutional** and **Outsourcing Secretarial services.**

On 18 March, the new Banca Sella branch in Erba, in the province of Como, began operations.

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 relations with group companies

The following table shows the relations between Banca Sella Holding and the other Group companies from the financial and economic points of view. 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, namely, in particular: Inspectorate, IT security and the issue of debenture loans.

Relations of Banca Sella with other Group Companies: income statement data									
Company	OTHER ASSETS	OTHER LIABILITIES	FINANCIAL ASSETS HELD FOR TRADING	DUE FROM BANKS	DUE FROM CUSTOMERS	DUE TO BANKS	DUE TO CUSTOMERS	HEDGING DERIVATIVES	FINANCIAL LIABILITIES HEL FOR TRADING
Biella Leasing S.p.A.	53	-	-	-	565.230	-	11.930	-	-
Banca Patrimoni Sella & C.	1.969	3.227	-	20	-	1.413	-	-	-
Brosel S.p.A.	9	24	-	-	1	-	2.806	-	-
CBA Vita S.p.A.	823	14	-	-	2	-	19.289	-	-
Consel S.p.A.	116	44	-	-	632.532	-	394	-	-
Easy Nolo S.p.A.	129	531	-	-	1.416	-	-	-	-
Family Advisory SIM S.p.A. - Sella & Partners	8	78	-	-	2	-	207	-	-
Finanziaria 2010 S.p.A.	-	-	14	-	-	-	11.310	-	-
Immobiliare Sella S.p.A.	-	82	-	-	-	-	5.663	-	-
Immobiliare Lanificio Maurizio Sella S.p.A.	-	2	-	-	96	-	5.102	-	-
Mars 2600 S.r.L.	14	-	-	-	37.968	-	26.773	-	-
Sella Capital Management Sgr S.p.A in liquidazione	-	-	-	-	-	-	983	-	-
Selfid S.p.A.	63	-	-	-	1	-	1.598	-	-
Selir S.r.l.	-	438	-	-	-	-	954	-	-
Banca Sella Holding S.p.A.	538	3.536	12.680	680.228	-	182.499	-	83.145	10.881
Sella Gestioni SGR S.p.A.	1.590	1	-	-	3	-	6.731	-	-
Sella Life ltd	32	-	-	-	-	-	1.619	-	-
Overall total	**5.344**	**7.977**	**12.694**	**680.248**	**1.237.251**	**183.912**	**95.359**	**83.145**	**10.881**

Relations of Banca Sella with other Group Companies: income statement data

Company	OTHER OPERATING EXPENSES	OTHER OPERATING INCOME	FEE INCOME	FEE EXPENSE	INTEREST RECEIVABLE AND SIMILAR INCOME	INTEREST PAYABLE AND SIMILAR INCOME	NET GAINS/(LOSSES) ON HEDGING ACTIVITIES	NET GAINS/(LOSSES) ON TRADING ACTIVITIES	NEGATIVE DIFFERENTIAL SETTLEMENT ON HEDGING	POSITIVE DIFFERENTIAL SETTLEMENT ON HEDGING	ADMINISTRATIVE EXPENSES OTHER ADMINISTRATIVE EXPENSES (*)	ADMINISTRATIVE EXPENSES PERSONNEL EXPENSES (*)
Biella Leasing S.p.A.	-	452	280	-	11.657	-	-	-	-	-	-2	-79
Banca Patrimoni Sella & C.	7	3.194	1	11.320	1	39	-	-	-	-	68	-30
Brosel S.p.A.	-	54	6	-	-	2	-	-	-	-	31	-18
CBA Vita S.p.A.	-	197	2.741	-	-	907	-	-	-	-	-2	-65
Consel S.p.A.	-	300	1.841	-	13.015	-	-	-	-	-	-	13
Easy Nolo S.p.A.	-	420	19	-	42	-	-	-	-	-	6.155	-322
Family Advisory SIM S.p.A. - Sella & Partners	-	20	-	-	-	2	-	-	-	-	308	-32
Finanziaria 2010 S.p.A.	-	15	58	-	-	172	-	-23	-	-	-	-
Immobiliare Sella S.p.A.	-	33	-	-	-	1	-	-	-	-	1.872	-
Immobiliare Lanificio Maurizio Sella S.p.A.	-	24	-	-	10	1	-	-	-	-	1.980	-
Mars 2600 S.r.L.	-	-	64	-	-	574	-	-	-	-	-	-
Sella Capital Management Sgr S.p.A in liquidazione	-	17	-	-	-	12	-	-	-	-	-	-
Selfid S.p.A.	-	37	-	-	-	6	-	-	-	-	-4	-186
Selir S.r.l.	-	93	-	-	1	-	-	-	-	-	3.260	-
Banca Sella Holding S.p.A.	1	5.161	1.635	7.057	10.980	7.490	26.911	3.604	25.652	9.292	2.358	785
Sella Gestioni SGR S.p.A.	-	240	6.950	-	-	56	-	-	-	-	-2	-72
Sella Life ltd	-	18	-	-	-	11	-	-	-	-	-	-
Overall Total	**8**	**10.275**	**13.595**	**18.377**	**35.706**	**9.273**	**26.911**	**3.581**	**25.652**	**9.292**	**16.022**	**-6**

» PROPOSED ALLOCATION OF PROFIT

Dear Shareholders,

The Balance Sheet and Income Statement as at 31 December 2013, 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 20,408,736.91 Euro which we propose to allocate as follows:

Profit for the year	20,408,736.91 Euro
- to the "Legal Reserve" pursuant to the Articles of Association	2,449,048.43 Euro
- to the "Statutory Reserve" pursuant to the Articles of Association	8,163,494.76 Euro
remaining	9,796,193.72 Euro
for Shareholders:	
- dividend of 0.00542 Euro for each of the no. 563,193,010 shares	3,052,506.11 Euro
to the "Fund for charity and sundry donations"	70,000.00 Euro
and the remainder to the "Extraordinary reserve"	6,673,687.61 Euro

Biella, 28 March 2014

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 at Piazza Gaudenzio Sella, 1 – Biella
Share capital 281,596,505 Euro 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 29 APRIL 2014

We summarise the contents and results of the activities carried out during the course of the year, including among other things, the completion of the operation to sell the business unit of twenty-six branches and a private banking office and its relative equity and economic effects.

We participated in the Board meetings – acquiring information about management operations and knowledge regarding their compliance with the law and the Articles of Association, in regard to measures adopted to avoid problems following conflicts of interest both intra-group and with related parties, accompanied by additional necessary profiles, not finding any atypical or unusual examples due to their nature, size, content, conditions, or timeframes, or of manifest imprudence – and at Shareholders' Meetings.

Also through the activities at our periodic meetings, we continued to supervise general respect for the regulations and provisions issued by the BANK OF ITALY and by CONSOB, in:

– following the risk prevention and management process;
– ensuring the preparation of periodic reports on operations;
– acquiring the results of the calculation of regulatory capital and capital ratios;
– maintaining systematic contacts with the managers of the internal audit and compliance units, in order to consider their operating results, the intervention guidelines established when necessary and the progress in implementing the most important of these;
– formulating general hypotheses for the elimination and prevention of problems;
– sending notifications pursuant to article 52 of Legislative Decree 231/2007 regarding anomalies traceable to activities connected to the management of the single electronic archive, essentially in regard to input, in regard to which corrective action has been implemented, as well as others which are currently in course;
– determining the overall adequacy of the organisational structure and internal control system – as a combination of methods, procedures and rules able to allow

observance of the laws, provisions and corporate and group instructions regarding administration and accounting – while in the presence of continuous margins for improvement, to the size and activities of the company, through meetings with the managers of certain corporate departments and also acquiring the information made available by the supervisory body pursuant to Legislative Decree 231/2001, while awaiting the operational implementation of the fifteenth update to BANK OF ITALY Circular 263;

– verifying, in the context of the financial disclosure process, observance of the principles of proper administrative conduct and the ability to appropriate represent operating events;

– retracing the annual self-assessment process adopted by the board on the subject of the congruence of the composition and operation with the corporate needs in the presence of diversified professionalism and skills, which, despite the reassurance of the results newly achieved, allows natural room for improvement;

– conducting, with a similarly successful result, the functional and operational self-assessment of the Board of Auditors and its members, in accordance with the indications of BANK OF ITALY and the parent company and, in implementing the necessary certifications, researching the considerations necessary to hold the requirements for all acting auditors as confirmed.

We continued the periodic meetings with DELOITTE & TOUCHE, both to follow, pursuant to article 19 of Legislative Decree 39/2010, the execution of the plan for audit activities and the performance of the same, and to supervise its independence – in regard to which we have no doubts – as well as to exchange information regarding their operations and to receive the results of the same.

As requested, they summarised:

"(…) Services other than auditing provided to BANCA SELLA S.p.A. by the auditing company in question and other entities in its Network from 1 January 2013 through to the present date, exclusive of those already indicated in our analogous communication of 12 April 2013, determined on the basis of the information available to us, are indicated as follows:

•Completion of auditing procedures agreed upon for periodic reports issued by the Bank in the context of securitisation operations, carried out by said Bank, for fees totalling 8,000 Euro.

•Methodological support to the Bank's Working Group in the context of the IT spending benchmark, for a fee of 8,500 Euro.

•Execution of the audit procedure agreed upon for a sample of loans subject to securitisation ("Pool Audit"), for a fee of 26,000 Euro.

•Methodological support to the Bank's Working Group in the context of the activities of Independent Business Review (IBR) following a concordat plan, for a fee of 30,000 Euro (...)".

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

We considered the structure and layout of the draft financial statements at 31 December 2013, which shows profits of 20,408,737 Euro, an increase with respect to those of 6,982,298 Euro in 2012 and the report on operations, which also refer to the equity and economic effects of the mentioned sale of the business unit and highlights the other factors which significantly affected the year.

We hold the accounts at 31 December 2013 open for approval – due to the effect of the elements acquired directly, in regard to the structure and layout, the conclusions of DELOITTE & TOUCHE, free of findings and references to disclosures, and the information pursuant to their*Report on Fundamental Questions* – and the proposal for the destination of the results, in the context of the constraints which govern the same, observing that the general indications of the BANK OF ITALY in regard to the same appear to be essentially respected.

We find nothing else necessary to add in regard to the issues on the agenda for the next Shareholders' Meeting.
10 April 2014

The Board of Statutory Auditors

Paolo Piccatti Riccardo Foglia Taverna Vincenzo Rizzo

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

BANCA SELLA

BALANCE SHEET ASSETS

Assets	31/12/2013	31/12/2012	Differences %
10. Cash and available liquidity	130.208.125	142.130.311	-8,39%
20. Financial assets held for trading	59.429.644	88.458.493	-32,82%
40. Financial assets available for sale	493.759.148	371.371.157	32,96%
50. Financial assets held to maturity	708.500.158	412.504.482	71,76%
60. Due from banks	1.023.739.730	931.488.909	9,90%
70. Due from customers	7.200.550.419	7.495.417.677	-3,93%
80. Hedging derivatives	16.403.317	27.868.245	-41,14%
90. Change in value of financial assets subject to macro-hedging (+/-)	96.400.279	134.047.774	-28,09%
110. Tangible assets	33.102.641	34.917.011	-5,20%
120. Intangible assets	42.915.540	44.801.419	-4,21%
of wich:			
- goodwill	15.245.335	17.430.209	-12,53%
130. Tax assets	155.484.489	116.015.591	34,02%
a) current	56.229.205	40.998.694	37,15%
b) deferred	99.255.284	75.016.897	32,31%
- of wich lex 214_2011	90.940.240	65.928.206	37,94%
150. Other assets	127.749.856	120.785.663	5,77%
Total assets	**10.088.243.346**	**9.919.806.732**	**1,70%**

BALANCE SHEET LIABILITIES

Liabilities and shareholders' equity	31/12/2013	31/12/2012	Differences %
10. Due to banks	195.488.050	22.618.935	764,27%
20. Due to customers	7.850.415.816	7.763.557.589	1,12%
30. Outstanding securities	1.113.781.554	1.230.830.133	-9,51%
40. Financial liabilities held for trading	25.500.760	23.898.744	6,70%
60. Hedging derivatives	99.548.092	138.865.193	-28,31%
80. Tax liabilities	50.931.752	33.914.819	50,18%
a) current	40.608.861	30.351.155	33,80%
b) deferred	10.322.891	3.563.664	189,67%
100. Other liabilities	155.542.852	127.810.557	21,70%
110. Employee severance indemnities	30.530.814	33.153.960	-7,91%
120. Provisions for risks and charges:	11.316.298	12.849.231	-11,93%
a) retirement and similar obligations	-	-	-
b) other provisions	11.316.298	12.849.231	-11,93%
130. Valuation reserves	3.860.679	(1.854.282)	-308,20%
160. Reserves	(49.400.625)	(53.139.012)	-7,04%
170. Share premiums	298.722.062	298.722.062	0,00%
180. Share capital	281.596.505	281.596.505	0,00%
190. Own shares (-)	-	- -	
200. Profit for the year	20.408.737	6.982.298	192,29%
Total liabilities	**10.088.243.346**	**9.919.806.732**	**1,70%**

BANCA SELLA

INCOME STATEMENT

Item	31/12/2013	31/12/2012	Differences %
10. Interest receivable and similar income	333.462.772	346.326.680	-3,71%
20. Interest payable and similar expense	(136.333.352)	(145.716.927)	-6,44%
30. Net interest income	**197.129.420**	**200.609.753**	**-1,73%**
40. Fee income	235.396.593	232.276.495	1,34%
50. Fee expenses	(72.794.077)	(73.821.189)	-1,39%
60. Net fees	**162.602.516**	**158.455.306**	**2,62%**
70. Dividends and similar income	275.595	-	-
80. Net gains/(losses) on trading activities	5.660.611	8.380.265	-32,45%
90. Net gains/(losses) on hedging activities	395.299	1.115.162	-64,55%
100. Gains/(losses) on sale or repurchase of:	3.401.277	3.193.433	6,51%
a) loans & receivables	(200.028)	(399.509)	-49,93%
b) financial assets available for sale	2.774.084	3.103.712	-10,62%
c) financial assets held to maturity	-	-	-
d) financial liabilities	827.221	489.230	69,09%
110. Net gains/(losses) on financial assets and liabilities at fair value through profit or loss	-	-	-
120. Net interest and other banking income	**369.464.718**	**371.753.919**	**-0,62%**
130. Net value adjustments for impairment on:	(107.668.297)	(100.206.262)	7,45%
a) loans & receivables	(105.726.044)	(98.530.166)	7,30%
b) financial assets available for sale	(2.564)	-	-
c) financial assets held to maturity	-	-	-
d) other financial transactions	(1.939.689)	(1.676.096)	15,73%
140. Net gains/(losses) on financial operations	**261.796.421**	**271.547.657**	**-3,59%**
150. Administrative expenses	(273.400.981)	(271.916.194)	0,55%
a) personnel expenses	(150.354.306)	(152.414.475)	-1,35%
b) other administrative expenses	(123.046.675)	(119.501.719)	2,97%
160. Net provisions for risks and charges	(3.552.835)	(4.047.532)	-12,22%
170. Net value adjustments on tangible assets	(7.003.717)	(7.267.289)	-3,63%
180. Net value adjustments on intangible assets	(11.721.059)	(11.905.859)	-1,55%
190. Other operating expenses/income	73.634.334	40.427.818	82,14%
200. Operating costs	**(222.044.258)**	**(254.709.056)**	**-12,82%**
210. Gains/(losses) on equity investments	-	-	-
220. Net gains/(losses) on measurement at fair value of tangible and intangible assets	-	-	-
230. Impairment of goodwill	-	-	-
240. Gains/(losses) on sale of investments	(20.383)	(14.876)	37,02%
250. Profit/(losses) from continuing operations before taxes	**39.731.780**	**16.823.725**	**136,17%**
260. Income taxes for the period on continuing operations	(19.323.043)	(9.841.428)	96,34%
270. Profit/(losses) from continuing operations after taxes	**20.408.737**	**6.982.297**	**192,29%**
280. Profit/(losses) on asset disposal groups held for sale after taxes	-	-	-
290. Profit/(Loss) for the year	**20.408.737**	**6.982.297**	**192,29%**

STATEMENT COMPREHENSIVE INCOME

	ITEMS	31/12/2013	31/12/2012
10.	**Net income (loss)**	**20.408.737**	**6.982.298**
	Other comprehensive income (net of tax) not reattributions to income statements		
20.	Tangible assets	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	436.427	(3.465.383)
50.	Non-current assets held for sale	-	-
60.	with net equity method	-	-
	Other comprehensive income (net of tax) reattributions to income statements		
70.	Hedges of foreign investments	-	-
80.	Foreign exchange differences	-	-
90.	Cash flow hedges	-	-
100.	Financial assets available for sale	5.278.534	13.385.137
110.	Non-current assets held for sale	-	-
120.	Share of valuation reserves connected with investments meaured with net equity method	-	-
130.	**Total other comprehensive income (net of tax)**	**5.714.961**	**9.919.754**
140.	**Total comprehensive income (item 10+130)**	**26.123.698**	**16.902.052**

BANCA SELLA

STATEMENT OF CHANGES IN SHAREOLDERS' EQUITY 2012

Statement of changes in shareholders' equity at 31 December 2012 *(euro)*

	Balance at 31/12/2011	Changes to opening balance	Balance at 01/01/2012	Allocation of profit of previous year: Reserves	Allocation of profit of previous year: Dividends and other uses	Changes in the period: Changes to reserves	Operations on shareholders' equity: Issue of new shares	Operations on shareholders' equity: Purchase of own shares	Operations on shareholders' equity: Distribution of extrahordinary dividends	Operations on shareholders' equity: Change in equity instruments	Operations on shareholders' equity: Derivatives of own shares	Operations on shareholders' equity: Stock options	Total comprehensive income for the period at 31/12/2012	Shareholders' equity 31/12/2012
Share capital:														
a) ordinary shares	269.144.880	-	269.144.880	-	-		12.451.625	-	-	-	-	-	-	**281.596.505**
b) other shares	-	-		-	-	-	-	-	-	-	-	-	-	
Share premiums	267.839.516	-	267.839.516	-	-		30.882.546	-	-	-	-	-	-	**298.722.062**
Reserves:	-													
a) profit reserves	73.778.652	-	73.778.652	4.674.384	-	2.230.786	-	-	-	-	-	-	-	**80.683.822**
b) others	-126.111.543	-	-126.111.543		-	-7.711.291	-	-	-	-	-	-	-	**-133.822.834**
Valuation reserves	-													
a) available for sale	-12.648.139	-	-12.648.139	-	-	-1.126.409	-	-	-	-	-	-	13.385.137	**(389.411)**
b) cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
c) special revaluation laws	1.853.090	-	1.853.090	-	-	147.423	-	-	-	-	-	-	-3.465.383	**-1.464.870**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit (loss) for the year	8.986.107	-	8.986.107	-4.674.384	-4.311.723	-	-	-	-	-	-	-	6.982.298	**6.982.298**
Shareholders' equity	482.842.563	-	482.842.563	-	-4.311.723	-6.459.492	43.334.171	-	-	-	-	-	16.902.052	**532.307.572**

STATEMENT OF CHANGES IN SHAREOLDERS' EQUITY 2013

Statement of changes in shareholders' equity at 31/12/2013(euro)

				Allocation of profit of previous year		Changes in the period								
							Operations on shareholders' equity							
	Balance at 31/12/2012	Changes to opening balance	Balance at 01/01/2013	Reserves	Dividends and other uses	Changes to reserves	Issue of new shares	Purchase of own shares	Distribution of extrahordinary dividends	Change in equity instruments	Derivatives of own shares	Stock options	Total comprehensive income for the period at 31/12/2013	Shareholders' equity 31/12/2013
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) profit reserves	80.683.822	-	80.683.822	3.634.515	-	-	-	-	-	-	-	-	-	84.318.337
b) others	-133.822.834	-	-133.822.834	-	-	103.872	-	-	-	-	-	-	-	-133.718.962
Valuation reserves														
a) available for sale	-389.411	-	-389.411	-	-	-	-	-	-	-	-	-	5.278.534	4.889.122
b) cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c) special revaluation laws	(1.464.871)	-	(1.464.871)	-	-	-	-	-	-	-	-	-	436.428	(1.028.443)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	6.982.298	-	6.982.298	(3.634.515)	(3.347.783)	-	-	-	-	-	-	-	20.408.737	20.408.737
Shareholders' equity	532.307.571	-	532.307.571	-	(3.347.783)	103.872	-	-	-	-	-	-	26.123.698	555.187.359

BANCA SELLA

CASH FLOW STATEMENT– Direct Method

A. OPERATING ACTIVITIES *(euro)*	31/12/2013	31/12/2012
1. Operations	**119.668.472**	**114.224.740**
Interest income collected (+)	331.381.216	343.055.898
Interest expense paid (-)	(136.333.352)	(145.716.927)
Dividends and similar income	-	-
Net fees (+/-)	162.602.516	158.455.306
Personnel expenses	(150.220.334)	(151.827.232)
Other costs (-)	(123.046.675)	(119.501.719)
Other revenues (+)	54.608.144	39.600.842
Taxes and duties (-)	(19.323.043)	(9.841.428)
2. Cash provided (used) by financial assets	**45.394.869**	**43.312.216**
Financial assets held for trading	34.689.459	81.314.506
Financial assets available for sale	(113.118.211)	6.789.654
Due from customers	235.965.363	(948.822.908)
Due from banks	(92.250.821)	927.125.384
Other assets	(19.890.921)	(23.094.420)
3. Cash provided (used) by financial liabilities	**114.635.944**	**141.917.595**
Due to banks	172.869.115	(74.681.621)
Due to customers	86.858.227	454.395.325
Outstanding securities	(126.425.261)	(226.379.898)
Financial liabilities held for trading	1.602.016	(7.826.099)
Other liabilities	(20.268.153)	(3.590.112)
Net cash provided (used) by operating activities	**279.699.285**	**299.454.551**

B. INVESTING ACTIVITIES	31/12/2013	31/12/2012
1. Cash provided by:	**21.968.031**	**327.759**
Sales of equity investments	-	-
Dividends received from investments	275.595	-
Sales/redemptions of financial assets held to maturity	-	-
Sales of tangible assets	376.659	27.204
Sales of intangible assets	2.289.586	300.555
Sales of subsidiaries and company divisions	19.026.191	-
2. Cash used by:	**(310.241.719)**	**(271.273.404)**
Purchase of equity investments	-	-
Purchase of financial assets held to maturity	(292.530.565)	(243.567.827)
Purchase of tangible assets	(5.586.388)	(9.152.089)
Purchase of intangible assets	(12.124.766)	(11.586.630)
Purchase of subsidiaries and company divisions	-	-
Net cash provided (used) by investing activities	**(288.273.688)**	**(270.945.645)**

C. FUNDING ACTIVITIES	31/12/2013	31/12/2012
Issue/purchase of own shares	-	-
Issue/purchase of equity instruments	-	-
Distribution of dividends and other purposes	(3.347.783)	(4.311.723)
Net cash provided (used) by funding activities	**(3.347.783)**	**(4.311.723)**

NET CASH PROVIDED (USED) IN THE PERIOD	**(11.922.186)**	**24.197.183**

RECONCILIATION	31/12/2013	31/12/2012
Cash and cash equivalents at start of year	**142.130.311**	**117.933.128**
Total net cash provided (used) in the period	(11.922.186)	24.197.183
Cash and cash equivalents at end of year	**130.208.125**	**142.130.311**

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 2013, 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 the Provision of 21 January 2014 whereby the second update to Circular no. 262/05 was issued.

In order to facilitate interpretation of the international accounting standards reference was also made to the documents prepared by the OIC and the ABI.

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 Statement of Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the present Notes to the Financial Statements, and are accompanied by the Directors' Report on Operations, in total continuity compared to 31 December 2012.

The financial statements are presented in a clear manner and represent a true and fair view of the Company's assets, liabilities and earnings and its economic result in the period.

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.

If the information required under international accounting standards and by the instructions in the second amendment to the Bank of Italy Circular No. 262 dated 21 January 2014 are not sufficient to give a true and fair view, the notes to the financial statements provide the complementary information necessary in order to do so.

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 balance has been prepared in consistency with the principles and accounting policies used last year.

During the course of 2013, the following accounting principles and interpretations entered into effect, as approved by the European Commission:

Document title	Issue Date	Date Effective	Date Approved	EU Regulation and publication date
Amendments to IAS 1 Presentation of Financial Statements – Allocation in the financial statements of items from other components of the comprehensive income statement	June 2011	1 July 2012	5 June 2012	(EU) 475/2012 6 June 2012
IAS 19 (2011) Employee benefits	June 2011	1 January 2013	5 June 2012	(EU) 475/2012 6 June 2012
Amendments to IFRS 7 Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	December 2011	1 January 2013	13 December 2012	(EU) 1256/2012 29 December 2012
IFRS 13 Fair Value Measurement	May 2011	1 January 2013	11 December 2012	(EU) 1255/2012 29 December 2012
Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets	December 2010	1 January 2013 (for IASB: 1 January 2012)	11 December 2012	(EU) 1255/2012 29 December 2012
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	October 2011	1 January 2013	11 December 2012	(EU) 1255/2012 29 December 2012
Amendments to IFRS 1 First-time application of IFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	December 2010	1 January 2013 (for IASB: 1 July 2011)	11 December 2012	(EU) 1255/2012 29 December 2012
Amendments to IFRS 1 First-time application of IFRSs – Government Loans	March 2012	1 January 2013	4 March 2013	(EU) 183/2013 5 March 2013
Annual improvements to IFRSs (2009-2011 cycle)	May 2012	1 January 2013	27 March 2013	(EU) 301/2013 28 March 2013

Section 3 – Events subsequent to the balance sheet date

In January 2014, Banca Sella exercised the option to repurchase two portfolios of loans from Mars 2600 that had originally been sold to the same at the time of two securitisation operations carried out in 2008 and 2009, then acting to terminate the same in advance.

The securitisation operations did not lead to the derecognition of the underlying assets from the accounts, nor as a consequence did it create any equity benefits for Banca Sella in that the risks connected with the securitised loans had remained that of the bank itself.

Section 4 – Other issues

In preparing these financial statements, that indicated in the Bank of Italy letter accompanying the second update to Circular 262 of 21 January 2014 was made use of.

In regard to the comparative information (T-1) to be provided in the financial statements closed at, or in course at, 31 December 2013, we note that this cannot be provided in reference to:
1) the information pursuant to letter b) (see IFRS 13, section C3), with the exception of the information already foreseen in Circular 262, first update;
2) the information pursuant to letter c), limited to that foreseen in IAS 19, section 173, letter b);
3) the quantitative data on asset encumbrance, in that it is a new item not connected with the IAS/IFRS.

For regulatory capital, detailed in part F of these Notes, the right granted by the Bank of Italy was also made use of – this was the right to not include in any element of own funds the unrealised profits and losses relative to exposures to the central administrations of EU countries classified in the category "Financial Assets available for sale," of IAS 39, approved by the EU, also for the purposes of EU regulation 575/2013 (Basel III), in effect as of 1 January 2014.

A. 2 MAIN ACCOUNTING ITEMS

1 – Financial assets held for trading

Classification criteria

Only debt and equity securities and the positive value of derivative contracts held for trading purposes 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 recognized in the Income Statement.

In the presence of events that are unusual and highly unlikely to recur in the near term debt securities and equities not held for trading may be reclassified in other categories established by IAS 39 if the conditions for their recognition applies (financial assets 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 recognized 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, bid prices are used. When no active market exists, fair value is established by using estimation techniques and valuation models which take into account all the risk factors related to the instruments and which are based on data available on the market such as: methods based on the valuation of quoted instruments with the same characteristics, discounted cash flow analysis, option pricing models, values recorded in 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 derecognized 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 equities 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, Financial assets 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, with recognition in the Income Statement of the value corresponding to the amortized cost, while gains or losses deriving from a change in fair value are recognized in a specific shareholders' equity reserve until the financial asset is derecognized or a lasting impairment is recognized. 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 equities 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.

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 supplemented by the guidance in IAS 39, paragraph 61, with particular reference to the reductions value significant or prolonged.

Article. 61 of IAS 39 requires that securities Available For Sale (AFS) are periodically subjected to impairment test to identify any objective evidence of impairment or significant durable.

For equities the existence of impairment losses is evaluated, as well any difficulty in servicing the debt by the issuer, other indicators such as the decline off air value below cost and adverse changes in the environment in which the firm operates.

The significance of reductions in value (so-called "Severity") must be evaluated both in terms absolute in the sense of a negative performance of the title is in relative terms than the performance of markets / areas of Membership of the companies examined. Specifically it is considered a significant reduction in the fair value of more than 50%.The persistence in time of the impairment (so-called "Durability") is evaluated with reference to the length of the arc temporal during which such reductions were consistently and uniquely maintained continuously for a period exceeding 15 months.

The negative feature of some qualitative and quantitative criteria (so-called "Relativity") causes a significant loss of value of the minority.

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 recognized in the income statement.

The existence of objective evidence of lasting impairment is checked at every annual or interim balance sheet date. If the reasons for the impairment cease following an event that occurs after recognition, writebacks are recognized 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 derecognized 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 – Financial assets held to maturity

Classification criteria

The present category comprises debt securities with fixed or determinable payments and fixed maturities, when there is the intention and ability to hold them to maturity. If, following a change of intention or of ability it is no longer considered appropriate to continue classifying an investment as held to maturity, it is reclassified among assets available for sale.

Recognition criteria

Initial recognition of such financial assets takes place on the settlement date. At the moment of initial recognition financial assets classified in this category are recognized at cost, including any directly attributable costs and revenues. If recognition in this category occurs owing to reclassification from Assets available for sale, the fair value of the asset at the reclassification date is taken as the new amortized cost of the said asset.

Assessment criteria

After initial recognition, financial assets held to maturity are measured at the amortized cost, using the effective interest rate method. Any gains or losses due to changes in the fair value of assets held to maturity are recognized in the Income Statement at the moment in which the assets are de recognized. At every annual or interim balance sheet date, a check is carried out on the existence of objective evidence of impairment losses. If such evidence is found the amount of the loss is measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the loss is recognized in the Income Statement. If the reasons for the impairment cease following an event that occurs after recognition of the loss, writebacks are recognized in the Income Statement.

Derecognition criteria

These financial assets are derecognized 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.

4 – Loans and Receivables

Classification criteria

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.

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 compared to the amount disbursed or to the subscription price is booked directly to the Income Statement. Repurchase and reverse 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 non-performing, watch list, restructured 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 watch list loans not revoked:

- analytical adjustments for exposures in excess of 25,000 Euro – 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 of Banca Sella 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 Euro – 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.
- subjective watch list positions, namely exposure towards customers that, on the basis of the elements in the Bank's possession, are believed to be in temporary difficulties that are forecast to

be overcome within 12/18 months; on the database, these are recorded with the code INCS – Subjective Watch list.

