THE THIRD PILLAR OF BASEL 3

DISCLOSURE OF INFORMATION TO THE PUBLIC AS AT 31 DECEMBER 2015

BANCO DI DESIO E DELLA BRIANZA S.p.A.
Registered Office via Rovagnati 1 – 20832 Desio (MB)
Tax Code 01181770155
Registered in the Monza and Brianza Business Register
Fully paid up Share capital €67,705,040.00
Member of the Inter-Bank Fund for the Protection of Deposits and of the National Guarantee fund
Registered with the Register of Banks under ABI Code no. 3440/5, Group holding company of the Banking Group of Banco di Desio e della Brianza
Registered with the register of Banking Groups under no. 3440/5

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Introduction

The harmonised provisions concerning banks and investment businesses set out in EU Regulation 575/2014 (hereinafter referred to as the "CRR" or the "Regulation") and in EU Directive 2014/36 dated 26 June 2014 (hereinafter referred to as the "CRD IV" or the "Directive") came into force on 1 January 2015. These incorporate the provisions adopted by the Basel Committee of Banking Supervision (the Basel 3 Regulatory Framework) into European law.

In this context the law concerning the Third Pillar includes obligations to disclose information regarding the adequacy of capital resources, exposure to risks and the general characteristics of the systems responsible for the identification and the measurement and management of such risks. In particular, the Information to be disclosed to the Public is governed by EU Regulation 575/2013 (the so-called CRR) in Chapter 3, Title I, Parts Eight and Ten, and the Regulatory and implementation technical rules issued by the European Commission to regulate:

- uniform templates to be used for the publication of information concerning the main characteristics of equity instruments;
- uniform templates to be used for the publication of information concerning internal capital over the period from 1 January 2015 to 31 December 2021;
- disclosure obligations in relation to capital reserves;
- uniform templates to be used for the disclosure of information regarding indicators of systemic importance;
- information concerning unrestricted balance sheet assets;
- uniform templates to be used for the disclosure of information regarding financial leverage (leverage ratio).

The European law provisions have been supplemented by the instructions issued by the Bank of Italy in Circular no. 285 dated 17 December 2014, bringing together the prudential supervisory rules applicable to Italian banks and banking groups, reviewed and updated to adapt the internal law to the new provisions introduced into the international regulatory framework, with particular reference to the new regulatory and institutional structure of banking supervision in the European Union, while also taking into account the requirements emerging in the conduct of supervision carried out in relation to banks and other intermediaries. The above circular does not, as had been the case previously, dictate specific rules for the preparation and disclosure of the 3rd pillar, limiting itself to listing the provisions to this effect contained in the CRR without setting out summarising tables as in previous regulations.

The information has to be disclosed through the Bank's internet site at least once a year and in any case coincidentally with the publication of the accounting period Financial Statements.

The information contained in the Public Disclosure document as at 31/12/2015 is that expressly envisaged in the CRR which, compared to the requirements of the earlier regulation in force up to 31 December 2013, has now been expanded to include matters such as governance, remuneration, unencumbered assets and the disclosure of the leverage ratio indicator (financial leverage).

As regards the financial leverage indicator, a new paragraph has been added into the current version of the document, containing qualitative information and, for the first time, quantitative information regarding the base components of the considered magnitude, obtained as at 31 December 2015 applying both the transitional rules and the final ones.

The drafting of the information for public disclosure has been achieved through the collaboration between different company bodies and the governance and process compliance structures consistently with the powers defined by the Group's internal regulations. In particular, the supervision of the public disclosure process and communications issued by the Bank are part of the powers of the Board of Directors.

For the sake of completeness, it should be noted that the information disclosed refers to the prudential consolidation area, that is, all bodies subject to bank consolidation for the purposes of supervision. Any inconsistency with respect to other sources (the Consolidated Financial Statements relating to the same reference date) are attributable to the differences in the consolidation perimeter taken into consideration.

Additional information relating to capital risks and adequacy has been set out in the Report on Management and the Notes to the Consolidated Financial Statements as at 31 December 2015. In particular, information on Group risks is contained in Part E of the Notes to the Financial Statements.

Unless otherwise indicated, all the figures reflected in the tables and in the document itself are expresses as thousands of Euro.

The Banco Desio Group has published this Public Disclosure on its internet site in the Investor Relations section (www.bancodesio.it).

Risk Management Policies and Objectives (Article 435 CRR)

Introduction

In general terms it is possible to define risk, in the economic/financial context, as the possibility that the result of any operation carried out by an economic entity will be different from what has been predicted beforehand. It is thus implicit that risk is an integral part of the conduct of banking activities and that the medium- and long-term stability of the Credit Institution and its Competitiveness are a function of the decisions made with regard to the risk/returns ratio of its operations taken as a whole. In order to deal with the risks to which it is exposed, the bank will set up appropriate company governance instruments and adequate government and control mechanisms. The latter resources cover all types of business risk undertaken which is consistent with the characteristics, the size and the complexity of the activities carried out by the bank. To this end, following the 15th update to the Bank of Italy Circular no.263/2006, the banking group has drawn up its Risk Appetite Framework (RAF), which is updated on an annual basis so as to reflect changes in the bank's objectives and risk strategies. The methodological approach adopted by the Group envisages a quantitative assessment based on three different types of indicators (first level and second level risk indicators and key-risk indicators) together with a qualitative assessment concerning the assessment of the organisational mechanisms. To this is added specific policies relating to the various types of risk providing the criteria for operational risk management from both a Group and individual perspective.

Group level strategic decisions regarding risk management are referred to the business-related bodies of the Group holding company, such decisions taking account of the specific operational nature and associated risk profiles of each of the companies making up the Group. So far as the other components of the Group are concerned, the bodies of the related businesses are aware of the risk profile and the management policies drawn up by the Group holding company and are responsible for the implementation of such policies in a manner consistent with their own business context. The Group has identified specific responsibilities within its organisational structure with a view to ensuring an efficient and effective risk management and control. With this in mind, the Group has adopted the principle of the separation of the functions involved in the risk control process in compliance with the provisions of the prudential supervisory regulations.

The Internal Risk Management and Control System is made up of the totality of the rules, procedures and organisational structures aimed at ensuring the identification, measurement, management and monitoring of the main risks. This system has been integrated with the organisational and corporate governance structures adopted by the Group. The system guidelines are set out in a special set of internal regulations. The detailed operational and informational provisions relating to the business process controls put in place throughout the different levels are contained in specific "Consolidated texts" setting out internal functions and procedures. The bodies and functions involved in the Internal Control System are arranged as follows:

1. The Compliance Function has been given the duty of managing and protecting against the risks of non-compliance with law at the Group level;
2. The Anti-money-laundering function. This is responsible for checking on a continuous basis that the business procedures are consistent with the goal of preventing and combating the breach of a whole range of external regulations and self-regulations concerned with money-laundering and terrorist financing;
3. The Risk Management Function: this is responsible for the measurement and monitoring of the Group's exposure to the different risk types, with particular reference to market, credit, rate, liquidity and operational risk, as well as assisting the Board of Directors with the governance of the RAF and the ICAAP process;

4. The Credit Risk Control Function reporting to the Risk Management function: It is responsible for checking the correct functioning of the monitoring of trends in credit exposure (in bonis and particularly deteriorated), the consistency of classifications, the appropriateness of provision made and the adequacy of the recovery process (as referred to in the 15th update to Circular 263/2006);
5. The Internal Audit Function: this is responsible for carrying out the checks designed to ensure that the business and Group Internal Control System as a whole is adequate and functioning as intended;
6. The Responsible Manager pursuant to Law 262/05: he or she has the duty of maintaining an organisational and control model for the Group's financial information, aimed at guaranteeing the reliability and integrity of the accounting and managerial information;
7. Management Function Body:
   - CEO vested with the duties of Director responsible for the risk management and control system: he or she is responsible for supervising the implementation of the directives and guidelines laid down by the Board of Directors in the field of risk management and internal group control;
   - General Manager: he or she, in his or her capacity as manager with responsibility for staff management and the organisation and functioning of the business structures, is responsible for drawing up the measures necessary to ensure the maintenance of an efficient and effective internal control system commensurate with the risks connected with business operations;
8. The Risk Control Committee, a body internal to the Board of Directors: its functions are to provide consultancy and carry out investigations in relation to matters coming within the competence of the Board of Directors, with particular reference to the assessments and decisions relating to the internal control system and risk management.

The activities of the above functions include the same responsibilities in relation to subsidiary companies pursuant to the provisions of the "Consolidated Texts" applying to the specific functions and, if the Group holding company has outsourced the internal control duties relating to particular subsidiaries, in accordance with the provisions of the related Framework Agreements governing the matters concerned.

The Group's Risk Appetite

The 15th update of Circular 263 requires that banks must draw up a reference framework to establish risk appetite (RAF) that establishes in advance the risk/returns objectives that the bank wishes to achieve and the consequent operational limits. The regulation provides a series of minimum information requirements for the purposes of the implementation of the RAF, emphasising that its organisation and construction in practice must in any event be calibrated to the size and operational complexity of each individual bank. The prudential supervision regulation defines the following concepts of relevance for the RAF:

- ✓ risk capacity (maximum acceptable risk): represents the maximum risk level that a bank is able to take on without breaching regulatory requirements or other restrictions imposed by shareholders or by supervisory authorities;
- ✓ risk appetite (risk objective or propensity): this is both the overall risk and the risk per type that the bank intends to take on in order to achieve its strategic goals;
- ✓ risk tolerance (risk threshold): this indicates the maximum deviation from the permitted risk appetite. The tolerance threshold is set in such a way as to ensure that the bank has sufficient margins to continue operating within the maximum risk capacity even in conditions of stress;
- ✓ risk profile (actual risk): this expresses the risk actually measured at a given moment in time;
- ✓ risk limits: this is the expression of risk appetite in terms of defined operational limits, in line with the principle of proportionality by risk type, business unit and/or area, product line and customer type.

Following the 15th update of Circular 263, the Group decided to review its RAF. The methodological approach adopted by the Group envisages a quantitative assessment based on three different types of indicators (first level and second level risk indicators and key-risk indicators) together with a qualitative assessment concerning the assessment of the organisational mechanisms.

To this is added specific policies relating to the various types of risk providing the criteria for operational risk management from both a Group and individual perspective. We have set out below a description of the three types of indicators used and the qualitative evaluation of the organisational structures for the purposes of the measurement, monitoring and management of the various risk types.

- First level Risk indicators: these are derived from specific macro-areas relating to the Group's risk exposure represented by capital adequacy, financial leverage, the risk/returns ratio and liquidity. Each indicator is calibrated according to the concepts of risk appetite, risk tolerance and risk capacity, as well as a system of operational limits (risk limits). The risk limits system allows risk exposure to be monitored constantly to allow the immediate activation of any corrective measures required in order to bring operations back to values consistent with the risk objectives established beforehand by the Bank. In other words, it is a question of identifying a threshold value for each indicator which, if exceeded, will lead to the activation of specific business escalation processes.
- Second level Risk indicators: these are described in the "Business Risk Management Policy – Banco Desio Group" dealing with individual types of risk considered to be of particular importance for banking operations. These indicators are designed to cover aspects of risk not already identified using the metrics used in the first level indicators. A risk limit system is calibrated for each indicator and structured on two different threshold levels which, if exceeded and depending on the degree of seriousness encountered (alert and warning thresholds respectively), results in the triggering of specific business escalation processes. They are designed to give timely warning should second level indicators approach a situation deemed to be particularly critical in nature.
- Key-risk indicators: these are defined in the "Business Risk Management Policy – Banco Desio Group" and relate to individual risk types in that they are derived from specific operational and management aspects considered to be of particular significance for banking operations. They therefore provide additional information, from a different perspective, of the dynamics of the Group's exposure to risk. These indicators do not include alert or warning thresholds even though they are monitored on a periodic basis in order to identify possibly anomalous data or unusual trends and, as a consequence, to identify any corrective actions required.
- Qualitative assessment of organisational precautions essentially involves qualitative assessment of the organisational precautions currently in place with regard to corporate risks. The goal of these activities is to evaluate, on the basis of an examination of the evidence deriving from internal audits and compliance, the current profile of adequacy of the existing organisational structure in relation to the risk appetite profile generated by the RAF. The evidence obtained in this way permits, in the first place, the formulation of a judgment on the overall adequacy of the current state of organisational institutional mechanisms and subsequently, the identification of specific improvement initiatives to be implemented over the following 12 months in response to the areas of improvement identified. Subsequently, an expected adequacy profile for the organisational institutions is assessed following the implementation of such initiatives through agreement with the affected structures. Finally, the initiatives identified are submitted for approval, together with the definition of the time required, and those responsible, for the related implementation and co-ordination. The activities so identified will be carried out in the context of the self-assessment forming part of the ICAAP.

The implementation of the RAF requires effective monitoring and reporting activities capable of analysing and assessing the bank's risk profile. The first level indicators have only one "warning" threshold while second level indicators have both an alert and a warning threshold.

If the warning threshold of the first level indicators or either the alert or warning thresholds of the second level indicators are crossed, this triggers the activation of specific escalation processes intended to assess, above all, the reasons for the limits being exceeded and then to identify any corrective actions required to return operations to the normal course of business. The escalation processes differ depending on whether the thresholds crossed are of first or second level risk indicators, with a further distinction, in the case of the latter, depending on whether the limits exceeded are alert or warning thresholds.

The Risks

Credit Risk

Credit risk is the risk that an unexpected change in the creditworthiness of a counter party to which the Bank is exposed may generate an equally unexpected change in the market value of the credit position.

Risk Management strategies and processes

Within the scope of the Group's Credit Policy and with reference to the financial operators, the following are general principles to be adhered to when granting credit: a) the division of risk between a large number of businesses operating in different economic sectors and different market segments; b) the appropriateness of the credit ceiling accorded to individual players depending not only on the latter's autonomous credit capacity but also the technical form of the ceiling itself and the collateral security that can be acquired.

That said, in general terms, the Group bases its decision to grant and maintain credit facilities on the combination of a number of elements such as: a) trust in those directing the business deriving from their personal characteristics demonstrating their propriety, technical abilities, etc.; b) stability in the conduct of the business ensuring unity and continuity in management direction; c) the extent of liability, understood as the business and/or personal assets of the guarantor shareholders who must provide adequate commitments for the grant of the requested credit facilities; d) a balanced asset and financial structure, taking into account the resources on which the business is able to rely and the needs arising as a consequence of the planned commitments; e) a positive liquidity situation; f) the relationship must be sufficiently profitable; g) convincing motivation explaining the use of the credit facilities; h) future income capacity and business continuity. In the case of Consumer households instead, the following aspects are considered: a) sufficient income resources in relation to the commitments made and to be made in the future; b) appropriate assets to cover the applicant's liability, c) positive conduct of ongoing relations.

The structure and the organisation of the relevant risk management function

The organisational structure of the Group provides for the oversight and management of credit risk based on a rationale requiring a separation between business and control functions. The Board of Directors approves strategic indications and risk management policies. It verifies that the CEO, as the "director responsible for risk control and management", is promoting and guaranteeing, within the scope of his or her work responsibilities, a clear and widespread knowledge of the risk management policies approved by the Board of Directors. The CEO also defines the internal control and risk system (to submit to the Board of Directors itself) consistently with the pre-defined risk appetite. The Board also verifies that the control functions have autonomy within the business structure and sufficient resources with which to fulfil their responsibilities.

Within the above framework regarding risk management in general, the system of the delegation of powers for the granting of credit is of particular importance. It is organised around bodies and functions/positions within the business, from the Executive Committee to mid-level managers. Responsibilities for the evaluation and taking of risks are thus assigned to the different functions in compliance with credit autonomy limits defined in the Internal Regulation and consistently with the organisational arrangement of the commercial network.