- objective watch list positions, for which the temporary difficulties are governed by Bank of Italy legislation; in the database, these are indicated with the code INCO – Objective Watch list.

The measurement of watch list positions for the purpose of determining value adjustments is made analytically at the time of classification to watch list and subsequently each time new, significant events occur that make a new valuation necessary. Significant events include, by way of example:

- significant reduction of exposure;
- change of ownership;
- acquisition of new guarantees;
- new prejudicial events;
- significant new trend anomalies;
- loan revocation provisions;
- registration of legal mortgages or start-up of enforcement procedures on property concerned by our mortgage guarantee.

The valuations to be applied to watch list positions are marked by the determination of the real possibility of returning to a performing status and, where this possibility is in doubt, to quantify the possible loss after having taken action to recover.

For internal management and measurement purposes, the criteria are specified to be applied to the valuation of adjustments.

The evaluation of the adjustments 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.

All positions are measured analytically at the time of making the decision to classify to watch list 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:

Value adjustments to be applied will be determined by the Management of the individual bank on the proposal of the anomalous credit auditor service.

Although not compulsory, value adjustments can be made calculated on a forfeit basis in the cases specified:

a. Positions with uses within 10 thousand Euro: forfeit percentage calculated as the weighted average of adjustments made during the last three years to revoked positions with exposure of less than 10 thousand Euro, 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;

b. Positions with uses of more than 10 thousand Euro new entries to objective watch list: average during the last three years of adjustments made to non-revoked watch list positions with uses in excess of 10 thousand Euro. This method will only be applied for the first month of entrance to objective watch list. 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 objective watch list 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.

For objective watch list positions with exposure of less than 10 thousand Euro, in the presence of specific motivations, individual valuation can be performed (by way of example, analytical valuation can be used for procedures that are entirely guaranteed by pledges or proceedings for which a loss is estimated as being significantly higher than that calculated by way of forfeit).

The valuation adjustment must be prepared considering the general condition of the customer in terms of credit rating and considering the real possibility of restoring the customer relationship to a performing status, after solving the trend anomalies that resulted in its classification to watch list.

The valuation parameters are connected to the following classes of non-performing or watch list loans:

- Preferential loans (backed by 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 credit recovery taking into account any guarantees and recovery actions to be activated.

The valuation times are:

- Valuation at the moment of default with transfer to the watch list
- Valuation at the moment of classification of the loans as non-performing
- 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 process of revision of the methods, as described in the Report on Operations of the present financial statements, we updated some valuation parameters applied to disputed loans classified as non-performing and watch list with revocation of the facilities:

- Estimated recovery to be assigned at the time of the revocation of the facilities for loans of up to 50,000 Euro with no collateral or assets to be enforced;
- 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 at the time bankruptcy is filed for unsecured loans not backed by any guarantees.

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

The parameters subject to revision during this year were also applied to the stock of impaired loans classified as non-performing and as revoked watch list, and had an effect on the size of rectified provisions equal to 1.686 million Euro as at 31/12/2013, of which 0.404 million Euro for non-performing and 1.282 million Euro for revoked watch list.

The main component regards estimates deriving from the recovery percentage for unsecured loans with a settlement agreement request filed, which constitute 57.68% of the total variation.

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

- Recovery percentage parameter for transfers without recourse
- Time estimates for the discounting of deposits for transfers without recourse for non-performing loans
- Time estimates for the discounting of real estate enforcement proceedings and bankruptcy proceedings
- Time estimates for the discounting of enforcements of guarantees deriving from consortia
- Valuation at the moment of default with transfer to the watch list

- Valuation at the moment of classification of the loans as non-performing
- 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 II 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 a Workout Loss Given Default 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. Value adjustments 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 sold 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.

5 – 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.

In the specific case, the Banca Sella Group has put in place only fair value hedges.

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 recognized 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 amortization profile of the IRSs corresponds to the amortization profile of the loans hedged.

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 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 amoritization plan of the principal of all loans hedged, the loan amortization plan 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 amortization plan) and the interest obtained applying the weighted average rate of hedging IRSs (expressing the hedged interest) to the residual debt for that period.

The instalments obtained can then be discounted back 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 summation of remaining principals by respective duration days – of amortization 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 the loan valuation shall be deducted from this value.

According to this procedure (current value of instalments minus residual debt brought down according to hedging percentage) it is necessary to calculate the fair value at the end of financial year T and the fair value at the end of financial year T-1. The difference between these two values will be the loan fair value delta to be compared with the IRS fair value delta.

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

- the fair value is calculated discounting to the present the future cash flows (Net Present Value – NPV): this method consists of discounting the estimated cash flows to the present at a current interest rate expressing the intrinsic risk of the instrument 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.

6 – Tangible assets

Classification criteria

Tangible assets include 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 tangible assets are initially recognized 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 recognized as an increase in the value of the assets, while other ordinary maintenance costs are booked to the Income Statement.

Assessment criteria

Tangible assets 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 recognized in the Income Statement. If the reasons for recognition of the loss no longer apply, a writeback is made, which may not exceed the value that the asset would have had, net of the depreciation calculated, if the previous writedowns had not been made.

Derecognition criteria

A tangible fixed asset is derecognized 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.

7 – 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 recognized as such if they are identifiable and arise from legal or contractual rights.

Recognition criteria

An intangible asset may be recognized as goodwill only when the positive difference between the fair value of the asset items purchased and the purchase cost of the equity interest (including ancillary expenses) 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 recognized directly in the Income Statement.

Other intangible assets are recognized 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 recognized 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 after 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 adjustments are recognized 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 amortization 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 recognized 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 derecognized from the Balance Sheet when it is disposed of or when future economic benefits are not expected.

8 – Current and deferred taxation

The items include respectively current tax assets, current tax liabilities, and deferred tax assets net of deferred tax liabilities.

Income taxes are recognized 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 single assets or liabilities.

Paragraphs 55 to 56-bis of Art. 2, Italian Law no. 225 of 2010 established the possible conversion into tax receivables of prepaid tax recorded on the financial statements against the impairment of liabilities and goodwill, in particular if the individual financial statements record a period loss. This potential conversion has introduced an additional, supplementary collection method that is suitable to assuring the collection of said prepaid tax in all situations, regardless of future business profitability. This potential configuration therefore in any case provides sufficient basis on which to record and keep in the financial statements these types of prepaid tax.

Deferred tax assets are recognized if their recovery is probable. Deferred tax liabilities are recognized, with the sole exceptions of assets recognized for a higher amount than the fiscally recognized 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 recognized are measured systematically to take account of any changes made to legislation or tax rates.

9 – Provisions for risks and charges

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 recognized under "Other liabilities".

Provisions are set aside for risks and chargest 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. In particular the Banca Sella Group uses the "Zero curve" rate model.

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.

10 – Payables

Classification criteria

The items "due to banks", "due to customers" and "outstanding securities" include the various forms of interbank funding and customer deposits and funding obtained through certificates of deposit and outstanding bonds, net, therefore, of any amount repurchased.

Recognition criteria

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

Derecognition criteria

Financial liabilities are derecognized 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.

11 – 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 recognized 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 recognized 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 derecognized when they have expired or have been settled.

12 – 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.

Following recognition

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 at the balance sheet date.

Exchange 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 recognized in shareholders' equity. On the contrary, when a gain or loss is recognized in the Income Statement, the associated exchange difference is also booked to the Income Statement.

13 – 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 profits and losses of actuarial valuations are recognized directly in equity, while the remaining components (the effect actualization) in the income statement.

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

In the light of the rules laid down in the 2007 state 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 recognized 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 recognized 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 recognized 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 recognized in the income statement during the period in which their distribution is approved;
- fees received for services are recognized, 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 recognized 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 recognized at the moment of conclusion of the sale, unless most of the risks and benefits associated with the assets are maintained.

Costs are recognized 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 recognized in the income statement.

Accruals and deferrals

Accruals and deferrals that include charges and revenues accruing in the period to assets and liabilities are recognized 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 Banca d'Italia, 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 Banca d'Italia.

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 recognized 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 recognized 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 liabilities, 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, by the Commission on 11 December 2012.

The new principle 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 principle 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 envisages 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 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 quoted on a regulated market or an Italian funds market and whose price reflects market information.
- Securities quoted on Bloomberg provided that the amount issued is higher than or equal to 500 million Euro 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 an active market.
- Derivatives quoted on regulated markets.

The above criteria, together with the definition of an "active market" provided by IFRS 13, combine to unequivocally identify active markets.

(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 Euro or securities for which, although featuring issued amounts higher than 500 million Euro, there is no Bloomberg market maker with regularly available prices.

- Bonds issued by the Banca Sella Group for which measurement occurs every fifteen days, as a rule (around the 15th of each month and around the end of each month). The measurement may occur with greater frequency when market conditions or the type of instrument make it appropriate or necessary, or "on demand" in the case that the trading area makes such a request, at any time. Measurement of the fair value of the Group's bond issues is carried out by the Parent Company's Finance Department, using the methodologies, widely in use on the market, indicated below:
  - 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. In addition, a second level control by the Risk Management service is foreseen in regard to the prices calculated and the models used. Any incongruities or anomalies detected are communicated to the Finance Department in a timely manner for verification and recalculation, if necessary.
- Securities defined as illiquid with the exclusion of those unequivocally measured according to the model (which are included under L3).
- 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 securities or delisted, 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 carried at fair value".
- Securities defined as illiquid unequivocally measured according to the model.
- 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.

<u>Measuring counterparty risk</u>

In calculating fair value of a financial asset, IFRS 13 envisages 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), the counterparty risk of the issuer is included in the spread known as "Rate Spread," which represents the margin on the variable rate subject to indexing (for variable rate securities) or the yield in terms of asset swap (for fixed rate securities), which is determined compared to the rule described rule:

Starting from the central value of the oscillation interval at 31 July 2011, the new very narrow oscillation intervals are defined (reduced to a fifth of those previously used). These intervals, symmetrically centred to the central values at 31 July 2011, in the case in which these central values are equal to 85 basis points for senior securities and 170 basis points for subordinated securities will be:

- + e – 5 basis points compared to 85 basis points (hence 80/90 bps) for ordinary bonds;
- + e – 10 basis points compared to 170 basis points (hence 160/180 bps) for subordinate bonds.

The position of the two central values (and therefore of the relative oscillation intervals) defined above do not remain unchanged over time, but vary as a function of the changes in the average of the indicators taken for reference in regard to the month previous to the day of measurement compared to the value of the same calculated on the date of the previous measurement.

Relative to exposure to OTC derivatives, the quantification of the CVA (for asset exposures) and DVA correctives (for liability exposures) occurs for contracts that are not covered by clearing and collateralisation agreements (e.g. ISDA, CSA, etc.) and that are not of an amount continued irrelevant in accordance with "the materiality principle." Specifically, contracts of an amount considered as irrelevant cannot exceed, cumulatively, more than 3% of the total fair value (in absolute terms) of derivatives to which the CVA/DVA corrective is applied.

In regard to OTC derivatives, calculation of the CVA and DVA correctives is done by using the appropriate SWPM and OVML functions from the information provider Bloomberg, limited to the instruments for which this function is active, that is IRS, forward, and currency options . In regard to CAPs , calculation of CVA and DVA correctives is done on the basis of the CURRENT EXPOSURE. This methodology[1], developed internally in the Parent Company's Finance Department, consists in the application of a credit spread to the discounting of the expected cash flows.

In addition, quantification of the CVA and DVA correctives requires, as input parameters, market data that synthesises the credit risk, such as the credit curve of the counterparty or the credit curve of the Banca Sella Group. In accordance with that defined by the hierarchy of input levels for measuring fair value the CDS spread quotes found on Bloomberg are, as a general principle, to be preferred compared to credit risk measure that may be obtained from internally estimated default probability. To that end, in the absence of a credit spread curve for the various counterparts (in particular for customers), a proxy is used, which is equal for all, which is determined at each measurement date, calculating the average CS curve (from Bloomberg) of a group of Italian corporations operating in various sectors and with different ratings . When possible, this system refined in the future, identifying appropriate sub-groups (e.g. rating classes, sectors, etc.).

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

<u>Frequency of fair value measurement</u>

Measurement of fair value is carried out at least once at the end of each month, and in any case any time the necessity arises following events about which information is received and which could negatively influence the value and risk level of assets.

<u>Loans: hedged fixed-rate loans</u>

[1] The decision to use a methodology based on current exposure for the CAPs became necessary in the light of the fact that, as of the date this document was prepared, the applications currently in use at the Banca Sella Group do not have calculation algorithms for the new correctives required by IFRS 13 for any derivative, nor is the function for calculating the CVA and DVA relative to CAPs available on Bloomberg.

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.

In this procedure (current value of the instalments minus residual debt brought down according to the hedging percentage), the fair value adjustments are calculated at the end of financial years T and T-1.

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 INFORMATION OF TRANSFERS BETWEEN PORTFOLIOS FINANCIAL ASSETS

At the end of the year there were no transfers between portfolios.

A 4 – INFORMATION ON FAIR VALUE

QUALITATIVE INFORMATION

A.4.1 LEVEL OF FAIR VALUE 2 AND 3: valuation techniques and inputs 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, the Bloomberg pricing model is used, when possible, so as to guarantee an estimate based on the most widely used method in the market. For this purpose, similarly to the previous cases, the option-adjusted-spread (OAS) used is the spread level deduced from the processing 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 swap, rate option and exchange option categories.

Rate swaps are evaluated according to the discounted-cash-flow (DCF) method which represents the market standard and uses as input data the swap rate curve relative to the contract currency. 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 the Banca Sella Group include only caps and floors , and are measured on the basis of 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 to 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 counterparty in the transaction.

The fair value of ABS securities in the portfolio is measured according to Bloomberg pricing models. These models are based on 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, 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 for evaluating AFS investments 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, within the limits of that 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 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.

The main parameters can be traced 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 considered. 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 unique for 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 yield in terms of asset swaps (for fixed rate securities). This spread is determined in accordance with the rules illustrated above in the section "Measuring Counterparty Risk". The oscillation interval may vary as a function of the performance of the average market spread, measured by the available indicators. In the context of the defined oscillation interval, the rate spread is any case established compared to the following behavioural rules:
        - bonds with a greater degree of subordination have a spread > o = compared to bonds with a lower degree of subordination;
        - bonds with a greater residual life have, with structural parity, a spread> o = compared to bonds with lesser residual life;
        - in the case of a ratings downgrade, the spread will be > o = compared to that applied before the downgrading, and vice versa.
    - Price spread: represents the differential to be subtracted from the theoretical price to take into account the riskiness of the structure.
- **Historic/Implicit Volatility** This is the volatility of the prices of the options quoted for a specific underlying instrument. For every maturity date, the value of the options at-the-money 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. In the case that said volatility 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.
- **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.
- **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.

No significant observable input is used for the measurement of the fair value of assets and liabilities in level 3, given the absence of said input it is not held necessary to provide the information requested in the 2nd update to Bank of Italy Circular 262/05 of 21 January 2014.

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 2013, there were no securities in the portfolio that had changed their fair value hierarchy level compared to 31 December 2012.

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 Accounting portfolios: fair value by level

Financial assets/liabilities at fair value	31/12/2013			31/12/2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	14.302	45.126	2	41.144	47.313	1
2. Financial assets at fair value through profit or loss	-	-	-	-	-	-
3. Financial assets available for sale	488.079	-	5.680	366.253	-	5.118
4. Hedging derivatives	-	16.403	-	-	27.868	-
5. Tangible assets	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**502.381**	**61.529**	**5.682**	**407.397**	**75.181**	**5.119**
1. Financial liabilities held for trading	34	25.467	-	13	23.886	-
2. Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	99.548	-	-	138.865	-
Total	**34**	**125.015**	**-**	**13**	**162.751**	**-**

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

A.4.5.2 Annual changes to financial assets carried at fair value (level 3)

	Financial assets held for trading	Financial assets at fair value through profit or loss	Financial assets available for sale	hedging	Tangible assets	Intangible assets
1. Opening balance	**1**	**-**	**5.118**	**-**	**-**	**-**
2. Increases	**1**	**-**	**565**	**-**	**-**	**-**
2.1. Purchases	-	-	557	-	-	-
2.2. Profits allocated to:						
2.2.1. Income Statement	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2. Shareholders' Equity	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	1	-	8	-	-	-
3. Decreases	**-**	**-**	**3**	**-**	**-**	**-**
3.1 Sales	-	-	-	-	-	-
3.2. Repayments	-	-	-	-	-	-
3.3. Losses allocated to:						
3.3.1. Income Statement	-	-	3	-	-	-
- of which capital losses	-	-	3	-	-	-
3.3.2. Shareholders' Equity	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-
4. Closing balance	**2**	**-**	**5.680**	**-**	**-**	**-**

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

Assets and liabilities not measured at fair value or at fair value on a non-recurring	31/12/2013				31/12/2012			
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. Financial assets held to maturity	708.500	746.762	-	-	412.504	433.066	-	-
2. Due from banks	1.023.740	-	289.870	734.029	931.489	-	-	-
3. Due from customers	7.200.550	-	212	7.345.269	7.495.418	-	-	-
4. Tangible assets for investment	5.516	-	-	8.177	3.094	-	-	-
5. Non-current assets and asset groups held for sale	-	-	-	-	-	-	-	-
Total	**8.938.306**	**746.762**	**290.082**	**8.087.475**	**8.842.505**	**433.066**	**-**	**-**
1. Due to banks	195.488	-	-	195.488	22.619	-	-	-
2. Due to customers	7.850.416	-	-	7.850.416	7.763.558	-	-	-
3. Outstanding securities	1.113.782	-	1.145.986	99	1.230.830	-	1.259.124	155
4. Liabilities associated to asset groups he	-	-	-	-	-	-	-	-
Total	**9.159.686**	**-**	**1.145.986**	**8.046.003**	**9.017.007**	**7.786.177**	**1.259.124**	**155**

Key
L1= Level 1
L2= Level 2
L3= Level 3
BV= balance value

PART B – INFORMATION ON THE BALANCE SHEET

Section 1 - Cash and available liquidity - Item 10

1.1 Cash and available liquidity: breakdown	Total 31/12/2013	Total 31/12/2012
a) Cash on hand	130.208	142.130
b) Demand deposits at central banks	-	-
Total	**130.208**	**142.130**

Section 2 - Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by type

Item/Amount	31/12/2013			31/12/2012		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	14.267	21.784	2	41.134	27.015	1
1.1 Structured securities	1	-	-	-	-	-
1.2 Other debt securities	14.266	21.784	2	41.134	27.015	1
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans and advances	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total A	**14.267**	**21.784**	**2**	**41.134**	**27.015**	**1**
B. Derivative instruments						
1. Financial derivatives:	35	23.342	-	10	20.298	-
1.1 for trading	35	23.255	-	10	20.258	-
1.2 linked to fair value option	-	-	-	-	-	-
1.3 others	-	87	-	-	40	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 linked to fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total B	**35**	**23.342**	**-**	**10**	**20.298**	**-**
Total A+B	**14.302**	**45.126**	**2**	**41.144**	**47.313**	**1**

The following levels are used for the classifications given in these Explanatory Notes:

- Level 1 (L1): referred to the financial instrument quoted in an active market;
- Level 2 (L2): if the fair value is measured according to valuation techniques based on observable market data, differing from financial instrument quotations;
- Level 3 (L3): if the fair value is calculated according to valuation techniques that are not based on observable market data.

For more information on the methodologies used to determine the fair value, refer to Part A – Accounting policies of these Explanatory Notes.

This category mainly consisted of Italian government securities and bonds issued by the banks of the Banca Sella Group. At 31 December 2013 the following types of securities were held:

- Italian government bonds 40%;
- Banca Sella Group bonds 60%;

The size of this segment decrease by around 32 million during the year. The largest change regarded the decrease in Senior Bank Bonds (-21.1 million Euro) which essentially eliminated the segment.
With regard to asset allocation, the variable component represented about 60%, while 40% was invested in fixed rate securities with short-term maturity. Exposure to interest-rate risk was very contained for the entire period in question.

2.2 Financial assets held for trading: breakdown by borrowers/issuers

Item/Amount	31/12/2013	31/12/2012
A. Cash assets		
1. Debt securities	**36.053**	**68.150**
a) Governments and Central Banks	14.263	25.335
b) Other public bodies	-	-
c) Banks	21.790	37.806
d) Other issuers	-	5.009
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- others	-	-
3. UCITS units	**-**	**-**
4. Loans and advances	**-**	**-**
a) Governments and central banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other subjects	-	-
Total A	**36.053**	**68.150**
B. Derivative instruments		
a) Banks		
- fair value	12.680	7.203
b) Customers		
- fair value	10.696	13.105
Total B	**23.376**	**20.308**
Total A+B	**59.429**	**88.458**

2.3 Cash financial assets held for trading: annual changes

	Debt securities	Equity securities	UCITS units	Loans and advances	Total
A. Opening balance	**68.150**	**-**	**-**	**-**	**68.150**
B. Increases	**387.730**	**-**	**-**	**-**	**387.730**
B.1 Purchases	385.882	-	-	-	385.882
B.2 Increases in fair value	706	-	-	-	706
B.3 Other changes	1.142	-	-	-	1.142
C. Decreases	**419.827**	**-**	**-**	**-**	**419.827**
C.1 Sales	400.623	-	-	-	400.623
C.2 Redemptions	18.240	-	-	-	18.240
C.3 Reductions in fair value	-	-	-	-	-
C.4 Transfers to other portfolios	-	-	-	-	-
C.5 Other changes	964	-	-	-	964
D. Closing balance	**36.053**	**-**	**-**	**-**	**36.053**

Section 4 - Financial assets available for sale - Item 40

4.1 Financial assets available for sale: breakdown by type						
Item/Amount	Total 31/12/2013			Total 31/12/2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	488.079	-	-	366.253	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	488.079	-	-	366.253	-	-
2. Equity securities	-	-	2.926	-	-	2.694
2.1 Carried at fair value	-	-	-	-	-	-
2.2 Carried at cost	-	-	2.926	-	-	2.694
3. UCITS units	-	-	-	-	-	-
4. Loans and advances	-	-	2.754	-	-	2.424
Total	**488.079**	**-**	**5.680**	**366.253**	**-**	**5.118**

The following levels are used for the classifications given in these Explanatory Notes:

- Level 1 (L1): referred to the financial instrument quoted in an active market;
- Level 2 (L2): if the fair value is measured according to valuation techniques based on observable market data, differing from financial instrument quotations;
- Level 3 (L3): if the fair value is calculated according to valuation techniques that are not based on observable market data.

For more information on the methodologies used to determine the fair value, refer to Part A – Accounting policies of these Explanatory Notes.

This category consists of Italian government securities and bank bonds of high creditworthiness. At 31 December 2013 the following types of securities were held:

- BOT 1.6%;
- CCT 57.7%;
- BTP 38.0%;
- Senior bank bonds 2.7%;

During the year, the size of this segment increased by around 122 million. The greatest changes involved BTPs (approximately +115 million Euro), CCTs (approximately +96 million Euro) and BOTs (approximately -67 million Euro).
With regard to asset allocation, the variable component represented about 58%, while the remaining 42% 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.

IMPAIRMENT TEST OF EQUITY INVESTMENTS
As required by the IFRS, equity interests 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 test (thousand Euro):

Companies subject to the impairment test *(in thousands of euro)*				
Entities	Cash generating unit (CGU)	Carrying value (before any write-downs of the year) A	Share of equity attributable B	Difference A-B
CBA Vita	CGU A	2.133	1.501	632

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:

Imapirment test: CGU being more thorough analysis			
CGU	**recoverable amount**	**Calculation methodology used**	**Outcome of the impairment test**
CGU A	Fair value	actuarial method	The impairment test does not detect a loss of value

Method used.

The fair value is defined as the price at which an asset may be exchanged between knowledgeable and independent parties, in an arm's length transaction on the market, not subject to any duress and net of the selling costs. The methods used for determining the Fair Value are listed below:

- **Actuarial method**: applied, in accordance with professional valuation practices, for insurance companies operating mainly in life business. The valuation is obtained by summing shareholders' equity, the value of the existing policies portfolio (embedded value) and the current value of future life production (appraisal value). The shareholders' equity is represented by the Company's net assets, deriving from the last accounting statement available, adjusted to the market value of underlying assets, if necessary. The in-force value is the present value of future cash flows on net profits which are expected to arise from policies in force at the valuation date, considering the cost of the solvency capital requirement. The value of new business is the present value of future cash flows on net profits which are expected to arise from newly issued policies, considering the cost of the solvency capital requirement.

The table below shows the elements used for each CGU for calculating the recoverable amount.
The notes on the side are an integration, where necessary, to the general guidelines described above.

CGU: elements used for the calculation of the recoverable amount			
CGU	**Assumptions**	**Methods for determining**	**Notes**
CGU A	Shareolders' equity	Financial statements as at 31/12/2013	- With regard to returns on separate management were considered the expected trends in asset yields calculated to 31/12/2013, for the new production, as well as the return on assets to cover its margin, it was hypothesized a constant output of 3,0%
	Value of in-force	Life portfolio as of 31/12/13	- The discount rate used to discount the cash flows were assumed to be equal to 9%
	Value of future policies	The value of new business has been calculated by taking into account a time horizon of 10 years (2014-2023)	- With regard to the future expenses of management, it was assumed that the expenditure currently stationed reserves are sufficient to cover the costs of the existing portfolio. For the new business we have assumed an annual cost per policy by referring to the assessments based on data from the 2013 budget increased by a percentage equal to 2% per annum.

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 borrowers/issuers		
Item/Amount	**31/12/2013**	**31/12/2012**
1. Debt securities	**488.079**	**366.253**
a) Governments and central banks	474.760	338.049
b) Other public bodies	-	-
c) Banks	13.319	28.204
d) Other issuers	-	-
2. Equity securities	**2.926**	**2.694**
a) Banks	-	-
b) Other issuers:	2.926	2.694
- insurance companies	2.132	2.133
- financial companies	534	534
- non-financial companies	25	27
- others	235	-
3. UCITS units	**-**	**-**
4. Loans and advances	**2.754**	**2.424**
a) Governments and central banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other subjects	2.754	2.424
Total	**493.759**	**371.371**

Futher details on equity securities issued by subjects classified as non performing or wachlist exposures are provided below:

Details on the item "Equity securities"	
	31/12/2013
Equity securities	2.926
- of wich: issued by subjects classified as non performing	-
- of wich: issued by subjects classified as wachlist exposures	-

4.4 Financial assets available for sale: annual changes					
	Debt securities	**Equity securities**	**UCITS units**	**Loans and advances**	**Total**
A. Opening balance	**366.253**	**2.694**	**-**	**2.424**	**371.371**
B. Increases	**434.733**	**235**	**-**	**330**	**435.298**
B.1 Purchases	421.346	235	-	330	421.911
B.2 Increases in fair value	10.119	-	-	-	10.119
B.3 Writebacks	-	-	-	-	-
- charged to the income statement	-	-	-	-	-
- charged to shareholders' equity	-	-	-	-	-
B.4 Transfers from other portfolios	-	-	-	-	-
B.5 Other changes	3.268	-	-	-	3.268
C. Decreases	**312.907**	**3**	**-**	**-**	**312.910**
C.1 Sales	274.045	-	-	-	274.045
C.2 Redemptions	34.748	-	-	-	34.748
C.3 Reductions in fair value	179	-	-	-	179
C.4 Impairment losses	-	3	-	-	3
- charged to the income statement	-	3	-	-	3
- charged to shareholders' equity	-	-	-	-	-
C.5 Transfers to other portfolios	-	-	-	-	-
C.6 Other changes	3.935	-	-	-	3.935
D. Closing balance	**488.079**	**2.926**	**-**	**2.754**	**493.759**

Section 5 - Financial assets held to maturity - Item 50

5.1 Financial assets held to maturity: breakdown by type

	Total 31/12/2013				Total 31/12/2012			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	708.500	746.762	-	-	412.504	433.066	-	-
- Structured	-	-	-	-	-	-	-	-
- Others	708.500	746.762	-	-	412.504	433.066	-	-
2. Loans and advances	-	-	-	-	-	-	-	-

The following levels are used for the classifications given in these Explanatory Notes:

- Level 1 (L1): referred to the financial instrument quoted in an active market;
- Level 2 (L2): if the fair value is measured according to valuation techniques based on observable market data, differing from financial instrument quotations;
- Level 3 (L3): if the fair value is calculated according to valuation techniques that are not based on observable market data.

For more information on the methodologies used to determine the fair value, refer to Part A – Accounting policies of these Explanatory Notes.

Financial assets held to maturity include instruments held for long-term investment purposes and comply with the size parameters laid down in a framework resolution by the Board of Directors.
The securities included in this category amounted to 708.5 million Euro, and were exclusively Italian government securities, more specifically:

- CCT 58.2 million;
- BTP 650.3 million.

During the year, the balance of this segment grew significantly (approximately +296 million Euro) and is the main change in financial assets as a whole.

5.2 Financial assets held to maturity: borrowers/issuers

Type of transaction/Amount	Total 31/12/2013	Total 31/12/2012
1. Debt securities	**708.500**	**412.504**
a) Governments and central banks	708.500	412.504
b) Other public bodies	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Loans and advances	**-**	**-**
a) Governments and central banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other subjects	-	-
Total	**708.500**	**412.504**

5.4 Financial assets held to maturity: annual changes

	Debt securities	Loans and advances	Total
A. Opening balance	**412.504**	**-**	**412.504**
B. Increases	**304.852**	**-**	**304.852**
B.1 Purchases	299.108	-	299.108
B.2 Writebacks	-	-	-
B.3 Transfers from other portfolios	-	-	-
B.4 Other changes	5.744	-	5.744
C. Decreases	**8.856**	**-**	**8.856**
C.1 Sales	-	-	-
C.2 Redemptions	6.577	-	6.577
C.3 Writedowns	-	-	-
C.4 Transfers to other portfolios	-	-	-
C.5 Other changes	2.279	-	2.279
D. Closing balance	**708.500**	**-**	**708.500**

Section 6 - Due from banks - Item 60

6.1 Due from banks: breakdown by type

Type of transaction/Amount	Total 31/12/2013				Total 31/12/2012			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A) Due from central banks	**43.305**	**-**	**-**	**43.305**	**12.981**	**-**	**-**	**-**
1. Term deposits	-	X	X	X	-	X	X	X
2. Statutory reserve	43.305	X	X	X	12.981	X	X	X
3. Reverse repurchase agreements	-	X	X	X	-	X	X	X
4. Others	-	X	X	X	-	X	X	X
B) Due from banks	**980.435**	**-**	**289.870**	**690.724**	**918.508**	**-**	**-**	**-**
1. Loans and advanced	690.723	-	-	690.724	646.207	-	-	-
1.1 Current accounts and demand deposits	454.252	X	X	X	573.638	X	X	X
1.2 Term deposits	152.809	X	X	X	54.083	X	X	X
1.3 Other loans and advances	83.662	X	X	X	18.486	X	X	X
- reverse repurchase agreements	-	X	X	X	-	X	X	X
- financial leasing	-	X	X	X	-	X	X	X
- others	83.662	X	X	X	18.486	X	X	X
2. Debt securities	289.712	-	289.870	-	272.301	-	-	-
2.1 structured	-	X	X	X	-	X	X	X
2.2 others	289.712	X	X	X	272.301	X	X	X
Total	**1.023.740**	**-**	**289.870**	**734.029**	**931.489**	**-**	**-**	**-**

Key
FV= fair value
BV= balance value

At the end of the period no impaired assets were included 1

The increase in the item is mainly due to the increase, at the end of the year, of the compulsory reserves, tied deposits, and other financing relative to interbank activity with the Parent Company.

Section 7 - Due from customers - Item 70

7.1 Due from customers: breakdown by type

Type of transaction/Amount	Total 31/12/2013						Total 31/12/2012					
	Book value			Fair value			Book value			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Others					Purchased	Others			
Loans and advanced	**6.711.969**	**-**	**488.369**	**-**	**-**	**7.345.269**	**7.037.269**	**-**	**457.937**	**-**	**-**	**-**
1. Current accounts	915.213	-	147.522	X	X	X	1.109.809	-	137.801	X	X	X
2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Mortgage loans	3.598.062	-	221.356	X	X	X	3.495.817	-	204.552	X	X	X
4. Credit cards, personal loans, salary-backed loans	302.684	-	7.157	X	X	X	362.600	-	6.792	X	X	X
5. Financial leasing	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	1.896.010	-	112.334	X	X	X	2.069.043	-	108.792	X	X	X
Debt securities	212	-	-	-	212	-	212	-	-	-	-	-
8. Structured	-	-	-	X	X	X	-	-	-	X	X	X
9. Others	212	-	-	X	X	X	212	-	-	X	X	X
Total	**6.712.181**	**-**	**488.369**	**-**	**212**	**7.345.269**	**7.037.481**	**-**	**457.937**	**-**	**-**	**-**

The decrease in the item can be attributed for the most part to the sale of a part of the distribution business unit to Cassa di Risparmio di Bolzano – Sudtiroler Sparkasse, as illustrated in the Report on Operations in these financial statements.

7.2 Due from customers: breakdown by borrowers/issuers						
Type of transaction/Amount	31/12/2013			31/12/2012		
	Performing	Impaired		Performing	Impaired	
		Purchased	Others		Purchased	Others
1. Debt securities issued by:	**212**	**-**	**-**	**212**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public bodies	-	-	-	-	-	-
d) Other issuers	212	-	-	212	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	212	-	-	212	-	-
- insurance companies	-	-	-	-	-	-
- others	-	-	-	-	-	-
2. Loans and advances to:	**6.711.969**	**-**	**488.369**	**7.037.270**	**-**	**457.936**
a) Governments	1.168	-	-	513	-	-
b) Other public bodies	15.970	-	-	19.093	-	-
c) Other subjects	6.694.831	-	488.369	7.017.664	-	457.936
- non-financial companies	3.084.539	-	360.615	3.383.962	-	330.577
- financial companies	1.289.690	-	3.871	1.136.323	-	729
- insurance companies	13	-	-	10	-	-
- others	2.320.589	-	123.883	2.497.369	-	126.630
Total	**6.712.181**	**-**	**488.369**	**7.037.482**	**-**	**457.936**

Section 8 - Hedging derivatives - Item 80

8.1 Hedging derivatives: breakdown by hedging type and by levels								
	FV 31/12/2013			VN 31/12/2013	FV 31/12/2012			VN 31/12/2012
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**16.403**	**-**	**358.289**	**-**	**27.868**	**-**	**495.788**
1) Fair value	-	16.403	-	358.289	-	27.868	-	495.788
2) Cash flow	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**16.403**	**-**	**358.289**	**-**	**27.868**	**-**	**495.788**

Key:

FV = fair value

VN = notional value

8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedging	Fair value						Cash flows		Foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange rate risk	Credit risk	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
5. Other operations	X	X	X	X	X	X	X	X	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	16.403	-	-	X	-	X	-	X	X
2. Portfolio	-	-	-	-	-	-	-	-	X
Total liabilities	**16.403**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**X**
1. Pending transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

Section 9 - Change in value of financial assets subject to macro-hedging Item 90

9.1 Change in value of hedged assets: breakdown by hedged portfolio

Change in value of hedged assets	31/12/2013	31/12/2012
Positive change	**96.400**	**134.048**
1.1 of specific portfolios:	96.400	134.048
a) loans and recievables	96.400	134.048
b) financial assets available for sale	-	-
1.2 overall	-	-
Negative change	**-**	**-**
1.1 of specific portfolios:	-	-
a) loans and recievables	-	-
b) financial assets available for sale	-	-
1.2 overall	-	-
Total	**96.400**	**134.048**

9.2 Assets subject to macro-hedging of interest rate risk

	31/12/2013	31/12/2012
Hedged assets		
1. Loans and receivables	689.498	772.144
2. Financial assets available for sale	-	-
3. Portfolio	-	-
Total	**689.498**	**772.144**

Section 11 - Tangible assets - Item 110

11.1 Tangible assets used for business purposes: breakdown of assets carried at cost

Item/Amount	Total 31/12/2013	Total 31/12/2012
1. Owned assets	**27.587**	**31.823**
a) land	3.232	3.518
b) buildings	11.059	13.016
c) furniture	795	1.105
d) electronic equipment	7.372	8.115
e) other	5.129	6.069
2. acquired through financial leasing	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	-	-
e) others	-	-
Total	**27.587**	**31.823**

11.2 Tangible assets held for investment: breakdown of assets carried ay fair value

Item/Amount	31/12/2013				31/12/2012			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**5.516**	**-**	**-**	**8.177**	**3.094**	**-**	**-**	**-**
a) land	2.685	-	-	3.041	2.399	-	-	-
b) buildings	2.831	-	-	5.136	695	-	-	-
2. Acquired through financial leasing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**5.516**	**-**	**-**	**8.177**	**3.094**	**-**	**-**	**-**

Tangible fixed assets are measured at cost. For their valuation, established firms outside of the Group are hired, so as to obtain accurate measurement estimates.

11.5 Tangible assets used for business purposes: annual changes	Land	Buildings	Furniture	Electronic equipment	Others	Total
A. Gross opening balance	**3.518**	**23.052**	**16.753**	**85.524**	**41.612**	**170.459**
A.1 Total net impairments		10.036	15.648	77.409	35.543	138.636
A.2 Net opening balance	**3.518**	**13.016**	**1.105**	**8.115**	**6.069**	**31.823**
B. Increases	**-**	**946**	**179**	**3.518**	**924**	**5.567**
B.1 Purchases	-	946	179	3.518	915	5.558
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	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	-	-	9	9
B.7 Other changes	-	-	-	-	-	-
C. Decreases	**286**	**2.903**	**489**	**4.261**	**1.864**	**9.803**
C.1 Sales	-	-	-	1	1	2
C.2 Depreciation	-	518	463	3.991	1.796	6.768
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	-	-	4	11	-	15
C.6 Transfers to:	286	2.385	-	-	-	2.671
a) property, plant and equipment held for investment	286	2.385	-	-	-	2.671
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	22	258	67	347
D. Net closing balance	**3.232**	**11.059**	**795**	**7.372**	**5.129**	**27.587**
D.1 Total net impairments		6.706	15.621	78.769	36.007	137.103
D.2 Gross closing balance	**3.232**	**17.765**	**16.416**	**86.141**	**41.136**	**164.690**
E. Carried at cost	-	-	-	-	-	-

11.6 Tangible assets held for investment purpose: annual changes	Total	
	Land	Buildings
A. Gross opening balance	**2.399**	**1.643**
B. Increases	**293**	**2.385**
B.1 Purchases	6	-
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	287	2.385
B.7 Other changes	-	-
C. Decreases	**7**	**249**
- of which: business combinations	-	-
C.2 Depreciation	-	236
C.3 Reductions in fair value	-	-
C.4 Impairment losses	-	-
C.5 Negative exchange differences	-	-
a) buildings for business purposes	-	-
b) non-current assets held for sale	-	-
C.7 Other changes	-	-
D. Net closing balance	**2.685**	**2.831**
D.1 Total net impairments		5.027
D.2 Gross closing balance	**2.685**	**7.858**
E. Carried at fair value	-	-

Section 12 - Intangible assets - Item 120

12.1 Intangible assets: breakdown by type of asset	Total 31/12/2013		Total 31/12/2012	
Item/Amount	Limited term	Unlimited term	Limited term	Unlimited term
A.1 Goodwill	**X**	**15.245**	**X**	**17.430**
A.2 Other intangible assets:	**27.670**	**-**	**27.371**	**-**
A.2.1 Assets carried at cost	27.670	-	27.371	-
a) Intangible assets generated internally	5.712	-	4.974	-
b) Other assets	21.958	-	22.397	-
A.2.2 Assets carried at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**27.670**	**15.245**	**27.371**	**17.430**

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.

Entities subject to an impairment test and related goodwill allocated *(in thousands of euro)*			
		Goodwill allocated	
Entities	Cash generating unit (CGU)	Current year before any impairment of the year	previous year
Branches Milano via Gonzaga (1)	CGU 1	542	542
Branches former Cram (2)	CGU 2	1.881	1.881
Branches S.Michele e Fasano (3)	CGU 3	1.938	1.938
Branches former BCC Camastra e Naro(4)	CGU 4	1.770	1.770
Branches former Banca Generoso Andria (5)	CGU 5	8.066	8.066
Branches Bovolone e St. Martino Buon Alber	CGU 6	1.048	3.233
Total		**15.245**	**17.430**

(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 from the former CRA Monreale in 1997.

(3) The entity subject to impairment test is the group of branches purchased from Credito Cooperativo di Ostuni in 2000.

(4) The entity subject to impairment test is the group of branches purchased from 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.

(6) The entity subjected to the impairment testincludes the two branches remaining after the operation which sold the branches to Sparkasse and which were originally part of the group of branches acquired from the Unicredito Group in 2000.

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:

Imapirment test: CGU being more thorough analysis			
CGU	recoverable amount	Calculation methodology used	Outcome of the impairment test
CGU 1	Value in use	Dividend discount model (version excess capital)	The impairment test does not detect impairment
CGU 2	Value in use	Dividend discount model (version excess capital)	The impairment test does not detect impairment
CGU 3	Value in use	Dividend discount model (version excess capital)	The impairment test does not detect impairment
CGU 4	Value in use	Dividend discount model (version excess capital)	The impairment test does not detect impairment
CGU 5	Value in use	Dividend discount model (version excess capital)	The impairment test does not detect impairment
CGU 6	Value in use	Dividend discount model (version excess capital)	The impairment test does not detect impairment

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 during the second half of 2013, using the ten year BTP performance. The value used was 4.268%;
    - (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 amounts to 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.
- 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 plans were defined following a forecast whose main indicators are reported in the table below:

Situation forecasts on key indicators				
Eurozone	**2013**	**2014**	**2015**	**2016**
Real GDP	-0,4	0,9	1,2	1,5
Consumer price index	1,3	1,4	1,8	1,8
Official rates	0,25	0,25	0,25	1,00
Short-term interest rates (Euribor 3m)	0,22	0,29	0,40	0,72
Italy	**2013**	**2014**	**2015**	**2016**
Real GDP	-1,9	0,5	0,9	1,1
Consumption	-2,5	-0,5	0,6	1,5
Consumer price index	1,3	1,6	1,8	1,8

During the three-year period, the international context should show modest growth. In terms of consumer prices, the moderate growth should justify the continued lack of inflationary tension in developed countries.
As for Italy, growth prospects in the three-year period 2014-2016 appear weak and below the euro area average.
With reference to the financial segment, the scenario hypothesises a low level of interest rates on the money market with a tendency to see a gradual increase in rates only in the latter part of the three-year period.

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 each CGU for calculating the recoverable amount.
The notes on the side are an integration, where necessary, to the general guidelines described above.

CGU: elements used for the calculation of the recoverable amount			
CGU	**Assumptions**	**Methods for determining**	**Notes**
CGU 1 CGU 2 CGU 3 CGU 4 CGU 5 CGU 6	Economic and financial variables	Three-Year Plan (2014-2016) approved by the Board of Directors of the company	- The forecast data, take into account a gradual recovery in the profitability of the retail banking business in which the CGU belongs, essentially due: . by the improvement in net income from services due to the expected increase of the masses with particular reference to the managed portfoglio . by an increase in the net interest income which is expected to improve the spread . impact on the performance of credit losses gradually weakening especially in 2015 and 2016 as a result of the expected improvement of the economic situation . the continuation of the rationalization carried on operating costs - The discount rate used is equal to 9,02% having incorporated a Beta of 0,95.
	Discount rate	Estimated using the Capital Asset Pricing Model (CAPM)	
	Profitability over the forecast period	Constant annual growth rate of 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	**Changes in the discount rate**		**Changes in the rate of growth in profitability**	
	Changes considered	**Sensitivity % of the value in use**	**Changes considered**	**Sensitivity % of the value in use**
CGU 1	+ 25 b. p.	3,4%	- 25 b. p.	2,70%
CGU 2	+ 25 b. p.	3,2%	- 25 b. p.	2,6%
CGU 3	+ 25 b. p.	3,1%	- 25 b. p.	2,5%
CGU 4	+ 25 b. p.	3,40%	- 25 b. p.	2,80%
CGU 5	+ 25 b. p.	3,0%	- 25 b. p.	2,4%

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**	**Growth rate "g"**
CGU 1	N.S. (> 25%)	N.S. (<-25%)
CGU 2	N.S. (> 25%)	N.S. (<-25%)
CGU 3	16,0%	-8,9%
CGU 4	11,0%	-0,5%
CGU 5	18,2%	-3,6%
CGU 6	15,4%	-6,7%

Conclusions

From the analysis performed, it can be seen that the recoverable value of all CGUs is greater than the carrying value.
The sensitivity analysis also revealed no indications of reduction in value requiring registration.

12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: others		Total
		Limited term	Unlimited term	Limited term	Unlimited term	
A. Gross opening balance	**17.430**	**6.949**	**-**	**119.708**	**-**	**144.087**
A.1 Total net reductions in value	-	1.975	-	97.311	-	99.286
A.2 Net opening balance	**17.430**	**4.974**	**-**	**22.397**	**-**	**44.801**
B. Increases	**-**	**2.534**	**-**	**9.591**	**-**	**12.125**
B.1 Purchases	-	2.534	-	9.591	-	12.125
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Writebacks	X	-	-	-	-	-
B.4 Increases in fair value	X	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to income statement	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**2.185**	**1.796**	**-**	**10.030**	**-**	**14.011**
C.1 Sales	-	-	-	-	-	-
C.2 Writedowns	-	1.796	-	9.925	-	11.721
- amortization	X	1.796	-	9.925	-	11.721
- writedowns	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	-	-	-	-	-	-
C.3 Reductions in fair value	-	-	-	-	-	-
- to shareholders' equity	-	-	-	-	-	-
- to income statement	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	2	-	2
C.6 Other changes	2.185	-	-	103	-	2.288
D. Net closing balance	**15.245**	**5.712**	**-**	**21.958**	**-**	**42.915**
D.1 Total net adjustments	-	3.771	-	107.117	-	110.888
E. Gross closing balance	**15.245**	**9.483**	**-**	**129.075**	**-**	**153.803**
F. Carried at cost	-	-	-	-	-	-

Section 13 - Tax assets and liabilities - Item 130 of assets and item 80 of liabilities

Current tax assets: breakdown

	Total 31/12/2013	Total 31/12/2012
Prepaid taxes	46.301	29.376
Credits for withholdings	3	190
Assets from inclusion in tax consolidation	6	80
Tax credits	9.919	11.353
Total	**56.229**	**40.999**

Current tax liabilities: breakdown

	Total 31/12/2013	Total 31/12/2012
Provisions for direct taxes	40.609	30.351
Total	**40.609**	**30.351**

13.1 - Deferred tax assets: breakdown

	Ires	Irap	Others	31/12/2013	31/12/2012
Doubtful loans and receivables	86.204	4.681	-	90.885	65.712
Provisions for sundry risks and liabilities	3.137	-	-	3.137	3.521
Depreciation and valuation of buildings	1.821	81	-	1.902	4
Sundry administrative expenses	319	-	-	319	389
Personnel expenses	2	-	79	81	92
Collective valuations of sureties issued	381	-	-	381	529
	50	10	-	60	232
Other assets	568	82	3	653	2.514
Total deferred tax assets (charged to income statement)	**92.482**	**4.854**	**82**	**97.418**	**72.993**
Depreciation and valuation of buildings	1.525	307	-	1.832	1.832
Measurement of available-for-sale financial assets	4	1	-	5	192
Total deferred tax assets (charged to shareholders' equity)	**1.529**	**308**	**-**	**1.837**	**2.024**

13.2 - Deferred tax liabilities: breakdown

	Ires	Irap	Others	31/12/2013	31/12/2012
Different calculation of depreciation of tangible assets	449	90	-	539	539
Different calculation of amortization of intangible assets	-	-	-	-	29
Capital gain on sale of company division	4.215	-	-	4.215	-
Goodwill	1.875	377	-	2.252	2.073
Other liabilities	-	-	4	4	26
Total deferred taxes (charged to income statement)	**6.539**	**467**	**4**	**7.010**	**2.667**
Measurement of available-for-sale financial assets	2.012	404	-	2.416	-
Depreciation and valuation of buildings	747	150	-	897	897
Other liabilities	-	-	-	-	-
Total deferred taxes (charged to shareholders' equity)	**2.759**	**554**	**-**	**3.313**	**897**

13.3 Changes in deferred tax assets (charged to income statement)

	31/12/2013	31/12/2012
1. Initial amount	**72.993**	**54.195**
2. Increases	**32.092**	**25.267**
2.1 Prepaid taxes recognised during the year	32.092	21.455
a) relating to previous years	141	805
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) others	31.951	20.650
2.2 New taxes or increases of tax rate	-	2
2.3 Other increases	-	3.810
- of which: business combinations	-	3.806
3. Decreases	**7.667**	**6.469**
3.1 Prepaid taxes cancelled during the year	7.645	6.268
a) reversals	7.466	6.070
b) writedowns for unrecoverable items	141	138
c) changes in accounting policies	-	-
d) others	38	60
3.2 Reductions in tax rates	-	-
3.3 Other changes	22	201
a) trasformation into tax credits of L. 214/2011	-	190
b) other	22	11
- of which: business combinations	-	-
4. Final amount	**97.418**	**72.993**

13.3.1 Changes in prepaid tax pursuant to Italian Low no. 214/2011 (offsetting the IS)	31/12/2013	31/12/2012
1. Initial amount	**65.928**	**47.764**
2. Increases	**29.480**	**21.383**
3. Decreases	**4.468**	**3.219**
3.1 Reversals	-	-
3.2 Transformation into tax receivables	-	190
a) deriving from period losses	-	190
b) deriving from tax losses	-	-
3.3 Other changes	4.468	3.029
4. Final amount	**90.940**	**65.928**

Paragraphs 55 to 56-bis of Art. 2, Italian Law no. 225 of 2010 established the possible conversion into tax receivables of prepaid tax recorded on the financial statements against the impairment of liabilities and goodwill, in particular if the individual financial statements record a period loss. This potential conversion has introduced an additional, supplementary collection method that is suitable to assuring the collection of said prepaid tax in all situations, regardless of future business profitability. This potential configuration therefore in any case provides sufficient basis on which to record and keep in the financial statements these types of prepaid tax. Said set-up is also confirmed by the joint Bank of Italy, Consob and ISVAP document no. 5 of 15 May 2012 (issued under the scope of the coordination table on the application of IAS/IFRS) in relation to the "Accounting of prepaid tax deriving from Italian Law no. 214/2011".

13.4 Changes in deferred tax liabilities (charged to income statement)	31/12/2013	31/12/2012
1. Opening balance	**2.667**	**2.593**
2. Increases	**5.452**	**193**
2.1 Deferred taxes recognized during the year	5.452	193
a) relating to previous years	-	90
b) due to changes in accounting policies	-	-
c) others	5.452	103
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1.109**	**120**
3.1 Deferred taxes cancelled during the year	1.109	118
a) reversals	1.109	118
b) due to changes in accounting policies	-	-
c) others	-	-
3.2 Reductions in tax rates	-	2
3.3 Other decreases	-	-
4. Final amount	**7.010**	**2.667**

13.5 Changes in deferred tax assets (charged to shareholders' equity)

	Total 31/12/2013	Total 31/12/2012
1. Opening balance	**2.024**	**8.076**
2. Increases	**-**	**548**
2.1 Prepaid taxes recognized during the year	-	-
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) others	-	-
2.2 New taxes or increases in tax rates	-	1
2.3 Other increases	-	547
3. Decreases	**187**	**6.600**
3.1 Prepaid taxes cancelled during the year	187	6.600
a) reversals	-	-
b) writedowns for unrecoverable items	-	-
c) due to changes in accounting policies	-	-
d) others	187	6.600
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Final amount	**1.837**	**2.024**

13.6 Changes in deferred tax liabilities (charged to shareholders' equity)

	31/12/2013	31/12/2012
1. Opening balance	**897**	**315**
2. Increases	**2.416**	**582**
2.1 Deferred taxes recognized during the year	2.416	-
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) others	2.416	-
2.2 New taxes or increases in tax rates	-	6
2.3 Other increases	-	576
3. Decreases	**-**	**-**
3.1 Deferred taxes cancelled during the year	-	-
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Final amount	**3.313**	**897**

Section 15 - Other assets - Item 150

15.1 Other assets: breakdown	31/12/2013	31/12/2012
Payment orders to sundry others being debited	11.404	12.270
Current account cheques drawn against third parties	30.978	42.950
Current account cheques drawn against the bank	2.828	2.956
Commission advances	-	-
Fees, commissions and other income in the process of collection	26.836	20.182
Expenses for improvements to third-party property	1.487	2.191
Portfolio adjustments	2.394	6.548
Advances and accounts payable	334	3.352
Charges/invoices to be issued towards customers	3.546	4.599
Disputed items not deriving from lending transactions	673	517
Deferrals on administrative expenses and fees	3.603	3.179
Due from insured, intermediaries and reinsurance companies	-	-
Other tax recievables	31.510	15.050
Payments on a temporary basis for the purpose of warranty pending jud	188	188
Others	11.969	6.806
Total	**127.750**	**120.788**

The aforementioned item includes assets related to provisional deposits made in expectation of a legal judgement. This amount includes direct or indirect tax with the related interest, collection fees and any sanctions.

These assets are kept recorded on the financial statements in line with the evaluation of the probable favourable outcome of the related tax disputes – of which these payments by way of guarantee constitute an accessory event – in accordance with the requirements set out in particular by IAS 37, in the paragraphs relating to potential liabilities.

LIABILITIES

Section 1 - Due to banks - Item 10

1.1 Due to banks: breakdown by type		
Type of transaction/Group components	**31/12/2013**	**31/12/2012**
1. Due to central banks	**-**	**-**
2. Due to banks	**195.488**	**22.619**
2.1 Current accounts and demand deposits	32.457	10.490
2.2 Term deposits	9.733	10.950
2.3. Loans and advances	152.830	23
2.3.1 financial leasing	152.807	-
2.3.2 others	23	23
2.4 Payables for own equity instrument repurchase commitments	-	-
2.5 Other payables	468	1.156
Total	**195.488**	**22.619**
Fair value - Level 1	-	-
Fair value - Level 2	-	-
Fair value - Level 3	195.488	-
Total fair value	**195.488**	**-**

The increase in the item is almost entirely due to repurchase agreements that showed an overall increase of 153 million Euro. Repurchase agreement operations had slowed over the last few years, while at 31 December 2013 the value was more in line with the past.

For the derogation regarding comparative information, please refer to Part A – Accounting Policies – Section 5 Other Aspects, in these financial statements.

Section 2 - Due to customers - Item 20

2.1 Due to customers: breakdown by type		
Type of transaction/Group components	**31/12/2013**	**31/12/2012**
1. Current accounts and demand deposits	6.454.612	6.394.995
2. Term deposits	987.357	953.165
3. Loans and advances	274.751	267.137
3.1 repurchase agreement	260.009	246.379
3.2 others	14.742	20.758
4. Payables for own equity instrument repurchase commitments	-	-
5. Other payables	133.696	148.261
Total	**7.850.416**	**7.763.558**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	7.850.416	-
Total *fair value*	**7.850.416**	**-**

For the derogation regarding comparative information, please refer to Part A – Accounting Policies – Section 5 Other Aspects, in these financial statements.

2.3 Detail of item 20 "Due to customers": structured debts		
	Totale 31/12/2013	Totale 31/12/2012
- structured debts	8.482	6.291
Total	**8.482**	**6.291**

Section 3 - Outstanding securities - Item 30

3.1 Outstanding securities: breakdown by type

Type of security/Amount	Total 31/12/2013				Total 31/12/2012			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Quoted securities								
1. Bonds	1.113.683	-	1.145.986	-	1.230.675	-	1.259.124	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	1.113.683	-	1.145.986	-	1.230.675	-	1.259.124	-
2. Other securities	99	-	-	99	155	-	-	155
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	99	-	-	99	155	-	-	155
Total	**1.113.782**	**-**	**1.145.986**	**99**	**1.230.830**	**-**	**1.259.124**	**155**

The following levels are used for the classifications given in these Explanatory Notes:

- Level 1 (L1): referred to the financial instrument quoted in an active market;
- Level 2 (L2): if the fair value is measured according to valuation techniques based on observable market data, differing from financial instrument quotations;
- Level 3 (L3): if the fair value is calculated according to valuation techniques that are not based on observable market data.

For more information on the methodologies used to determine the fair value, refer to Part A – Accounting policies of these Explanatory Notes.

3.2 Details of Item 30 “Outstanding securities”: subordinated securities		
	Total 31/12/2013	Total 31/12/2012
- subordinated securities	370.922	323.096
Total	**370.922**	**323.096**

3.3 Outstanding securities subject to micro-hedging		
	Total 31/12/2013	Total 31/12/2012
1. Securities subject to micro-hedging of fair value	**418.394**	**521.885**
a) interest rate risk	418.394	521.885
b) exchange rate risk	-	-
c) more than one risks	-	-
2. Securities subject to micro-hedging of cash flows	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
Total	**418.394**	**521.885**

Section 4 - Financial liabilities held for trading - Item 40

4.1 Financial liabilities held for trading: breakdown by type										
Type of transaction/Group components	31/12/2013					31/12/2012				
	VN	FV			FV*	VN	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 Others	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	X	34	25.467	-	X	X	13	23.886	-	X
1.1 Held for trading	X	34	25.467	-	X	X	13	23.886	-	X
1.2 Linked to fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Others	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 Others	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**34**	**25.467**	**-**	**X**	**X**	**13**	**23.886**	**-**	**X**
Total A+B	**X**	**34**	**25.467**	**-**	**X**	**X**	**13**	**23.886**	**-**	**X**

Key

FV = fair value

FV* = fair value calculated excluding changes in value due to changes in credit worthiness of the issuer after the issue date

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

At the end of the period the total amount of uncovered short positions is 0 euro thousands.

Section 6 - Hedging derivatives - Item 60

6.1 Hedging derivatives: breakdown by type of hedging and by hierarchical levels	Fair value 31/12/2013			VN 31/12/2013	Fair value 31/12/2012			VN 31/12/2012
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	**-**	**99.548**	**-**	**577.283**	**-**	**138.865**	**-**	**639.021**
1) Fair value	-	99.548	-	577.283	-	138.865	-	639.021
2) Cash flow	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**99.548**	**-**	**577.283**	**-**	**138.865**	**-**	**639.021**

Key:
VN =nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The following levels are used for the classifications given in these Explanatory Notes:

- Level 1 (L1): referred to the financial instrument quoted in an active market;
- Level 2 (L2): if the fair value is measured according to valuation techniques based on observable market data, differing from financial instrument quotations;
- Level 3 (L3): if the fair value is calculated according to valuation techniques that are not based on observable market data.

For more information on the methodologies used to determine the fair value, refer to Part A – Accounting policies of these Explanatory Notes.

6.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging	*Fair value*						Cash flows		Foreign investments
	Micro					Macro	Micro	Macro	
Transaction/Type of hedging	Interest rate risk	Exchange rate risk	Credit risk	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	-	-	-	-	-	99.548	-	-	X
5. Other operations	X	X	X	X	X	X	X	X	-
Total assets	**-**	**-**	**-**	**-**	**-**	**99.548**	**-**	**-**	**-**
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	-	-	-	-	-	-	-	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**X**
1. Pending transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

Section 10 - Other liabilities - Item 100

10.1 Other liabilities: breakdown	31/12/2013	31/12/2012
Taxes payable for third parties	20.960	17.854
Cash available to customers	3.340	3.309
Bank transfers and other payments due	80.205	55.293
Accounts payable and fees payable to sundry third parties	19.344	23.164
Personnel expenses	15.689	7.889
Payables collective for guarantees and commitments	1.330	1.925
Payables analytical for guarantees and commitments	1.427	-
Amounts owed to interventions FITD	956	-
Fees payable to statutory auditors and directors	621	530
Contributions payable to sundry agencies	1.458	7.452
Deferrals	1.421	1.528
Advances and deposits from customers	152	322
Others	8.640	8.545
Total	**155.543**	**127.811**

The increase in other liabilities is mainly due to the technical stock at the end of the year in the bank transfers to be placed account of around 30 million Euro and, for around 2.3 million Euro, the charge, in the face of the guarantee of the Interbank Fund for the Protection of Deposits, due for the default of a banking institution.

Section 11 - Employee severance indemnities - Item 110

11.1 Employee severance indemnities: annual changes	31/12/2013	31/12/2012
A. Opening balance	**33.154**	**27.083**
B. Increases	**499**	**7.524**
B.1 Provision of the year	137	592
B.2 Other changes	362	6.932
C. Decreases	**3.122**	**1.453**
C.1 Liquidations paid	1.140	1.176
C.2 Other changes	1.982	277
D. Closing balance	**30.531**	**33.154**

Within other increases were inserted the actuarial effects relative to the valuation reserves for actuarial profit (losses) for defined benefit plans in the amount of 682 thousand euro.
The downward decrease in the severance indemnity can be attributed to the discounting effect, which went from positive in 2012 to negative in 2013, and the sale to Cassa di Risparmio di Bolzano – Sudtiroler Sparkasse, which in addition to the 26 branches involved 93 employees and their relative severance indemnities.
In addition, recall that the figure in 2012 was positively influenced by the entry of the severance indemnities of Banca Sella Nord Est Bovio Calderari which was merged into Banca Sella on 1 October 2012.