In the above context, Credit Management provides support to General Management, supervising the activities of granting and managing ordinary credit and working with General Management in order to ensure an adequate degree of care and awareness in acceptance of risks in line with business policies concerned with receivable quality, overseeing the co-ordination of lending activities and ensuring the supervision of the section's operations including with reference to Special Loans (without prejudice to the managerial autonomy of subsidiaries in lending to their customers). It is responsible for the following in particular: a) ensuring the uniformity of the methods and processes used in lending activities; b) ensuring the implementation of the Group's lending policies strategy, taking as an initial fundamental element for a correct credit risk assessment any counterparty's overall credit exposure to the Group; c) supervising the activities carried out in this area by the structures of the subsidiaries, providing the necessary instructions and assistance.

In the context of Credit Management, the Credit Area carries out the following duties: a) oversees the activities of lending and ordinary credit management, assisting Credit Management in ensuring that risks are taken with care and a full knowledge of the facts in line with business policies on lending quality; b) oversees internal controls intended to ensure the juridical certainty of collateral security; c) contributes, in agreement with the Resources Management, to the development of knowledge and the specialist/technical skills of internal staff and the Distribution Network; d) collaborates in the development of organisational projects, providing the necessary contribution and ensuring the connection between the project governance and the Management/Area structures; e) provides training support in the specialist field within its competence, in the identification of training needs, contributing to the design, implementation and updating of the training modules and in teaching activities.

The Special Credit Area, reporting directly to Credit Management, is responsible for the following duties: a) it assists Credit Management in order to ensure that risks are taken with care and full knowledge of the facts in line with business policy on credit quality; b) it ensures supervision and implementation of consumer credit products, financial leasing, medium- to long-term loans, assisted loans and factoring, taking on the function of interlocutor with the medium- and long-term institutions, mutual aid loan consortia, category associations (Assilea/Assifact/Assofin) and Databases; c) it works with the Distribution Network in the preparation and conclusion of loan contracts, confirming that the proposals comply with the specific law and that credit facilities are resolved on in observance of delegated powers; d) it ensures the management and organisation of systems and support for the specialist aspects falling within its scope of competence for the implementation and constant updating of internal rules; it also collaborates with the same Management in the development and implementation of applicable computer applications; e) it collaborates in the development of organisational projects, providing the necessary contribution and ensuring the connection between project governance and the Area structures.

The Risk Trend Assessment Section: monitors *in bonis/past-due* loans detected via the systems in place and for which there are currently insufficient grounds on which to proceed with extrajudicial debt recovery or to institute legal action. The main activities carried out by this Section, working via the Monitoring Department, are as follows: a) gathers data on the trend of the individual risk exposures highlighted by regular detailed checks conducted in accordance with pre-established criteria, or highlighted by other Organisational Units (Loan Management, Risk Management, Internal Audit, etc.); b) intervenes on the Distribution Network to flag any signs of anomalies with a view to requesting the normalisation of risk positions and, in the event of failure to do so, arranges their classification into the various risk categories and prepares the analytical loss estimates; c) in collaboration with Network, this Section manages risk positions classified as "past due" and "Under Control", monitoring the ongoing status of individual positions and coordinating the entire Network's risk oversight activities; d) assists the Branches with the scrutiny of critical areas and problems relating to risk management; e) makes decisions regarding "Under Control" and *past* *due* positions that are within the limits of its assigned authority and expresses an opinion regarding those that are beyond its authority; f) estimates the forecast losses on positions classified as "Probable defaults" and requests expert Drive-by assessments in the case of mortgage positions; g) manages *forborne performing* positions; h) assesses and analyses long-term non-performing in *bonis* and *past due* positions; i) orders the despatch of any payment demand letters and, in the case of formal notices, the termination of the applicable contracts and the seizure of any related guarantees.

Furthermore, a Debt Recovery Section has been established, reporting directly to the General Manager and consisting of three departments (a Debt Recovery Department with personnel seconded to the various branch offices countrywide, a Legal Department, which previously fell under the Legal and Corporate Affairs Directorate, and an Outsourced Recovery Department), which is responsible for managing the process of judicial and extrajudicial debt recovery for both the Holding Company (directly) and for the Subsidiary Banca Popolare di Spoleto (via the subsidiary's internal departments, which have a close functional and operational relationship with the Section Manager).

The Debt Recovery Department makes use of designated personnel seconded countrywide to manage the debt recovery process relating to loans classified as Probable Defaults, interacting with the respective Branch Managers (and with the Section Manager depending on the extent of the risk) in order to better safeguard all claims; in particular, in the case of loans with pending classification as "probable default", the aforesaid Department immediately takes action on the positions highlighted by the Risk Monitoring Department, the Network and/or other internal control functions in order to activate and implement the recovery strategy or, in cases where there are insufficient grounds to do so, to immediately adopt measures to safeguard the bank's claims. The Department's main functions include the following: a) to audit "Probable Default" trends by means of regular, detailed checks conducted in accordance with pre-established criteria, or by actively managing the "Probable Defaults" with a view to achieving an amicable settlement, interacting with the applicable Branch Manager and the Section Manager, depending on the extent of the risk; b) to intervene immediate on positions indicated by the monitoring section, the Network and/or other internal control functions (the Loans Department, Risk Management Department, Internal Audit Department, etc.); c) to assess the positions classified as "Probable Defaults" in order to establish whether the client's problem is temporary and can be overcome and thus to reclassify the loan as "in Bonis", or whether the case should be handed over to the Legal Department for cancellation of the loan facility and the institution of legal action; d) to assist the Branches with the scrutiny of critical areas and problems relating to risk management; e) makes decisions regarding "Probable Default" positions that are within the limits of its assigned authority and expresses an opinion regarding those that are beyond its authority; f) to establish the precise extent of the forecast losses on mortgage loans on the grounds of the Drive-by assessments requested by the C.A.R. and, where applicable, to update the forecasts for the other categories; g) to manage non-performing forborne positions; h) to assess and analyse "long-term, non-performing" probable defaults; i) to order the despatch of final payment demand, contract cancellation and formal seizure of guarantee notices; j) to manage, in collaboration with the Distribution network, any risk positions classified as "Probable Defaults" that are already subject to debt restructuring arrangements (so-called Restructured debts) or pending applications for arrangement with creditors, proposed payment plans pursuant to Art. 67, Clause three, Letter D of the Bankruptcy Law, a proposed repayment plan pursuant to 182 bis of the Bankruptcy Law or ongoing arrangements with creditors. In the latter case, the Department monitors the progress of the individual positions, coordinates the activities of the entire Distribution network as regards the overseeing of the risks, makes decisions regarding the aforesaid positions within the limits of its assigned authority or expresses an opinion on any decisions that fall beyond its limits of authority.

As regards the debt collection process and loans classified as "Non-performing" that have not been handed over to outsourcing debt collection companies for collection, the Legal Department is responsible for the following: a) it takes over the management of positions classified as "default", implementing, within the powers delegated to it, all actions necessary for the management and recovery of credit positions ,including by the appointment of external professionals who have agreed to the fee rates approved by the Bank, or of debt recovery companies which have entered into the applicable agreement with the Bank; b) it manages positions classified as “adjusted default”; c) it manages cases where the bank is a Defendant and the related out-of-court procedures for the settlement of disputes deriving from positions classified as “default”; d) it makes periodic requests to the responsible bodies for authorisation of proposals for write-downs, the establishment of provisions in the accounts, expenditure and the ceding of positions classified as “default” in compliance with the powers delegated to it; e) it proposes to the responsible bodies the resolution by way of settlement of positions classified as “default” in accordance with the specific policies and the powers delegated to it;

f) it prepares periodic reports at a pre-set frequency to the Board of Directors concerning the state of the litigation managed by it, as also to the responsible manager and the Administrative Management in relation to the trends of monies set aside in the Contingency Reserve; g) it reports to the Board of Directors at the pre-set frequency on the exercise of its delegated powers in relation to legal actions and applications together with settlements and expenditure on problematic loans; h) it informs General Management in relation to adjustments over and above a given threshold.

The Outsourced Recovery Department is responsible for the following duties: a) it controls the assignment of cases to the external debt recovery companies, with contractually specified timing, monitoring progress on procedures and activities by means of regular reports, requesting interventions and coordinating the dealings between the Distribution network and the aforesaid companies. Checks the invoicing and analyses any lots returned with negative outcomes, confirming their non-performing status and instituting legal action or allocation to losses; b) forwards any positions to be transferred to the Legal Department according to a pre-arranged schedule or, in extreme cases and by agreement with the receiving Department, at some other non-scheduled time, whenever it is deemed to be necessary and urgent to institute legal action; c) checks to ensure that the envisaged documentation is available, attaches said documentation in digital format in the specific section of the “FEU” procedure relating to the cases in question and requests any missing or additional documentation from the Branch; d) checks to ensure that the Branch has sent off the final payment demand letter to the client and the guarantors and drafts any additional letters where necessary; e) ensures that any applicable lodged securities are checked.

The Risk Management Division reports directly to the Board of Directors and is responsible for supporting the management of business and Group risks in accordance with the risk strategies, plans and policies drawn up in compliance with primary, secondary and business regulations. It thus has the duty to measure and monitor the Group’s exposure to the different types of risks, including credit and concentration risk, also co-ordinating project-based activities for the implementation of measurement and evaluation models, methods and instruments and developing an integrated reporting system for monitoring risk and the relative overall internal capital. The Risk Management Division, working through the Credit Risk Control function, is also responsible, within the context of the rating override process, for assessing proposals put forward by the Group’s branch office network on the basis of the internal provisions in force and for ensuring, in the event of the acceptance of the request, that the new, valid rating is inserted into the procedure. This same Department is responsible for checking: a) proper performance of credit exposure monitoring activities regarding both in bonis loans and particularly those that have deteriorated; b) consistency of classifications; c) appropriate levels of provisions and d) adequacy of the recovery process.

Finally, Internal Audit Management, which reports directly to the Board of Directors, is responsible for assessing the functionality and the reliability of the entire internal audit system, carrying out, inter alia, checks on the proper functioning of credit-based activities.

<u>The scope of application and the nature of the risk reporting and monitoring systems</u>

The credit risk management and control systems have been developed in an organisational context in which the entire credit process cycle is involved, from the initial investigation phase to that of periodic review and the final stages of revocation and recovery. At the credit investigation stage the Group conducts both internal and external investigations on the loan customer, reaching the final decision on the granting of credit after considering an entire range of information relating to the customer’s economic status, deriving from direct knowledge of the bank’s clientele and the economic context in which they operate. For the most part, the determination of the creditworthiness of a counterparty derives from the following: a) an analysis of the quantitative and qualitative information obtained from different sources (financial statements, Risk centre, databases, etc.); b) a subjective assessment by the responsible body on the basis of knowledge of the counterparty or of the Management's reputation. The main guidelines for this assessment process refer to the following: a) knowledge of the businessman or woman concerned in terms of business activities carried out, information on the related financial situation and from the Financial Statements, the reputation of the customer and management in the case of Companies; b) the reasons for which the loan has been requested; c) the identification of sources for repayment and hedging of the credit risk to be borne, and d) the collateral obtained in order to mitigate the credit risk.

Knowledge of the entrepreneur, whenever dealing with a business, must include, above all, checks on its Competitive positioning in the reference market in which it operates, defined on the basis of the products or services produced, the geographical area covered by its sales/distribution network and the target customer segment. In addition to the financial statements, the purpose of the analysis is also the future evolution of the business management (business plan) and its repercussions on the financial plan and consequent ability to repay or cover the commitments made. Both for Companies and Private individuals, particular attention must be paid to the analysis of the reasons for the investment for which the loan from the Group banks is being requested. In the case of both private and business customers, the correct representation of the reasons and the related financial plan permits the decision-making body, once approval has been confirmed for the type of operation involved, to accept the credit risk with full knowledge of the facts, giving due weight to the financial sustainability of the project to be financed, its management repercussions combined with its present and future profitability allowing the repayment of its debt.

Solely for the management purposes the Group uses an internal rating system – developed at association level and adapted to suit the Group portfolio - , utilising the Credit Rating System (CRS) procedure. This permits the classification of each counterparty into one of the risk classes, the members of each having similar probability of insolvency. The statistical model is of "Logit" type and makes it possible to calculate the probability of the occurrence of a "default" event (PD – probability of default) by the analysis and assessment of a number of different factors relating to trends and fundamental characteristics. The use of the above procedure permits the assignment of a rating based on the information sources used and the applicable model (private customer/small business/SME /Large Corporate/real estate). In particular, the counterparty segmentation criteria include consideration of the sector of economic activity (SEA), the legal status (NCG) and the counterparty's size (turnover or total assets). There are ten rating classes for solvent counterparties (from 1 to 10, the higher the number the higher the probability of insolvency), while there are three classes for non-performing loans (overdue loans, probable default and default categorised as classes C+, C and D) respectively. A more detailed account of the models so derived can be described as follows:

a) Small business: used in the valuation of individual businesses and sole traders;
b) S.M.E[1].: designed for all private companies and stockholding companies with turnover of less than €25 million combined with a system for the codified re-classification of the Financial Statements depending on whether the businesses concerned are industrial companies, commercial companies, multi-year manufacturing companies or service companies;
c) Large Corporate: designed for the valuation of stockholding companies with turnover of more than €25 million combined with a system for the codified re-classification of the Financial Statements depending on whether industrial companies, commercial companies, multi-year manufacturing companies or service companies;
d) Real estate: the valuation of companies specialising in this sector;
e) Private customers: valuation of counterparties registered under SEA 600.

Financial companies, institutions and associations (the residual components of the consortium banks' portfolios) continue to be classified according to the earlier rating model into one of 8 in bonis rating classes ranging from AAA to CC.

[1]The SME definition used in the context of the segmentation of the Credit Rating System model is not the same as that defined under EC Recommendation 2003/361 and Article 501 of the EU Regulation 575/2013.

Plan for updating internal rating systems in accordance with AIRB proposals

On 17 December 2015 it was decided to adopt a plan to update the rating system in use within the Group so as to fully comply with the quantitative and qualitative requirements envisaged in the Prudential supervision regulations using the methods proposed by the A-IRB. The plan, which became operational in January and is scheduled to be fully implemented within approximately two years, is being coordinated by the Risk Management Department, has a specific Plan Governance system and is broken down into operational units relating to various areas of intervention (statistical models for estimating parameters relating to risk, loan procedures, supervision reporting, information systems and data quality). Furthermore, it is envisaged that the Organisation Department will intervene to coordinate change management initiatives and the company control departments (Internal Ratification and Internal Auditing).

As regards the risk parameters, the planned methodology specifically envisages the revision of the PD and LGD forms, which will be developed on the basis of Group's internal information.

The main aim of the plan is to improve the loan management process so as to minimise losses and comply with the Supervisory regulations. Once the planning activities have been completed, we will also consider the possibility of requesting prudential status for the models developed, in the interests of calculating the minimum capital requirements to offset the credit risks. The adoption of the rating systems will enable the Group to improve the efficiency of credit brokering process by means of: better selection and proactive monitoring of loans, earlier detection and better management of problematic loans, containment of operating costs and optimisation of balance sheet provisions.

The risk hedging and mitigation policies and related strategies and processes for continuous monitoring of their effectiveness

During the process of granting credit, even in cases where the counterparty and the operation have a positive rating, the Group nevertheless seeks, wherever possible, to obtain additional collateral with the aim of mitigating the risk. The collateral obtained as a means of credit risk mitigation is subjected to careful periodic monitoring to ensure that the value calculated initially is maintained or that the party providing the collateral or bond remains financially stable. In circumstances which have a negative effect on the collateral security framework it is necessary to act immediately to supplement the collateral or reduce the credit line agreed previously. Mortgage security is the most widespread in the lending context mostly in the technical form of mortgages of land (particularly over residential property). A less common form, although still significant in value, is the use of pledges over moveable assets and/or cash.