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 foundations were reviewed at the time of this evaluation, observing the Group's experience relative to the period from 01.07.2009 – 30.06.2013.
As agreed with the Parent Company, these assumptions, as presented below, have been adopted for all Group companies being measured.

Demographic assumptions

- **mortality/disability**: in addition to the historical series observed, the 2010 ISTAT tables were adopted, divided by age and gender;

- **retirement, resignations/dismissals, expiry of contracts**: these causes for exclusion were deduced from the observation of corporate data. 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 evaluations considered the new 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 1.9%, (previously 3.1%) while the severance indemnity percentage requested as advance was confirmed at 70%, that is the maximum percentage provided by governing regulations;
- **supplementary social security:** those who have always entirely paid their severance indemnity fund to supplementary social security relieve the Company from paying severance indemnities and, therefore, were not evaluated. As regards other employees, the evaluation was carried out considering the choices made by employees at 31.12.2013, as communicated by the Companies.

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 measurement:

1. inflation: with reference to the first assumption, the inflation scenario has been seen from the document "Update Notes of the 2013 Economy and Finance Document", adopting a rate equal to planned inflation of 1.5%;

2. wage rises: with reference to salary increases, 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 a zero increase rate.
  - 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: pursuant to IAS 19R, the discount rate adopted was determined by making reference to the market performance 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 2013.

Section 12 - Provisions for risks and charges - Item 120

12.1 Provisions for risks and charges: breakdown

Item/Amount	31/12/2013	31/12/2012
1. Company pension funds	-	-
2. Other provisions for risks and charges	11.316	12.849
2.1 Legal disputes and customers complaint	7.454	8.181
2.2 Operational risks	5	382
2.3 Personnel charges	1.874	3.657
2.4 Supplementary customer allowance and goodwill compensation for termination of agency relationship	156	148
2.5 Others	1.827	481
Total	**11.316**	**12.849**

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:

- ex Banca Arditi Galati merged by acquisition: tax assessment notice with findings on the IRES tax basis. Period 2005. Total disputed amount (including taxes, interest and fines): approximately 0.7 million Euro. Amounts paid provisionally while judgement is pending: approximately 0.2 million Euro. Judgement of first instance favourable Awaiting judgement of second instance.
- formal report of findings with findings concerning IRES and IRAP tax basis. Period 2009. Total value of the tax disputed: approximately 1.3 million Euro. The evaluation has also been supported by the remarks of a major tax firm in favour of the Bank's conduct. In February 2014, while still remaining convinced of the correctness of the Bank's actions, a deed of adhesion was signed with the Tax Authorities, with an eye to eliminate the dispute and in consideration of the truly sizeable decrease in that requested by the authorities. Total charges, equal to approximately 0.3 million Euro, was allocated to a special provision for risks already present in these financial statements.

12.2 Provisions for risks and charges: annual changes

	Pension funds	Legal disputes and customer complaints	Operational risks	Personnel charges	Supplementary customer allowance and goodwill compensation for termination of agency relationship	Others	Total
A. Opening balance	**-**	**8.181**	**3.657**	**382**	**148**	**481**	**12.849**
B. Increases	**-**	**2.595**	**912**	**1**	**9**	**1.593**	**5.110**
B.1 Provisions for the year	-	2.555	910	1	9	1.223	4.698
B.2 Changes due to passing of time	-	40	2	-	-	-	42
B.3 Changes due to fluctuations in discount rate	-	-	-	-	-	-	-
B.4 Other changes	-	-	-	-	-	370	370
- other changes (+)	-	-	-	-	-	370	370
C. Decreases	**-**	**3.322**	**2.695**	**378**	**1**	**247**	**6.643**
C.1 Utilization in the period	-	1.807	2.653	378	1	247	5.086
C.2 Changes due to fluctuations in discount rate	-	22	1	-	-	-	23
C.3 Other changes	-	1.493	41	-	-	-	1.534
- other changes (-)	-	1.493	41	-	-	-	1.534
D. Closing balance	**-**	**7.454**	**1.874**	**5**	**156**	**1.827**	**11.316**

Section 14 - Corporate capital - Items 130,150,160,170,180,190 and 200

14.1 "Capital" and "Treasury shares": breakdown

	31/12/2013			31/12/2012		
	Shares issued	Shares subscribed and not yet paid up	Total	Shares issued	Shares subscribed and not yet paid up	Total
A. Capital	**281.597**	**-**	**281.597**	**281.597**	**-**	**281.597**
A.1 ordinary shares	281.597	-	281.597	281.597	-	281.597
A.2 preference shares	-	-	-	-	-	-
A.3 other shares	-	-	-	-	-	-
B. Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**
B.1 ordinary shares	-	-	-	-	-	-
B.2 preference shares	-	-	-	-	-	-
B.3 other shares	-	-	-	-	-	-

14.2 Capital - Number of shares: annual changes

Item/Type	Ordinary	Others
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 Outstanding shares: opening balance	**563.193.010**	**-**
B. Increases	-	-
B.1 New issues	-	-
- for payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercize of warrants	-	-
- others	-	-
- free of charge	-	-
- for employees	-	-
- for directors	-	-
- others	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Business sale transactions	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	**563.193.010**	**-**
D.1 Treasury shares (+)	-	-
D.2 Total shares at end of period	563.193.010	-
- fully paid up	563.193.010	-
- not fully paid up	-	-

At the end of the financial year, the share capital requirements due to the suspended tax regime were 8,235 thousand Euro, illustrated below:

- Restrictions deriving from the incorporation of Banca Sella Sud Arditi Galati made in 2011 of 5,784 thousand Euro, consisting of:

- revaluation reserve under Law no. 266 of 2005, art. 1, paragraph 469: 5,090 thousand Euro;
- revaluation reserve under Law no. 413 of 1991: 694 thousand Euro

- Restrictions deriving from the incorporation of Banca Sella Nord Est Bovio Calderari made in 2012 of 2,451 thousand Euro, consisting of:
  - property revaluation reserve under Law no. 413 of 1991; 1,457 thousand Euro;
  - revaluation reserve under Law no. 72 of 83; 62 thousand Euro;
  - revaluation reserve under Law no. 576 of 75; 28 thousand Euro;
  - realignment reserve under Law no. 266 of 2005, art. 1, paragraph 469: 904 thousand Euro.

14.3 Profit reserves: further information

	31/12/2013	31/12/2012
Face value per share *(in units of euro)*	0,50	0,50
Shares reserved for option-based issue	-	-
Number of contracts in place for the sale of shares	-	-

Banca Sella, during the financial year, held, purchased or sold its own shares or those of the Parent Company.

14.4 Reserves: other information

	31/12/2013	31/12/2012
Profit reserves		
Legal Reserve	25.510	24.672
Statutory Reserve	59.715	56.922
Extraordinary Reserve	6.014	6.010
Free	4.869	4.865
Restricted under the terms of Law 266/05 Art 1 paragraph 469	1.145	1.145
Reserve of application IAS n. 8	(1.102)	(1.102)
Total profit reserves	**90.137**	**86.502**
Other reserves:		
Group company merger surplus reserve	(70.614)	(70.614)
IAS/IFRS adoption reserve	(1)	(1)
Reserve for purchase of company divisions from Group companies	(64.623)	(64.727)
Gains/losses carried forward in application of IAS n. 8	(4.127)	(4.127)
Reserve for sale of company divisions to Group companies	244	244
Deficits of previous years	(416)	(416)
Total other reserves	**(139.537)**	**(139.641)**
Total profit reserves and other reserves	**(49.400)**	**(53.139)**

Details of utilization of Reserves (Prepared under the terms of Art. 2427 p. 7bis of the Civil Code)

	Amount	Possibility of utilization (*)	Proportion available for distribution	Summary of utilizations in the three previous years	
				To cover losses	For other reasons
Equity	**281.597**				
Equity reserves					
Share premium reserve	298.722	A - B - C	298.722		
Profit reserves					
Legal reserve	25.510	A [(1)] - B			
Statutory reserve	59.715	B			
Extraordinary reserve	4.869	A - B - C	4.869	-	-
Section 469	1.145	A - B[(2)] - C[(3)]	1.145	-	-
Group company merger surplus reserve	(70.614)	A - B - C	(70.614)	-	-
Reserve of application IAS n.8	(1.102)	---	(1.102)		
Gains/losses carried forward in application of IAS n. 8	(4.127)	---	(4.127)		
Valuation reserves					
Available-for-sale asset valuation reserve pursuant to Lgs. Dec. 38/05 Art. 7 paragraph 2	4.889	---(5)			
Actuarial profit/losses in nrelation to defined benefit plans	(1.028)	---	(1.028)		
Other reserves					
Merger surplus reserve	(64.623)	A - B[(2)] - C[(3)]	(64.623)	-	-
Reserve for tranfer of property from Group companies	244	A - B[(2)] - C[(3)]	244		
Total	**535.197**		**(135.236)**		
Proportion not available for distribution pursuant to Art 2426 no. 5 C.C.			-		
Remainder of proportion available for distribution			163.486		

(*) 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 exceeding one fifth of the share capital.

(2) If used to cover losses (B) no profits can be distributed until the reserve has been reinstated or its amount reduced by the corresponding amount. The reduction must be made after a resolution of the extraordinary general meeting, without following the provisions of paragraphs 2 and 3 of Art. 2445 C.C..

(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 C.C.
If distributed to shareholders it counts towards the taxable income of the company.

(5) The reserve is unavailable under the terms of Art. 6 of Lgs. Dec. 38/2005.

Other information

1. Guarantees issued and commitments		
Transactions	**Balance 31/12/2013**	**Balance 31/12/2012**
1) Financial guarantees issued	**74.062**	**81.483**
a) banks	17.242	17.935
b) customers	56.820	63.548
2) Commercial guarantees issued	**195.598**	**240.950**
a) banks	150	150
b) customers	195.448	240.800
3) Irrevocable commitments to disburse funds	**262.044**	**317.978**
a) banks	8.157	21.922
i) certain to be drawn down	8.157	21.922
ii) not certain to be drawn down	-	-
b) customers	253.887	296.056
i) certain to be drawn down	-	453
ii) not certain to be drawn down	253.887	295.603
4) Commitments underlying credit derivatives: protection sales	**-**	**-**
5) Assets pledged for third party obligations	**500**	**500**
6) Other commitments	**-**	**-**
Total	**532.204**	**640.911**

2. Assets pledged against own liabilities and commitments		
Portfolios	**Balance 31/12/2013**	**Balance 31/12/2012**
1. Financial assets held for trading	-	-
2. Financial assets carried at fair value	-	-
3. Financial assets available for sale	8.649	13.316
4. Financial assets held to maturity	148.131	2.054
5. Due from banks	248.220	226.060
6. Due from customers	89.343	12.831
7. Property, plant and equipment	-	-

The increase in the item “financial assets held to maturity” is correlated with the increase in the corresponding IAS portfolio.

The aggregate “amounts due from customers” includes:

- loans guaranteeing financing received from the Bank of Italy for around 78 million Euro;
- loans guaranteeing financing received from EIB for the remaining 11.3 million Euro.

4. Management and intermediation on third parties behalf		
Type of service	**Balance 31/12/2013**	**Balance 31/12/2012**
1. Order execution on customers' behalf	***-***	***-***
a) Purchases	-	-
1. settled	-	-
2. not settled	-	-
b) Sales	-	-
1. settled	-	-
2. not settled	-	-
2. Portfolio management	***1.476.247***	***1.266.130***
a) Individual	1.476.247	1.266.130
b) Collective	-	-
3. Custody and administration of securities	***22.757.211***	***23.095.760***
a) Third-party securities on deposit: connected with role of depositary bank (excluding asset management)	-	-
1. securities issued by the reporting bank	-	-
2. other securities	-	-
b) other third-party securities on deposit (excluding asset management): others	9.623.661	10.086.006
1. securities issued by the reporting bank	623.879	792.017
2. other securities	8.999.782	9.293.989
c) third-party securities deposited with third parties	10.612.077	10.738.474
c) own securities deposited with third parties	2.521.473	2.271.280
4. Other transactions *	***93.774.410***	***94.183.246***

* The item "Other transactions" includes the volume of work of receiving and sending orders, which is divided as follows:
- purchases: 47.543.813
- sales: 46.230.597

The following chart displays the breakdown of the bank's indirect deposit:

Detail of indirect deposit item		
	31/12/2013	**31/12/2012**
a) Indirect deposit referred to management and intermediation on third parties behalf activity (as shown in previous chart)	10.476.029	10.560.119
- Portfolio management	1.476.247	1.266.130
- Custody and administration of securities:		
- Third-party securities on deposit: connected with role of depositary bank (excluding asset management) - other securities	-	-
- Other third-party securities on deposit (excluding asset management): others - other securities	8.999.782	9.293.989
b) Indirect deposit elated to income from insurance activities	745.378	786.995
Total indirect deposit	**11.221.407**	**11.347.114**

For consistency of comparison with that published in the financial statements as at 31.12.2012, the amounts related to third party securities on deposit with underlying Sella Personal Life insurance policies have been reclassified among indirect deposits traceable to insurance policies, under the item administered deposits.

6. Financial assets subject to compensation in the financial statements, or subject to framework agreements for compensation or similar agreements

Type	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount reported in the balance sheet of financial assets (c=a-b)	Related amounts not subject to compensation in the financial statements		Net amount 31/12/2013 (f=c-d-e)	Net amount 31/12/2012
				Financial assets (d)	Deposits of cash received as collateral (e)		
1. Derivatives	29.084	-	29.084	29.084	-	-	-
2. Repurchase agreement	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2013	29.084	-	29.084	29.084	-	-	X
Total 31/12/2012	-	-	-	-	-	X	-

7. Financial liabilities subject to compensation in the financial statements, or subject to framework agreements for compensation or similar agreements

Type	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount reported in the balance sheet of financial liabilities (c=a-b)	Related amounts not subject to compensation in the financial statements		Net amount 31/12/2013 (f=c-d-e)	Net amount 31/12/2012
				Financial assets (d)	Deposits of cash received as collateral (e)		
1. Derivatives	110.429	-	110.429	29.084	81.346	- 1	-
2. Repurchase agreement	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2013	110.429	-	110.429	29.084	81.346	- 1	X
Total 31/12/2012	13.263	-	13.263	-	13.263	X	-

PART C – INFORMATION ON THE INCOME STATEMENT

Section 1 - Interest - Items 10 and 20

1.1 Interest and similar income: breakdown

Item/Technical type	Debt securities	Loans and advances	Other operations	Total 31/12/2013	Total 31/12/2012
1. Financial assets held for trading	1.057	-	414	1.471	2.427
2. Financial assets available for sale	10.540	8	-	10.548	10.925
3. Financial assets held to maturity	24.537	-	-	24.537	16.215
4. Due from banks	3.173	8.046	-	11.219	18.399
5. Due from customers	12	275.138	-	275.150	290.790
6. Financial assets at fair value through profit or loss	-	-	-	-	-
7. Hedging derivatives	X	X	10.524	10.524	7.537
8. Other assets	X	X	14	14	34
Total	**39.319**	**283.192**	**10.952**	**333.463**	**346.327**

Futher details on interest income accrued on non-performing loans, watchlist loans, past-due exposures and restructured exposures are reported below:

Interest and similar income accrued on rimpaired assets	
	31/12/2013
- accrued on non performing loans	192
- accrued on watchlist loans	8.853
- accrued on past due exposures	1.967
- accrued on restructured exposures	212

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currencies

	Total 31/12/2013	Total 31/12/2012
- on assets in foreign currencies	3.618	4.394

1.4 Interest and similar expense: breakdown

	Debts	Securities	Other operations	Total 31/12/2013	Total 31/12/2012
1. Due to central banks	-	X	-	-	-
2. Due to banks	491	X	-	491	2.662
3. Due to customers	77.506	X	-	77.506	76.515
4. Outstanding securities	X	29.827	-	29.827	40.054
5. Financial liabilities held for trading	-	-	414	414	676
6. Financial liabilities at fair value through profit or loss	-	-	-	-	-
7. Other liabilities and funds	X	X	5	5	42
8. Hedging derivatives	X	X	28.090	28.090	25.768
Total	**77.997**	**29.827**	**28.509**	**136.333**	**145.717**

1.5 Interest and similar expense: differences on hedging transactions

Item/Segment	Total 31/12/2013	Total 31/12/2012
A. Positive differences on hedging transactions	10.524	7.537
B. Negative differences on hedging transactions	28.090	25.768
Balance (A-B)	**17.566**	**18.231**

1.6 Interest and similar expense: other information

1.6.1 Interest expense on financial liabilities in foreign currencies

	Total 31/12/2013	Total 31/12/2012
- on liabilities in foreign currencies	1.487	2.046

Section 2 - Fees - Items 40 and 50

2.1 Fee income: breakdown

Type of service/Amount	Total 31/12/2013	Total 31/12/2012
a) Sureties issued	3.350	3.222
b) Credit derivatives	-	-
c) Asset management, brokerage and advisory services:	62.604	58.514
1. Financial instruments trading	-	-
2. Currency trading	1.106	1.062
3. Portfolio management	11.534	10.246
3.1. individual	11.534	10.246
3.2. collective	-	-
4. Custody and administration of securities	2.054	1.292
5. Depositary bank	-	-
6. Placement of securities	15.609	13.238
7. Order reception and transmission activities	24.204	24.514
8. Consultancy activities	13	130
8.1 about investments matters	13	130
8.2 about financial structure matters	-	-
9. Distribution of third party services	8.084	8.032
9.1. Portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. Insurance products	6.848	7.640
9.3. Other products	1.236	392
d) Collection and payment services	104.617	105.673
e) Servicing for securitization transactions	64	76
f) Services for factoring transactions	-	-
g) Tax collection services	-	-
h) Multilateral exchange systems management activities	-	-
i) Current accounts holding and management	22.820	23.565
j) Other services	41.942	41.226
Total	**235.397**	**232.276**

Futher details on the "other services" item is provided below:

Fee income: details on the item "Other services"

	31/12/2013	31/12/2012
Credit and debit cards	11.788	10.258
Recovery of expenses on loans to customers	1.260	1.121
Fees and commissions on relations with credit institutions	620	450
Location safes	176	188
Recovery of postal, printing and similar expenses.	1.606	3.390
Commission on loans to customers	22.570	21.377
Others	3.922	4.442
Total "Other services"	**41.942**	**41.226**

2.2 Fee income: product and service distribution channels

Channel/Amount	Total 31/12/2013	Total 31/12/2012
a) At own branches:	**34.914**	**31.411**
1. Portfolio management	11.534	10.246
2. Placement of securities	15.599	13.228
3. Third party products and services	7.781	7.937
b) Door-to-door sales:	**262**	**105**
1. Portfolio management	-	-
2. Placement of securities	10	10
3. Third party products and services	252	95
c) Other distribution channels:	**51**	**-**
1. Portfolio management	-	-
2. Placement of securities	-	-
3. Third party products and services	51	-
Total	**35.227**	**31.516**

2.3 Fee expense: breakdown

Service/Amount	Total 31/12/2013	Total 31/12/2012
a) Sureties received	401	435
b) Credit derivatives	-	-
c) Asset management, brokerage and advisory services:	19.743	18.987
1. Financial instruments trading	6.052	6.238
2. Currency trading	-	-
3. Portfolio management	-	-
3.1. own	-	-
3.2. delegated to third parties	-	-
4. Custody and administration of securities	450	511
5. Placement of fnancial instruments	-	-
6. Door-to-door sale of securities, products and services	13.241	12.238
d) Collection and payment services	51.148	52.937
e) Other services	1.502	1.462
Total	**72.794**	**73.821**

Futher details on the "other services" item is provided below:

Fee expense: details on the item "Other services"	31/12/2013	31/12/2012
Connections with banks	337	235
Loans	777	842
Others	388	385
Total "Other services"	**1.502**	**1.462**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown				
Item/Income	Total 31/12/2013		Total 31/12/2012	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	276	-	-	-
C. Financial assets at fair value through profit or loss	-	-	-	-
D. Equity investments	-	X	-	X
Total	**276**	**-**	**-**	**-**

Section 4 - Net gains (losses) on trading activities - Item 80

4.1 Net gains/(losses) on trading activities: breakdown					
Transaction/Income component	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	**706**	**1.080**	**-**	**182**	**1.604**
1.1 Debt securities	706	1.080	-	182	1.604
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans and advances	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Debts	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**3.904**
4. Derivative instruments	**7.598**	**3.914**	**7.756**	**4.323**	**153**
4.1 Financial derivatives:	7.598	3.914	7.756	4.323	153
- On debt securities and interest rates	7.598	3.914	7.756	4.323	(567)
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	720
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
TOTAL	**8.304**	**4.994**	**7.756**	**4.505**	**5.661**

Section 5 - Net gains/(losses) on hedging activities - Item 90

5.1 Net gains/(losses) on hedging activities: breakdown		
Income component/Amount	**Total 31/12/2013**	**Total 31/12/2012**
A. Income from:		
A.1 Fair value hedging derivatives	52.673	11.510
A.2 Hedged financial assets (fair value)	-	27.171
A.3 Hedged financial liabilities (fair value)	9.377	-
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in foreign currencies	-	-
Total income from hedging activities (A)	**62.050**	**38.681**
B. Expenses for:		
B.1 Fair value hedging derivatives	24.008	27.832
B.2 Hedged financial assets (fair value)	37.647	-
B.3 Hedged financial liabilities (fair value)	-	9.734
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currencies	-	-
Total expenses for hedging activities (B)	**61.655**	**37.566**
C. Net gains/(losses) on hedging activities (A-B)	**395**	**1.115**

Section 6 - Gains (losses) from sale/repurchase - Item 100

6.1 Gains/(Losses) on sale/repurchase: breakdown						
Item/Income component	**Total 31/12/2013**			**Total 31/12/2012**		
	Gains	**Losses**	**Net gains/(losses)**	**Gains**	**Losses**	**Net gains/(losses)**
Financial assets						
1. Due from banks	-	-	-	1	-	1
2. Due from customers	354	554	(200)	557	958	(401)
3. Financial assets available for sale	3.916	1.142	2.774	7.551	4.447	3.104
3.1 Debt securities	3.916	1.142	2.774	7.551	4.447	3.104
3.2 Equity securities	-	-	-	-	-	-
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans and advances	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**4.270**	**1.696**	**2.574**	**8.109**	**5.405**	**2.704**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	948	-	948	470	-	470
3. Outstanding securities	1.213	1.334	(121)	330	311	19
Total liabilities	**2.161**	**1.334**	**827**	**800**	**311**	**489**

Section 8 - Net value adjustments for impairment - Item 130

8.1 Net value adjustments for impairment of loans: breakdown

Transaction/Income component	Writedowns (1)			Writebacks (2)				Total 31/12/2013 (1)-(2)	Total 31/12/2012 (1)-(2)
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		From interest	Other writebacks	From interest	Other writebacks		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**34**	**34**	**(30)**
- Loans and advances	-	-	-	-	-	-	34	34	(30)
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers	**25.162**	**107.713**	**714**	**12.603**	**15.226**	**-**	**-**	**(105.760)**	**(98.501)**
Purchased impaired loans	-	-	-	-	-	-	-	-	-
- Loans and advances	-	-	X	-	-	-	X	-	-
- Debt securities	-	-	X	-	-	-	X	-	-
Other loans	25.162	107.713	714	12.603	15.226	-	-	(105.760)	(98.501)
- Loans and advances	25.162	107.713	714	12.603	15.226	-	-	(105.760)	(98.501)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**25.162**	**107.713**	**714**	**12.603**	**15.226**	**-**	**34**	**(105.726)**	**(98.531)**

The process of revising the analytical measurement parameters of non-performing and watch list loans with revocation of facilities, mentioned both in the Report on Operations and in Part A – Accounting Policies of these financial statements, has had an effect on the final balances of the adjustment provisions of Banca Sella at 31/12/2013 for 1.686 million, of which non-performing 0.404 million and watch list positions revoked 1.282 million.

8.2 Net value adjustments for impairment of financial assets available for sale: breakdown

Transaction/Income component	Writedowns (1)		Writebacks (2)		Total 31/12/2013 (1)-(2)	Total 31/12/2012 (1)-(2)
	Specific		Specific			
	Write-offs	Others	From interest	Other writebacks		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	3	-	X	X	(3)	-
C. UCITS units	-	-	X	-	-	-
D. Loans and advances to banks	-	-	-	-	-	-
E. Loans and advances to customers	-	-	-	-	-	-
F. Total	**3**	**-**	**-**	**-**	**(3)**	**-**

8.4 Net writedowns for impairment of other financial transactions: breakdown

Transaction / Income component	Writedowns (1)			Writebacks (2)				Total 31/12/2013 (1)-(2)	Total 31/12/2012 (1)-(2)
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		From interest	Other writebacks	From interest	Other writebacks		
A. Sureties issued	956	1.370	-	-	-	-	494	(1.832)	(985)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	1
D. Other transactions	-	151	-	-	43	-	-	(108)	(692)
Total	**956**	**1.521**	**-**	**-**	**43**	**-**	**494**	**(1.940)**	**(1.676)**

Actions in favour of the Interbank Fund for the Protection of Deposits are considered as write downs of guarantees given, and as such the action for the requests made to the Fund by Banca Tercas as 2013 was recognised. Consequently, the total for 2012 increased, with respect to that published in the financial statements at 31 December 2012, due to the reclassification to item 190 Other operating expenses of the charges due to the Fund for the action in favour of Banca Network.

Section 9 - Administrative expenses - Item 150

9.1 Personnel expenses: breakdown

Type of expense/Amount	Total 31/12/2013	Total 31/12/2012
1) Employees	148.826	150.712
a) Wages and Salaries	109.253	109.421
b) Social security contributions	27.831	28.415
c) Severance indemnities	3.197	3.314
d) Pension expenses	-	-
e) Provision for employees' severance indemnities	137	592
f) Provision for pension funds and similar:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) Payments into external supplementary pension funds:	4.784	4.834
- defined contribution	4.784	4.834
- defined benefit	-	-
h) Costs deriving from share-based payment agreements	-	-
i) Other employee benefits	3.624	4.136
2) Other working personnel	822	745
3) Directors and statutory auditors	725	908
4) Non-working personnel	-	-
5) Expenses recovered for employees seconded to other companies	(2.062)	(2.422)
6) Expenses rerefunded for third parties' employees seconded to the company	2.043	2.471
Total	**150.354**	**152.414**

9.2 Average number of employees per category

	Total 31/12/2013	Total 31/12/2012
Employees:	2.722	2.822
- Executives	24	23
- Middle management	689	725
- Remaining employees	2.009	2.074
Other personnel	27	28
Total	**2.749**	**2.850**

9.4 Other employee benefits

	Total 31/12/2013	Total 31/12/2012
Costs relating to staff exits	(7)	226
Benefits for employees' children	79	76
Benefits in kind	1.196	1.077
Insurance policies stipulated in favour of employees	1.639	1.581
Professional employee update courses	264	561
Travel costs	7	29
Others	446	586
Total	**3.624**	**4.136**

9.5 Other administrative expenses: breakdown

Type of expense/Segments	Total 31/12/2013	Total 31/12/2012
Legal and notarial expenses	6.148	5.033
IT assistance and sundry advice	1.541	2.463
Other expenses for professional services	169	11
Printing and stationery	497	601
Leasing of electronic machines and software licences	256	242
Sundry rentals and expenses for services provided by third parties	28.283	27.579
Fees for data transmission	2.558	2.747
Postal and telegraphic expenses	3.909	4.268
Telephone charges	903	1.114
Transport expenses	678	1.307
Cleaning of premises	985	1.066
Surveillance and escort of valuables	2.444	3.246
Electricity and heating	3.504	3.659
Rent of premises	19.409	21.156
Sundry insurance policies	970	1.057
Advertising and promotion	1.954	1.034
Entertainment expenses	12	290
Donations	106	94
Membership fees	760	809
Subscriptions and books	66	77
Information and inspections	1.988	2.598
Travelling expenses	1.555	1.608
Expenses for interbank network service	328	335
Expenses for web site	10	2
Others	2.354	1.922
Maintenance and repair expenses	**8.104**	**7.693**
- Properties owned	193	110
- Properties rented	367	142
- Movables	3.145	2.806
- Hardware and software	4.399	4.635
Indirect taxes and duties	**33.556**	**27.491**
- Stamp duty	30.737	24.811
- Substitute tax Pres. Dec. 601/73	1.476	1.335
- Local property tax	281	277
- Other indirect taxes and duties	1.062	1.068
Total	**123.047**	**119.502**

The increase in administrative expenses can be almost entirely attributed to Indirect taxes which saw an increase of +6.1 million Euro, specifically in the item Stamp Duty. As originally envisaged in the Save Italy Decree, in 2013 taxes on banking products and financial instruments increased from 1 per thousand to 1.5 per thousand.

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 provisions for risks and charges - Item 160

10.1 Net provisions for risks and charges: breakdown	Balances 31/12/2013	Balances 31/12/2012
Provisions for risks for bankruptcy revocatory actions	575	25
Provisions for risks for lawsuits brought	1.611	1.605
Provisions for customer complaints	388	1.192
Provisions for operational risks	851	2.410
Provisions for employee disloyalty	60	17
Provisions for personnel	1	3
Supplementary provisions for customer indemnity	9	51
Other provisions	1.222	47
Reattributions to Income Statement relating to revocatory provisions	-	(222)
Reattributions to Income Statement relating to provisions for risks for lawsuits brought	(555)	(997)
Reattributions to Income Statement relating to provisions for customer complaints	(569)	(1)
Reallocation to Income Statement relevant to provisions for employee disloyalty	(40)	(82)
Total	**3.553**	**4.048**

Section 11 - Net value adjustments of tangible assets - Item 170

11.1 Net value adjustments of tangible assets: breakdown

Asset/Income components	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustment (a+b-c)
A. Tangible assets				
A.1 Owned	7.004	-	-	7.004
- for business purposes	6.768	-	-	6.768
- for investment	236	-	-	236
A.2 Acquired in financial leasing	-	-	-	-
- for business purposes	-	-	-	-
- for investment	-	-	-	-
Total	**7.004**	**-**	**-**	**7.004**

Section 12 - Net value adjustments of intangible assets - Item 180

12.1 Net value adjustments of intangible assets: breakdown

Asset/Income component	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c)
A. Intangible assets				
A.1 Owned	11.721	-	-	11.721
- Generated internally by the company	1.796	-	-	1.796
- Others	9.925	-	-	9.925
A.2 Acquired in financial leasing	-	-	-	-
Total	**11.721**	**-**	**-**	**11.721**

Section 13 - Other operating expenses and income - Item 190

Other operating expenses and income	31/12/2013	31/12/2012
Total other operating expenses	6.097	9.064
Total other operating income	79.730	49.492
Other operating expenses and income	**73.633**	**40.428**

13.1 Other operating expenses: breakdown	Total 31/12/2013	Total 31/12/2012
Amortization of expenses for improvements on third party assets	1.302	1.821
Losses related to operational risks	2.858	4.801
Refunds of interest on collection and payment transactions	46	39
Penalties payable for contract defaults	3	91
Refunds to customers on Funds/UCITS interest	417	384
Others	1.471	1.928
Total	**6.097**	**9.064**

The total of Other operating expenses for 2012 saw a decrease, in that the amount of 827 thousand Euro was reclassified to item 130 d) net write-downs for impairment of other financial transactions, paid to the Interbank Fund for the Protection of Deposits for the Banca Network default. Also see the comment on table 8.4 in the present Part C – Income Statement.

13.2 Other operating income: breakdown	Total 31/12/2013	Total 31/12/2012
Rents and instalments receivable	330	178
Charges to third parties and refunds received:	31.406	24.869
- taxes recovered	31.227	24.753
- insurance premiums and refunds	179	116
Expenses recovered and other revenues on current accounts and deposits	8.479	4.420
Income from software services	5.574	6.059
Recoveries of interest on collection and payment transactions	9	10
POS fee income	2.492	1.610
Administrative services rendered to third parties	5.929	5.932
Penalties receivable for contract defaults	53	289
Expenses recovered for services rendered in relation to credit recovery	3.123	2.998
Income from sale of business unit	19.026	-
Other income	3.309	3.127
Total	**79.730**	**49.492**

The increase in operating income can mainly be traced to the sale of part of the distribution business unit to Cassa di Risparmio di Bolzano – Sudtiroler Sparkasse, which led to gross income of 19 million Euro. For further details on the operation, please refer to that found in the Report on operations in these financial statements.
The sub-item taxes recovered increased by around 6.5 million Euro. In fact, as originally envisaged in the Save Italy Decree, in 2013 taxes on banking products and financial instruments increased from 1 per thousand to 1.5 per thousand.
The positive recovery of deposits and current accounts led to an increase in income of approximately 4.1 million Euro.

Section 17 - Gains (losses) on sales of investments - Item 240

17.1 Gains/(losses) on sales of investments: breakdown		
Income component/Amount	**Total 31/12/2013**	**Total 31/12/2012**
A. Properties	-	-
- Gains on sales	-	-
- Losses on sales	-	-
B. Other assets	(20)	(15)
- Gains on sales	9	15
- Losses on sales	29	30
Net gains/(losses)	**(20)**	**(15)**

Section 18 - Income taxes for the period on continuing operations - Item 260

18.1 Income taxes for the period on continuing operations: breakdown		
Component/Amount	**Total 31/12/2013**	**Total 31/12/2012**
1. Current taxes (-)	(39.648)	(31.089)
2. Change in current taxes of previous years (+/-)	214	6.052
3. Reduction of current taxes for the year (+)	6	80
3.bis Reduction in current taxes for tax credits of Law n.214/2011 (+)	-	190
4. Change in prepaid taxes (+/-)	24.448	14.999
5. Change in deferred taxes (+/-)	(4.343)	(74)
6. Taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(19.323)	(9.842)

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	39,732		
Nominal rate [1]		33.03%	13,123
Tax-exempt dividends	-262	-0.18%	-72
Gains and losses from sales of equity investments	-	0.00%	-
Non-deductible costs	3,424	2.37%	942
non-deductible IRES IMU	202	0.14%	56
Impact of capital gains adjustment with branches goodwill without FD	256	0.18%	71
Interest payable to third parties non-deductible 4% Tobin tax IRES	3,886	2.69%	1,069
Write-downs of equity investments	-	0.00%	-
IRES deduction for IRAP 2013	-6,255	-4.33%	-1,72
additional for banks and financial companies, Decree Law 133/2013		4.99%	1,983
(-) additional for banks and financial companies, Decree Law 133/2013 allocated to shareholders' equity		-0.15%	-58
taxes of previous years		-0.47%	-185
net foreign taxes		0.58%	232
Adjusted rate		**38.86%**	**15,440**
IRAP reconciliation			
Interest payable non-deductible, 4% Tobin tax IRAP	4,008	0.56%	222
IRAP non-taxed dividends	-138	-0.02%	-8
Personnel costs non-deductible from IRAP (item 150)	96,488	13.43%	5,335
Value adjustments on credits and provisions for risks, non-deductible IRAP (item 130 and item 160)	5,461	0.76%	302
Adjustments to administrative expenses (item 150 and 170)	13,901	1.93%	769
Other non-taxed operating expenses/income, non-deducted IRAP (item 190) other than expense related to personnel expense	-32,9	-4.58%	-1,819
IRAP deduction on transfers without recourse	-16,83	-2.34%	-930
non-deductible IRAP IMU	281	0.04%	16
other differences in IRES and IRAP taxable base	-27	-	-2
Effective rate		**48.63%**	**19,323**

[1] weighted average IRES rate + IRAP rate on the basis of the territorial distribution of the taxable base.

PART D – COMPREHENSIVE INCOME

DETAILED STATEMENT OF COMPREHENSIVE INCOME

Detailed statement of comprehensive income				
	Item	Gross amount	Income tax	Net amount
10.	**Net profit/ (Loss) for the year**	**X**	**X**	**20.409**
	Other comprehensive income without transfer to income statement			
20.	Tangible assets	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	682	(245)	437
50.	Non-current assets held for sale	-	-	-
60.	Share of valuation reserves connected with investments meaured with net equity method	-	-	-
	Other comprehensive income with transfer to income statement			
70.	Hedges of foreign investments	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
80.	Foreign exchange differences	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
90.	Cash flow hedges	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
100.	Financial assets available for sale	7.882	(2.603)	5.279
	a) fair value changes	9.940	(3.283)	6.657
	b) reversal to income statement	(2.058)	680	(1.378)
	- impairment losses	-	-	-
	- gain/losses from disposal	(2.058)	680	(1.378)
	c) other changes	-	-	-
110.	Non-current assets held for sale	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
120.	Share of valuation reserves connected with investments meaured with net equity method	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	- impairment losses	-	-	-
	- gain/losses from disposal	-	-	-
	c) other changes	-	-	-
130.	**Total other income net of tax**	**8.564**	**(2.848)**	**5.716**
140.	**Comprehensive profit (Item 10+110)**	**X**	**X**	**26.125**

PART E - INFORMATION ON RISKS AND ASSOCIATED HEDGING POLICIES

As required by Banca d'Italia Circular No. 263 of 27 December 2006, and 11th update of January 31, 2012, on capital adequacy, exposure to risks and the general features of systems designed to identify, measure and manage risks, the qualitative and quantitative information on the Notice to the Public at the consolidated level is published on the Banca Sella Group website, www.gruppobancasella.it, Investor Relation section.

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 II, 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.

For some time, the Legal Division has adopted a structured combination of evaluation parameters for watch list impaired loans with revocation of the credit lines and for non-performing loans.

These parameters, used throughout the Group through regulatory circulars, 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 Legal Division verifies the congruence of these evaluation parameters, through statistical checks on the own portfolio.

This activity, monitored over time, allows refining of the totality of evaluation parameters and ensures that their application is adequate, even in conditions where the external situation changes and under different macro-economic situations.

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) of Banca Sella Holding and Credit Control of Banca Sella. The former has the task of monitoring and quantifying the credit risk assumed by the Group companies, assessing its sustainability and, through the use of shared instruments, facilitating effective and proactive management. On the other hand, the second is dedicated to more traditional monitoring, mainly focused on analysis of individual risk positions and trend analysis of certain variables held to be significant in terms of controlling credit risk.

2. Credit risk management policies

Organisational Aspects

In general, requests for financing are presented directly to the branches of the respective Group Banks.

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, offices were opened throughout the country who are responsible for business credit line inquiries as well as those for large loans to private individuals. These offices, known as Credit Centres, also provide 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 each Group 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, the internal procedure was entirely reviewed to classify customers even more 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.

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 carries on supervisory work preparing regular reports at every level and laying down common guidelines. The regular analyses concern, among other things, the distribution of customers by rating class and the development of risk profiles covering the entire loan portfolio or particular sub-portfolios characterised by specific risk conditions. The activities of the Risk Management Service also include monitoring risk limits and attention thresholds in relation to credit quality and risk concentration.

As regards the assessment of the risk of default, there are different management processes and analysis tools according to a segmentation of customers in keeping with the parameters laid down in the Basel II Standardised Approach, as confirmed in Bank of Italy Circular 263 of 27 December 2006, as subsequently updated. 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 (financial statement data). For corporate and large corporate businesses, a real rating will be calculated for the financial statements, for each 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 financial score is also the maximum level of detail that can be obtained for the following customer categories: financial companies, leasing companies, factoring companies and holding companies. For small businesses and small and medium enterprises, certain financial indicators will be calculated that help towards the final assessment of the customer's credit rating.
- Qualitative information. For corporate and large corporate businesses, the business rating is calculated deriving from the integration of the rating of the financial statements and the qualitative component obtained by having the contract manager complete a specific questionnaire. Like the statutory accounting rating, the enterprise rating may be calculated for 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 businesses and small and medium enterprises, the qualitative questionnaire is to be completed, but the information has no effect on the final judgement of the customer.
- Performance-related information (internal data of the bank and Risks Centre data). For corporate and large corporate businesses, the integration of the business rating and the behavioural component enables the determination of the overall rating, which represents the most in-depth assessment possible of the credit rating of a corporate or large corporate customer. For small businesses and small and medium enterprises, certain performance indicators will be calculated that help towards the final assessment of the customer's credit rating. 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 number nine performing classes: 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 definitive financial statements with time validity.

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 2013 work continued on assigning and updating ratings to business borrowers, further consolidating the already significant levels of coverage achieved in previous years. The work of the Ratings Committee also 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 II, 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. Although its capital requirement against credit risk is determined according to the First Pillar through the Standardised Approach, Banca Sella has always undertaken all the necessary organisational and methodological action aimed at proving that its internal rating system is substantially in line with the requirements provided for in the supervisory legislation ("experience tests").

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 II, 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 regulatory standards 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 II, 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 supply process also involves growing decision-making limits on the basis of the amounts concerned by the loan. Individual loan applications for which total debtor exposure and that of the group of customers as may be connected with it exceeds certain thresholds, are always subject to the examination of the parent company. Exposure to concentration risk is monitored monthly on the basis of objective indicators, such as the Herfindahl index, and precise thresholds have been set to limit the overall exposure in each business sector/geographical area and dimensional class. As far as residual risk is concerned, the parent company has adopted a special process with the purpose to check the acceptability of guarantees according to each specific and general requirement prescribed by the Supervisory Authority.

At the same time as drafting the ICAAP statement (analysis of the suitability of equity in accordance with the Second Pillar of Basel II) 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).

In reference to the new Basel III regulations, the changes envisaged in terms of credit and counterparty risk do not significantly impact the risk profile of the portfolio.

Furthermore, with regard to control at individual level, Banca Sella has equipped itself with a service for the management of anomalous credit, which assists in the management of relations with clientele featuring relevant anomalies in trends.

The Banca Sella Credit Control service carries out second-level control activities regarding the proper provision and management of credit in the companies of the Group.

More specifically, the service operates through:

- remote control of the correct supply of loans and management of branches in anomalous trends;
- control of the correct exercise of delegated powers;
- control of the trend of anomalies held to be most symptomatic of credit risk situations;
- control of compliance with internal regulations on the supply and management of loans.

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 belonging to the Loans Portfolio of the Group Banks (borrowers or customers with current facilities in place) into 4 classes according to credit risk:

- ARC class 1 (green): positions with no anomalies and positions with few anomalies;
- ARC class 2 (yellow): positions with anomalies, not such as to jeopardise continuation of the relationship, but which need to be remedied;
- ARC class 3 (red): anomalous positions requiring intervention according to the type of anomaly in place, the amount of exposure and the amount of past due intended as the sum of unpaid instalments and exceeding current account thresholds;
- ARC class 4 (black) positions with significant anomalies to the extent that they require immediate intervention.

Purpose: The ARC procedure aims to:

- classify the loans portfolio according to the credit risk expressed by customers;
- make a customer risk sheet available that is useful in terms of monitoring and managing the credit risk; the sheet is integrated into the CRM platform and allows for the viewing on a single screen of all indicators used to calculate the policies, together with further useful information to 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 (these replaced the ISA – Summary Indicator of Performance Anomalies in May 2012)

Purpose: They aim to immediately identify any customer positions showing significant performance anomalies within the classifications already made by the ACR – Automatic Risk Classification procedure. They enable the following:

- definition of the severity of relations;
- setting of an intervention priority.

The 12 new classes represent the likelihood of default in the short-term. The higher the class, the more critical the customer situation. Class 12, in fact, includes all positions marked as "Subjective Watch list". The class can be viewed on the ACR risk sheet integrated into CRM.

Data update frequency: once a week.

TABLEAU DE BORD

The tool enables the viewing of specific performance data trends with the possibility of segmenting portfolio reports on the level of the Bank, Territory, District and 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 watch list positions, Past-due, Objective Restructured positions, PD).

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. Threshold exceeding and Delinquency ratio are instead updated daily.

The special focus on signs of tension represented by excess of current account overdraft limits and late payment of instalments through the development of computer signalling procedures that are able to guarantee more timely intervention was reinforced. 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.

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 typically acquired by the counterparties are those typical of the banking business, mainly: personal guarantees and counterparties in the form of property and financial instruments. Banca Sella does not have recourse to the use of clearing 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 II 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, and 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 verification of 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 specifically 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 Bank of Italy Circular 263/2006, as subsequently updated, permits recourse to this type of valuation. To this end a database is used 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 2013, 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, as further monitoring of the requirement for legal certainty, a second level audit is carried out on each contract, on the completeness and correctness of the documentation. This is the task of the Group Guarantee Controls Service and the Group Service Centre.

No concentration conditions were recognised for guarantee categories (in terms of credit or market risk). In particular:

- property-backed collateral: both mortgage loans and real-estate leasing transactions are mainly aimed at private customers or small-sized enterprises. This allows maintaining a high level of risk sharing;
- collateral 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.

Impaired financial assets

The Banca Sella structure that manages the work of recovery of disputed loans for the Banca Sella Group, works for Banca Sella itself, for Banca Patrimoni Sella & C. and for the leasing company Biella Leasing.

Alongside its management functions, following the contractual terms for the task received, the service is responsible for:

- calling in loans for new positions in default;
- acting in a timely manner to recover loans in default and acquiring further guarantees to cover exposure;
- 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.

The decision-making power in relation to the assessment of recoveries and waiver proposals for arrangements with customers as concerns Banca Sella is partly devolved to the single managers within the range of powers granted to the single CEOs of Banca Sella whilst, for the other companies, managed in outsourcing, powers are conferred to the company's individual CEOs.

The scope of the Banca Sella S.p.A. legal division exclusively involves the management and analytical assessment of non-performing and watch list impaired loans with revocation of credit lines.

In accordance with IAS 39, impaired loans are subject to an analytical assessment process and the adjustment amount of each loan is the difference between the present value of the expected future flows, calculated by applying the original effective interest rate, and the carrying value at the time of assessment.

The credit recoverability forecast takes account of:

- 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 desire to pay;
- 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.

The Banca Sella Legal Disputes Service analyses the recoverability of each position 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.

The BS Anomalous Credit structure carries out activities solely for Banca Sella, within its management functions and in fulfilment of the contractual conditions of the tasks assigned. It is responsible for obtaining a constant reduction in the cost of credit in terms of losses, adjustment and capital absorption. It also coordinates activities related to analysis, prevention, management and removal of problems that relate to the creation of Anomalous Credits. More specifically, the structure:

- coordinates the activities of local Credit Quality staff.
- coordinates activities to identify and evaluate positions that demonstrate a high degree of problems and/or anomalies in their performance indexes.
- coordinates activities to identify positions in default, evaluation of the recoverability of the same and formulation of proposals to be sent to the Legal Division.
- coordinates the management of objective watch list loans and the relative evaluation of recoverability.
- coordinates activities to identify, manage and evaluate subjective watch list loans.
- provides consulting regarding the management of anomalous loans in regard to technical aspects (treatment of performance anomalies).

The BS Anomalous Credit structure is subdivided into two main units: PhoneCollection, with the task of making telephone collection calls to private individuals with smaller exposures, and the local Credit Quality Auditors, with the task of following positions relating to companies or private individuals with significant exposure.

Phone Collection

The Phone Collection structure deals with all relationships related to the retail sector which, for small amounts, present anomalies such as past-due payments or instalments, or account overdrafts of a modest amount for a given period of time.

The Phone Collection structure is responsible for:

- contacting the debtor customer by telephone to urge them to resolve the anomaly in question;
- evaluating the contacted customer's propensity to truly resolve the anomalous situation;
- tracing the result of the telephone call in the CRM procedure, in a logical and appropriate way, both in regard to the free notes and the fixed "phone collection" notes, as well as the expiries for any subsequent collection and/or verification calls;
- managing the resolution of anomalies by within the time given.

In the case that the phone collection worker does not resolve the anomaly within the time given, management of the case passes to a Phone Collection Decider. Through analysis and controls on the positions, this individual decides whether to continue to manage the position through phone collection or whether to have the branch in question begin the procedure of moving the position to contingent liabilities or sending it to the legal/disputes division.

The objective of Phone Collection is to improve credit quality for retail customers in order to reduce credit adjustments.

The achievement of this objective is furthered through collection calls made to those customers that have past-due loans.

Local Credit Quality Auditors

The local Credit Quality Auditors carry out their activities in close contact with the distribution network, identifying and evaluating those positions with high credit risk with the branch, analysing the relationship, also through meetings with the entrepreneur in difficulty, and through visits to the companies in question, facilitated by us. The identify the most appropriate solution to reduce credit risk, putting it into practice if it falls under the powers delegated to them by the BoD, or proposing it when appropriate to the relevant bodies delegated to assume credit risk, and checking on the same on a regular basis.

The objective of the local Credit Quality Auditors is to improve credit quality in order to reduce credit adjustments.

The local Credit Quality Auditors are responsible for:

- analysing, preventing, managing, and removing, or proposing the most appropriate method for removing the problems that relate to the creation of Anomalous Credits;
- evaluating and managing the positions that demonstrate a high degree of problems and/or anomalies in their performance indexes;
- identifying positions that present a possibility of default, evaluating the recoverability of the same and formulating the proposal to be sent to the Legal Division;
- managing objective watch list loans and the relative evaluation of recoverability;
- identifying, managing, evaluating and proposing (in the case the amount of the loan exceeds the decision making abilities of the same) to the relevant decision making bodies the placement of the position on the subjective watch list.

The local Credit Quality Auditors must achieve the pre-established objective by spreading the culture of credit control and through the governance, prevention and mitigation of credit risk.

In order to accelerate the process of resolving anomalies, when the case requires it, the local Credit Quality Auditors may make use of decision making powers in the context of the anomalous positions for which they are responsible.

Positions classified as subjective or objective watch list and with facilities greater than or equal to 10,000 Euro are part of the exclusive portfolio of the anomalous credit auditor responsible for a given area.

The auditor meets with the customer, analyses the causes that led to a high anomaly index, evaluates the most appropriate action to reduce the level of credit risk, and implements the same, always sharing the case, when its amount exceeds their decision-making powers, with the relevant decision-making body assigned to the task by the BoD.

The action of the anomalous credit auditor must be carried out as quickly as possible and in any case within a given and defined timeframe, after which, the anomalies found have not been resolved, the position passes to the Auditor Decider, who within one month analyses the action taken by the Auditor and determines whether to send the case to the Legal Division or to grant the Auditor more time to continue (maximum of three months). Upon the conclusion of this additional period, within one month they must evaluate the proposal to restructure the position or the proposal to send it to the Legal Division for recovery of the amount owed, through admonitory action.

Management of these positions must be guided by an evaluation of the customer's future prospects and in particular, by:

- evaluating the customer's plans and defining the possible granting of a new loan;
- adjusting the due dates of financial commitments to adjust them to situations of temporary difficulty;
- removing the performance anomalies identified;
- preferring technical forms of self-liquidating loans;
- acquiring guarantees aimed at mitigating risk;
- pricing adequate to the risk profile;
- not increasing the overall risk level when concrete prospects for recovery do not exist;
- recovering the credit disbursed when the evaluation elements lead to the decision to disengage from the relationship.

For example, the subjects identified above are responsible for accepting new portfolio items, releasing credit cards, authorising overdrafts, and making decisions regarding loans. For cases that exceed their decision-making powers, they refer to the manager of the local anomalous credit auditor team, the manager of the bank's anomalous credit auditors, and the members of management or the main decision-making bodies within the limits of the powers granted them.

In any case, in carrying out their activity, the Anomalous Credit Auditors establish a constant exchange of information with the branch responsible for the relationship. In carrying out operations that involve the use of authorisation codes, the branch obtains authorisation from the subjects identified above.

In no way can the branch or other local structure consider themselves exonerated from adopting all initiatives aimed at controlling and reducing credit risk, even when the conditions arise that lead to the position being managed as identified above.

BS Anomalous Credits has the task of evaluating and proposing classification among non-revoked impaired loans.

The appropriateness of classifying a position among impaired loans requires an overall evaluation of the loan relationship and the customer's general conditions, and requires the formalisation of a proposal in PEF.

The decision-making bodies responsible for classifying performing positions as subjective impaired are the manager of the local anomalous credit auditors team, the manager of the anomalous credit auditors, the local credit disbursement manager, the Bank's credit disbursement manager, the local area manager, the members of General Management, and the local or main decision-making bodies.

Customer positions that feature protested bills with at least 3 unpaid instalments or overdrafts that exceed 5,000 Euro, PAA3 without deposits for at least three months, and current accounts frozen for at least 1 year, are classified as subjective impaired by the tenth day following the availability of the information, provided by CREDIT Control, by the manager of the anomalous credit auditors and/or the managers of the local anomalous credit auditor teams. The Anomalous Credit Auditors Service, when it decides not to place positions in subjective impairment as previously determined, must present a proposal in PEF within the subsequent 30 days to the relevant decision-making bodies for the amounts as identified above.

The measurement of non-revoked impaired loans for the purpose of determining value adjustments is made analytically at the time of classification to watch list and subsequently each time new, significant events occur that make a new valuation necessary.

The valuations applied to non-revoked impaired loans are marked by the determination of the real possibility of returning to a performing status and, where this possibility is in doubt, to quantify the possible loss after having taken recovery action.

The evaluation of the adjustments is done, 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.

Value adjustments to be applied are determined by management based on the proposal of the anomalous credit auditor service.

It is allowed, although not obligatory, to apply value adjustments calculated in a forfeit manner for positions with amounts of less than or equal to 10 thousand Euro if impaired, or 25 thousand Euro if past-due. The forfeit percentage is calculated as the weighted average of the adjustments made over the last three years on positions cancelled in relation to the exposure that these positions had the previous year. The evaluation relative to returning a non-revoked impaired loan to performing status, when the presuppositions are met, requires the same overall evaluation of the loan relationship and the customer's general conditions which must indicate that the temporary difficulties reasonably appear to have been resolved. This evaluation requires the formalisation of a proposal using the electronic credit line system (PEF).

Quantitative information

A. Credit quality

For the purpose of its quantitative nature on credit quality, the term "credit exposure" shall mean excluding equity securities and mutual fund shares, while the term "exposure" includes the above elements.

A.1 Credit exposure: amounts, value adjustments, trend, economic and geographical distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/Quality	Banking group						Total
	Non-performing exposures	Watchlist exposures	Restructured exposures	Impaired past due exposures	Not impaired past due exposures	Other assets	
1. Financial assets held for trading	-	-	95	-	-	59.335	59.430
2. Financial assets available for sale	330	-	2.424	-	-	488.079	490.833
3. Financial assets held to maturity	-	-	-	-	-	708.500	708.500
4. Due from banks	-	-	-	-	-	1.023.740	1.023.740
5. Due from customers	228.109	185.629	25.427	49.204	25.080	6.687.101	7.200.550
6. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	16.403	16.403
Total 31/12/2013	**228.439**	**185.629**	**27.946**	**49.204**	**25.080**	**8.983.158**	**9.499.456**
Total 31/12/2012	**186.630**	**206.599**	**29.253**	**38.016**	**-**	**8.863.917**	**9.324.415**

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

Portfolio/quality	Impaired assets: Gross exposure	Impaired assets: Specific adjustments	Impaired assets: Net exposure	Performing assets: Gross exposure	Performing assets: Specific adjustments	Performing assets: Net exposure	Total (net exposure)
1. Financial assets held for trading	95	-	95	X	X	59.335	59.430
2. Financial assets available for sale	2.754	-	2.754	488.079	-	488.079	490.833
3. Financial assets held to maturity	-	-	-	708.500	-	708.500	708.500
4. Due from banks	-	-	-	1.023.808	68	1.023.740	1.023.740
5. Due from customers	840.127	351.758	488.369	6.748.518	36.337	6.712.181	7.200.550
6. Financial assets at fair value through profit or loss	-	-	-	X	X	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	16.403	16.403
Total 31/12/2013	**842.976**	**351.758**	**491.218**	**8.968.905**	**36.405**	**9.008.238**	**9.499.456**
Total 31/12/2012	**797.064**	**336.566**	**460.498**	**8.900.803**	**36.886**	**8.863.917**	**9.324.415**

A.1.3 Cash and off balance sheet exposure to banks: gross and net amounts

Exposure type/amount	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURES				
a) Non-performing exposures	-	-	X	-
b) Watchlist exposures	-	-	X	-
c) Restructured exposures	-	-	X	-
d) Past due exposures	-	-	X	-
e) Other assets	1.058.917	X	68	1.058.849
TOTAL A	**1.058.917**	**-**	**68**	**1.058.849**
B. OFF BALANCE SHEET EXPOSURE				
a) Impaired	2.877	2.326	-	551
b) Others	49.752	X	-	49.752
TOTAL B	**52.629**	**2.326**	**-**	**50.303**
TOTAL A+B	**1.111.546**	**2.326**	**68**	**1.109.152**

A.1.6 Cash and off balance sheet credit exposures to customers: gross and net amounts

Exposure type/Value	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURE				
a) Non-performing exposures	531.774	303.334	X	228.440
b) Watchlist exposures	230.606	44.977	X	185.629
c) Restructured exposures	29.701	1.850	X	27.851
d) Past due exposures	50.800	1.597	X	49.203
e) Other assets	7.946.041	X	36.337	7.909.704
TOTAL A	**8.788.922**	**351.758**	**36.337**	**8.400.827**
B. OFF BALANCE SHEET EXPOSURES				
a) Impaired	13.428	57	-	13.371
b) Others	572.115	X	1.330	570.785
TOTAL B	**585.543**	**57**	**1.330**	**584.156**

Positions subject to collective agreements

Total remaining debt at 31/12/13	of which overdue			
	up to 3 months	from 3 to 6 months	from 6 months to 1 year	over 1 year
	amount overdue	amount overdue	amount overdue	amount overdue
58.351	59	6	1	-

A.1.7 Banking group - Cash credit exposures to customers: trend in gross impaired exposures

Description/Category	Non-performing exposures	Watchlist exposures	Restructured exposures	Past due exposures
A. Initial gross exposure	**463.691**	**262.867**	**30.344**	**40.024**
- of which: exposures sold but not derecognized	3.689	4.605	-	1.420
B. Increases	**205.690**	**271.994**	**5.956**	**47.152**
B.1 Inflows from performing loans	-	259.688	-	43.598
B.2 Transfers from other categories of impaired exposures	182.839	3.923	5.916	3.553
B.3 Other increases	22.851	8.383	40	1
C. Decreases	**137.607**	**304.255**	**6.599**	**36.375**
C.1 Outflows to performing loans	-	32.325	3.977	16.744
C.2 Write-offs	100.949	2.986	140	-
C.3 Collections	31.239	10.658	2.472	-
C.4 Realizations through sales	1.010	-	-	-
C.5 Transfers to other categories of impaired exposures	-	186.391	-	9.839
C.6 Other decreases	4.409	71.895	10	9.793
D. Final gross exposure	**531.774**	**230.606**	**29.701**	**50.800**
- of which: exposures sold but not derecognized	5.340	615	-	-

A.1.8 Banking group - Cash credit exposures to customers: trend in total value adjustments

Description/Category	Non-performing exposures	Watchlist exposures	Restructured exposures	Past due exposures
A. Initial total adjustments	**277.061**	**56.268**	**1.228**	**2.009**
- of which: exposures sold but not derecognized	1.050	1.094	-	-
B. Increases	**155.071**	**55.340**	**1.570**	**1.714**
B.1 Writedowns	107.093	39.128	1.222	1.404
B.1.bis Losses on sale	554	-	-	-
B.2 Transfers from other categories of impaired exposures	45.470	1.091	304	48
B.3 Other increases	1.954	15.120	44	262
C. Decreases	**128.798**	**66.631**	**948**	**2.126**
C.1 Writebacks on valuation	16.636	4.833	684	775
C.2 Writebacks on collection	6.294	656	61	-
C.2.bis Gains on sale	354	-	-	-
C.3 Write-offs	100.949	2.986	140	-
C.4 Transfers to other categories of impaired exposures	-	45.823	-	1.091
C.5 Other decreases	4.565	12.333	63	260
D. Final total adjustments	**303.334**	**44.977**	**1.850**	**1.597**
- of which: exposures sold but not derecognized	1.604	73	-	-

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

The table below shows the distribution of exposures by external rating classes assigned by Fitch of the customers of Banca Sella S.p.A.

Almost all counterparties with which relations are maintained have a rating equal to or higher than investment grade. In addition, Banca Sella's exposures towards banks are, for 91.5%, towards Banca Sella Holding.