A prudential margin is always applied to the value of the objective collateral to take account of the variability of the market value of the pledge or mortgage over time. Such security is monitored continuously in order to check its current value with its initial value and permit interventions in the case of a decrease in value. When obtaining mortgage security the latter's additional value is applied as specified in the internal regulation. Preferential collateral is normally in the form of bonds granted by natural individuals and companies. The assessment of such assets is always effected on the basis of an assessment of the guarantor's assets during the initial investigation or loan renewal stage. The security obtained by the Group is subject to a standard contract in line with category standards and legal case law as approved by the competent business function.

Market Risk

Market risk is that deriving from changes in value of a financial instrument or portfolio of financial instruments caused by unexpected changes in market conditions.

Risk Management strategies and processes

Since the Group has very limited exposure to market risk intrinsic to its "regulatory trading portfolio", it has been decided at management level to adopt a more extensive limit for the application of the market-risk management principles and policies. As a consequence, the rationale used in the definition, measurement, management and control of market risks has been adapted for portfolios of financial instruments other than loans included in the bank portfolio. The management of the Bank's own portfolio takes the form, for the most part, of the implementation of a financial investment policy based on the indications drawn up by the Board of Directors for the operational management of own portfolios and short term cash resources in Euros and foreign currency, seeking to optimise the risk/returns ratio. Within this context the Group implements its own investment policy in accordance with its capital objectives and the desired risk profile in order to guarantee a prudent and efficient management of its cash resources with respect to the current situation and strategic forecasts. In addition to this ability to utilise available monetary resources, we also seek and make use, on a counterparty basis, of facilities extended by institutional and cross-border counterparts (e.g.: the European Central Bank).

The structure and organisation of the pertinent risk management function

The Group ensures an adequate process for the monitoring and management of market risk in a logic based on the separation between business and control functions. The Board of Directors approves strategic indications and risk management policies. It verifies that the CEO, as the "director responsible for risk control and management", is promoting and guaranteeing, within the ambit of his or her work responsibilities, a clear and widespread knowledge of the risk management policies approved by the Board of Directors. The CEO is also responsible for defining the internal control and risk system in accordance with the pre-defined risk appetite. The Board also verifies that the control functions have autonomy within the business structure and that they have sufficient resources with which to fulfil their responsibilities. In particular:

- The Group holding company's Risk Management Division ensures the integrated process of risk management, checking and monitoring any significant risks, systematically identifying and analysing the sources of such risks, co-ordinating planning activities for the implementation of models, methods and measuring instruments and developing an integrated reporting system for risk monitoring;
- The Group holding company's Financial Management carries out the activities coming falling under its jurisdiction in accordance with the limits and delegated powers assigned.

The scope of application and the nature of the risk reporting and monitoring systems

In accordance with the provisions of the RAF, the Risk Management Department monitors and analyses the following on a daily basis: a) the consistency of the bank's own securities portfolio; b) the Value at Risk (or VaR) trend; c) the duration trend of the del debt securities portfolio. The Group has drawn up a procedure to be activated if limits are exceeded entailing the application of a series of corrective actions and the involvement of the business bodies responsible for risk management and control.

Ordinary monitoring activities are carried out both with the assistance of specific IT procedures incorporating quantitative valuation models and the processing of data obtained from other applications. A specific reporting system is designed to provide adequate information on the results of market risk monitoring to the organisational units involved. The contents and the frequency of the reports depend on the objectives assigned to each player in the process. Additional limits resolved by the Board of Directors are concerned with specific areas of business and/or the bank's own securities portfolio.

These are particularly concerned with limits: a) differentiated on the basis of position within the hierarchy, for trading orders on online markets where the bank is a direct member; b) of exposure in foreign exchange with respect to the different currencies and c) of “stop-loss” and composition, in percentage terms and absolute values, with reference to the Bank’s securities portfolios Fair Value Through Profit or Loss – FVTPL and Available for Sale - AFS.

In terms of quantifying the market risk, the Group has adopted an internal model based on a Value at Risk (VaR) approach, which allows us the opportunity to consolidate and measure the risk of the positions assumed in terms of a heterogeneous risk factors. The specific model adopted is the parametric variance-covariance model for linear instruments, with approximation of delta–gamma for optional instruments, which has a confidence interval of 99% and a reference time scale of 10 ten days, in line with the recommendations formulated by the Basel Committee and market practices. This model applies matrices to portfolio exposures, which include, as regards volatility, standard deviations for each risk factor (interest rates, exchange rates and prices) and the relative correlations. The calculation of volatility and correlations is based on the modelling of the hypothesis of normality of the daily logarithmic returns of the risk factors by means of an exponential weighting on the basis of a decay factor over a time interval equal to 250 observations. The Application used for the calculation of the VaR is ALMpro (Prometeia), while the financial information necessary for the calculation of the VaR (volatility, correlations, interest rate futures structure, exchange rates, share indices and benchmark indices) is provided by the RiskSize product.

Operational Risk

Operational risk is the risk of losses deriving from the inadequacy or malfunction of procedures, human resources or internal systems or from external events. Included in this category are, inter alia, losses due to fraud, human error, system operational breakdowns, contractual non-compliances and natural disasters. Operational risk includes legal risks but excludes strategic and reputational risks.

Risk Management strategies and processes

The Group has implemented a special procedure for the systematic gathering of information regarding adverse events that could give rise to operational losses. The goal of such activities is to respond to internal management requirements by activating a process designed to provide top management with information on the operational risks taking form within the banks (Group holding company and subsidiaries).

The operational risk management model (or the operational risk management (ORM) macro-process) regulates roles and responsibilities of the functions involved in risk management. It also lays out specific monitoring limits relating to individual loss events and to the overall gross operating losses reported each year. This latter limit has been applied to the Group and every legal body belonging to the Group.

The Group utilises the aforesaid risk definition within the approved Operational Risk management model contained in the company regulations. In this regard, a specific operational risk management macro-process has been established (known as the ORM Framework) that includes the following stages:

I. Identification: finding, gathering and classification of information relating to operational risks;
II. Evaluation: financial quantification of the operational risks linked to company operations;
III. Monitoring and reporting: gathering and organisation of results for the purposes of monitoring changes in exposure to operational risk;
IV. Mitigation and control: transfer of the risk and improvement of company processes.

The following operational processes have been introduced in support of the operational risk management model:

- Loss Data Collection – a structured process for gathering operational losses incurred within the Bank (already operational since 2007);
- Risk Self Assessment – a structured process for assessing potential operational risks and aimed at providing an overall view of risk events in terms of potential impact and *worst-case*.

Within the scope of the provisions of the company regulations, the Risk Management Department has set up an appropriate operational risk monitoring and reporting structure and integrated it with the dictates of the supervisory regulations regarding the matter of Coordination between the control departments. As regards the adverse events contained in the Company Operational Losses Database (DBPOA), a reporting system was already implemented some time ago to provide all the necessary information relating to the aforesaid events, including the number of events and gross losses incurred (net of any recoveries) over given periods of time.

The structure and organisation of the pertinent risk management function

As far as the operational risk management Organisational Model is concerned, the following positions have been established:

- ORM Reference managers: these are the Management, Area, Department or Service managers (whenever not directly reporting to a Management Division, with the exception of General Management and the Business Deputy Management). The manager concerned is responsible for implementing the ORM macro-process guidelines and the mitigating actions within the reference structure, validating and certifying the Risk Self Assessment questionnaires, managing the Loss Data Collection process within the reference structure and communicating, through an alert system, events of significance in the field of operational risk even when they do not, in themselves, giving rise to an operational risk.
- Risk Collector: the equivalent of an Area and/or Department Manager (if reporting to a Management Division). The manager is responsible for the following activities: identifying prejudicial events coming within the Loss Data Collection process; immediately identifying and communicating events of relevance to issues of operational risk to the Risk Management Department through the alert system, even if not giving rise to operational losses; assessing potential risks identified in the reference structure through the Risk Self Assessment process, identifying and proposing intervention strategies for risk mitigation to the Risk Management Department.

In fulfilment of the Bank of Italy regulatory provisions (see Circular 285/2013, Part I, Heading IV, Chapters 4 and 5), the Group has established a Security and ICT Area Governance Function (within the Holding Company) and has introduced policies relating to Security, Incident Management and IT Risk Methodology.

As regards the management of risks that impact on the Group's operational continuity, an Operational Continuity Plan has been established and interventions have been completed in the following areas: identification of services deemed to be vital for business purposes, introduction of a documentation framework to back up operations (operating procedures for managing any emergencies and restoring normal operations) and the establishment of a Business Continuity site (Bologna), separate from the normal worksites, to be used in the event of emergencies. The applicable tests have been conducted after completion of the updating of the measures adopted for managing operational continuity and overseeing the IT supplier.

To safeguard against the risk of the commission of the crimes contemplated in Leg. Dec. No. 231/2001 - "Regulations governing the administrative liability of natural persons, companies and associations without legal status", Group Companies have adopted a preventive organisational model. Responsibility for the effective implementation of the aforesaid models has been delegated to specific bodies.

The scope of application and the nature of the risk reporting and monitoring systems

The following are the monitoring systems concerned with operational risk, reporting directly to the Group holding company's top management:

- Report of quarterly monitoring of the overall limit on gross operational losses;
- Quarterly analysis of gross and net losses per event;

- Quarterly analysis of the number of occurrences identified by event;
- Quarterly analysis of the main events identified/recorded since the beginning of the year;
- Quarterly analysis of changes in total losses and events identified/recorded;
- Quarterly monitoring of events exceeding the reference quarter limit;
- Quarterly analysis of loss trends by quarter;
- Six-monthly analysis of DIPO return flows;
- Annual analysis of the findings of the Risk Self Assessment Process.

The risk hedging and mitigation policies and related strategies and processes for continuous monitoring of their effectiveness

As an additional form of mitigation, the Group has taken out appropriate insurance policies to provide cover against significant types of operational risk.

Other Risks

Concentration Risk

Concentration risk is the risk deriving from exposure to counterparties, groups of connected counterparties and counterparties from the same economic sector which carry out the same activities or are based in the same geographical area.

The Groups' lending activities are based on a policy of distribution of its credit portfolio. This form of division is guaranteed by business development, defined within the Strategic Plan, aimed at local economies made up for the most part of markets consisting of retail outlets, small businesses and small to medium-sized enterprises with less emphasis on corporate businesses. The above strategies are reflected in the Credit Rules Policy identifying, as one of the basic principles to ensure the correct management of an investment portfolio, the division of risk between a multiplicity of businesses operating in different sectors of economic activity and in different market segments. The Group has fixed specific limits within the framework of the monitoring activities carried out by the Risk Management Division which have to be monitored periodically for concentration risk both in relation to individual exposures and for sectors of economic activity. The limits concerned have to be observed both at an individual and consolidated level. Whenever any new products/services are introduced the Product Approval process provides for the intervention of the various company functions, each according to their respective sphere of jurisdiction, with the aim of arriving at a prior overall analysis of the risk of concentration to which the Group may be exposed during the course of its business activity.

The process of periodic monitoring and reporting dedicated to concentration risk, including the monitoring of the limits laid down by the Risk Management Policy, is carried out by the Risk Management Department. The latter measures exposure to concentration risk and produces the appropriate reports for the business functions involved in the credit management and monitoring process and for the Board of Directors. The periodic reports produced by the Risk Management Division contain analyses of concentration exposure in sectors/branches of economic activities including a comparison with the empirical evidence obtained at the level of the Italian banking system.

Interest rate risk applicable to the bank portfolio

Interest rate risk affecting the Bank portfolio is that deriving from potential changes in interest rates impacting on a variety of different trading assets.

As far as the management policies and processes for all companies coming within the Group perimeter are concerned, the Risk Management Department carries out identification, measurement, control processes and interest rate risk management from both the present and future perspective. Finance Management is involved in the interest rate risk management with regard to analyses of financial markets of a general character and its potential effects on the securities portfolio. From time to time Finance Management will assess whether or not it is appropriate to hedge the risk with derivative financial instruments relating to items both in assets and liabilities on the Balance sheet. The Risk Management Department and the Finance Management each carry out monitoring and reporting to the top management within their respective areas of competence. The Risk Management Department monitors the risk to which the entire Group is exposed through sensitivity, maturity gap and economic value analyses.

For management purposes the Group uses an internal Asset and Liability Management (A.L.M.) model through the ALMpro application to monitor all commercial activities connected with the transformation of the maturities of Balance sheet assets and liabilities, treasury operations and the related hedge derivatives. This model makes it possible to measure impacts deriving from interest rate structures expressed in terms both of changes in economic value of assets and interest margins. The variability of interest margins, deriving from positive and negative changes in rates over a 365-day time period, is estimated by means of gap analysis with the assistance of a number of different approaches in order to achieve increasingly precise estimates. Changes in the economic value of the assets and liabilities have been analysed through the application of Duration Gap methods and Sensitivity Analyses. The analyses can be effected by means of parallel shifts in the rate curve and specific scenarios for variations in market rates. The ALM model is used monthly for the estimate of the predicted risk management indicators. The data produced are reported periodically.

Liquidity Risk

Liquidity risk is the risk that the Group will not be in a position to fulfil its payment commitments. This risk may assume different forms depending on the sphere in which the aforesaid risk is generated, namely:

a) funding liquidity risk: the risk that the Group will be unable to meet both its expected and unexpected cash and financial out-goings efficiently, whether these are present or future, and its collateral requirements without prejudicing daily operations or the Group's financial situation;
b) market liquidity risk: the risk that the Group will not be able to realise a financial asset without producing a loss in capital account due to scarce liquidity or turbulence in the applicable market.

The overall model for the management and monitoring of liquidity risk is spread over different contexts, differentiated from each other in accordance with the reference function, the temporal horizon and the frequency of the analysis and consistently with the tolerance threshold for the related risk:

i. Management of the liquidity reserve (Counterbalancing Capacity), that is the management of an adequate stock of high quality unrestricted liquid assets which can be deposited with the central bank and which can be readily converted into cash to meet liquidity needs;
ii. Management of short-term liquidity, that is, management of all events impacting on the overall management of Group liquidity over a time period of less than 30 days with the goal of maintaining an adequate ratio between high quality assets which can be converted into cash immediately and the difference between in-coming and out-going cash flows;
iii. Management of operational liquidity, that is, the management of resources sufficient to ensure the Group's capacity to meet expected or unexpected cash payment commitments in a "normal course of business" context (going concern) over a short-term time period of not more than three months;
iv. Management of structural liquidity, that is, management of all bank portfolio events that impact on the Group's overall liquidity over a time span in excess of 1 year, the main aim being to maintain an adequate balance between profits and losses while limiting the possibility of funding medium- to long-term activities with short-term losses;

v. Management of the sources of financing, that is, the management of particular financing sources and/or channels with the goal both of a sub-division of collection sources, giving preference to the retail customer over the raising of wholesale funds, and the achievement of a significant number of counterparties, while at the same time ensuring adequate diversification in the residual liability maturities.

The Group has also adopted a specific Contingency Funding Recovery Plan (CFRP) which makes it possible to identify intervention strategies in circumstances of liquidity tension, following the determination of the external or internal nature of the situations giving rise to the tension and defining the specific areas of competence and responsibilities of the business functions in emergency situations. The CFP is approved by the Group holding company's Board of Directors, reviewed periodically and applied to the legal bodies coming within the liquidity risk monitoring perimeter.

The main safeguard against liquidity risk (specifically the market liquidity risk component) is to maintain adequate liquidity reserves consisting mainly of Italian government bonds that are immediately available and can be quickly and easily cashed in or lodged as guarantees against refinancing operations involving the European Central Bank (Level 1, top quality). As at 31 December, the reserves were above the minimum limits established for the Risk Appetite Framework (RAF).

As regards the LCR indicator (Liquidity Coverage Requirement), the measurement and reporting at Group level was done as required in terms of the prudential supervisory regulations, as prescribed in European Commission Delegated Regulation No. (UE) 2015/61, dated 10/10/14, which supplements Regulation No. 575/2013. The resulting amount is higher than the applicable minimum requirement set for the period 01 October 2015 – 31 December 2015, which is 60%. As regards the "Basel III" medium-long term liquidity indicator, in terms of the Net Stable Funding Ratio (NSFR), for which the applicable regulations are still in the process of being established, the relative rules and IT procedures for measurement are currently being developed and tested. This indicator will come into effect during the course of 2018.

The residual risk

The residual risk is the risk that the techniques used by the bank for mitigating credit risk prove to be less effective than expected.

Collateral has the purpose of strengthening the principle relying on the asset liability of the main liable party in that the requirement for collateral seeks to ensure greater certainty of compliance or increased effectiveness of enforcement action in the case of default. From an economic point of view it constitutes a subsidiary element of the secured loan and, as such, must be considered during the stage of the valuation of the party to whom the credit facilities may be granted. It is thus of fundamental importance always to consider the main liable party as the primary source for the repayment of the loan granted. The collateral, if it is to be of any use in terms of recovering the loan, must satisfy the requirements of unimpeachable legal title and adequate economic value. To such end the deeds relating to the collateral must comply with the law in force in the field, while, as regards the economic value of the collateral, the indicator's capacity will need to be monitored throughout the entire duration of the relationship. In the context of the process leading to the grant of credit to the customer, those proposing the transaction will submit the collateral requested of the applicant customer for consideration by those with decision-making powers. The decision-making party will carry out an overall assessment of the position, confirming that there is an extensive market for the collateral offered and that it will not be difficult to enforce.

From an operational point of view, in the case of acceptance of personal, collateral, financial or insurance guarantees, Credit Management will confirm the validity of such guarantees in the related procedure after conducting formal checks.

In the case of mortgage collateral there is a process involving the confirmation in the form of IT procedures by the Special Loans Area. The Group, through Credit Management and the Risk Trends Control Area, will monitor the maintenance of the collateral coverage of the existing loan through grant and renewal processes and through the checking and monitoring of trends. The monitoring guaranteed by the Risk Trends Control Area is of the same kind as the duties typical of the monitoring and management of loans when the main consideration is recovery and/or in preparation for registrations when default is probable, while the Litigation Department takes over responsibility in the case of default loans. The latter Department also produces a monthly analysis of the data for recovery in the case of deteriorated loans (including the mitigation resulting from the collateral supporting the loan). Over 2015 the criteria for the attribution of forecast losses on deteriorated loans were updated and, in the context of the new internal rules, doubtful outcomes are now classified according to the type of collateral supporting the loan: mortgage collateral, financial collateral and personal. For loans secured by a mortgage, the doubtful outcome is classified according to the Loan To Value (LTV) level. The Litigation Department is also, on specific request, able to provide details of the time required for enforcement relating to the courts with competence for each litigation case and, in the case of enforcement of real estate collateral, information relating to the time remaining for the completion of the proceedings will be provided.

In order to guarantee compliance with the eligibility requirements laid down by the law, the Group banks use the Collateral procedure for the management of information relating to exposure secured by residential and non-residential property. As far as the objective/financial collateral is concerned, as already illustrated above, a management process has been set up with particular reference to checks intended to ensure eligibility. The effectiveness of these processes is ensured by a computerised procedure (Collateral procedure – Monitoring, checks and eligibility events), under the responsibility of the Credit Management, monitoring compliance with the specific requirements (correlation, fair value and separation) by means of a detailed set of specific checks.

The eligibility checking procedure (whether mortgage-based or not) highlights any collateral which does not comply with all the parameters described above. This however, has no influence on the validity of the collateral which, in fact may well be properly constituted from the juridical point of view and thus appear as fully valid in the event of enforcement. The purpose of the procedure is to confirm eligibility and hence its valuation for it to be recognised for the purposes of the mitigation of the Capital requirement.

As part of the analysis of prospective credit risk, the Risk Management Division carries out “what if” exercises in order to assess the degree of effectiveness of both mortgage and objective/financial collateral. In particular, the Risk Management Department informs the business functions involved in the collateral management process, of the results of its analyses in relation to the asset impact in consideration of the eligibility of the collateral concerned. The reporting is based on the following: a) the absorption of assets deriving from the absence of eligibility; b) the amount of the exposure and absorption of assets of the items classified as ineligible including details of the related reasons; c) the asset absorption should the collateral be fully eligible. With a view to improving the safeguards as regards mortgage guarantees on loan positions classified as probable defaults or non-performing, the Risk Management Division checks that the cover for deteriorated loans Policy has been correctly applied every quarter, there being specific application criteria in this context for exposure secured by real estate depending on the related Loan to Value.

Strategic Risk

Strategic risk is the current or future risk of a fall in profits or the revenue values deriving from changes in the operational context, from incorrect business decisions to the inadequate implementation of decisions or the failure to react sufficiently to changes in the Competitive context. In the framework of management policies and processes, the Board of Directors of the Group holding company, among their other powers laid down by the law and company Charter, is responsible for deciding on the directions which influence General Management of the business of the Group and the individual companies, defining the strategies to be adopted by each. This is the context within which the multi-year strategic plans and annual budgets are drawn up. These documents are analysed periodically by senior management. The Group has also drawn up a process to ensure that this type of risk is kept under control and monitored with care, combining business management requirements with those inherent to a prudent and knowledgeable management of risks.

Reputational and non-compliance risk

Reputational risk is the risk, now or in the future, of a fall in profits or revenue values deriving from a negative impression of the bank's image obtained by customers, counterparties, bank shareholders, investors and supervisory authorities. The risk of non-compliance is the risk of having judicial or administrative penalties imposed on the Bank, significant financial losses or reputational damage as a consequence of a breach of mandatory provisions (of the law or regulations) or of self-regulation (e.g. the Articles, Codes of Conduct, self-disciplinary codes). The Group has however, set up oversight mechanisms designed to deal with this kind of risk. The organisational bodies set up by the Group to defend it from reputational risk can be seen in specific provisions within a variety of organisational and regulatory documents resolved by the Board of Directors and represented by the Ethical Code, by the RAF, by the anti-money-laundering policy and the compliance risk policy.

The risk of excessive financial leverage

The risk of excessive financial leverage is the risk that a particularly high level of indebtedness in relation to internal capital renders the Bank vulnerable, making it necessary to introduce corrective measures to its Business Plan, including the sale of assets and the recording of losses in the accounts which might result in value impairment for the remaining assets. The Group takes steps to calculate and give notice of the leverage ratio indicator as required by current regulations (EU Regulation 575/2013).

For further details please see paragraph 15 of this document.

Governance Systems

The current **Board of Directors** of the Banco Desio in office is made up of 11 directors and was appointed by the General Meeting of 29 April 2015. The Board's term of office expires with the General Meeting for the approval of the Financial Statements of 31 December 2016. Based on the reference special legislation for listed banks, the Directors must satisfy specific requirements in relation to propriety and professional qualifications, failing which they will cease to hold office. In particular, from the point of view of professional qualification, they must have had at least three years' experience in at least one of the following activities: the administration, control or direction of businesses; professional activities in a field relevant to the banking, financial or insurance sectors or functional to the bank's activities; university education in economic or legal subjects; public administrative or management functions relevant to the credit sector or involving the management of economic/financial resources. For the position of Chairman the above experience must be at least five years; for the positions of CEOs and General Managers specific skills relating to the credit sector are required obtained in positions of sufficient responsibility over at least five years. Confirmation that the related requirements have been satisfied is the responsibility of the Board of Directors itself, to be effected within 30 days from the appointment with procedures laid down by the Bank of Italy's supervisory regulations. In summary, checking that requirements have been satisfied for each board member will be effected specifically and accepted by resolution of the Board of Directors itself, with the abstention of the interested party, combined with an opinion from the Board of Statutory Auditors (following specific checks conducted by the latter Board). The resolution is made on the basis of the appropriate documentation produced by the member concerned (such as certificates, references, curriculum vitae, declaration replacing a sworn affidavit or certification, declaration made by the business/body where previously employed, etc.).

The information on the personal and professional characteristics of directors and their satisfaction of the prerequisites described in this paragraph will be published on the filing of the lists for the renewal of company officers in compliance with the Consob rules in force (for more details please refer to paragraph 3.5 below). They are also available on the internet site www.bancodesio.it under "Company Bodies/member documentation.

Banco Desio's Board of Directors has also laid down the following general criteria relating to the holding of more than one office by directors in the Internal Regulations: a) the limitation to 5 offices as director or Permanent Statutory Auditor held in other listed companies and/or supervised companies[2] (not counting subsidiaries or connected companies of Banco Desio or companies in which the latter has a significant shareholding) in cases where the "prohibition against interlocking" pursuant to Article 36 of Law 214/2011 does not apply. To this end, "significant shareholding" should be interpreted by reference to sector regulations (e.g.: 3% of the share capital for quoted companies, 5% for supervised companies); b) the non-compatibility of holding an executive director post in Banco Desio at the same time as other executive posts in any other listed companies and/or companies subject to supervision (always excluding Banco Desio subsidiary companies, associated companies and companies in which Banco Desio has a significant shareholding) in cases where there is no "ban on interlocking" in place pursuant to Art. 36 of Law No. 214/2011; c) non-compatibility between the post of Managing Director of the Bank and a directorship in another company (that is not part of the Banco Desio Group) of which another of the Bank's directors holds the post of Managing Director.

Without prejudice to the specific provisions in this regard (with specific reference to legal provisions relating to the "ban on interlocking" between competing banking, financial services and insurance groups), the aforesaid general principles should be deemed to be non-binding and any different situation that may arise shall not, in itself, constitute sufficient grounds for forfeiture of the post; in addition to conducting a specific evaluation, on at least annual basis, regarding the aforesaid "ban on interlocking" in accordance with the criteria issued by the Supervisory Authorities, the Board of Directors reserves the right to assess any cases of non-compliance on a case by case basis, without prejudice to the principle ratified by the Code, according to which the appropriateness of accepting posts, even on internal committees, is left to the discretion of the parties involved, only "where they believe they will be able to dedicate the necessary time to their official duties".

On 13 March 2014 the Board of Directors drew up a series of skills considered necessary for the correct and effective conduct of the duties of the Board of Directors and Board of Statutory Auditors as a means of establishing principles for the qualitative membership of both the administrative and control bodies.

These skills were chosen taking the following into account: the provisions of the reference legislation (including Community law); the system best practices and the governance requirements for the Banco Desio Group. The areas of competence of each member identified in the general assessment model (drawn up by the Bank over 2012 with the assistance of a first rank consultancy company) are the following:

1. Knowledge of the banking business (e.g., credit, finance, payment systems, internet banking, bank assurance), acquired through years of experience as a business manager in credit/finance,/insurance institutions or the exercise of professional activities or university lecturing in economic, financial or legal subjects;
2. Knowledge of the dynamics of the economic-financial system (national/international markets, macro-economic scenarios etc.), obtained through years of experience as a business manager, in the conduct of entrepreneurial or professional activities, university lecturing in economic or financial subjects or work in positions of responsibility in bodies, institutions, foundations or associations;

[2] "Supervised Companies" in this context means banks, insurance companies, stock broking companies, Asset management companies and Italian financial companies registered on the special list "pursuant to Article 107 of the Consolidated Finance Law"

3. Knowledge of the territorial areas (covered by the Bank or Group) including the related socio-economic and market characteristics obtained through years of experience as a business manager, in the conduct of entrepreneurial or professional activities, university lecturing in economic or financial subjects or work in positions of responsibility in bodies, institutions, foundations or associations in the territories of interest;
4. Knowledge of sector regulations (in particular, in the banking, financial and tax fields) obtained through years of experience as a business manager, a manager in specific functions (compliance, legal, etc.) of credit or financial institutions, in the conduct of entrepreneurial or professional activities, university lecturing in economic, financial or juridical subjects or work in positions of responsibility in bodies, institutions, foundations or associations;
5. Knowledge of internal auditing systems and the methods involved in risk control and management (auditing, risk management, etc.) obtained through years of experience as a business manager or manager of specific internal control functions within a business (in particular in credit or financial businesses, possibly listed in regulated markets), in the conduct of entrepreneurial or professional activities or university lecturing in economic, financial or juridical subjects;
6. Knowledge of aspects of corporate governance and business management processes (company governance, the direction and co-ordination of groups, relations with stakeholders, human resources/remuneration systems, accounting and Financial Statements, management audit etc.) obtained from years of experience as a business manager or the manager of specific business functions (in particular credit or financial businesses, possibly listed in regulated markets), in the conduct of entrepreneurial or professional activities or university lecturing in economic, financial or juridical subjects;
7. Knowledge of organisational structures or computer IT systems (business organisation, ICT, externalisation models, business continuity) obtained through years of experience as a business manager or the manager of specific business functions (in particular Credit or financial businesses, possibly listed in regulated markets), in the conduct of entrepreneurial or professional activities or university lecturing in technical-economic subjects;
8. Knowledge of structure, governance and organisation with reference to the specific situation in the Banco Desio Group and its components.

Without prejudice to the provisions of the Consolidated Finance Law requiring the presence of a member of the Board of Directors and the presence of the Chairman of the Board of Statutory Auditors elected from a “minority list”, it is also important to keep in mind the legislation concerned with so-called “Gender Quotas (Law 120/2011), under which the Bank, as a listed company, amended its Articles of Association in 2014, even though the Board of Directors has had one female member since 2012 as also on the Control and Risks Committee. As a result of the most recent provisions to be introduced, at least 1/5 of the members of the Administrative Body must be female over the three-year-period from 2015 to 2016 (that is, 3 members out of 11) as also of the Control Body (that is 1 permanent member and 1 supplementary member).

The above has been collected together in a special document (“Theoretical Profile”) and has been made public as part of the process of the renewal of appointments to company offices over the last year. The extent to which the appointments made by the General Meeting of 29 April 2015 corresponded to the above Profile was verified on an “ex-post” basis by the Board of Directors on 29 May 2015.

On 10 February 2015 the Board of Directors approved internal regulations for the self-assessment of company bodies in order to regulate the related process in compliance with the provisions of Circular no. 285. The document identifies in particular, the method to be used (based principally on the completion of a special questionnaire by each director combined with a special interview complementary to the completion of the questionnaire) and the profiles, taken together, to be analysed with regard to the composition (professionalism, independence, etc.) and the functioning (operational practice, information flows etc.) of the Board and the committees set up within it.

Within the context of initiatives designed to update knowledge of the sectors of business activities in which Banco Desio operates, of business mechanisms and their evolution and of the reference legal framework, a series of programmes were conducted commencing in 2012, as well as a number of other initiatives, appropriately diversified by topic and speaker (including a number of well qualified legal experts and economists), which focused on the following:

- Matters pertaining to the practical application to the banking reality of the aforesaid Leg. Dec. No. 231/2001 as it applies to the administrative liability of companies and bodies and ultimately also to the new offence of "self-laundering" included in the scope of the aforesaid Leg. Dec. in 2015;
- The structure and the functioning of Banks' corporate governance system including with reference to the self-regulation Code;
- Aspects of the European legislation production process of greatest interest for the banking sector;
- On the salient aspects of the ICAAP.
- On macroeconomic and regulatory matters that impact on the banking system and the financial markets, including cross-border and European Union matters.

Within this process, specific sessions were organised in ABI offices with effect from 2014, designed for newly appointed members and dealing with issues of relevance both to governance and business.

Furthermore, a specialisation session was held, which was attended by members of the various Group company bodies and representatives of company departments, in the interests of strategic planning and business modelling to properly position the Group within the reference market in the light of macroeconomic and regulatory scenarios. The seminar was presented by an external expert in the field of banking. The initiative, which followed on from the one held in 2014, is part of the "good practice" by which members of the bodies are able to meet once or twice a year, outside of the Board meetings to consider in depth and compare notes on strategic issues as envisaged by the aforesaid Circular no. 285.

The training course planned for 2016 is substantially analogous to the above, appropriately updated and enhanced by an examination of the changes in the economic and legislative scenario.