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

Exposures	External Rating Classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposures	**239**	**1.847**	**1.208.192**	**1.001**	**1**	**-**	**8.248.396**	**9.459.676**
B. Derivatives	**-**	**157**	**-**	**-**	**-**	**-**	**39.623**	**39.780**
B.1 Financial derivatives	-	157	-	-	-	-	39.623	39.780
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	**-**	**15**	**45**	**-**	**-**	**-**	**269.601**	**269.661**
D. Commitments to disburse funds	**-**	**-**	**-**	**-**	**-**	**-**	**262.044**	**262.044**
E. Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**239**	**2.019**	**1.208.237**	**1.001**	**1**	**-**	**8.819.664**	**10.031.161**

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

Exposures	Internal rating classes									Unrated	Total
	AAA	AA	A	BBB	BB	B	CCC	CC	C		
A. Cash exposures	**144.352**	**219.502**	**468.327**	**581.142**	**522.065**	**360.258**	**251.571**	**83.483**	**43.350**	**6.788.554**	**9.462.602**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**39.780**	**-**	**-**	**39.780**
B.1 Financial derivatives	-	-	-	-	-	-	-	39.780	-	-	39.780
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-	-
C. Guarantees issued	**49.883**	**24.746**	**27.398**	**18.192**	**19.256**	**14.005**	**4.950**	**2.238**	**265**	**108.729**	**269.661**
D. Commitments to disburse funds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**262.044**	**262.044**
E. Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**194.235**	**244.248**	**495.725**	**599.334**	**541.321**	**374.263**	**256.521**	**125.501**	**43.615**	**7.159.327**	**10.034.087**

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 table below 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 98% of total exposures, while coverage of the "Small Business and Small/Medium Enterprise" segment is around 96% of total exposures.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.2 Banking group - Guaranteed credit exposure to customers

		Real guarantees (1)				Personal guarantees (2)									
		Real estate				Credit derivatives					Guaranteed loans				
							Other derivatives								
	Net exposure value	Mortgages	Financial leasing	Securities	Other real guarantees	CLN	Governments and central banks	Other public bodies	Banks	Other subjects	Governments and central banks	Other public bodies	Banks	Other subjects	Total (1)+(2)
1. Guaranteed cash exposure:															
1.1 Totally guaranteed	3.902.773	6.747.807	-	187.626	20.581	-	-	-	-	-	634	1.565	175	3.267.112	10.225.500
- of wich: impaired	344.985	651.545	-	722	363	-	-	-	-	-	-	800	-	1.019.849	1.673.279
1.2 Partially guaranteed	136.450	10.823	-	21.763	4.308	-	-	-	-	-	11.747	-	25	58.656	107.322
- of wich: impaired	20.473	7.498	-	1.147	283	-	-	-	-	-	79	-	25	23.864	32.896
2. Guaranteed "off balance sheet" exposure															
2.1 Totally guaranteed	131.467	15.469	-	14.127	5.061	-	-	-	-	-	-	527	95	2.090.151	2.125.430
- of wich: impaired	6.499	3.626	-	319	176	-	-	-	-	-	-	-	-	113.293	117.414
2.2 Partially guaranteed	51.266	-	-	2.997	1.173	-	-	-	-	-	-	-	-	22.372	26.542
- of wich: impaired	108	-	-	-	-	-	-	-	-	-	-	-	-	59	59

B. CREDIT EXPOSURES DISTRIBUTION AND CONCENTRATION

B.1 Distribution by segment of cash and off balance sheet exposures to customers

Exposure/Counterparty	Governments and Central Banks			Other public bodies			Financial companies			Insurance companies			Non-financial companies			Other subjects		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures																		
A.1 Non-performing																		
exposures	-	-	X	-	-	X	429	(443)	X	-	-	X	169.054	(210.025)	X	58.957	(92.866)	X
A.2 Watchlist exposures	-	-	X	-	-	X	1.350	(40)	X	-	-	X	149.362	(34.911)	X	34.917	(10.026)	X
A.3 Restructured																		
exposures	-	-	X	-	-	X	2.063	(16)	X	-	-	X	18.031	(1.333)	X	7.757	(501)	X
A.4 Past due																		
exposures	-	-	X	-	-	X	28	-	X	-	-	X	24.185	(1.086)	X	24.991	(511)	X
A.5 Other exposures	1.198.691	X	(2)	15.970	X	(7)	1.289.902	X	(267)	13	X	-	3.084.538	X	(31.285)	2.320.589	X	(4.776)
Total A	**1.198.691**	**-**	**(2)**	**15.970**	**-**	**(7)**	**1.293.772**	**(499)**	**(267)**	**13**	**-**	**-**	**3.445.170**	**(247.355)**	**(31.285)**	**2.447.211**	**(103.904)**	**(4.776)**
B. "Off balance sheet" exposures																		
B.1 Non-performing	-	-	X	-	-	X	-	-	X	-	-	X	901	(10)	X	29	-	X
exposures	-	-	X	-	-	X	2	-	X	-	-	X	10.708	(23)	X	707	(3)	X
B.2 Watchlist exposures																		
B.3 Other impaired assets	-	-	X	-	-	X	97	-	X	-	-	X	854	(21)	X	73	-	X
B.4 Other exposures	8.259	X	-	553	X	-	32.897	X	(61)	1.115	X	(6)	384.321	X	(1.197)	84.995	X	(66)
Total B	**8.259**	**-**	**-**	**553**	**-**	**-**	**32.996**	**-**	**(61)**	**1.115**	**-**	**(6)**	**396.784**	**(54)**	**(1.197)**	**85.804**	**(3)**	**(66)**
Total (A+B) 31/12/2013	**1.206.950**	**-**	**(2)**	**16.523**	**-**	**(7)**	**1.326.768**	**(499)**	**(328)**	**1.128**	**-**	**(6)**	**3.841.954**	**(247.409)**	**(32.482)**	**2.533.015**	**(103.907)**	**(4.842)**
Total (A+B) 31/12/2012	**798.379**	**-**	**(5)**	**19.966**	**-**	**-**	**1.175.836**	**(453)**	**(167)**	**1.355**	**-**	**(3)**	**4.186.305**	**(232.349)**	**(30.161)**	**2.732.827**	**(103.793)**	**(8.405)**

B.2 Geographical distribution of cash and off balance sheet credit exposures to customers (book value)

Exposure/Geographical area	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures										
A.1 Non-performing exposures	228.254	(303.136)	179	(119)	6	(11)	-	-	1	(68)
A.2 Watchlist exposures	185.594	(44.827)	35	(149)	-	-	-	-	-	(1)
A.3 Restructured exposures	27.824	(1.850)	-	-	-	-	-	-	27	-
A.4 Past due exposures	48.978	(1.592)	218	(4)	8	(1)	-	-	-	-
A.5 Other transactions	7.864.608	(36.125)	32.384	(151)	4.097	(16)	638	(1)	7.977	(44)
TOTAL A	**8.355.258**	**(387.530)**	**32.816**	**(423)**	**4.111**	**(28)**	**638**	**(1)**	**8.005**	**(113)**
B. Off balance sheet exposures										
B.1 Non-performing exposures	930	(10)	-	-	-	-	-	-	-	-
B.2 Watchlist exposures	11.417	(26)	-	-	-	-	-	-	-	-
B.3 Other impaired assets	1.016	(21)	8	-	-	-	-	-	-	-
B.4 Other exposures	511.738	(1.329)	226	(1)	163	-	-	-	12	-
TOTAL B	**525.101**	**(1.386)**	**234**	**(1)**	**163**	**-**	**-**	**-**	**12**	**-**
TOTAL (A+B) 31/12/2013	**8.880.358**	**(388.916)**	**33.050**	**(424)**	**4.274**	**(28)**	**638**	**(1)**	**8.017**	**(113)**
TOTAL (A+B) 31/12/2012	**8.874.893**	**(374.775)**	**29.203**	**(436)**	**3.923**	**(42)**	**246**	**(6)**	**6.406**	**(79)**

B.2 Geographical distribution of cash and off balance sheet credit exposures to customers (book value)

Exposure/Geographical area	NORTH WEST		NORTH EAST		CENTER		SOUTH AND ISLANDS	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures								
A.1 Non-performing exposures	97.718	(117.877)	47.532	(51.823)	28.632	(39.237)	54.372	(94.199)
A.2 Watchlist exposures	67.490	(20.171)	35.862	(6.944)	40.027	(7.630)	42.215	(10.082)
A.3 Restructured exposures	21.668	(1.544)	3.483	(179)	170	(6)	2.503	(121)
A.4 Past due exposures	18.803	(651)	8.188	(249)	6.221	(189)	15.766	(503)
A.5 Other transactions	4.062.915	(17.991)	653.577	(5.322)	1.907.588	(4.579)	1.240.527	(8.233)
TOTAL A	**4.268.594**	**(158.234)**	**748.642**	**(64.517)**	**1.982.638**	**(51.641)**	**1.355.383**	**(113.138)**
B. Off balance sheet exposures								
B.1 Non-performing exposures	654	(7)	105	(1)	132	(2)	39	-
B.2 Watchlist exposures	4.970	(14)	777	(3)	1.650	-	4.020	(9)
B.3 Other impaired assets	833	(20)	17	-	96	(1)	70	-
B.4 Other exposures	328.145	(833)	31.717	(121)	77.281	(180)	74.596	(195)
TOTAL B	**334.602**	**(874)**	**32.616**	**(125)**	**79.159**	**(183)**	**78.725**	**(204)**
TOTAL (A+B) 31/12/2013	**4.603.196**	**(159.108)**	**781.258**	**(64.642)**	**2.061.797**	**(51.824)**	**1.434.108**	**(113.342)**
TOTAL (A+B) 31/12/2012	**4.585.705**	**(153.264)**	**1.116.794**	**(59.622)**	**1.703.509**	**(45.942)**	**1.468.882**	**(115.945)**

B.3 Geographical distribution of cash and off balance sheet credit exposures to banks (book value)

Exposure/Geographical area	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures										
A.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
A.2 Watchlist exposures	-	-	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-
A.5 Other transactions	1.054.534	(52)	2.740	(15)	184	(1)	1.381	-	10	-
TOTAL A	**1.054.534**	**(52)**	**2.740**	**(15)**	**184**	**(1)**	**1.381**	**-**	**10**	**-**
B. Off balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Watchlist exposures	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	551	(2.326)	-	-	-	-	-	-	-	-
B.4 Other exposures	45.925	-	-	-	-	-	-	-	-	-
TOTAL B	**46.476**	**(2.326)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) 31/12/2013	**1.101.010**	**(2.378)**	**2.740**	**(15)**	**184**	**(1)**	**1.381**	**-**	**10**	**-**
TOTAL (A+B) 31/12/2012	**1.020.015**	**-**	**20.549**	**(39)**	**329**	**(1)**	**1.187**	**-**	**8.574**	**-**

B.3 Geographical distribution of cash and off balance sheet credit exposures to banks (book value)

Exposure/Geographical area	NORTH WEST		NORTH EAST		CENTER		SOUTH AND ISLANDS	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures								
A.1 Non-performing exposures	-	-	-	-	-	-	-	-
A.2 Watchlist exposures	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	-	-	-	-	-	-
A.5 Other transactions	996.573	-	12.274	(52)	45.687	-	-	-
TOTAL A	**996.573**	**-**	**12.274**	**(52)**	**45.687**	**-**	**-**	**-**
B. Off balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Watchlist exposures	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	551	(2.326)	-	-
B.4 Other exposures	28.624	-	45	-	17.256	-	-	-
TOTAL B	**28.624**	**-**	**45**	**-**	**17.807**	**(2.326)**	**-**	**-**
TOTAL (A+B) 31/12/2013	**1.025.197**	**-**	**12.319**	**(52)**	**63.494**	**(2.326)**	**-**	**-**
TOTAL (A+B) 31/12/2012	**972.749**	**-**	**7.745**	**-**	**39.521**	**-**	**-**	**-**

B.4 Large Risks		
number	**book value**	**weighted value**
2	6.567.328	3.742

C. Securitization transactions and asset transfers

Securitisation transactions in which the originator bank subscribes at the time of issue all the relevant resulting liabilities (e.g. ABS securities, loans in the "warehousing" stage) from the vehicle company are not subject to identification in this Part. In the case in which, subsequent to the operation, the originator bank partially or totally transfers said liabilities, the operation is identified in this Part.

C.1 Securitisation transactions

Qualitative information

Beginning in financial year 2000 the Bank has carried out five 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 Securසel 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 and 9 January 2012, Banca Sella S.p.A. completed three securitisation 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.

The role of servicer in the four securitisation transactions was always played by the originators (Banca Sella S.p.A.).

Banca Sella S.p.A, as the originator of the transactions, subscribed the entire amount of the junior titles issued in relation to the various securitisations. The securities 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. These securities 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.

For transactions completed during 2005, 2008, 2009 and 2012, the assets sold continue to be represented in the financial statements in that the sale did not substantially transfer the risks to third-parties.

On 22 April 2013, Consel completed its first securitisation of pecuniary loans.

A brief account of the securitisation transactions is provided below.

Banca Sella S.p.A. securitisation of performing loans – financial year 2005

The transaction was completed at two subsequent moments: on 4 October 2005 the agreement to purchase the loans was entered into by the special purpose vehicle Mars 2600 S.r.l. , while the securities financing the acquisition of the credit were issued on 20 October 2005.

The portfolio, which was transferred 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 263.3 million Euro, inclusive of the principal amount of the loans and the interest accrued up to the date of sale.

In exchange for these transactions Mars 2600 S.r.l. issued Class A notes amounting to 248.9 million Euro, Class B notes amounting to 11 million Euro, Class C notes amounting to 3.5 million Euro and Class D notes amounting to 3.5 million Euro.

The Class A, B and C notes are quoted on the Luxembourg stock exchange. Moody's currently gives the following ratings: A2 for the class A securities (at issue Aaa) - Baa1 for the class B securities – Baa3 for the class C securities. The class D securities are not listed, have no ratings and were entirely subscribed by Banca Sella S.p.A.

At 31 December 2013 the Class A-B-C notes earned interest of around 0.3 million Euro. Class D notes earned interest of 0.8 million Euro in 2013.

Banca Sella S.p.A. is responsible for collecting the receivables sold and for the cash desk and payment services 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 made during the reference quarter. During the course of the year, the servicing fees collected by Banca Sella S.p.A. were around 0.06 million Euro.

Mars 2600 S.r.l. completed, together with the issuing of the securities, an interest rate swap contract with Banca Sella, through B.N.P. Paribas and Banca Sella Holding, in order to hedge the interest rate risk inherent in the structure due to the difference between the indexing parameter of the securities issued and the different indexing parameters of the portfolio acquired.

The sum paid for the subscription of the class D securities was used for the creation of a cash reserve.

C.1*bis* Other self-securitisation operations not under quantitative information

a) Banca Sella S.p.A. securitisation of performing loans – financial year 2008

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 4 April 2008, while the securities were issued on 22 April 2008.

The portfolio, which was transferred 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 217.4 million Euro, inclusive of the principal amount of the loans and the interest accrued up to the date of sale.

In exchange for these transactions Mars 2600 S.r.l. issued Class A notes amounting to 207.3 million euro, Class B notes amounting to 8.1 million euro, Class C notes amounting to 2.8 million euro and Class D notes amounting to 6.5 million euro.

The Class A, B and C notes are quoted on the Luxembourg stock exchange. Moody's currently gives the following ratings: A2 for the class A securities (at issue Aaa) - Baa1 for the class B securities – Baa3 for the class C securities. The same securities also had ratings from Standard & Poor's as follows: AA+ for the class A securities (AAA when the rating was first assigned) - AA for the class B securities – AA- for the class C securities. The class D securities were not listed and had no ratings.

The total amount of the notes was subscribed by Banca Sella S.p.A.

At 31 December 2013,the Class A-B-C notes earned interest of around 1.0 million Euro. On the other hand, the Class D notes earned interest of 0.3 million Euro.

Banca Sella S.p.A. is responsible for collecting the receivables sold and for the cash desk and payment services 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 made during the reference quarter. At 31 December 2013, the servicing fees collected by Banca Sella S.p.A. were approximately 0.078 million Euro.

Mars 2600 S.r.l. completed, together with the issuing of the securities, an interest rate swap contract with Banca Sella, through B.N.P. Paribas and Banca Sella Holding, in order to hedge the interest rate risk inherent in the structure due to the difference between the indexing parameter of the securities issued and the different indexing parameters of the portfolio acquired.

The sum paid for the subscription of the class D securities was used for the creation of a cash reserve.

b) Banca Sella S.p.A. securitisation of performing loans – financial year 2009

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 8 January 2009, while the securities were issued on 29 January 2009.

The portfolio, which was transferred 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 226.6 million Euro, inclusive of the principal amount of the loans and the interest accrued up to the date of sale.

In exchange for these transactions Mars 2600 S.r.l. issued Class A notes amounting to 212.9

million Euro, Class B notes amounting to 4.6 million Euro, Class C notes amounting to 9.1 million Euro and Class D notes amounting to 4.6 million Euro.

The Class A, B and C notes are quoted on the Luxembourg stock exchange. Moody's currently gives the following ratings: A2 for the class A securities (at issue Aaa) - Baa1 for the class B securities – Baa3 for the class C securities. The same securities also had ratings from Standard & Poor's as follows: AA+ for the class A securities (AAA when the rating was first assigned) - AA for the class B securities – A– for the class C securities. The class D securities were not listed and had no ratings.

The total amount of the notes was subscribed by Banca Sella S.p.A.

At 31 December 2013,the Class A-B-C notes earned interest of around 1.4 million Euro. Class D notes earned interest of 0.9 million Euro in 2013.

Banca Sella S.p.A. is responsible for collecting the receivables sold and for the cash desk and payment services under the terms of a servicing agreement, which as consideration provides for a servicing fee, to be paid on a half-yearly basis, equivalent to 0.45% of the amount of the collections of the performing pecuniary loans made during the reference period. At 31 December 2013, the servicing fees collected by Banca Sella S.p.A. were approximately 0.077 million Euro.

Mars 2600 S.r.l. completed, together with the issuing of the securities, an interest rate swap contract with Banca Sella, through B.N.P. Paribas (since June 2011) and Banca Sella Holding, in order to hedge the interest rate risk inherent in the structure due to the difference between the indexing parameter of the securities issued and the different indexing parameters of the portfolio acquired.

The sum paid for the subscription of the class D securities was used for the creation of a cash reserve.

c) 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 transferred 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 Euro, 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 Euro, Class A2 notes amounting to 235.4 million Euro, and Class D notes amounting to 48 million Euro.

The Class A1 and A2 notes are quoted on the Luxembourg stock exchange. Moody's currently gives the following ratings: A2 both for class A1 and class A2 notes (at issue it was Aa2). 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.

At 31 December 2013, the Class A1 and A2 notes earned interest of about 6.1 million Euro. The Class D notes earned interest in FY 2013 of 5.4 million Euro. Banca Sella S.p.A. is responsible for collecting the receivables sold and for the cash desk and payment services 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 collections of the performing pecuniary loans made during the reference quarter. At 31 December 2013, the servicing fees collected by Banca Sella S.p.A. were approximately 0.2 million Euro.

C.1.1 Exposures deriving from securization operations divided by quality of underlying assets																		
	Cash exposures						**Guarantees given**						**Credit lines**					
	Senior		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**	
Quality of underlying assets/ Exposures	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**
A. With own underlying assets																		
a) Impaired	-	-	-	-	-	933	-	-	-	-	-	-	-	-	-	-	-	-
b) Others	-	22.740	-	8.009	3.500	2.567	-	-	-	-	-	-	-	-	-	-	-	-
b) With third party underlying assets																		
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.2 Exposures deriving from main "own" securization operations divided by type of securized asset and type of exposures

Type of securized assets/Exposures	Cash exposures						Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Writedowns/ Writebacks	Book value	Writedowns/ Writebacks	Book value	Writedowns/ Writebacks	Book value	Writedowns/ Writebacks	Book value	Writedowns/ Writebacks	Book value	Writedowns/ Writebacks	Book value	Writedowns/ Writebacks	Book value	Writedowns/ Writebacks	Book value	Writedowns/ Writebacks
A. Subject to total derecognition																		
A.1 Secursel S.r.l.																		
- Performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Secursel S.r.l.																		
- Leasing instalments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Subject to partial derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognized																		
C.1 Mars 2600 S.r.l.																		
- Performing loans	22.740	-	8.009	-	3.500	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.5 Total amount of securized assets underlying junior securities or other forms of credit support

Assets/Amount	Traditional securizations	Synthetinc securizations
A. Own underlying assets		
A. 1 Subject to total derecognition		
1. Non performing exposures	-	X
2. Watchlist exposures	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
A.2 Subject to partial derecognition		
1. Non performing exposures	-	X
2. Watchlist exposures	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
A.3 Not derecognized		
1. Non performing exposures	904	-
2. Watchlist exposures	503	-
3. Restructured exposures	140	-
4. Past due exposures	33	-
5. Other assets	62.087	-
B. Third parties' underlying assets		
B.1 Non performing exposures	-	-
B.2 Watchlist exposures	-	-
B.3 Restructured exposures	-	-
B.4 Past due exposures	-	-
B.5 Other assets	-	-

C.1.7 Servicer activity - collection of securized receivables and redemption of securities issued by special purpose vehicles

Special purpose company	Securized assets (end of period data)		Recievables collected during the year		Percentage redemptions (end of period data)					
					Senior		Mezzanine		Junior	
	Impaired	Performing	Impaired	Performing	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
Secursel Srl	-	-	-	-	-	-	-	-	-	-
Mars Srl	1.580	62.087	409	14.247	2%	79%	-	-	-	-

C.2 Transfer transactions

The disclosure pursuant to this part regards all the transfer 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 operations with customers (with underlying debt securities issued by the parent company or Italian government securities), or with the Parent Company (with Italian government securities underlying).

C.2.1 Financial assets transfered but not derecognized: book value and full value

Technical type/ Portfolio	Financial assets held for trading			Financial assets at fair value through profit or loss			Financial assets available for sale			Financial assets held to maturity			Due from banks			Due from customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	2013	2012
A. Cash assets																				
1. Debt securities	-	-	-	-	-	-	8.649	-	-	146.081	-	-	248.220	-	-	-	-	-	402.950	239.376
2. Share capital securities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	63.667	-	-	63.667	76.222
B. Derivative instruments	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31/12/2013	**-**	**-**	**-**	**-**	**-**	**-**	**8.649**	**-**	**-**	**146.081**	**-**	**-**	**248.220**	**-**	**-**	**63.667**	**-**	**-**	**466.617**	
of wich impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.580	-	-	1.580	
Total 31/12/2012	**-**	**-**	**-**	**-**	**-**	**-**	**13.316**	**-**	**-**	**-**	**-**	**-**	**226.060**	**-**	**-**	**76.222**	**-**	**-**		**315.598**
of wich impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.546	-	-		1.546

KEY

A= financial assets transfered and fully recognized (book value)

B= financial assets transfered and partially recognized (book value)

C= partially recognized financial assets (full value)

C.2.2. Financial liabilities against financial assets transfered but not derecognized: book value

Liability/Asset portfolio	Financial assets held for trading	Financial assets at fair value through profit or losso	Financial assets available for sale	Financial assets held to maturity	Due from banks	Due from customers	Total
1. Due to customers							
a) against fully recognized assets	-	-	8.664	-	249.246	26.773	284.683
b) against partially recognized assets	-	-	-	-	-	-	-
2. Due to banks							
a) against fully recognized assets	-	-	-	152.807	-	-	152.807
b) against partially recognized assets	-	-	-	-	-	-	-
Total 31/12/2013	**-**	**-**	**8.664**	**152.807**	**249.246**	**26.773**	**437.490**
Total 31/12/2012	**-**	**-**	**13.193**	**-**	**227.857**	**50.394**	**291.444**

C.2.3 Transfer transactions with liabilities having recourse only to the assets sold: fair value

Technical type / Portfolio	Financial assets held for trading		Financial assets at fair value through profit or losso		Financial assets available for sale		Financial assets held to maturity (fair value)		Due from banks (fair value)		Due from customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31/12/2013	31/12/2012
A. Cash assets														
1. Debt securities	-	-	-	-	8.649	-	146.081	-	-	-	-	-	154.730	239.376
2. Share capital securities	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total assets	**-**	**-**	**-**	**-**	**8.649**	**-**	**146.081**	**-**	**-**	**-**	**-**	**-**	**154.730**	**239.376**
C. Associated liabilities														
1. Due from customers	-	-	-	-	8.664	-	-	-	249.246	-	249.246	-	X	X
2. Due from banks	-	-	-	-	-	-	152.807	-	-	-	-	-	X	X
Total liabilities	**-**	**-**	**-**	**-**	**8.664**	**-**	**152.807**	**-**	**249.246**	**-**	**249.246**	**-**	**X**	**X**
Net value 31/12/2013	**-**	**-**	**-**	**-**	**- 15**	**-**	**- 6.726**	**-**	**-249.246**	**-**	**- 249.246**	**-**	**659.963**	**-**
Net value 31/12/2012	**-**	**-**	**-**	**-**	**123**	**-**	**-**	**-**	**- 1.797**	**-**	**- 1.797**	**-**	**X**	**1.671**

Key:
A = financial assets transfered and fully recognized
B = Financial assets transfered and partially recognized

Section 2 – Market risk

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 will consider exclusively the financial instruments (assets and liabilities) falling within the "regulatory trading book", as defined in the provision on market risk regulatory reporting (see Circular no. 155 of 18 December 1991 "Instructions for the compilation of reports on the regulatory capital and prudential coefficients" issued by the Bank of Italy). 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 II) 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. The stress test procedures consist of analysing the sensitivity of internal capital against the market risk should specific negative events occur that, although extreme, are plausible (such as, for example, a deterioration in the creditworthiness of the issuers of the securities in the portfolio).

B. Interest-rate risk and price risk management policies and measurement methods

The management and control of market risks (interest-rate risk, price risk, exchange rate risk) is provided for by Group Regulations which lay down the rules under which the single Group companies may take on exposures to these types of risk.

The Parent Company's Risk Management Unit is responsible for the market risk monitoring methods 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 "standardised approach" defined in Bank of Italy Circular No. 263/2006, 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 "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 permitted by the second update of 21 January 2014 to 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.

2. Regulatory trading book: distribution of exposures in equity securities and equity indices by main quotation market countries

As permitted by the second update of 21 January 2014 to 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 held with positions 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.

Group Risk Management controls the trend of the VaR (time horizon ten days and three months, confidence interval 99%) for the own portfolios of the companies in the Banca Sella Group is carried out as well as analysis of sensitivity factors including: portfolio duration, effects of sudden interest rate shocks, and finally, checks on the operational limits on investments in securities.

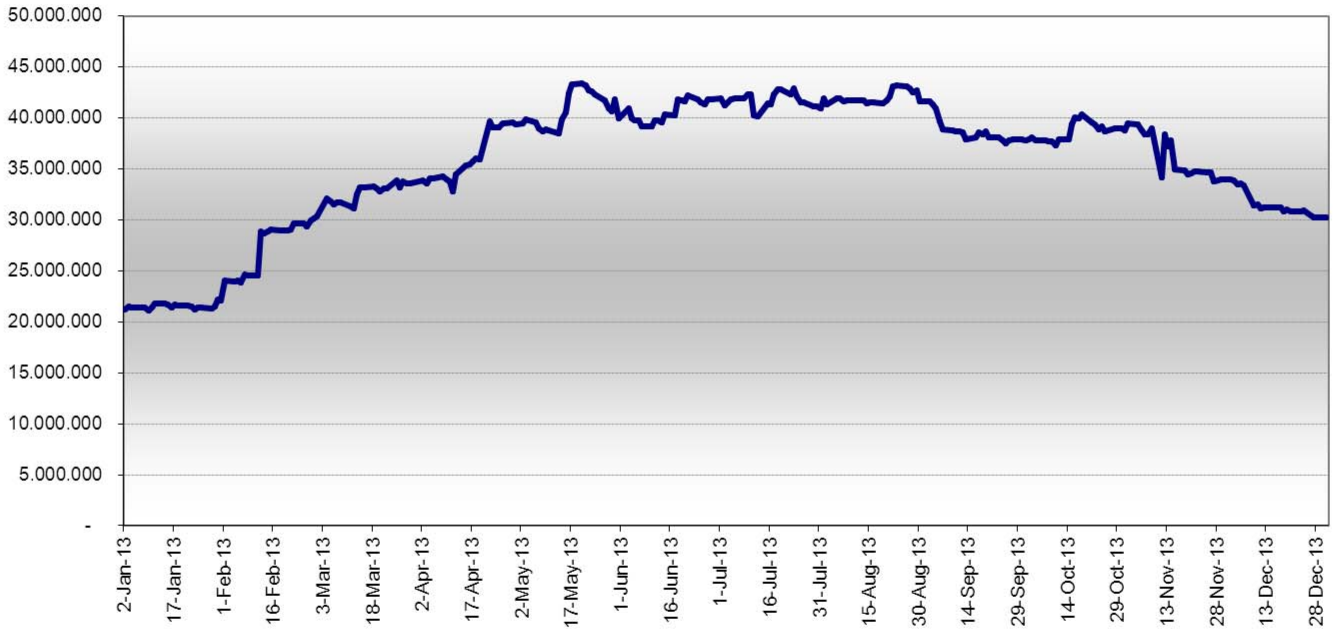
The average duration of the Banca Sella trading book is equal to 1.23 years while sensitivity, estimated on a parallel movement of +100 basis points in the yield curve, is approximately 6.14 million Euro (about 1.23% of the portfolio).

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 year, the prudential limits approved by the Parent Company were exceeded a number of times, quickly resolved through restructuring of the portfolio. In addition, during the year a new VaR limit was resolved by the Banca Sella Board of Directors, in the context of the powers granted to it by the Parent Company's Board of Directors.

Banca Sella – Trading Book[1]

Market Risks VaR (time horizon three months – confidence interval 99%)



2.2 – Interest-rate risk and price risk – 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. Interest-rate risk and price risk: general aspects, management processes and measurement methods

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 bank portfolio securities (e.g. securities in the Held to Maturity category), 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, and non-parallel shock situations that are structural in terms of interest rates.

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).

[1] These refer to the components (Held For Trading and Available For Sale) of the company portfolio.

Exposure to interest-rate risk inherent in the disbursement of loans is hedged by derivative instruments such as amortising 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 were implemented when fixed-rate bonded 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 cash flow interest-rate risk arising from 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 permitted by the second update of 21 January 2014 to 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.

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 regulation, the internal organisation has been provided with more prudential danger thresholds, which, when exceeded, imply 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. 263/2006, 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 -25 basis points (lowering, compatible with the constraint of a non-negativity of rates).

The sensitivity analysis figures at 31.12.2013 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 / -25 bps	2.63	804.7	0.33

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. Exchange rate risk: general aspects, management processes and measurement methods

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.

Exchange rate risk is monitored through the application of the "standardised approach" defined by Bank of Italy Circular No. 263/2006 and subsequent amendments, which during the year never showed an absorption greater the 2% of Shareholders' Equity.