The Board of Directors has set up a **Risk Control Committee**, currently made up of 1 non-executive director and 2 independent directors, one of whom is the Committee Chairman. The Committee meetings are also attended by the Chairman of the Board of Statutory Auditors or a Permanent member designated by the latter, the other Permanent members of the Board in any case also being entitled to attend. The CEO also attends in the capacity of "Director responsible for the risk control and management system" while the General Manager, the Deputy General Manager and the managers responsible for the functions of internal audit, risk management, Compliance and anti-money-laundering may be invited to take part, together with other staff, collaborators or consultants, according to the specific subject-matter to be dealt with. The Control and Risks Committee, being a body internal to the Board of Directors, carries out consultative and proposing functions, providing assistance to the Board of Directors in the activities of supervising the proper functioning of the internal audit and risk management system, together with the assessment of the correct use of accounting standards. The Committee reports to the Board of Directors on the activities carried out and the adequacy of the internal audit and risk management system, drafting a specific report every six months. Resolutions relating to matters falling under the jurisdiction of the Board of Directors are tabled, even verbally, at the next available sitting by the Chairman of the Committee, who usually provides a summary of the Committee's assessments based on what was discussed by the representatives of the aforesaid functions (who are in any event invited to attend the meeting at which these matters are discussed in order to give their input and provide any additional information required).

Over 2015 the Committee, in its capacity as the consultative/proposing body for questions concerned with internal audit and risk management, met on 16 occasions. Those present at its meetings as a rule, in addition to its members also included the Chairman of the Board of Statutory Auditors and the Internal Audit Manager together with managers from the Risk Management, Compliance and anti-money-laundering functions. Depending on the matters under discussion, the other Statutory auditors, the CEO, the General Manager and other managers and/or staff and external consultants were present at individual meetings. In particular, in addition to the normal six-monthly report to the Board of Directors regarding the Committee's activities, the main issues addressed specifically regarding the internal control system and risk management revolved around the following:

- the plans formulated by the internal control functions and the relative implementation (both for the Bank and at the Group level, with major focus on the Banca Popolare di Spoleto - BPS);
- the regular reports produced by the internal control functions (including the Group perspective) especially as regards the so-called "Tableau de bord" submitted to the Bank of Italy on a quarterly basis;
- updates to the Regulations, Policies and Consolidated Texts, also as regards the Asset Quality Review (AQR);
- centralisation of the administrative function and the designated BPS Manager,
- implementation of the AIRB's planned Internal Credit Risk Model;
- regulation of the internal system for reporting violations.

Inter alia, the Committee also attended joint meetings with the internal Board of Auditors and the external Auditing Firm, held at the time of preparation and drafting of the annual and six-monthly financial statements.

In its Report on corporate governance and its annexes, available on the Internet site www.bancodesio.it, it is possible to find all the information required by Article 435 paragraph 2 of the CRR dealing with directors, the requirements they have to satisfy, the number of offices held by them and the manner of their selection.

2. Scope of application (Article 436 CRR)

The contents of this Disclosure of information to the Public document refer to the Banco Desio Banking Group. The Group holding company Banco di Desio e della Brianza S.p.A. is the company to which the obligations relating to this Disclosure apply.

The table set out below lists the group companies and how they are handled in terms of the Consolidated Financial Statements and the consolidated oversight.

Consolidated entities as at 31.12.2015 for the purposes of the Financial Statements and prudential regulations

Name	Registered Office	Type of relationship	% shareholding	Treatment for purposes of Financial Statements	Treatment for oversight purposes	Type of business
Fully consolidated businesses						
Banco di Desio e della Brianza S.p.A.	Desio			Full	Full	Bank
Fides S.p.A.	Rome	1	100.00	Full	Full	Financial
Rovere Societè de gestion S.A. (**)	*Luxemburg*	1	80.00	Full	Full	Financial
Credito Privato Commerciale S.A. Under liquidation (***)	*Lugano*	1	100.00	Full	Full	Bank
Banca Popolare di Spoleto	*Spoleto*	1	81.702	Full	Full	Bank
Spoleto Mortgages S.r.l. (1)	*Conegliano*	4	n.a.	Full	Full	Securitisation company
(1) - limited to the separate assets of Spoleto Mortgages S.r.l. to which the conditions of actual control apply						
Businesses consolidated using Net Share Equity method						
Chiara Assicurazioni S.p.A.	*Milan*	*3*	32.665	*Share equity*	(*)	Insurance
Istifid S.p.A. (**)	*Milan*	*3*	35.925	*Share equity*	(*)	Other

Key

Type of relationship

1 = Majority of voting rights in the Ordinary General Meeting

3 = Significant influence

4 = Other forms of control

Note (*) – implicit initial shareholding deducted from Own Funds, the remaining portion was taken into account in the calculation of the RWA

Note (**) – classified on the Balance Sheet as at 31 December 2015 under "Discounted operations and non-current assets held for disposal"

Note (***) – on completion of the liquidation process CPC gave up its banking licence and is currently awaiting the cancellation of its obligation of oversight by the FINMA

In application of IFRS10, for the purposes of the definition of the consolidation perimeter, account was taken of the fact that the principles of effective control are also satisfied for the Separate Assets of the Special Vehicle Company Spoleto Mortgages S.r.l., set up before 2004 by the assignment of performing receivables of the subsidiary Banca Popolare di Spoleto S.p.A. (Originator) retaining the power to influence the variability of the results.

3. Own Funds (Articles 437 and 492 CRR)

Qualitative information

In terms of the provisions of the harmonised regulations for banks and investment companies contained in the EU regulation (CRR) and directive (CRD IV) dated 26/06/2013, which establish the bank oversight standards laid down by the Basel Committee (the so-called Basel 3 framework) throughout the European Union and came into effect on 1 January 2014, the Gruppo Banco Desio's consolidated Own Funds as at 31 December 2015 were made up as follows:

Description	31.12.2015	31.12.2014
Common equity tier 1 (CET1)	€ 860,154	€ 832,234
Additional Tier 1 Capital (AT1)	€ 10,568	€ 12,801
Tier 2 capital (T2)	€ 235,348	€ 145,728
Total own Funds	€ 1,106,070	€ 990,763

We have described the elements making up Own Funds below, based on current legislation:

1. Common Equity Tier 1 - CET1

The elements of Common Equity Tier 1 of the different bodies can be described as follows: a) Equity instruments, so long as the conditions described in Article 28 or, where applicable, Article 29 of EU Regulation 575/2014 are met; b) Share premium reserves relating to the instruments described in the previous point; c) undistributed profits; d) other accumulated components of the comprehensive Income Statement; e) other reserves; f) reserves for general banking risks. The elements described under letters c) to f) will be recognised as Common Equity Tier 1 only if they can be used without restriction and without delay by the body to cover of risks or losses at the moment when such risks or losses occur.

2. Additional Tier 1 Capital- AT1

The elements of Additional Tier 1 capital can be described as follows: a) equity instruments when the conditions defined in Article 52, paragraph 1 of EU Regulation 575/2014 are met; b) Share premium reserves relating to the instruments referred to in the previous point. The instruments referred to in point a) must not be qualified as Common Equity Tier 1 or Tier 2 capital.

3. Tier 2 capital - T2

The elements of Tier 2 capital can be described as follows: a) equity instruments and subordinated loans when the conditions described in Article 63 of EU Regulation 575/2014 are met; b) share premium reserves relating to the instruments referred to in the previous point; c) for institutions which calculate risk weighted exposure amounts in compliance with Chapter II, Title 2 of Part Three of EU Regulation 575/2014, general credit risk adjustments, gross of tax effects, up to 1.25 % of the risk weighted exposure amounts calculated according to Chapter 2, Title II of Part Three of the same Regulation; d) for institutions which calculate risk weighted exposure amounts pursuant to Chapter 3, Title II of Part Three of EU Regulation 575/2014, positive amounts, gross of tax effects, resulting from the calculations defined in Articles 158 and 159 up to 0.6 % of the risk weighted exposure amounts calculated pursuant to Chapter 3, Title II of Part Three of the same Regulation.

Gruppo Banco Desio

The characteristics of Tier 1 instruments and of the instruments which can be counted in Tier 2 have been set out below.

	Table setting out main characteristics of equity instruments	1	2	3	4
1	Issuer	Banco di Desio e della Brianza	Banco di Desio e della Brianza	Banco di Desio e della Brianza	Banco di Desio e della Brianza
2	Unique identification (1)	IT0001041000	IT0001281374	IT0004780182	IT0004815855
3	Law applicable to the instrument	Italian Law	Italian Law	Italian	Italian
	Regulatory Treatment				
4	CRR transitional provisions	Common Equity Tier 1 capital	Additional Tier 1 capital	Tier 2 capital	Tier 2 capital
5	CRR post-transitional provisions	Common Equity Tier 1 capital		Tier 2 capital	Tier 2 capital
6	Admissible at level of individual institution/ (sub-) consolidation / of single institution and of (sub-) consolidation	Of single institution and of (sub-) consolidation	Of single institution and of (sub-) consolidation	Single institution and consolidated	Single institution and consolidated
7	Type of instrument (2)	ordinary shares representing company share capital	Savings shares representing company share capital	Bond loan pursuant to Article 62 of CRR	Bond loan pursuant to Article 62 of CRR
8	Amount recorded in supervisory capital (thousands of Euros) (3)	60,840	4,806	2,566	3,744
9	Nominal amount of instrument (thousands of Euros)	60,840	6,865	13,000	13,000
9a	Issue price	N/A	N/A	100	100
9b	Refund price	N/A	N/A	100	100
10	Accounting classification	P180 - Capital	P180 - Capital	Liability amortised cost	Liability amortised cost
11	Original issue date	N/A	N/A	29.12.2011	15.06.2012
12	Irredeemable or on maturity	Irredeemable	Irredeemable	On maturity	On maturity
13	Date of original maturity	N/A	N/A	29.12.2016	15.06.2017
14	Advance refund at discretion of issuer subject to the prior approval of the Supervisory authority	N/A	N/A	NO	NO
15	Date of discretionary advance refund, Dates of advance refund and any amount of refund	N/A	N/A	N/A	N/A
16	Subsequent dates of advance refund as case may be	N/A	N/A	N/A	N/A
	Vouchers/Dividends				
17	Fixed or variable vouchers or dividends	variable	variable	VARIABLE	VARIABLE
18	Voucher rate and any correlated indices	N/A	N/A	IND. EURIBOR 3M +200 bp	IND. EURIBOR 3M +250 bp
19	Presence of a “Dividend Stopper” mechanism	N/A	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or obligatory – in terms of time	N/A	N/A	N/A	N/A
20b	Fully discretionary, partially discretionary or obligatory – with reference to amount	N/A	N/A	N/A	N/A
21	Presence of “step up” or other refund incentive	N/A	N/A	NO	NO
22	Non-cumulative or cumulative	N/A	N/A	non cumulative	non cumulative
23	Convertible or non convertible	N/A	N/A	non convertible	non convertible
24	If convertible, event/s determining the conversion	N/A	N/A	N/A	N/A
25	If convertible, in whole or in part	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, obligatory or discretionary conversion	N/A	N/A	N/A	N/A
28	If convertible, specify the instrument to which conversion can be made	N/A	N/A	N/A	N/A
29	If convertible, specify the issuer of instrument into which conversion is made	N/A	N/A	N/A	N/A
30	Write-down mechanism	N/A	N/A	N/A	N/A
31	In the case of write-down mechanism, the event/s causing it	N/A	N/A	N/A	N/A
32	In case of write-down, total or partial	N/A	N/A	N/A	N/A
33	In case of write-down, temporary or permanent	N/A	N/A	N/A	N/A
34	In the case of temporary write down, description of revaluation mechanism	N/A	N/A	N/A	N/A
35	Position in the debt hierarchy in the case of liquidation (4)	N/A	N/A	SENIOR	SENIOR
36	Are there non-conforming characteristics of instruments benefiting from transitional provisions	N/A	N/A		
37	If yes, specify the non-conforming characteristics	N/A	N/A		
Enter "N/A" if information not applicable					

(1) For example, CUSIP, ISIN or Bloomberg identification for private placements
(2) The types must be specified for each jurisdiction.
(3) At the most recent reference date for the notice
(4) Specify the type of instrument with ranking immediately above it (senior)

	Table setting out main characteristics of equity instruments	5	6	7	8
1	Issuer	Banco di Desio e della Brianza	Banco di Desio e della Brianza	Banco di Desio e della Brianza	Banco di Desio e della Brianza
2	Unique identification (1)	IT0004921166	IT0005038085	IT0005070179	IT0005107880
3	Law applicable to the instrument	Italian	Italian	Italian	Italian
	Regulatory Treatment				
4	CRR transitional provisions	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	CRR post-transitional provisions	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Admissible at level of individual institution/ (sub-) consolidation /of single institution (sub-) consolidation	Single institution and consolidated	Single institution and consolidated	Single institution and consolidated	Single institution and consolidated
7	Type of instrument (2)	Bond loan pursuant to Article 62 of CRR	Bond loan pursuant to Article 62 of CRR	Bond loan pursuant to Article 62 of CRR	Bond loan pursuant to Article 62 of CRR
8	Amount recorded in supervisory capital (thousands of Euros) (3)	6,245	36,492	39,637	79,661
9	Nominal amount of instrument (thousands of Euros)	13,000	50,000	50,000	80,000
9a	Admission price	100	100	100	100
9b	Refund price	100	100	100	100
10	Accounting classification	Liability amortised cost	Liability amortised cost	Liability amortised cost	Liabilities at fair value
11	Original issue date	03.06.2013	28.08.2014	22.12.2014	28.05.2015
12	Irredeemable or on maturity	On maturity	On maturity	On maturity	On maturity
13	Date of original maturity	03.06.2018	28.08.2019	22.12.2019	28.05.2022
14	Advance refund at discretion of issuer subject to the prior approval of the Supervisory authority	NO	NO	NO	NO
15	Date of discretionary advance refund, Dates of advance refund and any amount of refund	N/A	N/A	N/A	N/A
16	Subsequent dates of advance refund as case may be	N/A	N/A	N/A	N/A
	Vouchers/Dividends				
17	Fixed or variable vouchers or dividends	VARIABLE	VARIABLE	VARIABLE	VARIABLE
18	Voucher rate and any correlated indices	IND. EURIBOR 6M +250 bp	IND. EURIBOR 6M +230 bp	IND. EURIBOR 6M +180 bp	IND. EURIBOR 3M +200 bp
19	Presence of a "Dividend Stopper" mechanism	N/A	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or obligatory – in terms of time	N/A	N/A	N/A	N/A
20b	Fully discretionary, partially discretionary or obligatory – with reference to amount	N/A	N/A	N/A	N/A
21	Presence of "step up" or other refund incentive	NO	NO	NO	NO
22	Non-cumulative or cumulative	non cumulative	non cumulative	non cumulative	non cumulative
23	Convertible or non convertible	non convertible	non convertible	non convertible	non convertible
24	If convertible, event/s determining the conversion	N/A	N/A	N/A	N/A
25	If convertible, in whole or in part	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, obligatory or discretionary conversion	N/A	N/A	N/A	N/A
28	If convertible, specify the instrument to which conversion can be made	N/A	N/A	N/A	N/A
29	If convertible, specify the issuer of instrument into which conversion is made	N/A	N/A	N/A	N/A
30	Write-down mechanism	N/A	N/A	N/A	N/A
31	In the case of write-down mechanism, the event/s causing it	N/A	N/A	N/A	N/A
32	In case of write-down, total or partial	N/A	N/A	N/A	N/A
33	In case of write-down, temporary or permanent	N/A	N/A	N/A	N/A
34	In the case of temporary write down, description of revaluation mechanism	N/A	N/A	N/A	N/A
35	Position in the debt hierarchy in the case of liquidation (4)	SENIOR	SENIOR	SENIOR	SENIOR
36	Are there non-conforming characteristics of instruments benefiting from transitional provisions				
37	If yes, specify the non-conforming characteristics				
Enter "N/A" if information not applicable					

(1) For example, CUSIP, ISIN or Bloomberg identification for private placements
(2) The types must be specified for each jurisdiction.
(3) At the most recent reference date for the notice
(4) Specify the type of instrument with ranking immediately above it (senior)

Table setting out main characteristics of equity instruments		9	10	11
1	Issuer	Banco di Desio e della Brianza	Banca Popolare di Spoleto	Banca Popolare di Spoleto
2	Unique identification (1)	IT0005136335	IT0004331598	IT0004344278
3	Law applicable to the instrument	Italian	Italian	Italian
	Regulatory Treatment			
4	CRR transitional provisions	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	CRR post-transitional provisions	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Admissible at level of individual institution/ (sub-) consolidation /of single institution (sub-) consolidation	Single institution and consolidated	Single institution and consolidated	Single institution and consolidated
7	Type of instrument (2)	Bond loan pursuant to Article 62 of CRR	Bond loan pursuant to Article 62 of CRR	Bond loan pursuant to Article 62 of CRR
8	Amount recorded in supervisory capital (thousands of Euros) (3)	49,878	2,965	3,909
9	Nominal amount of instrument (thousands of Euros)	50,000	8,226	10,880
9a	Admission price	100	100	100
9b	Refund price	100	100	100
10	Accounting classification	Liabilities at fair value	Liability amortised cost	Liability amortised cost
11	Original issue date	16.10.2015	15.04.2008	15.04.2008
12	Irredeemable or on maturity	On maturity	On maturity	On maturity
13	Date of original maturity	16.10.2021	15.04.2018	15.04.2018
14	Advance refund at discretion of issuer subject to the prior approval of the Supervisory authority	NO	Yes	Yes
15	Date of discretionary advance refund, Dates of advance refund and any amount of refund	N/A	15.04.2013 - Not exercised	N/A
16	Subsequent dates of advance refund as case may be	N/A	N/A	Starting from 18.04.2013
	Vouchers/Dividends			
17	Fixed or variable vouchers or dividends	VARIABLE	VARIABLE	VARIABLE
18	Voucher rate and any correlated indices	IND. EURIBOR 3M +200 bp	IND. EURIBOR 3M +115 bp	IND. EURIBOR 3M +115 bp
19	Presence of a “Dividend Stopper” mechanism	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or obligatory – in terms of time	N/A	N/A	N/A
20b	Fully discretionary, partially discretionary or obligatory – with reference to amount	N/A	N/A	N/A
21	Presence of “step up” or other refund incentive	NO	NO	NO
22	Non-cumulative or cumulative	non cumulative	non cumulative	non cumulative
23	Convertible or non convertible	non convertible	non convertible	non convertible
24	If convertible, event/s determining the conversion	N/A	N/A	N/A
25	If convertible, in whole or in part	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, obligatory or discretionary conversion	N/A	N/A	N/A
28	If convertible, specify the instrument to which conversion can be made	N/A	N/A	N/A
29	If convertible, specify the issuer of instrument into which conversion is made	N/A	N/A	N/A
30	Write-down mechanism	N/A	N/A	N/A
31	In the case of write-down mechanism, the event/s causing it	N/A	N/A	N/A
32	In case of write-down, total or partial	N/A	N/A	N/A
33	In case of write-down, temporary or permanent	N/A	N/A	N/A
34	In the case of temporary write down, description of revaluation mechanism	N/A	N/A	N/A
35	Position in the debt hierarchy in the case of liquidation (4)	SENIOR	SENIOR	SENIOR
36	Are there non-conforming characteristics of instruments benefiting from transitional provisions			
37	If yes, specify the non-conforming characteristics			
Enter "N/A" if information not applicable				

(1) For example, CUSIP, ISIN or Bloomberg identification for private placements
(2) The types must be specified for each jurisdiction.
(3) At the most recent reference date for the notice
(4) Specify the type of instrument with ranking immediately above it (senior)

The following table provides details of the elements making up Own Funds as at 31/12/2015, according to the outline set out in Annex VI of the Commission EU Implementing Regulation 1423/2014

	Common Equity Tier 1 Capital: Instruments and Reserves	(A) Amount at the date of the disclosure	(C) amounts subject to pre-EU regulation 575/2013 treatment or residual amount prescribed by EU Regulation 575/2013
1	Equity instruments and the related share premium reserves	76,985	
	Of which, ordinary shares	73,964	
2	Non-distributed profits	-	
3	Other accumulated components of comprehensive Income Statement (and other reserves, include unrealised profits and losses pursuant to the applicable accounting rules)	749,984	
3a	General bank risk reserves	-	
4	Amount of admissible elements referred to in Article 484, paragraph 3, and the related share premium reserves subject to progressive elimination of the Common Equity Tier 1 capital	-	
	Grant of public capital benefiting from grandfathering Clause up to 1 January 2018	-	
5	Minority interests (amount permitted in consolidated Common Equity Tier 1 capital) (1)	33,774	1,372
5a	Period profits confirmed by independent person net of all foreseeable charges and dividends	26,682	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**887425**	
	Common Equity Tier 1 capital (CET 1): Regulatory adjustments		
7	Supplementary value adjustments (negative value)	-	
8	Intangible assets (net of related tax liabilities) (negative value)	- 23,729	
9	Field empty in EU	-	
10	Deferred tax assets depending on future profit generation excluding those deriving from temporary differences (net of related tax liabilities meeting the conditions defined in Article 38, paragraph 3) (Negative value)	- 1,009	- 403
11	Fair value reserves relating to profits and losses generated by cash-flow hedges	-	
12	Negative values deriving from the calculation of the value of expected losses	-	
13	Any increase in share equity resulting from securitisation assets (negative value)	-	
14	Profits or losses on liabilities valued at fair value due to evolution of creditworthiness	- 291	
15	Defined benefit Pension fund assets (Negative value)	-	
16	Own instruments of Common Equity Tier 1 capital held directly or indirectly by the institution (Negative value)	-	
17	Common Equity Tier 1 equity instruments of parties in the financial sector held by the institution when such parties hold a reciprocal cross-investment designed to increase the institution's own funds artificially (Negative value)	-	
18	Common Equity Tier 1 equity instruments of parties in the financial sector held directly or indirectly by the institution when the institution does not itself own a significant investment in such parties (amount over the 10% threshold and net of admissible short positions) (Negative value)	-	
19	Common Equity Tier 1 equity instruments of parties in the financial sector held directly, indirectly or synthetically by the institution when the institution holds a significant investment in such parties (amount over the 10% threshold and net of admissible short positions) (Negative value)	-	
20	Field empty in EU	-	
20a	Amount of exposure to the following elements which meet the conditions for receiving a risk weighting factor of 1.250%, when the institution opts for deduction	-	
20b	Of which: qualified investments outside the financial sector (Negative value)	-	
20c	Of which: securitisation positions (Negative value)	-	
20d	Of which: operations with non-contemporaneous settlement (Negative value)	-	
21	Deferred tax assets deriving from temporary differences (amount over the threshold of 10%, net of the related tax liabilities meeting the conditions defined in Article 38, paragraph 3) (Negative value)	-	
22	Amount exceeding the threshold of 15% (negative value)	-	
23	Of which: Common Equity Tier 1 equity instruments of parties in the financial sector held directly or indirectly by the institution when the institution holds a significant investment in such parties	-	
24	Field empty in EU	-	
25	Of which: deferred tax assets deriving from temporary differences	-	
25a	Losses relating to the current accounting period (Negative value)	-	
25b	Foreseeable taxes relating to Common Equity Tier 1 capital elements (Negative value)	-	
26	Regulatory adjustments applied to Common Equity Tier 1 capital in relation to amounts subject to treatment pre-CRR	-	
26a	Regulatory adjustments relating to unrealised profits and losses pursuant to Articles 467 and 468	- 2,847	
	Of which: unrealised profits on exchange rate differences	-	
	Of which: unrealised profits on capital securities	521	
	Of which: unrealised profits on debt securities issued by Central Administrations belonging to the European Union	- 3618	
	Of which: unrealised profits on debt securities referring to issuers other than Central Administrations belonging to the European Union	250	
26b	Amount to be added to, or deducted from, Common Equity Tier 1 capital in relation to the additional filters and deductions provided for in pre-CRR treatment	605	
	Of which: deduction of deferred tax assets which depend on future profitability and do not derive from temporary differences	605	
27	Admissible deductions from Additional Tier 1 capital exceeding the institutions Additional Tier 1 capital (Negative value)	-	
28	**Total regulatory adjustments to Common Equity Tier 1 capital (CET1)**	**- 27,271**	
29	**Common Equity Tier 1 capital (CET1)**	**860154**	

	Common Equity Tier 1 Capital: Instruments and Reserves	(A) Amount at the date of the disclosure	(C) amounts subject to pre-EU regulation 575/2013 treatment or residual amount prescribed by EU Regulation 575/2013
	Additional Tier 1 capital (AT1): instruments		
30	Equity instruments and the related share premium reserves	-	
33	Amount of admissible elements referred to in Article 484, paragraph 3, and the related share premium reserves subject to progressive elimination of the Additional Tier 1 capital	6,865	
	Grant of public capital benefiting from grandfathering Clause up to 1 January 2018	-	
34	Admissible tier 1 capital included in consolidated Additional Tier 1 capital (including minority interests not included in line 5) issued by affiliates and held by third parties	6997	
35	Of which: instruments issued by affiliates subject to progressive elimination	-	
36	**Additional class 1 (AT 1) capital: prior to regulatory adjustment**	**13,862**	
	Additional Tier 1 capital (AT1): instruments		
37	Additional Tier 1 equity own instruments held directly or indirectly by the institution (negative value)	-	
38	Additional Tier 1 equity instruments of parties in the financial sector held by the institution when such parties hold a reciprocal cross-investment designed to increase the institution's own funds artificially (Negative value)	-	
39	Additional Tier 1 equity instruments of parties in the financial sector held directly or indirectly by the institution when the institution does not itself own a significant investment in such parties (amount over the 10% threshold and net of admissible short positions) (Negative value)	-	
40	Additional class 1 capital instruments issued by financial sector parties and held directly or indirectly by the body where the body has a significant shareholding in the aforesaid parties (shareholding of 10% or greater and net of admissible short-sales) (negative amount)	-	
41	Regulatory adjustments applied to Additional Tier 1 capital in relation to amounts subject to pre-CRR treatment and transitional treatment subject to progressive elimination pursuant to EU Regulation 575/2013 (that is, CRR residual amounts)	- 2,060	
41a	Residual amounts deducted from Additional Tier 1 capital in relation to the deduction of Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of EU Regulation 575/2013	-	
41b	Residual amounts deducted from Additional Tier 1 capital in relation to the deduction from Tier 2 during the transitional period pursuant to Article 475 of EU Regulation 575/2013	-	
41c	Amount to be added to, or deducted from, Additional Tier 1 capital in relation to the additional filters and deductions provided for in pre-CRR treatment	- 1,234	
42	Admissible deductions from Tier 2 capital which exceed the institution's tier 2 capital (negative value)	-	
43	**Total regulatory adjustment to Additional Tier 1 capital (AT1)**	**- 3,294**	
44	**Additional Tier 1 capital (AT1)**	**10,568**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**870,722**	
	Tier 2 capital (T2): instruments and monies set aside		
46	Equity instruments and the related share premium reserves	225,097	
47	Amount of the admissible elements defined in Article 484, paragraph 5 and the related share premium reserves subject to progressive elimination from Tier 2 capital	-	
	Grant of public capital benefiting from grandfathering Clause up to 1 January 2018	-	
48	Admissible Own Funds instruments included in consolidated Tier 2 capital (including the minority interests and Additional Tier 1 equity instruments not included in lines 5 or 34) issued by affiliates or held by third parties	9,327	
49	Of which: instruments issued by affiliates subject to progressive elimination	-	
50	Value adjustments on receivables	-	
51	**Tier 2 capital (T2): before regulatory adjustments**	**234,424**	
	Tier 2 capital (T2): regulatory adjustments		
52	Tier 2 equity own instruments held directly or indirectly by the institution and subordinate loans (negative value)	-	
53	Instruments and subordinate loans of parties in the financial sector held by the institution when such parties hold a reciprocal cross-shareholding with the institution designed to increase the institution's own funds artificially (negative value)	-	
54	Tier 2 equity instruments and subordinated loans of parties in the financial sector, held directly or indirectly, when the institution does not have a significant investment in such parties (amount over the 10% threshold and net of admissible short positions) (negative value)	-	
54a	Of which, new shareholdings not subject to transitional provisions	-	
54b	Of which, shareholdings existing prior to 1 January 2013 and subject to transitional provisions	-	
55	Tier 2 equity instruments and subordinate loans of parties of the financial sector held directly or indirectly by the institution when it has a significant shareholding in such parties (net of admissible short positions) (negative value)	-	
56	Regulatory adjustments applied to Tier 2 capital in relation to the amounts subject to pre-CRR treatment and transitional treatment subject to progressive elimination pursuant to EU Regulation 575/2013 (that is, CRR residual amounts)	-	
56a	Residual amounts deducted from Tier 2 capital in relation to the deduction of Common Equity Tier 1 capital during the transitional period pursuant to Article 472 EU Regulation 575/2013	-	
56b	Residual amounts deducted from Tier 2 capital in relation to the deduction of Additional Tier 1 capital during the transitional period pursuant to Article 475 of EU Regulation n. 575/2013	-	
56c	Amount to deduct from, or add to, Tier 2 capital in relation to the additional filters and deductions envisaged for the pre-CRR treatment	924	
	Of which: possible filters for unrealised losses	-	
	Of which: unrealised profits on AFS securities subject additional national filter	-	
	Of which: unrealised profits on exchange rate differences subject to additional national filter	-	
	Of which: minority interests subject additional national filter	924	
57	**Total regulatory adjustments to Tier 2 capital (T2)**	**924**	
58	**Tier 2 capital (T2)**	**235,348**	
59	**Total capital (TC = T1 + T2)**	**1,106,070**	
59a	Risk weighted assets in relation to amounts subject to pre-CRR treatment and transitional treatment subject to progressive elimination pursuant to EU Regulation 575/2013 (that is residual CRR amounts)	-	
	Of which : … elements not deducted from Common Equity Tier 1 capital (EU Regulation 575/2013 residual amounts) (headings to be detailed line-by-line, e.g. deferred tax assets based on future profit generation net of the related tax liabilities, own instruments of indirectly held Common Equity Tier 1 capital, etc.)	-	
	Of which : … elements not deducted from Additional Tier 1 capital (EU Regulation 575/2013 residual amounts) (Headings to be detailed line-by-line, e.g. reciprocal cross-shareholdings in Tier 2 capital, non-significant investments held indirectly in the capital of other parties in the financial sector, etc.	-	
	Elements not deducted from Tier 2 capital (EU Regulation 575/2013 residual amounts) (headings to be detailed line-by-line – e.g. Tier 2 equity instruments held indirectly, non-significant investments in the capital of other parties in the financial sector held indirectly, significant investments in the capital of other parties in the financial sector held indirectly etc.)	-	
60	**Total risk weighted assets**	7,931,181	