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	Currecies					
	US Dollar	Australian dollar	Swiss Franc	British pound	Norwegian Krona	Other currencies
A. Financial assets	**149.478**	**5.782**	**7.746**	**3.431**	**305**	**7.104**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	-	-	-
A.3 Loans and advances to bank	135.788	2.296	57	3.270	305	5.101
A.4 Loans and advances to custc	13.690	3.486	7.689	161	-	2.003
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**1.433**	**130**	**977**	**796**	**88**	**606**
C. Financial liabilities	**150.283**	**5.909**	**8.692**	**3.505**	**396**	**6.085**
C.1 Due to banks	117	-	1.687	-	-	1.641
C.2 Due to customers	150.166	5.909	7.005	3.505	396	4.444
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**4**	**2**	**4**	**-**	**-**	**386**
E. Financial derivatives	**(383)**	**(12)**	**(67)**	**(576)**	**2**	**44**
- Options	-	-	-	-	-	-
+ Long positions	36.918	3.980	1.468	5.117	-	1.604
+ Short positions	36.918	3.980	1.468	5.117	-	1.604
- Others	(383)	(12)	(67)	(576)	2	44
+ Long positions	77.047	4.359	2.444	540	6.085	2.095
+ Short positions	77.430	4.371	2.511	1.116	6.083	2.051
Total assets	**264.876**	**14.251**	**12.635**	**9.884**	**6.478**	**11.409**
Total liabilities	**264.635**	**14.262**	**12.675**	**9.738**	**6.479**	**10.126**
Imbalance (+/-)	**241**	**(11)**	**(40)**	**146**	**(1)**	**1.283**

2.4 DERIVATIVE INSTRUMENTS

The tables below show the stand alone financial and credit derivatives and derivatives incorporated into hybrid instruments. Relative to the latter, those incorporated into hybrid products classified in the regulatory trading book are excluded, treated for regulatory purposes on the basis of a series of positions of sensitivity to relevant risk factors.

A. Financial derivatives

A.1 Regulatory trading book: notional end-of-period and average amounts

Ulderlying assets/Type of derivatives	Total 31/12/2013		Total 31/12/2012	
	Over the counter	Central counterparts	Over the counter	Central counterparts
1. Debt securities and interest rates	289.173	-	387.349	-
a) Options	72.997	-	79.062	-
b) Swap	216.176	-	308.287	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equity securities and equity indices	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	383.759	-	261.665	-
a) Options	206.499	-	139.905	-
b) Swap	66.023	-	89.311	-
c) Forward	111.237	-	32.449	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Goods	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	**672.932**	**-**	**649.014**	**-**
Average amounts	**660.973**	**-**	**747.186**	**-**

A.2 Banking book: notional end-of-period and average amounts

A.2.1 For heging

Ulderlying assets/Type of derivatives	Total 31/12/2013		Total 31/12/2012	
	Over the counter	Central counterparts	*Over the counter*	Central counterparts
1. Debt securities and interest rates	935.572	-	1.134.809	-
a) Options	-	-	-	-
b) Swap	935.572	-	1.134.809	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equity securities and equity indices	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Goods	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	**935.572**	**-**	**1.134.809**	**-**
Average amounts	**1.035.190**	**-**	**1.119.388**	**-**

A.2.2 Other derivatives

Ulderlying assets/Type of derivatives	Total 31/12/2013		Total 31/12/2012	
	Over the counter	Central counterparts	Over the counter	Central counterparts
1. Debt securities and interest rates	3.185.229	-	3.252.919	-
a) Options	3.185.229	-	3.252.919	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equity securities and equity indices	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	16.957	-	12.726	-
a) Options	16.957	-	12.726	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Goods	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	**3.202.186**	**-**	**3.265.645**	**-**
Average amounts	**3.233.915**	**-**	**3.146.700**	**-**

A.3 Financial derivatives: positive fair value - breakdown by products

Portfolios/Type of derivatives	Positive fair value			
	Total 31/12/2013		Total 31/12/2012	
	Over the counter	Central counterparts	Over the counter	Central counterparts
A. Regulatory trading book	12.502	-	14.657	-
a) Options	2.903	-	1.922	-
b) Interest rate swap	7.459	-	11.100	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	936	-	358	-
f) Futures	-	-	-	-
g) Others	1.204	-	1.277	-
B. Banking book - hedging	16.403	-	27.868	-
a) Options	-	-	-	-
b) Interest rate swap	16.403	-	27.868	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	10.875	-	5.640	-
a) Options	10.875	-	5.640	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	**39.780**	**-**	**48.165**	**-**

A.4 Financial derivatives: negative fair value - breakdown by products

Portfolios/Type of derivatives	Negative fair value			
	Total 31/12/2013		Total 31/12/2012	
	Over the counter	Central counterparts	Over the counter	Central counterparts
A. Regulatory trading book	12.634	-	14.693	-
a) Options	2.887	-	1.922	-
b) Interest rate swap	7.678	-	11.193	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	927	-	343	-
f) Futures	-	-	-	-
g) Others	1.142	-	1.235	-
B. Banking book - hedging	99.548	-	138.865	-
a) Options	-	-	-	-
b) Interest rate swap	99.548	-	138.865	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	12.866	-	9.193	-
a) Options	12.866	-	9.193	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	**125.048**	**-**	**162.751**	**-**

A.5 Over the counter financial derivatives: regulatory trading book - notional values, gross positive and negative fair value by counterparts - contracts not covered by netting agreements

Contracts not covered by netting agreements	Governments and central banks	Other public boduies	Banks	Financial companies	Insurance companies	Non financial companies	Oter subjects
1) Debt securities and interest rates							
- notional value	-	-	-	9.477	-	130.532	4.202
- positive fair value	-	-	-	2.932	-	4.463	94
- negative fair value	-	-	-	-	-	513	67
- future exposure	-	-	-	49	-	682	13
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	2.362	-	161.709	27.226
- positive fair value	-	-	-	14	-	2.545	561
- negative fair value	-	-	-	-	-	1.160	109
- future exposure	-	-	-	24	-	4.503	1.252
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 Over the counter financial derivatives: regulatory trading book - notional values, gross positive and negative fair value by counterparts - contracts covered by netting agreements

Contracts covered by netting agreements	Governments and central banks	Other public boduies	Banks	Financial companies	Insurance companies	Non financial companies	Oter subjects
1) Debt securities and interest rates							
- notional value	-	-	144.961	-	-	-	-
- positive fair value	-	-	603	-	-	-	-
- negative fair value	-	-	7.712	-	-	-	-
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	192.461	-	-	-	-
- positive fair value	-	-	1.290	-	-	-	-
- negative fair value	-	-	3.074	-	-	-	-
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.7 Over the counter financial derivatives: banking book - notional values, gross positive and negative fair value by counterparts - contracts not covered by netting agreements

Contracts not covered by netting agreements	Governments and central banks	Other public boduies	Banks	Financial companies	Insurance companies	Non financial companies	Oter subjects
1) Debt securities and interest rates							
- notional value	-	281	-	40.861	-	1.051.081	1.706.575
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	203	12.568
- future exposure	-	-	-	-	-	-	-
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	-	-	4.091	4.387
- positive fair value	-	-	-	-	-	47	40
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	311	337
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 Over the counter financial derivatives: banking book - notional values, gross positive and negative fair value by counterparts - contracts covered by netting agreements

Contracts covered by netting agreements	Governments and central banks	Other public boduies	Banks	Financial companies	Insurance companies	Non financial companies	Oter subjects
1) Debt securities and interest rates							
- notional value	-	-	1.322.002	-	-	-	-
- positive fair value	-	-	27.190	-	-	-	-
- negative fair value	-	-	99.556	-	-	-	-
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	8.479	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	87	-	-	-	-
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 Residual life of over the counter financial derivatives: notional value				
Underlying asset/Residual life	**Up to 1 year**	**From 1 year to 5 years**	**More than 5 years**	**Total**
A Regulatory trading book	**427.422**	**144.622**	**100.887**	**672.931**
A.1 Financial derivatives on debt securities and interest rates	47.292	140.994	100.887	289.173
A.2 Financial derivatives on equity securities and equity indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	380.130	3.628	-	383.758
A.4 Financial derivatives on other securities	-	-	-	-
B. Banking book	**291.114**	**794.388**	**3.052.255**	**4.137.757**
B.1 Financial derivatives on debt securities and interest rates	274.157	794.388	3.052.255	4.120.800
B.2 Financial derivatives on equity securities and equity indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	16.957	-	-	16.957
B.4 Financial derivatives on other securities	-	-	-	-
Total 31/12/2013	**718.536**	**939.010**	**3.153.142**	**4.810.688**
Total 31/12/2012	**733.290**	**1.019.315**	**3.296.863**	**5.049.468**

B. Credit derivatives

At 31 December 2013 and during the year, the Bank did not have any operations of this type.

C. Financial and credit derivatives

This table was not completed in that not operations of this type existed. In fact, the second update to Circular 262/2005 envisages that the table include both the financial derivatives indicated in tables A.6 and A.8 and the credit derivatives reported in table B.5.

Section 3 – Liquidity risk

Qualitative information

A. Liquidity risk: general aspects, management procedures and measurement methods

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)[2].

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 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;

The Group's liquidity monitoring follows the directives issued in Circular 263/2006 (Title V, chapter 2), as subsequently amended, integrating the national regulations with the principles governed by the Basel Committee (Basel III: International framework for liquidity risk measurement, standards and monitoring") which will be applied starting on 1 January 2015.

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.

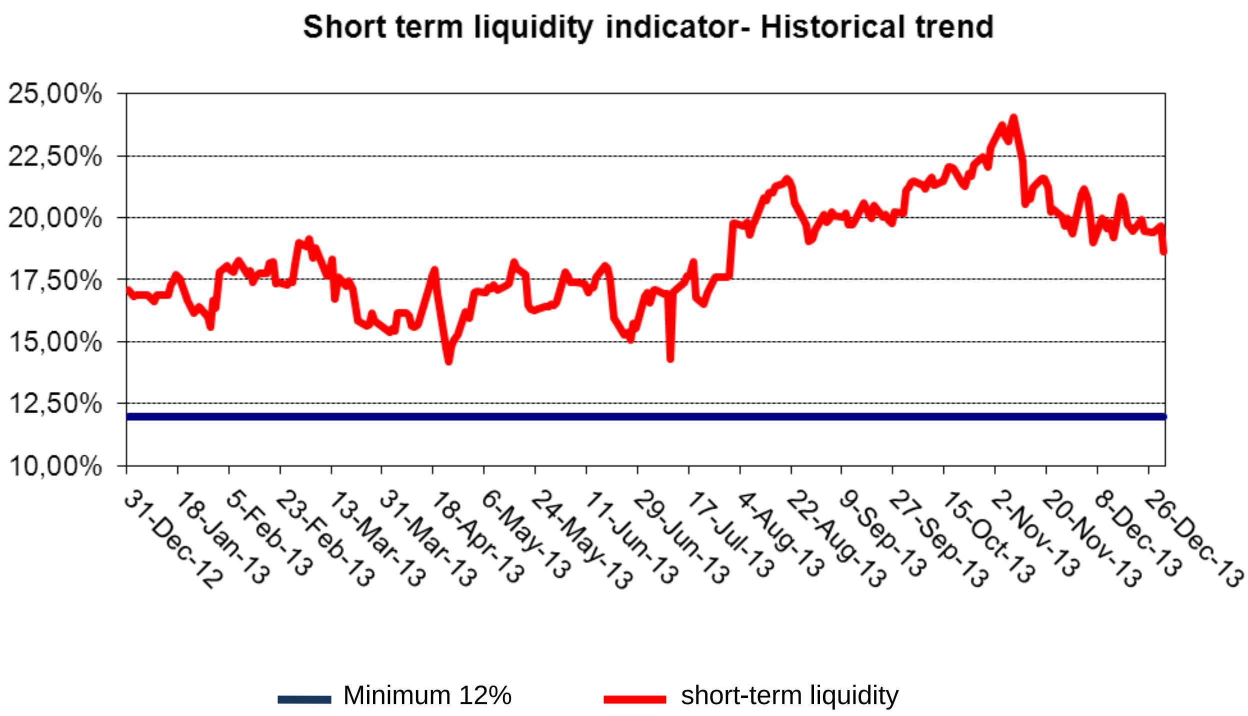
The Group Liquidity Policy includes, besides the traditional analysis of short-term liquidity indicators, the constant monitoring of a wide number of indicators focused on the trend of short- and medium- and long-term systemic and specific liquidity.

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.

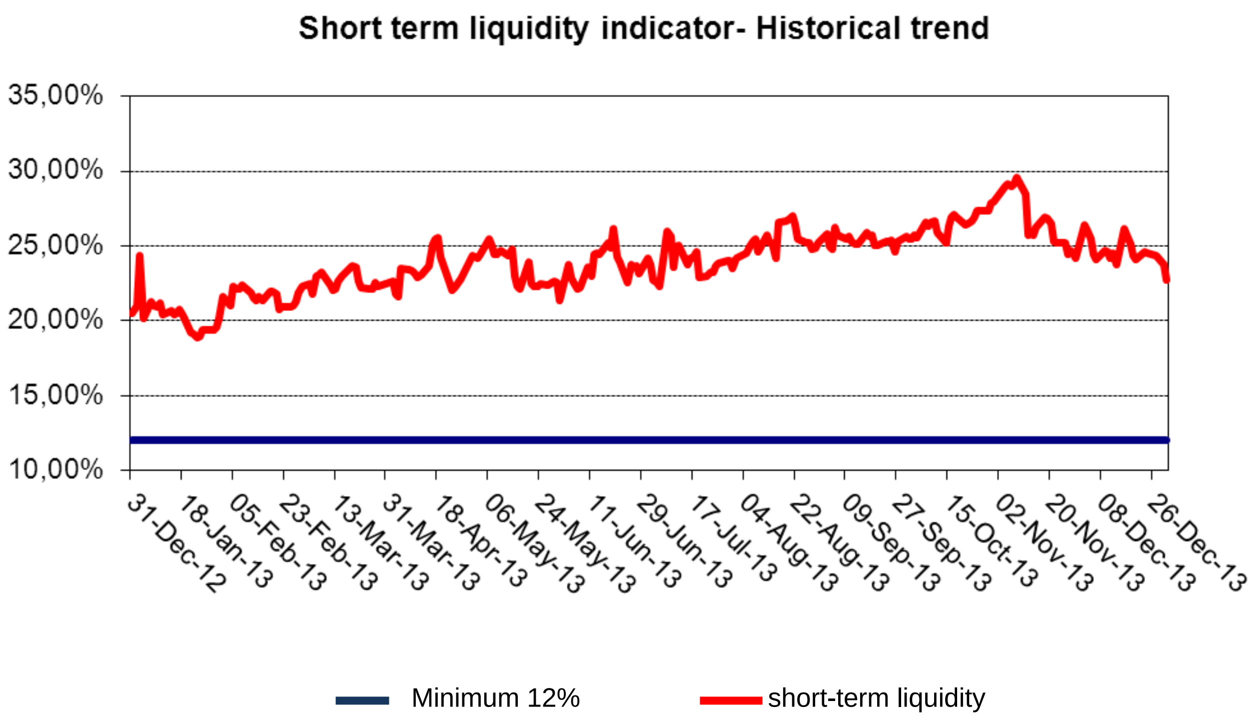
This indicator, a management one, is calculated daily by the Parent Company Risk Management Service.

[2] Bank of Italy Circular no. 263/2006 as subsequently amended, title III, chapter 1, Attachment A

Banca Sella Group short-term liquidity indicator trend



In the same way, the trend of said indicator is shown in reference to Banca Sella.



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[3], 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

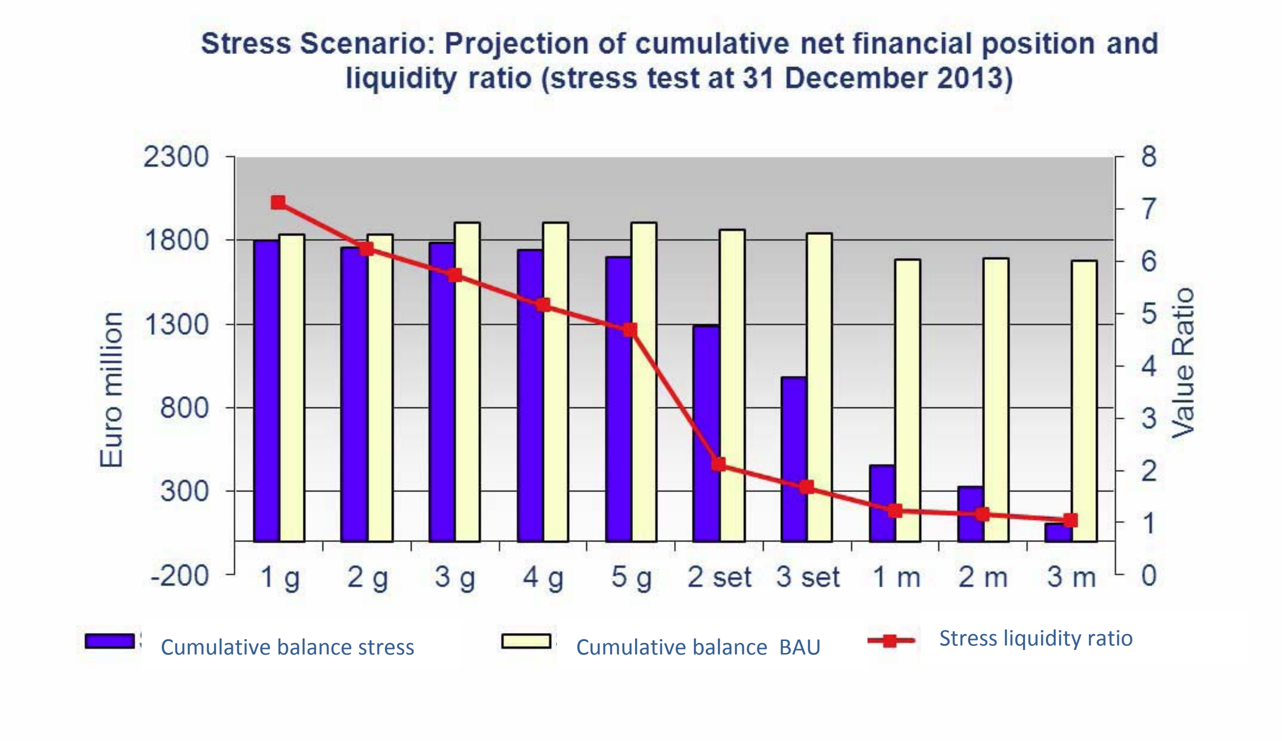
[3] A Maturity Ladder is the projection of the net financial position over time

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 three 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.

Stress Scenario: Projection of cumulative net financial position and liquidity ratio (Stress test at 31 December 2013)



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. 263/2006 (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, for internal purposes the Bank monitors the performance of the LCR (liquidity coverage ratio) and NSFR (net stable funding ratio) indicators, refining and constantly updating the calculation rules, in accordance with the indications provided in the regulations. At the end of 2013, 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 of denomination:

Currency of denomination: Euro

Item/Time band	On demand	More than 1 day to 7 days	More than 7 day 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	**1.777.138**	**73.699**	**262.344**	**155.485**	**628.831**	**483.150**	**708.658**	**3.077.320**	**2.288.026**	**43.305**
A.1 Government securities	238	-	-	-	15.650	15.438	98.852	631.548	461.502	-
A.2 Other debt securities	23	-	-	-	82	1.879	96.788	225.209	1	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	1.776.877	73.699	262.344	155.485	613.099	465.833	513.018	2.220.563	1.826.523	43.305
- Banks	394.350	-	152.817	-	20	-	-	-	-	43.305
- Customers	1.382.527	73.699	109.527	155.485	613.079	465.833	513.018	2.220.563	1.826.523	-
Cash liabilities	**6.477.770**	**39.652**	**228.350**	**141.039**	**364.117**	**356.709**	**380.844**	**805.890**	**221.551**	**-**
B.1 Deposits and current accounts	6.389.495	24.908	46.071	97.951	284.695	229.948	159.903	90.017	10.966	-
- Banks	35.630	-	-	-	-	-	-	-	9.733	-
- Customers	6.353.865	24.908	46.071	97.951	284.695	229.948	159.903	90.017	1.233	-
B.2 Debt securities	99	242	373	1.302	15.174	29.493	182.690	688.322	198.325	-
B.3 Other liabilities	88.176	14.502	181.906	41.786	64.248	97.268	38.251	27.551	12.260	-
Off balance sheet transactions	**(5.096)**	**(5.714)**	**32**	**878**	**(39.904)**	**3.356**	**32.742**	**9.894**	**(6.404)**	**-**
C.1 Financial derivatives with equity swaps	-	(7.092)	7	(311)	(1.856)	7.627	(1.458)	583	395	-
- Long positions	-	7.347	5.821	10.130	18.759	41.302	30.523	1.651	395	-
- Short positions	-	14.439	5.814	10.441	20.615	33.675	31.981	1.068	-	-
C.2 Financial derivatives without equity swaps	(200)	3.206	-	-	-	4.219	7.505	47.950	27.148	-
- Long positions	8.091	3.206	-	-	-	5.772	10.599	56.732	27.667	-
- Short positions	8.291	-	-	-	-	1.553	3.094	8.782	519	-
C.3 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	(4.896)	(1.828)	25	1.189	(38.048)	(8.494)	26.695	(38.662)	(33.951)	-
- Long positions	172.079	2.472	25	1.189	614	1.829	3.067	(38.662)	(33.951)	-
- Short positions	176.975	4.300	-	-	38.662	10.323	(23.628)	-	-	-
C.5 Financial guaranties issued	-	-	-	-	-	4	-	23	4	-
C.6 Financial guaranties received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swaps	-									
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: US Dollar

Item/Time band	On demand	More than 1 day to 7 days	More than 7 day 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	**136.846**	**1.287**	**1.954**	**2.993**	**5.143**	**471**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	136.846	1.287	1.954	2.993	5.143	471	-	-	-	-
- Banks	134.901	-	-	-	-	-	-	-	-	-
- Customers	1.945	1.287	1.954	2.993	5.143	471	-	-	-	-
Cash liabilities	**91.816**	**680**	**567**	**889**	**16.844**	**23.806**	**15.372**	**-**	**-**	**-**
B.1 Deposits and current accounts	91.291	680	567	889	16.844	23.806	15.372	-	-	-
- Banks	117	-	-	-	-	-	-	-	-	-
- Customers	91.174	680	567	889	16.844	23.806	15.372	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	525	-	-	-	-	-	-	-	-	-
Off balance sheet transactions	**38**	**(438)**	**3**	**(25)**	**1.528**	**(792)**	**1.458**	**-**	**-**	**-**
C.1 Financial derivatives with equity swaps	-	(438)	3	(25)	1.528	(792)	1.458	-	-	-
- Long positions	-	3.044	4.386	3.779	17.720	30.204	25.224	723	-	-
- Short positions	-	3.482	4.383	3.804	16.192	30.996	23.766	723	-	-
C.2 Financial derivatives without equity swaps	38	-	-	-	-	-	-	-	-	-
- Long positions	1.018	-	-	-	-	-	-	-	-	-
- Short positions	980	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guaranties issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guaranties received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swaps	-									
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Swiss Franc

Item/Time band	On demand	More than 1 day to 7 days	More than 7 day 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	**58**	**-**	**184**	**2.346**	**3.802**	**1.409**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	58	-	184	2.346	3.802	1.409	-	-	-	-
- Banks	58	-	-	-	-	-	-	-	-	-
- Customers	-	-	184	2.346	3.802	1.409	-	-	-	-
Cash liabilities	**7.498**	**-**	**-**	**-**	**552**	**202**	**434**	**-**	**-**	**-**
B.1 Deposits and current accounts	7.482	-	-	-	552	202	434	-	-	-
- Banks	1.685	-	-	-	-	-	-	-	-	-
- Customers	5.797	-	-	-	552	202	434	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	16	-	-	-	-	-	-	-	-	-
Off balance sheet transactions	**-**	**(71)**	**-**	**-**	**(81)**	**-**	**3**	**-**	**-**	**-**
C.1 Financial derivatives with equity swaps	-	(71)	-	-	(81)	-	3	-	-	-
- Long positions	-	-	-	-	-	358	3.471	-	-	-
- Short positions	-	71	-	-	81	358	3.468	-	-	-
C.2 Financial derivatives without equity swaps	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guaranties issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guaranties received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Australian Dollar										
Item/Time band	**On demand**	**More than 1 day to 7 days**	**More than 7 day 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	**2.223**	**90**	**295**	**2.441**	**676**	**-**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	2.223	90	295	2.441	676	-	-	-	-	-
- Banks	2.223	-	-	-	-	-	-	-	-	-
- Customers	-	90	295	2.441	676	-	-	-	-	-
Cash liabilities	**3.932**	**-**	**-**	**-**	**318**	**-**	**1.600**	**-**	**-**	**-**
B.1 Deposits and current accounts	3.932	-	-	-	318	-	1.600	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	3.932	-	-	-	318	-	1.600	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off balance sheet transactions	**16**	**(15)**	**-**	**227**	**1**	**325**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with equity swaps	-	(15)	-	227	1	325	-	-	-	-
- Long positions	-	50	1.297	1.786	774	636	1.919	352	-	-
- Short positions	-	65	1.297	1.559	773	311	1.919	352	-	-
C.2 Financial derivatives without equity swaps	16	-	-	-	-	-	-	-	-	-
- Long positions	82	-	-	-	-	-	-	-	-	-
- Short positions	66	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guaranties issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guaranties received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: British Pound										
Item/Time band	**On demand**	**More than 1 day to 7 days**	**More than 7 day 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	**3.255**	**-**	**-**	**1**	**161**	**-**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	3.255	-	-	1	161	-	-	-	-	-
- Banks	3.255	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	1	161	-	-	-	-	-
Cash liabilities	**2.427**	**-**	**143**	**-**	**182**	**265**	**480**	**-**	**-**	**-**
B.1 Deposits and current accounts	2.384	-	143	-	182	265	480	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	2.384	-	143	-	182	265	480	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	43	-	-	-	-	-	-	-	-	-
Off balance sheet transactions	**1**	**(576)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with equity swaps	-	(576)	-	-	-	-	-	-	-	-
- Long positions	-	300	-	1.007	1.599	1.998	634	-	-	-
- Short positions	-	876	-	1.007	1.599	1.998	634	-	-	-
C.2 Financial derivatives without equity swaps	1	-	-	-	-	-	-	-	-	-
- Long positions	1	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guaranties issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guaranties received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: New Zealand Dollar										
Item/Time band	**On demand**	**More than 1 day to 7 days**	**More than 7 day 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	**28**	**-**	**-**	**-**	**-**	**1.187**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	28	-	-	-	-	1.187	-	-	-	-
- Banks	28	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	1.187	-	-	-	-
Cash liabilities	**1.191**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	1.191	-	-	-	-	-	-	-	-	-
- Banks	1.140	-	-	-	-	-	-	-	-	-
- Customers	51	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off balance sheet transactions	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with equity swaps	-	2	-	-	-	-	-	-	-	-
- Long positions	-	2	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without equity swaps	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guaranties issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guaranties received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: other currencies										
Item/Time band	**On demand**	**More than 1 day to 7 days**	**More than 7 day 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	**5.479**	**24**	**10**	**-**	**53**	**650**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	5.479	24	10	-	53	650	-	-	-	-
- Banks	5.361	-	-	-	-	-	-	-	-	-
- Customers	118	24	10	-	53	650	-	-	-	-
Cash liabilities	**5.009**	**-**	**-**	**82**	**8**	**-**	**152**	**-**	**-**	**-**
B.1 Deposits and current accounts	3.473	-	-	82	8	-	152	-	-	-
- Banks	470	-	-	-	-	-	-	-	-	-
- Customers	3.003	-	-	82	8	-	152	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1.536	-	-	-	-	-	-	-	-	-
Off balance sheet transactions	**8**	**47**	**(6)**	**104**	**409**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with equity swaps	-	47	(6)	104	409	-	-	-	-	-
- Long positions	-	2.851	-	4.125	696	496	763	-	-	-
- Short positions	-	2.804	6	4.021	287	496	763	-	-	-
C.2 Financial derivatives without equity swaps	8	-	-	-	-	-	-	-	-	-
- Long positions	103	-	-	-	-	-	-	-	-	-
- Short positions	95	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guaranties issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guaranties received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

2. Information on the activities committed registered in balance

Type	committed		not committed		Total 31/12/2013	Total 31/12/2012
	BV	FV	BV	FV		
1. Cash and available liquidity	-	X	130.208	X	-	-
2. Debt securities	405.000	411.505	1.117.556	1.149.471	-	-
3. Equity securities	-	-	2.926	2.926	-	-
4. Loans and advanced	786.494	X	7.150.627	X	-	-
5. Other financial assets	-	X	39.796	X	-	-
6. Other not financial assets	-	X	455.637	X	-	-
Total 31/12/2013	1.191.494	411.505	8.896.750	1.152.397	-	X

Key
BV = book value
FV = fair value

3. Information on the activities committed not registered in balance

Type	Committed	Not committed	Total 31/12/2013	Total 31/12/2012
1. Financial assets	471.663	133.586	-	-
- Securities	471.663	133.586	-	-
- Other	-	-	-	-
2. Not financial assets	-	-	-	-
Total 31/12/2013	471.663	133.586	-	X

Section 4 – Operational risk

Qualitative information

A. General aspects, management processes and methods for measuring operational risk

Quantitative information

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 II, 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 (net banking income);
- mitigation and control organisational structures;
- operational risk exposure assessment;
- output and tools to assist in managing operational risk.

The data collection activity allows collecting the necessary information to assess the operational risk exposure of the Group as a whole and 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");
- the Risk Self Assessment (RSA) is a qualitative and quantitative analysis carried out periodically for operational risk exposure, whose added value consists of estimating the Group's expected and unexpected losses (quantification of possible risk events both in terms of economic impact and frequency of occurrence) attributed to the various corporate processes mapped and validated at the companies in the Group;
- operating risk loss data from external sources (DIPO – Italian Operational Loss Database, joined by the Banca Sella Group)[4];
- 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 action taken or reinforcement of controls (e.g.: service-level indicators, anomalies and inspection findings, process ratings and business growth). These factors are part of the calculation of the Internal Operational Risk Rating[5].

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.

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[4] *DIPO information also allow comparing internal operating loss data and system operating loss data (DIPO – Italian Operational Loss Database).*

[5] *The "internal operational risk rating" is a summary indicator*, calculated internally and ordered into discrete risk classes in increasing order from 1 to 5 (where 5 is the maximum value) that make it possible to represent the operational risk exposure of a given Service, Area or Group company.

The beforehand and after the fact 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 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, during the year end to end mapping of business processes was carried out[6]. 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;
- the trend of the "internal operational risk rating".

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.