	Common Equity Tier 1 Capital: Instruments and Reserves	(A) Amount at the date of the disclosure	(C) amounts subject to pre-EU regulation 575/2013 treatment or residual amount prescribed by EU Regulation 575/2013
	Coefficients and capital reserves		
61	Common Equity Tier 1 capital (as percentage of risk exposure value)	10.845%	
62	Tier 1 capital (as a percentage of the risk exposure value)	10.978%	
63	Total Capital (as percentage of risk exposure value)	13.946%	
64	Capital reserve requirement specific to the institution (requirement relating to the Common Equity Tier 1 capital pursuant to Article 92, paragraph 1(a), requirements of the capital conservation reserve, the counter-cyclical capital reserve, the systemic risk capital reserve, the capital reserve of institutions of systemic importance (capital reserves of G-SIIs or O-SIIs), as percentage of risk exposure value)	7.000%	
65	Of which: Capital conservation Reserve requirement	2.500%	
66	Of which: Counter-cyclical capital reserve requirement	-	
67	Of which: the systemic risk reserve requirement	-	
67a	Of which: capital reserves of Global Systemically Important Institutions (G-SII) or of Other Systemically Important Institutions (O-SII)	-	
68	Common Equity Tier 1 capital available for reserves (as a percentage of risk exposure value) *(2)*	4.15%	
69	[Not relevant in EU regulations]	-	
70	[Not relevant in EU regulations]	-	
71	[Not relevant in EU regulations]	-	
	Coefficients and capital reserves		
72	Capital of financial sector parties held directly or indirectly, when the institution does not have a significant investment in such parties (amount less than the 10% threshold and net of admissible short positions)	-	
73	Common Equity Tier 1 equity instruments of financial sector parties held by the institution directly or indirectly when the institution has a significant investment in such parties (amount less than the 10% threshold and net of admissible short positions)	-	
74	Field empty in EU	-	
75	Deferred tax assets deriving from temporary differences (amount under the 10% threshold net of the related tax liabilities meeting the conditions defined in Article 38, paragraph 3)	-	
	Maximum limits applicable for the inclusion of monies set aside in Tier 2 capital		
76	Value adjustments for receivables included in Tier 2 capital in relation to exposure subject to the standardised method (before the application of the maximum limit)	-	
77	Maximum limit for the inclusion of value adjustments for receivables in Tier 2 capital in the context of the standardised method	-	
78	Value adjustments for receivables included in Tier 2 capital in relation to exposure subject to the method based on internal rating (before the application of the maximum limit)	-	
79	Maximum limit on the inclusion of value adjustments for receivables in Tier 2 capital in the context of the method based on internal rating	-	
	Equity instruments subject to progressive elimination (applicable only between 1 January 2013 and 1 January 2022		
80	Current maximum limits for Common Equity Tier 1 equity instruments subject to progressive elimination	-	
81	Amount excluded from Common Equity Tier 1 capital by reason of maximum limit (amount over maximum limit after refunds and maturities)	-	
82	Current maximum limits on Additional Tier1 Equity instruments subject to progressive elimination	4805	
83	Amount excluded from Additional Tier 1 capital because of the maximum limit (excess over maximum limit after refunds and maturities)	-	
84	Current maximum limit on Tier 2 equity instruments subject to progressive elimination	-	
85	Amount excluded from Tier 2 capital because of maximum limit (excess over maximum after discounts and maturities)	-	

(1) The amount shown in column C refers to the value of minority interests admitted to consolidated Common Equity Tier 1 capital under the transitional rules set out in Articles 479 and 480 of the CRR.
(2) Amount expressed as a percentage of the risk weighted assets obtained by subtracting the following elements from the Common Equity Tier 1 capital: (i) requirement referring to Common Equity Tier 1 capital; (ii) requirement referred to Additional Tier 1 capital, for that part covered by Common Equity Tier 1 capital elements.

The structure of the Banco Desio Group's Own Funds, calculated in compliance with the legislative provisions described previously, shows that Common Equity Tier 1 capital represents 77.77% of the Group's Own Funds while Additional Tier 1 and Tier 2 capital make up about 0.96% and 21.27% respectively of Own Funds.

The Board of Directors of the Group holding company and the subsidiary Banca Popolare di Spoleto resolved, with effect from 01 January 2015, to exclude all unrealised profits and losses related to exposure to central administrations classified in the category "Financial assets available for sale", from Own Funds for the purposes of prudential supervision. This represented a use of their power allowed by the "Transitional Provisions" of the Bank of Italy circular no. 285 of 17 December 2014.

The Group holding company Board of Directors periodically examines and approves the aggregated assets making up Own Funds. This is both to confirm their appropriateness to the risk profile accepted and their adequacy with regard to the Bank's development plans.

The following table sets out a reconciliation of Common Equity Tier 1 capital with the Group's accounting share equity.

Reconciliation of the accounting share equity with Own Funds

Asset items	**Asset headings**	**Amounts relevant for the purposes of Own Funds**
100. Shareholdings	13,261	-5,968
150. Shareholding included under assets held for disposal	2,471	-133
130. Intangible Assets of which	18,207	
- Goodwill	15,322	-14,750
- Other Intangible fixed assets	2,885	-2,878

Headings of Liabilities and Share Equity	**Asset headings**	**Amounts relevant for the purposes of Own Funds**
30. Securities in circulation	1,918,104	
- Of which subordinate liabilities counting towards Tier 2 capital	287,990	225,097
140. Valuation reserves of which, principally	21767	
- Valuation reserves of securities available for sale	61	61
- Actuarial Profits/(losses) relating to defined benefits pension plans	-2,025	-2,025
- Special laws concerning revaluation	22,896	22,896
- Cash-flow coverage	63	0
- Parts of the valuation reserves relating to invested companies valued by reference to share equity	772	772
170. Reserves	726,660	726,660
180. Share premium	16,145	16,145
190. Share capital	67,705	
- of which ordinary shares	60,840	60,840
- of which savings shares	6,865	4,805
210. Third party assets (+/-)	51,606	48,726
220. Period profits/(losses) (+/-)	38,172	26,682

Other elements completing description of Own Funds		**Amounts relevant for the purposes of Own Funds**
Total other elements of relevance to Own Funds	-	860

Total own Funds	1,106,070

(1) This amount includes the following elements of relevance to Own Funds:

- Positive elements: (i) minority interests; (ii) Impact on CET1 of the transitional regime;
- Negative elements: (i) prudential filters due to own creditworthiness and/or deriving from the institution's own credit risk correlated to derivative liabilities; (ii) Deferred tax assets based on future profitability not deriving from temporary differences.

4.

apital Requirements (Article 438 CRR)

Qualitative information

The term Capital Adequacy is understood to mean the assessment that the capacity of business capital is sufficient to deal with unexpected losses occurring during the conduct of the business activities both now and in the future, assuming that expected losses – with particular reference to credit risk - will be accounted for by both specific and portfolio net value adjustments of the same amount already recorded in the Income Statement.

Within this context, the Bank, in addition to observing regulatory Capital requirements (against credit, counterparty, market and operational risk), to the extent that Own Funds represent the first defence against risks connected with banking activities and are the criterion of prime importance for the assessment of capital adequacy by the Supervisory Authority, has strategies and procedures in place in order to value and retain over time total capital considered adequate (in terms of amount and composition) to cover all risks it is or could be exposed to (internal capital or risk capital).

Using the Internal Capital Adequacy Assessment Process (ICAAP), the Group carries out an autonomous assessment of its capital adequacy, both now and in the future, in relation to the risks borne and the business strategies. This procedure is documented, known and agreed with by the business structures and is subject to internal audit.

The reference perimeter for the ICAAP procedure is represented by the Group on a consolidated basis, as indicated by the Supervisory regulations. In this context, the ICAAP procedure is carried out by the Group holding company’s responsible functions.

The internal capital adequacy assessment process is carried out both according to the relevant regulations (in compliance with the times and procedures laid down in Chapter 1, Title III of Part One of the Bank of Italy Circular no. 285 of 17/12/2013), and in accordance with managerial practice (in compliance with times laid down internally and using procedures which may differ from those defined in the regulations).

The internal capital adequacy assessment process is divided into the following main stages:

- Identification of the risks to be assessed, with reference to both the regulatory risks of the first pillar, and risks set out in the second (single-name concentration risk and geo-sector risks, interest rate risks deriving from activities other than trading, liquidity risk, residual risk, risks deriving from securitisation, strategic risk, reputational risk and other possible risk types connected to the Group’s specific operations);

- Measurement/assessment of individual risks and related internal capital. Internal capital is calculated for regulatory risks and quantifiable risks of the second pillar, and limited to those for which the Bank of Italy has indicated simplified methods for the assessment of internal capital. In the case of other types of risk, which are difficult to quantify, qualitative assessments are made in any case as well as the setting up of adequate control and mitigation systems;

- Valuation of total internal capital. The Group assesses total internal capital using a simplified “building block” approach, consisting of adding the regulatory requirements covering the first pillar risks (or the internal capital relating to such risks calculated on the basis of internal methods, (where such methods exist), to any internal capital relating to other significant risks. In accordance with the provisions of the supervisory regulations, the total internal capital adequacy assessment must be carried out both in a context of ordinary business conditions and under conditions of stress.

Quantitative Information

As already illustrated in the section concerned with “Own Funds”, Total regulatory capital is made up by adding together the elements specified as follows:

- Tier 1 capital (capable of absorbing losses in conditions of a continuing going concern). This capital is divided between Common Equity Tier 1 and Additional Tier 1 capital;
- Tier 2 capital (capable of absorbing losses in the case of crisis).

The elements indicated above are, in general terms, subject to the following limits:

- Common Equity Tier 1 must represent, at any given time, at least 4.5% of risk weighted assets;
- Tier 1 must, at any time, represent at least 6% of risk weighted assets;
- Own Funds (total regulatory assets), consisting of Tier 1 and Tier 2 capital, must represent, at any given time, at least 8.0% of risk-weighted assets.

Furthermore, a bank is required to hold, in addition to the prime quality capital necessary to meet Own Funds requirements, a capital conservation reserve of 2.5% of its total risk exposure. The minimum capital requirements applicable as at 31 December 2015, including the Capital conservation reserve of 2.5%, are thus 7% Common Equity Tier 1, 8.5% Tier 1 and 10.5% Total Tier.

As per the special notification circulated on 26 August 2015, the Holding company also received the Bank of Italy provision regarding asset requirements to be met on conclusion of the Supervisory Review and Evaluation Process (SREP), which confirm the following minimum capital coefficients:

- 7% for the Common Equity Tier1 ratio, which is binding – in terms of Art. 67-ter of the Consolidated Banking Text (TUB) – at a level of 5% (of which 4.5% in terms of the minimum regulatory requirements and 0.5% in terms of the additional requirements);
- 8.5% for the Tier1 ratio, which is binding – in terms of Art. 67-ter of the Consolidated Banking Text (TUB) – at a level of 6.7% (of which 6% in terms of a the minimum regulatory requirements and 0.7% in terms of the additional requirements);
- 10.5% for the Total Capital ratio, which is binding – in terms of Art. 67-ter of the Consolidated Banking Text (TUB) – at a level of 8.9% (of which 8% in terms of a the minimum regulatory requirements and 0.9% in terms of the additional requirements).

The SREP Buffers are respectively 3.8% (CET1), 2.5% (Tier1) and 3.4% (Total Capital Ratio). The aforesaid asset requirements have therefore been comfortably met and exceeded by the Group’s actual requirements as at 31 December 2015, which confirms the Group’s low level of risk.

The EU legislation makes provision (for the purposes of calculating "risk assets and supervisory coefficients”) for the application of capital relief weighting (support factor of 0.7619) for SMEs (Small and Medium-sized Enterprises).

Credit and counterparty risk: Capital requirement for each asset class

Supervisory portfolio	Amount on 31.12.2015				Amount on 31.12.2014			
	Credit risk		Counterparty risk		Credit risk		Counterparty risk	
	RWA	Capital Requirement	RWA	Capital Requirement	RWA	Capital Requirement	RWA	Capital Requirement
1. Exposures to, or secured by central administrations and central banks	190,527	15,242	-	-	190,905	15,272	-	-
2. Exposures to, or secured by, regional administrations or local authorities	3,750	300	-	-	4,346	348	-	-
3. Exposures to, or secured by, public sector bodies	1,240	99	-	-	6,832	547	-	-
4. Exposures to, or secured by, multilateral development banks	1,900	152	-	-	2,086	167	-	-
5. Exposures to, or secured by, international bodies	617	49	-	-	-	-	-	-
6. Exposures to, or secured by, supervised banks	115,229	9,218	21,122	1,690	162,946	13,036	62,937	5,035
7. Exposures to, or secured by, businesses	2,538,010	203,041	1,776	142	2,505,181	200,415	1,550	124
8. Exposures to retail customers	1,859,595	148,768	-	-	1,893,025	151,442	9	1
9. Exposures secured by real estate collateral	927,354	74,188	-	-	983,602	78,688	-	-
10. Exposures in state of default	992,272	79,382	-	-	905,975	72,478	-	-
11. Exposures at high risk	3,358	269	-	-	12,511	1,001	-	-
12. Exposures in the form of secured bank bonds	-	-	-	-	-	-	-	-
13. Short-term exposures to supervised banks	-	-	-	-	-	-	-	-
14. Exposures to Undertakings for the Collective Investment of Transferrable Securities (UCITSs)	79,454	6,356	-	-	46,901	3,752	-	-
15. Exposures to equity instruments	60,239	4,819	-	-	86,555	6,924	-	-
16. Other Exposures	292,819	23,425	-	-	297,571	23,806	2,019	162
17. Positions arising from securitisation	537	43		-	643	51	-	-
Total standardised method	**7,066,901**	**565,352**	**22,898**	**1,832**	**7,099,079**	**567,926**	**66,515**	**5,321**

Credit and Counterparty risk	Capital Requirement 31.12.2015	Capital Requirement 31.12.2014
Total credit risk	565,352	567,926
Total counterparty risk	1,832	5,321
Total credit and counterparty risk	**567,184**	**573,248**

Market risk: Capital Requirement

Market risk, standardised method	Capital Requirement 31.12.2015	Capital Requirement 31.12.2014
- Risk of debt instrument position	377	1,093
-Risk of equity instrument position	64	64
-Exchange rate risk	-	2,343
Total market risk	**441**	**3,500**

Operational Risk: Capital Requirement

Operational Risk	Capital Requirement 31.12.2015	Capital Requirement 31.12.2014
Basic Method	65,042	68,680
Total operational risk	**65,042**	**68,680**

Specific risks: Capital Requirement

Risk of credit adjustment value	Capital Requirement 31.12.2015	Capital Requirement 31.12.2014
Standard method	1,828	947
Total credit adjustment value	**1,828**	**947**

Capital coefficients

Supervisory coefficients	31.12.2015	31.12.2014
Common Equity Tier 1 ratio	10.845%	10.300%
Tier 1 ratio	10.978%	10.459%
Total capital ratio	13.946%	12.262%

5. Exposure to counterparty risk (Article 439 CRR)

Qualitative Information

The Group uses a standardised method to establish the capital required as against credit risk, designed for the calculation of supervisory requirements to counteract this risk (Section 1, Chapter 3 of Part Two of Circular 285/13). In the context of this choice of method the Group uses the market value method in the calculation of the exposure value, pursuant to the regulations (Section 2, Chapter 7, Part Two of Circular 285/13).