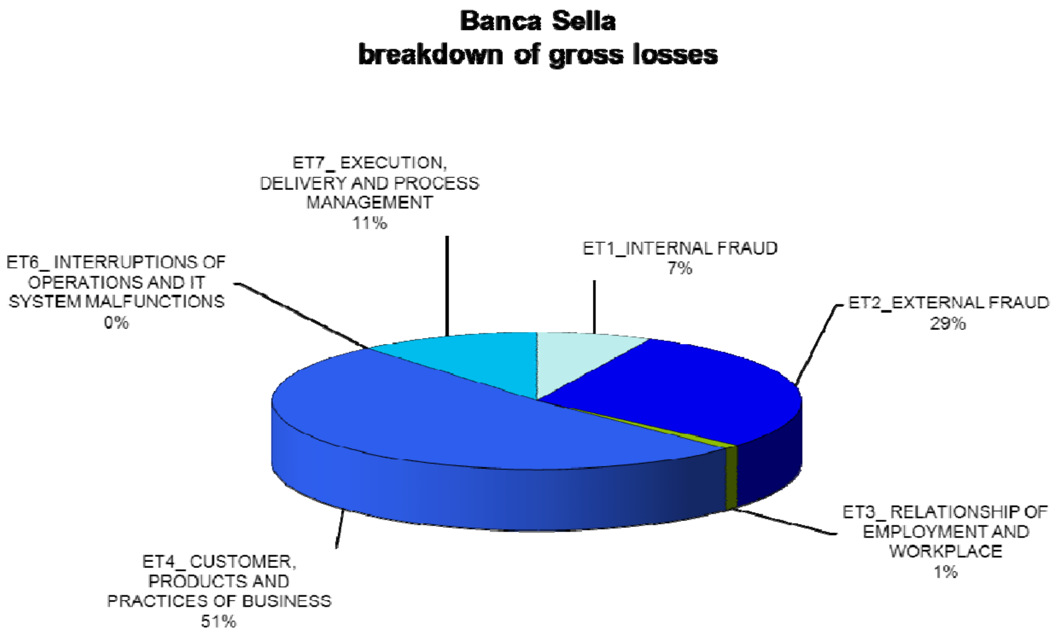
Regarding legal issues, note that the Bank is involved in a number of legal proceedings of various types and legal proceedings originating from the ordinary performance of their activities. In as much as it is not possible to predict the final results with certainty, it is held that any unfavourable results of said proceedings would not have, either singularly or as a whole, important negative effects on the financial and economic situation of the Bank.

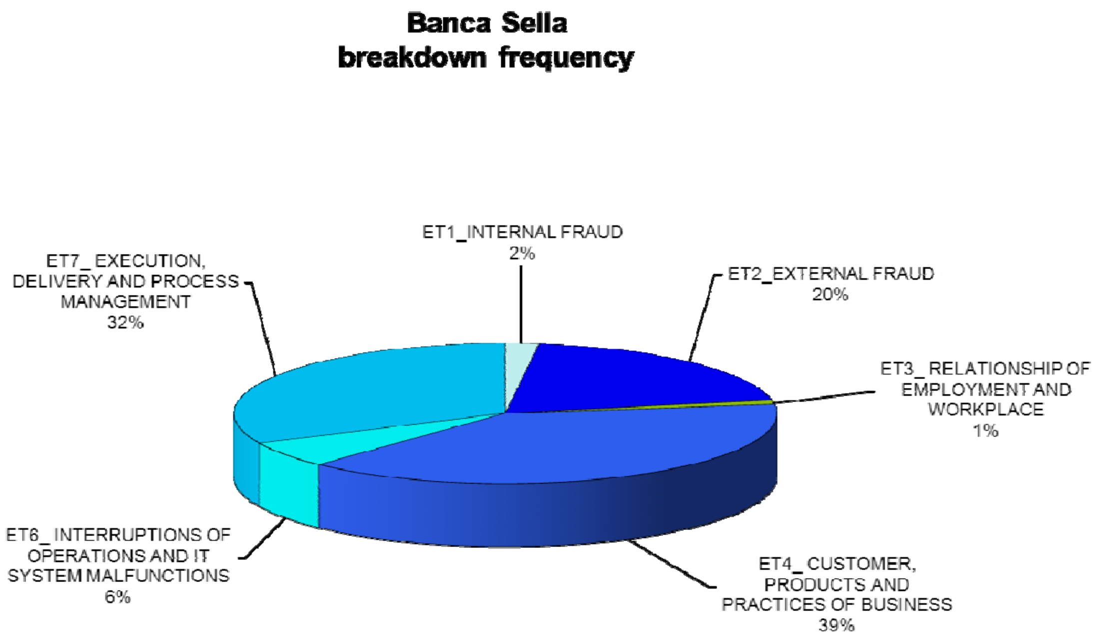
For the purposes of calculation of the capital requirement to cover exposure to operational risk, the Basic Indicator Approach (BIA) is used. In the Basic Approach the capital requirement is calculated applying to the average of the last three observations of net banking income available a regulatory ratio of 15%.

[6] *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.*

Quantitative information

The graphs below, resulting from the processing of the information contained in the Group's Loss Data Collection illustrate the operating loss data relevant to the period 01/01/2013-31/12/2013, classified by type of event according to Basel II and subdivided in terms of impact and frequency.





PART F - INFORMATION ON CAPITAL

As required by Banca d'Italia Circular No. 263 of 27 December 2006, and 11th update of January 31, 2012, on capital adequacy, exposure to risks and the general features of systems designed to identify, measure and manage risks, the qualitative and quantitative information on the Notice to the Public at the consolidated level is published on the Banca Sella Group website, www.gruppobancasella.it, Investor Relation section.

Section 1 – Corporate capital

Qualitative information

In the light of its strategic development lines and objectives, the Bank has adopted the measures necessary to guarantee adequate capital requirements.

An initial audit is performed during preparation of the Group's three year strategic plan, comparing the growth trends of activities that affect the magnitude of risks with the expected evolution of the capital structure. Respect for capital adequacy is obtained via:

- pay out policies;
- issues of subordinated bonds.

As of 31 December 2013, the excess Regulatory Capital with respect to the compulsory levels is of an amount in line with the risk profile adopted by the Bank, permitting development in keeping with the expected growth targets.

Quantitative information

B.1 Shareholders' equity: breakdown by type

	Total 31/12/2013	Total 31/12/2012
1. Capital	281.597	281.597
2. Share premiums	298.722	298.722
3. Reserves	(49.401)	(53.139)
- profit reserves	(49.401)	(53.139)
a) legal	25.510	24.672
b) statuory	59.715	56.922
c) treasury shares	-	-
d) others	(134.626)	(134.733)
- others	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves:	3.861	(1.854)
- Financial assets available for sale	4.889	(389)
defined benefit pension plans	(1.028)	(1.465)
7. Profit (loss) for the year (+/-) of the	20.409	6.982
Shareholders' equity	**555.188**	**532.308**

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

Asset/Amount	Total 31/12/2013		Total 31/12/2012	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	4.889	-	-	389
2. Equity securities	-	-	-	-
3. UCITS units	-	-	-	-
4. Loans and advances	-	-	-	-
Total	**4.889**	**-**	**-**	**389**

B.3 Valuation reserves of financial assets available for sale: annual changes

	Debt securities	Equity securities	UCITS units	Loans and advances
1. Opening balance	**(389)**	**-**	**-**	**-**
2. Increases	**6.891**	**-**	**-**	**-**
2.1 Increases in fair value	6.776	-	-	-
2.2 Reversal to income statement of negative reserves	115	-	-	-
- following impairment	-	-	-	-
- following realization	115	-	-	-
2.3 Other changes	-	-	-	-
3. Decreases	**1.613**	**-**	**-**	**-**
3.1 Reductions in fair value	120	-	-	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to income statement from positive reserves: following realization	1.493	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	**4.889**	**-**	**-**	**-**

B.4 Valuation reserves of defined benefit pension plans: annual changes

	31/12/2013
1. Opening balance	**(1.465)**
2. Increases	**1.944**
2.1 Positive valutative component	1.732
2.2 New arrivals	212
3. Decreases	**1.507**
3.1 Negative valutative component	-
3.2 New releases	1.507
4. Closing balance	**(1.028)**

Section 2 - Capital and adequacy ratios

2.1 Regulatory capital

Qualitative information

The regulatory capital and capital ratios have been calculated on the basis of the figures in the balance sheet and income statement determined by applying the IAS/IFRS international accounting standards, in accordance with Circular no 155/91 of the Bank of Italy, and later updates, containing "Instructions for preparing reports on regulatory capital and prudential ratios".

1. Tier 1 capital

This comprises:

- Share capital
- Share premiums
- Capital reserves
- Profit/Loss for the period

net of dividends to be distributed, intangible fixed assets and negative valuation reserves on securities available for sale.

2. Tier 2 and Tier 3 capital

This comprises:

- Positive valuation reserves of property, plant and equipment
- Hybrid capital instruments
- Subordinated liabilities

Subordinate liabilities of Banca Sella

Issuer	Interest rate	Interest type	Issue data	Maturity date	Early redemption	Amortization	Currency	Original amount (euro thousand)	Contribution to regulatory capital (euro thousand)
Banca Sella Spa	0,72%	variable	4-Jan-06	4-Jan-13	yes	yes	Euro	100.000	20.000
Banca Sella Spa	0,53%	variable	30-Sep-08	30-Sep-16	yes	yes	Euro	30.000	21.600
Banca Sella Spa	0,48%	variable	24-Jun-08	24-Jun-14	yes	yes	Euro	50.000	18.000
Banca Sella Spa	3,45%	fixed	18-Feb-09	18-Feb-15	yes	yes	Euro	10.000	5.650
Banca Sella Spa	0,98%	variable	16-Mar-09	16-Mar-15	yes	no	Euro	20.000	10.800
Banca Sella Spa	1,29%	variable	3-Jun-09	3-Jun-19	yes	no	Euro	3.450	3.050
Banca Sella Spa	1,01%	variable	15-Jul-09	15-Jul-19	yes	yes	Euro	1.692	1.479
Banca Sella Spa	5,30%	fixed	16-Jul-08	16-Jul-15	yes	yes	Euro	10.000	5.400
Banca Sella Spa	4,90%	fixed	22-Sep-08	22-Sep-14	yes	yes	Euro	10.000	3.862
Banca Sella Spa	4,00%	fixed	15-Dec-08	15-Dec-14	yes	yes	Euro	2.500	910
Banca Sella Spa	3,50%	fixed	24-Feb-09	24-Feb-15	yes	yes	Euro	2.500	1.350
Banca Sella Spa	3,90%	fixed	6-Feb-09	6-Feb-15	yes	yes	Euro	2.500	1.383
Banca Sella Spa	4,00%	fixed	12-Jan-09	12-Jan-15	yes	yes	Euro	2.500	1.350
Banca Sella Spa	3,50%	fixed	21-May-09	21-May-16	yes	yes	Euro	5.000	3.759
Banca Sella Spa	4,55%	fixed	21-May-09	21-May-16	yes	yes	Euro	1.000	1.000
Banca Sella Spa	0,90%	variable	31-Jul-09	31-Jul-19	yes	no	Euro	1.799	1.549
Banca Sella Spa	2,95%	fixed	12-Oct-10	12-Oct-17	yes	yes	Euro	2.500	2.410
Banca Sella Spa	3,15%	fixed	22-Nov-10	22-Nov-17	yes	yes	Euro	2.500	2.250
Banca Sella Spa	3,70%	fixed	14-Jan-11	14-Jul-17	yes	yes	Euro	10.000	9.795
Banca Sella Spa	4,65%	fixed	15-Mar-11	15-Mar-21	yes	yes	Euro	10.000	9.710
Banca Sella Spa	4,30%	fixed	15-Jun-11	15-Jun-18	yes	yes	Euro	8.267	7.988
Banca Sella Spa	2,50%	variable	20-Oct-10	20-Oct-17	yes	yes	Euro	5.000	4.500
Banca Sella Spa	5,10%	fixed	11-Nov-11	11-Nov-17	yes	yes	Euro	9.801	9.633
Banca Sella Spa	5,75%	fixed	12-Dec-11	12-Dec-17	yes	yes	Euro	20.000	19.818
Banca Sella Spa	5,60%	fixed	30-Dec-11	30-Dec-17	yes	yes	Euro	10.000	9.337
Banca Sella Spa	5,40%	fixed	17-Jan-12	17-Jan-18	yes	yes	Euro	20.000	20.000
Banca Sella Spa	5,00%	fixed	14-Feb-12	14-Feb-18	yes	yes	Euro	15.000	15.000
Banca Sella Spa	4,45%	fixed	1-Mar-12	1-Sep-17	yes	yes	Euro	10.000	9.993
Banca Sella Spa	0,62%	variable	27-Jun-08	27-Jun-14	yes	yes	Euro	10.000	3.706
Banca Sella Spa	0,80%	variable	27-Oct-08	27-Oct-14	yes	yes	Euro	7.500	2.732
Banca Sella Spa	1,34%	variable	5-Mar-09	5-Mar-15	yes	yes	Euro	6.000	3.240
Banca Sella Spa	1,01%	variable	15-Jul-09	15-Jul-19	yes	yes	Euro	210	190
Banca Sella Spa	5,20%	fixed	1-Feb-12	25-Oct-17	yes	yes	Euro	3.000	3.000
Banca Sella Spa	5,50%	fixed	31-Aug-12	1-Feb-18	yes	yes	Euro	5.000	5.000
Banca Sella Spa	4,55%	fixed	15-Nov-12	28-Feb-18	yes	yes	Euro	5.000	5.000
Banca Sella Spa	3,50%	fixed	10-Dec-12	15-Nov-18	yes	yes	Euro	10.000	10.000
Banca Sella Spa	3,45%	fixed	13-Mar-12	15-Dec-18	yes	yes	Euro	3.830	3.830
Banca Sella Spa	4,15%	fixed	13-Mar-12	13-Sep-17	yes	yes	Euro	10.000	9.923
Total eligible subordinated (Lower Tier II)									**268.196**
Banca Sella Spa	1,33%	variable	3-Jun-09	3-Jun-19	no	no	Euro	850	850
Banca Sella Spa	1,03%	variable	15-Jul-09	15-Jul-19	no	no	Euro	438	438
Banca Sella Spa	0,93%	variable	4-Sep-09	4-Dec-19	no	no	Euro	2.500	2.250
Banca Sella Spa	4,08%	fixed	4-Sep-09	4-Dec-19	no	no	Euro	1.000	969
Banca Sella Spa	0,94%	variable	10-Sep-09	10-Dec-19	no	no	Euro	10.000	9.000
Banca Sella Spa	4,10%	fixed	5-Oct-09	5-Jan-20	no	no	Euro	2.500	2.323
Banca Sella Spa	4,10%	fixed	15-Oct-09	15-Jan-20	no	no	Euro	5.000	4.500
Banca Sella Spa	4,10%	fixed	26-Oct-09	26-Jan-20	no	no	Euro	5.000	4.581
Banca Sella Spa	4,10%	fixed	29-Oct-09	29-Jan-20	no	no	Euro	10.000	9.000
Banca Sella Spa	4,10%	fixed	26-Oct-09	26-Jan-20	no	no	Euro	2.500	2.409
Banca Sella Spa	4,10%	fixed	23-Nov-09	23-Feb-20	no	no	Euro	5.000	4.679
Banca Sella Spa	0,93%	variable	31-Jul-09	31-Jul-19	no	no	Euro	701	701
Banca Sella Spa	0,96%	variable	16-Sep-09	16-Dec-19	no	no	Euro	930	840
Banca Sella Spa	4,00%	fixed	16-Dec-09	16-Mar-20	no	no	Euro	5.000	4.546
Total hybrid instruments (Lower Tier II)									**47.086**

Hybrid instruments (Upper Tier 2)

The Upper Tier 2 subordinated loans comply with Bank of Italy requisites to be counted among the components of "Regulatory Capital". In particular:

- they are not subject to advance redemption clauses;
- redemption on maturity is conditional on previously obtaining consent from the Bank of Italy;
- where there are accounting losses which lead to a reduction of paid-in capital and reserves below the minimum level of capital required for authorisation for the banking business, the amounts originating from the above-mentioned liabilities and accrued interest can be used to cover the losses, in order to permit the issuing entity to continue its business;
- in the case of liquidation of the issuing entity the holder of the loan will be reimbursed after all other creditors not equally subordinated have been paid off.

Lower Tier 2 subordinated liabilities

The subordinated liabilities as above comply with the requisites set out by the Bank of Italy to be counted among the components of "Regulatory Capital". In particular:

- in the case of liquidation of the issuing entity the holder of the loan will be reimbursed after all other creditors not equally subordinated have been paid off;
- there are no advance redemption clauses save at the initiative of the Bank subject to consent from the Bank of Italy.

Quantitative information

	Total 31/12/2013	Total 31/12/2012
A. Tier 1 capital before application of prudential filters	**506.512**	**486.521**
B. Tier 1 capital prudential filters	**(358)**	**(477)**
B.1 Positive IAS/IFRS prudential filters (+)	154	-
B.2 Negative IAS/IFRS prudential filters (-)	(512)	(477)
C. Tier 1 capital including ineligible items (A+B)	**506.154**	**486.044**
D. Tier 1 capital ineligible items	1.066	-
E. Total Tier 1 capital (C-D)	**505.088**	**486.044**
F. Tier 2 capital before the application of prudential filters	**300.076**	**290.379**
G. Tier 2 capital prudential filters	**(1.066)**	**(233)**
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	(1.066)	(233)
H. Tier 2 capital including ineligible items (F+G)	**299.010**	**290.146**
I. Tier 2 capital ineligible items	-	-
L. Total Tier 2 capital (H+I)	**299.010**	**290.146**
M. Total Tier 1 and Tier 2 ineligible items	-	2.133
N. Regulatory capital (E+L-M)	**804.098**	**774.057**
O. Tier 3 capital	635	1.125
P. Regulatory capital including Tier 3 (N+O)	**804.733**	**775.182**

The tier 1 capital does not include financial instruments increasing the capital other than ordinary shares. Consequently, the bank's Tier 1 also represents its Core Tier 1.

2.2 Capital adequacy

Qualitative information

In financial year 2009 the "New capital adequacy rules for Banks" (Bank of Italy Circular No. 263 of 27 December 2006, 3th update of 15 January 2009) came into effect, incorporating the regulations on the subject of international Convergence in the measurement of capital and capital ratios (Basel II). In this context, the capital of the Bank must represent at least 8% of total weighted assets (total capital ratio) deriving from the typical risks of the banking and financial business (credit, counterparty, market and operational risks), weighted on the basis of regulatory segmentation of the counterparty debtors and taking account of credit risk mitigation techniques.

As can be seen from the quantitative information presented in the table showing the risk assets and prudential capital requirements, the company exhibits a ratio between Tier 1 capital and risk weighted assets of 12.73% and a ratio between total regulatory capital and risk weighted assets of 20.29%, well above the minimum requirement of 8%.

Quantitative information

Category/Amount	Non-weighted amounts		Weighted amounts/requirements	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardize approach	10.102.280	10.001.381	4.584.410	5.043.580
2. Internal rating based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securizations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			275.065	302.615
B.2 Market risks			890	1.576
1. Standardized approach			890	1.576
2. Internal models			-	-
3. Concentration risk			-	-
B.3 Operational risk			41.358	41.120
1. Standardized approach			41.358	41.120
2. Internal models			-	-
3. Advanced approach			-	-
B.4 Other capital requirements			-	-
B.5 Other computing items			-	-
B.6 Total capital requirements			317.312	345.310
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk weighted assets			3.966.399	4.316.377
C. 2 Tier 1 capital/Risk weighted assets (Tier 1 capital ratio)			12,73%	11,26%
C.3 Regulatory capital including Tier 3/Risk weighted assets (Total capital ratio)			20,29%	17,96%

PART G – AGGREGATION OPERATIONS REGARDING COMPANIES OR BUSINESS LINES

Section 1 – Operations carried out during the year

In 2013, no business combination transactions occurred.

Section 2 – Operations completed after year end

No business combination transactions occurred after the end of financial year 2013.

Section 3 – Retrospective adjustments

During 2013, as no business combination transactions occurred, there were no retrospective adjustments.

PART H – RELATED PARTY TRANSACTION

1 – Information on directors' and managers' remuneration

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 responsabilities *(figures in thousand of euro)*

Items	Total 31/12/2013
a) Short-term employee benefits	1.066
b) Post-employment benefits	-
c) Other long term benefits	-
d) Severance indemnities	61
e) Share-based payments	-
Total	**1.127**

Fees paid to the members of the Board of Directors' and of the Board of Auditors *(figures in thousands of euro)*

Items	Total 31/12/2013
Board directors	557
Statutory Auditors	98
Total	**655**

2 – Information on related party transactions

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
(amounts in euro thousands)

Type of related party		Assets	Liabilities	operating income	operating expenses	Guarantees received	Guarantees granted
Parent Company		-	-	-	-	-	-
Significant Influence		-	-	-	-	-	-
Directors and Managers	-	2.800	28.081	67	201	307	1.335
Subsidiaries		-	-	-	-	-	-
Associated Comapanies	-	8.441	1.540	-	-	2.640	-
Jointly-controlled comapanies		-	-	-	-	-	-
Other relatied parties	-	481	2.516	334	322	679	1.629
Total	**-**	**11.723**	**32.136**	**401**	**523**	**3.627**	**2.964**

Outsourcing contracts

Banca Sella offered outsourcing. The services related to the Corporate Secretary, Department, Computer Security, Emission bonds remain on Banca Sella Holding. These activities are governed by specific agreements are made as a result of the evaluation of reciprocal and market conditions with the aim of creating value within the Group.

The fees which Banca Sella paid for services provided through outsourcing are summarised below:

Banca Sella outsourcing fees payed collected (amounts in euro thousands)

Company	amount at 31/12/2013
Banca Sella Holding S.p.A.	764
Easy Nolo S.p.A.	5.847
Banca Patrimoni Sella & C.	68
Brosel S.p.A.	22
Family Advisory SIM S.p.A. - Sella & Partners	309
Selir S.r.l.	3.260

The fees which Banca Sella received for services provided through outsourcing are summarised below:

Banca Sella outsourcing fees received collected (amounts in euro thousands)

Company	amount at 31/12/2013
Banca Sella Holding S.p.A.	5.150
Easy Nolo S.p.A.	420
Banca Patrimoni Sella & C.	3.051
Biella Leasing S.p.A.	412
Sella Gestioni SgR	240
Consel S.p.A.	246
Selir S.r.l.	91

PART I – PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

Banca Sella has not carried out this type of operation.

PART L – SEGMENT REPORTING

The segment reporting has been prepared for the consolidated financial accounts.

OTHER INFORMATION

PARENT COMPANY OR COMMUNITY CREDIT ENTERPRISE PARENT COMPANY

Name

Banca Sella Holding S.p.A.

Head 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 2012 and 2011, as the company which as of 31 December 2013 performed the work of direction and coordination.

BALANCE SHEET

Assets	31/12/2012	31/12/2011	Differences %
20. Financial assets held for trading	535.697.310	482.016.259	11,14%
40. Financial assets available for sale	365.683.273	417.278.996	-12,36%
50. Financial assets held to maturity	194.364.011	134.778.055	44,21%
60. Due from banks	586.663.872	924.046.837	-36,51%
70. Due from customers	555.816.242	900.668.906	-38,29%
80. Hedging derivatives	661.651	884.477	-25,19%
100. Equity investment	865.842.616	798.173.850	8,48%
110. Tangible assets	39.379.149	39.247.254	0,34%
120. Intangible assets	568.470	816.605	-30,39%
of wich:			
- goodwill	-	-	-
130. Tax assets	19.882.917	24.865.380	-20,04%
a) current	6.578.125	4.102.352	60,35%
b) deferred	13.304.792	20.763.028	-35,92%
- of wich lex 214_2011	8.631.815	11.191.905	-22,87%
150. Other assets	18.277.609	17.476.261	4,59%
Total assets	**3.182.837.120**	**3.740.252.880**	**-14,90%**

Liabilities and shareholders' equity	31/12/2012	31/12/2011	Differences %
10. Due to banks	1.347.709.657	1.863.328.939	-27,67%
20. Due to customers	159.960.985	77.452.625	106,53%
30. Outstanding securities	679.437.448	1.069.526.073	-36,47%
40. Financial liabilities held for trading	277.783.489	174.782.658	58,93%
80. Tax liabilities	8.804.075	2.451.732	-
a) current	7.804.509	1.939.118	-
b) deferred	999.566	512.614	94,99%
100. Other liabilities	110.649.036	29.571.716	-
110. Employee severance indemnities	2.774.065	2.619.399	5,90%
120. Provisions for risks and charges:	22.584.807	21.695.891	4,10%
a) retirement and similar obligations	-	-	-
b) other provisions	22.584.807	21.695.891	4,10%
130. Valuation reserves	1.366.376	(10.196.736)	-113,40%
160. Reserves	359.107.070	377.238.541	-4,81%
170. Share premiums	90.074.793	49.413.513	82,29%
180. Share capital	104.988.000	100.500.000	4,47%
200. Profit for the year	17.597.319	(18.131.471)	-197,05%
Total liabilities	**3.182.837.120**	**3.740.252.880**	**-14,90%**

INCOME STATEMENT

Item	31/12/2012	31/12/2011	Differences %
10. Interest receivable and similar income	57.655.200	56.486.456	2,07%
20. Interest payable and similar expense	(39.734.796)	(47.996.942)	-17,21%
30. Net interest income	**17.920.404**	**8.489.514**	**111,09%**
40. Fee income	14.269.776	46.551.573	-69,35%
50. Fee expenses	(11.853.111)	(29.401.558)	-59,69%
60. Net fees	**2.416.665**	**17.150.015**	**-85,91%**
70. Dividends and similar income	9.998.354	10.066.079	-0,67%
80. Net gains/(losses) on trading activities	30.232.096	20.361.595	48,48%
90. Net gains/(losses) on hedging activities	130.126	23.862	-
100. Gains/(losses) on sale or repurchase of:	3.572.875	3.221.187	10,92%
a) loans & receivables	(232.664)	47.620	-
b) financial assets available for sale	2.682.391	2.196.645	22,11%
c) financial assets held to maturity	-	-	-
d) financial liabilities	1.123.148	976.922	14,97%
110. Net gains/(losses) on financial assets and liabilities at fair value through profit or loss	-	-	-
120. Net interest and other banking income	**64.270.520**	**59.312.252**	**8,36%**
130. Net value adjustments for impairment on:	(571.026)	(71.620)	697,30%
a) loans & receivables	57.022	(15.701)	-
b) financial assets available for sale	(588.626)	(72.034)	-
c) financial assets held to maturity	-	-	-
d) other financial transactions	(39.422)	16.115	-
140. Net gains/ (losses) on financial operations	**63.699.494**	**59.240.632**	**7,53%**
150. Administrative expenses	(38.386.914)	(52.928.670)	-27,47%
a) personnel expenses	(20.064.787)	(21.087.380)	-4,85%
b) other administrative expenses	(18.322.127)	(31.841.290)	-42,46%
160. Net provisions for risks and charges	(800.101)	(2.503.276)	-68,04%
170. Net value adjustments on tangible assets	(2.015.800)	(2.150.576)	-6,27%
180. Net value adjustments on intangible assets	(431.454)	(904.606)	-52,30%
190. Other operating expenses/income	3.111.044	4.743.323	-34,41%
200. Operating costs	**(38.523.225)**	**(53.743.805)**	**-28,32%**
210. Gains/(losses) on equity investments	(768.682)	(25.357.736)	-96,97%
220. Net gains/(losses) on measurement at fair value of tangible and intangible assets	-	-	-
230. Impairment of goodwill	-	-	-
240. Gains/(losses) on sale of investments	988	2.963.828	-99,97%
250. Profit / (losses) from continuing operations before taxes	**24.408.575**	**(16.897.081)**	**-**
260. Income taxes for the period on continuing operations	(6.811.256)	1.556.931	-
270. Profit / (losses) from continuing operations after taxes	**17.597.319**	**(15.340.150)**	**-**
280. Profit/(losses) on asset disposal groups held for sale after taxes	-	(2.791.321)	-100,00%
290. Profit / (Loss) for the year	**17.597.319**	**(18.131.471)**	**-197,05%**

RESOLUTIONS OF THE ORDINARY SHAREHOLDERS' MEETING OF 29 APRIL 2014

The Ordinary Shareholders' Meeting unanimously

approves

- the Board of Directors' report on operations for financial year 2013;
- the Financial Statements at 31 December 2013, consisting of: Balance Sheet, Income Statement and Notes to the Financial Statements and relevant attachments;
- the profit distribution proposal contained in the Directors' Report, amounting to 0.00542 Euro per share;

appoints

- as Directors for the three-year period 2014/2016, until approval of the financial statements at 31 December 2016: Maurizio Sella, Franco Sella, Elisabetta Galati, Luigi Gargiulo, Ferdinando Parente, Carlo Santini, Pietro Sella, Sebastiano Sella, Silvana Terragnolo, Paolo Tosolini, Donato Valz Gen, Andrea Vicari, Attilio Viola;
- as standing auditors Paolo Piccatti (Chairman), Riccardo Foglia Taverna and Vincenzo Rizzo, and as alternate auditors, Daniele Fre' and Michela Rayneri for the three-year period 2014/2016, until approval of the financial statements at 31 December 2016;

attributes

- to the Bank's Board of Auditors, the functions of the Supervisory Body pursuant to article 6, paragraph 4-*bis* of Italian Legislative Decree 231/2001;

acknowledges

- the Board of Directors' Report on the implementation of remuneration policies;
- the review of the internal audit work on the methods for ensuring the conformity of remuneration procedures with the regulatory context;
- the internal control policies relating to risk activities and conflicts of interest in relation to associated subjects.

INDIPENDENT AUDITORS' REPORT

Deloitte.

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10121 Torino
Italia

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AUDITOR'S REPORT ON THE STATUTORY FINANCIAL STATEMENTS PURSUANT TO ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF 27 JANUARY, 2010)

To the Shareholders of
BANCA SELLA S.p.A.

1. We have audited the statutory financial statements of Banca Sella S.p.A. as of and for the year ended December 31, 2013, which comprise the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the related notes to the financial statements. These financial statements prepared 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 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards and recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, the data of which are presented for comparative purposes, reference should be made to our auditors' report issued on April 12, 2013.

3. In our opinion, the statutory financial statements of Banca Sella S.p.A. as of and for the year ended December 31, 2013 comply with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of the Italian Legislative Decree n. 38/2005; accordingly, they give a true and fair view of the financial position of Banca Sella S.p.A., and of the results of its operations and its cash flows for the year then ended.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova
Palermo Parma Roma Torino Treviso Verona

Sede Legale: Via Tortona, 25 - 20144 Milano - Capitale Sociale: Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239
Partita IVA: IT 03049560166

Member of Deloitte Touche Tohmatsu Limited

4. The Directors of Banca Sella S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable law and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion the report on operations is consistent with the financial statements of Banca Sella S.p.A. as of, and for the year ended December 31, 2013.

DELOITTE & TOUCHE S.p.A.

Signed by
Vittorio Frigerio
Partner

Turin, Italy
April 10, 2014

This report has been translated into the English language solely for the convenience of international readers.