Quantitative Information

Supervisory trading portfolio: notional end-of-period values

Underlying assets/derivative type	31.12.2015		31.12.2014	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**46,601**		**59,537**	
a) Options	7,344		8,936	
b) Swap	39,257		50,601	
c) Forward				
d) Futures				
e) Others				
2. Equity securities and equity indices		**11**		**36**
a) Options		11		36
b) Swap				
c) Forward				
d) Futures				
e) Others				
3. Currencies and gold	**504,821**		**290,920**	
a) Options				
b) Swap				
c) Forward	504,821		290,920	
d) Futures				
e) Others				
4. Goods				
5. Other underlying assets				
Total	**551,422**	**11**	**350,457**	**36**

Financial Derivatives - Bank Portfolio: gross end-of-period notional values

Hedges

Underlying assets/derivative type	31/12/2015		31/12/2014	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**330,506**	**-**	**139,852**	**-**
a) Options	12,038	-	13,749	-
b) Swap	318,468	-	126,103	-
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	**330,506**	**-**	**139,852**	**-**

Financial Derivatives - Bank Portfolio: gross end-of-period notional values

Other derivatives

Underlying assets/derivative type	31/12/2015		31/12/2014	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**68,700**	**-**	**68,700**	**-**
a) Options	45,800	-	45,800	-
b) Swap	22,900	-	22,900	-
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	**1,837**	**-**	**3,789**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	1,837	-	3,789	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**70,537**	**-**	**72,489**	**-**

Financial derivatives: positive gross fair value – broken down by product

Portfolios/derivative types	Positive Fair value			
	31.12.2015		31.12.2014	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory Trading portfolio	**11,759**	**11**	**8,352**	**36**
a) Options	10	11	49	36
b) Interest rate swaps	9,689		6,161	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards	2,060		2,142	
f) Futures				
g) Others				
B. Bank portfolio - Hedges	**4,601**		**8,372**	
a) Options	25		20	
b) Interest rate swaps	4,576		8,352	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Others				
C. Bank portfolio – other derivatives	**1,000**		**1,488**	
a) Options				
b) Interest rate swaps	995		1,339	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards	5		149	
f) Futures				
g) Others				
Total	**17,360**	**11**	**18,212**	**36**

Financial derivatives: negative gross fair value – broken down by product

Portfolios/derivative types	Negative Fair value			
	31/12/2015		31/12/2014	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory Trading portfolio	**5,148**		**3,146**	
a) Options	4		12	
b) Interest rate swaps	3,128		1,010	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards	2,016		2,124	
f) Futures				
g) Others				
B. Bank portfolio - Hedges	**24,758**		**6,717**	
a) Options				
b) Interest rate swaps	24,758		6,717	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Others				
C. Bank portfolio – other derivatives			**113**	
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards			113	
f) Futures				
g) Others				
Total	**29,906**		**9,976**	

OTC Financial derivatives – regulatory trading portfolio: notional values, gross positive and negative fair value for counterparties – Contracts not coming within set-off agreements

Contracts not coming within set-off agreements	Governments and central banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial businesses	Other parties
1. Debt securities and interest rates							
- notional value			4,594			352	345
positive fair value			4			4	29
negative fair value							
future exposure			55				2
2. Equity securities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
3. Currencies and gold							
- notional value			204,799	244,741		32,333	29,565
positive fair value			413	1,152		326	170
negative fair value			1,198	451		358	9
future exposure			2,111	2,447		320	296
4. Other values							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

OTC Financial derivatives – regulatory trading portfolio: notional values, gross positive and negative fair value for counterparties – Contracts coming within set-off agreements

Contracts coming within set-off agreements	Governments and central banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial businesses	Other parties
1. Debt securities and interest rates							
- notional value			41,311				
- positive fair value (before set off)			9,661				
- negative fair value (before set-off)			3,114				
2. Equity securities and equity indices							
- notional value							
- positive fair value (before set off)							
- negative fair value (before set-off)							
3. Currencies and gold							
- notional value							
- positive fair value (before set off)							
- negative fair value (before set-off)							
4. Other values							
- notional value							
- positive fair value (before set off)							
- negative fair value (before set-off)							

OTC Financial derivatives – banking portfolio: notional values, gross positive and negative fair value for counterparties – Contracts not coming within set-off agreements

Contracts not coming within set-off agreements	Governments and central banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial businesses	Other parties
1. Debt securities and interest rates							
- notional value			981				
positive fair value							
negative fair value			79				
future exposure			3				
2. Equity securities and equity indices							
- notional value							
positive fair value							
negative fair value							
future exposure							
3. Currencies and gold							
- notional value			919			919	
positive fair value						6	
negative fair value							
future exposure			9			9	
4. Other values							
- notional value							
positive fair value							
negative fair value							
future exposure							

OTC Financial derivatives – banking portfolio: notional values, gross positive and negative fair value for counterparties – Contracts coming within set-off agreements

Contracts coming within set-off agreements	Governments and central banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial businesses	Other parties
1. Debt securities and interest rates							
- notional value			398,225				
positive fair value			5,597				
negative fair value			24,680				
2. Equity securities and equity indices							
- notional value							
positive fair value							
negative fair value							
3. Currencies and gold							
- notional value							
positive fair value							
negative fair value							
4. Other values							
- notional value							
positive fair value							
negative fair value							

Residual life of OTC Financial derivatives: notional values

Underlying assets/residual life		Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
A. Supervisory Trading portfolio		**524,091**	**21,943**	**12,005**	**558,039**
A.1 Financial derivatives on credit securities and interest rates		15,793	18,803	12,005	46,601
A.2 Financial derivatives on Equity securities and equity indices					
A.3 Financial derivatives on exchange rates and gold		508,298	3,140		511,438
A.4 Financial derivatives on other values					
B. Bank portfolio		**185,898**	**64,650**	**150,496**	**401,044**
B.1 Financial derivatives on credit securities and interest rates		184,061	64,650	150,496	399,207
B.2 Financial derivatives on Equity securities and equity indices					
B.3 Financial derivatives on exchange rates and gold		1,837			1,837
B.4 Financial derivatives on other values					
Total	**31/12/2015**	**709,989**	**86,593**	**162,501**	**959,083**
Total	**31/12/2014**	**361,730**	**144,858**	**56,209**	**562,797**

Credit derivatives: notional end-of-period values

		Supervisory trading portfolio		**Bank portfolio other contracts**	
Operation Categories		**On a single party**	**On a number of parties (basket)**	**On a single party**	**On a number of parties (basket)**
1. Protective acquisitions					
a) Credit default products		-	-	-	-
b) Credit spread products		-	-	-	-
c) Total rate of return swaps		-	-	-	-
d) Others		-	-	-	-
Total	**31/12/2015**	**-**	**-**	**-**	**-**
Total	**31/12/2014**	**-**	**-**	**-**	**-**
2. Protective sales					
a) Credit default products		-	-	-	-
b) Credit spread products		-	-	-	-
c) Total rate of return swaps		-	-	-	-
d) Others		-	-	-	-
Total	**31/12/2015**	**-**	**-**	**-**	**-**
Total	**31/12/2014**	**25,000**	**-**	**-**	**-**

OTC credit derivatives: positive gross fair value – broken down by product

Portfolios/derivative types	Positive fair value	
	31.12.2015	31.12.2014
A. Supervisory Trading portfolio		61
a) Credit default products		61
b) Credit spread products		
c) Total rate of return swaps		
d) Others		
B. Bank portfolio		
a) Credit default products		
b) Credit spread products		
c) Total rate of return swaps		
d) Others		
Total		**61**

Residual life of Credit derivatives: notional values

Underlying assets/residual life	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
A. Supervisory Trading portfolio				
A.1 Derivatives on loans with “qualified” "reference obligation"				
A.2 Derivatives on loans with “non-qualified” "reference obligation"				
B. Bank portfolio				
B.1 Derivatives on loans with “qualified” "reference obligation"				
B.2 Derivatives on loans with “non-qualified” "reference obligation"				
Total 31/12/2015				
Total 31/12/2014	**25,000**			**25,000**

Regulatory Portfolio	SFT Operations	Derivative contracts and operations with long-term settlement
1. Exposures to, or secured by central administrations and central banks	-	-
2. Exposures to, or secured by, regional administrations or local authorities	-	-
3. Exposures to, or secured by, public sector bodies	-	-
4. Exposures to, or secured by, multilateral development banks	-	-
5. Exposures to, or secured by, international bodies	-	-
6. Exposures to, or secured by, supervised banks	-	21,216
7. Exposures to, or secured by, businesses	-	1,776
8. Exposures to retail customers	-	-
9. Exposures secured by real estate collateral	-	-
10. Exposures in state of default	-	-
11. Exposures at high risk	-	-
12. Exposures in the form of secured bank bonds	-	-
13. Short-term exposures to supervised banks	-	-
14. Exposures to Undertakings for the Collective Investment of Transferrable Securities (UCITSs)	-	-
15. Exposures to equity instruments	-	-
16. Other Exposures	152105	-
Total	**152,105**	**22,992**

6. Value adjustments on receivables (Article 442 CRR)

Qualitative information

The main focus of Banco Desio's *asset quality* management process, both from a static and a dynamic perspective, is the composition and the quality of commitments and the main implications both in terms of the income statement and in terms of capital adequacy.

In order to be able to judge the quality of the Group's entire credit portfolio we need to make a distinction between:

- Clients whose payments are up to date (*performing* or even in *bonis* credits), which fall into the category of *Performing Exposures*;
- Clients showing early signs of irregular payment (irregular o *watch* clients) or longer term irregular payment (problematic or *impaired* clients), which fall into the category of *Non-Performing Exposures*.

Receivables are subject to ongoing monitoring designed to highlight deteriorating creditworthiness over time and aimed at highlighting any potential loss of value. The method used takes into account both the solvency of the debtors and the existence of collateral and personal guarantees, as well as the local or national economic conditions in the sector in which the counterparty operates.

Performing Exposures

The quality of the *Performing Exposure* portfolio is assessed by calculating the expected loss (*Expected Loss*, defined in accounting terms as overall devaluation), in other words the forecast statistical loss expected over a one-year period on a granted loan.

The expected loss depends on three parameters extrapolated from standard statistical models (*Credit Rating System*), as follows:

- PD, *Probability of Default*, the probability of the counterparty becoming insolvent within a period of one year;
- LGD, *Loss Given Default*, the percentage portion of the credit that will presumably be lost and not recovered in the event of *default*;
- EAD, *Exposure at Default*, the total loan exposure at the time that the counterparty becomes insolvent.

As regards *Performing Exposures,* we highlight positions under control, in other words those accounts for which a precautionary observation period ranging from 6 to 12 months is deemed to be appropriate, during which time one or more anomalies triggered by internal or external risk indicators (*risk triggers*) will be monitored. The classification proposal may be made by the Credit Area, by the Area Head or the branch itself. The classification of a position as under observation may be by the Risk Trend Control area and by the Internal Audit Area, then communicating the change in the customer's classification status to the local branch.

Non-Performing Exposures

Activities that fall within the scope of the new *Non-Performing Exposures* categories include cash assets (loans and debt securities), off-balance sheet assets (lodged guarantees, revocable and irrevocable commitments to release funds) other than financial instruments recorded under the accounting heading of "Financial assets held for trading and from derivative contracts". The existence or otherwise of any guarantees (collateral or personal) to protect said assets is immaterial for the purposes of classification of the aforesaid exposures.

The classification drafted by the Bank of Italy and applied by the Desio Group indicates three distinct classes of *non performing* exposures, depending on the gravity of the counterparty's insolvency:

1. Expired or overdue exposures (*Past Due*): this group includes all exposures to debtors (other than those classified as non-performing, temporarily non-performing or restructured) which, at the time of reporting, reveal expired or overdue payments exceeding 90 days and an absolute materiality level of 500 Euro for both companies and private individuals. The individual positions which are overdue and/or exceeding limits must be determined by reference to the individual criterion of the debtor (applied by the Desio Group) and the criterion of the individual transaction.
2. Probable defaults (*Unlikely to Pay*): these are exposures where it is considered improbable that the borrower will fulfil its obligations in full without recourse to actions such as the enforcement of security. Such an assessment should be effected independently of whether or not there are amounts (or instalments) which are overdue and not paid. It is thus not necessary to wait for explicit symptoms of anomalies (a missed payment) where there are elements identifying a situation of risk that the borrower will default.
   Exposure to retail customers may be classified in the probable default category at the level of individual transaction rather than of individual borrower so long as the Group does not consider that conditions exist justifying the classification of all exposures to the same borrower in this category.
3. Non Performing Loans (*NPL*): this class includes all exposures to insolvent parties (even if the insolvency has not been legally ascertained) or parties in comparable circumstances.
   The transfer to default takes place when the customer, in the light of the objective evidence available to the Litigation Department, shows that it is not able to satisfy its commitments.
   NPLs are loans for which there is objective evidence of a loss in value measured by the difference between the book value and the current value of future estimated cash flows, discounted at the actual interest rate. The valuation, effected in compliance with internal policy, is analytical in nature and takes account of the presumed possibility of recovery, the time forecast for the receipt of payment and any existing collateral security. Receivables deriving from arrears interest accruing on deteriorated assets are shown in the Financial Statements only at the moment of their actual payment.

The analysis of the quality of *impaired* assets is reflected in the value accounting write-down provision against the deterioration of the quality of the loan in question, defined as the *Loan Loss Provision (LLP)*.

In accounting terms the write-down results in a loss of value of the loan and contributes to increasing the loan value adjustment fund and the consequent loss on the balance sheet. The portion of the fund linked to a specific balance sheet *asset* in relation to the nominal value of the loan is called the *coverage ratio*.

In analytical terms, the bad-debt provision associated with a specific loan is established as the difference between the nominal value of the loan and the forecast discounted future cash flows. In the case where, over time, the prospects of recovery are reviewed and adjusted upwards, or simply brought forward in time, the applicable provision is reflected on the balance sheet as a revenue resulting from an increase in value or *write-back*.

The quality of the asset and its evolution over time influence the cost of credit, both in terms of capital absorption (the weighting linked to the various risk categories, *RWA*) and in terms of the balance sheet (value adjustments, *LLP*).

Forborne Exposures (Exposures subject to concession)

The *forbearance* category runs across the board of existing risk categories and can include both *Performing Exposures* (a sub-category of *bonis*) and *Non-Performing Exposures* (a sub category of probable defaults).

These are credit exposures for which amendments to the contractual terms and conditions, or even a partial or total restructuring, have been permitted due to the debtor's financial difficulties, which could result in a loss for the lender.

In order to be classified as *forbearance* status, payment must have fallen one month behind at least once in the three-months prior to the contractual amendment, thus lowering the 90-day alarm threshold envisaged in the definition of *default*.

The time required to exit from *forborne performing* status is at least two years. The conditions are adjusted once the *probation period* has ended, at the time of the first applicable notification. Should the conditions not be met, the evaluation for exiting from *forborne* status is again repeated at least after the next quarter or, in any event, in the event of a new notification. As regards the exit from *forborne non-performing* status, the provisions of Art. 157 of the ITS EBAs shall apply and, therefore, one year after the re-negotiation, subject to regular payment and in the absence of any doubts regarding the debtor's solvency, an account can be once again classified as *performing,* but nevertheless remaining listed as a *forbearance* for a further two years (*probation period*).

Quantitative Information

Quantitative information as at 31 December 2015 refers to the classification of existing exposures following the updating of the Bank of Italy rules (Circular 272). The new classification, fully incorporated in the monitoring systems and described above, will be applied from the 2015 accounting period onwards.

	Default			Probable default			Deteriorated overdue		
	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)
1. Financial assets available for sale			-			-			-
2. Financial assets held to maturity			-			-			-
3. Bank receivables			-			-			-
4. Trade receivables	848,859	443,926	773,328	563,851	411,964	530,414	56,096	48,666	52,884
5. Financial assets valued at fair value			-			-			-
6. Financial assets in course of disposal			-			-			-
Total 31.12.2015	**848,859**	**443,926**	**773,328**	**563,851**	**411,964**	**530,414**	**56,096**	**48,666**	**52,884**
Total 31/12/2014	**697,797**	**426,631**	**541,747**	**496,977**	**383,069**	**373,807**	**49,672**	**44,266**	**49378**

* Obtained as annual average of data as at 31/12/2014 and those as at 31/12/2015

Gross and average values of credit exposure broken down by reference to the main exposure types

Banking group

	Other assets			TOTAL		
	Gross	Net	Average gross (*)	**Gross**	**Net**	**Average gross (*)**
1. Financial assets available for sale	1,789,314	1,789,314	1,803,962	1,789,314	1,789,314	1,803,962
2. Financial assets held to maturity			-	-	-	-
3. Bank receivables	292,992	292,992	290,637	292,992	292,992	290,637
4. Trade receivables	8,539,212	8,481,755	8,704,799	10,008,018	9,386,311	10,061,425
5. Financial assets valued at fair value			-	-	-	-
6. Financial assets in course of disposal			-	-	-	-
Total 31.12.2015	**10,623,400**	**10,565,943**	**10,800,339**	**12,092,206**	**11,470,499**	**12,156,965**
Total 31/12/2014	**10,977,277**	**10,919,825**	**9,682,483**	**12,221,723**	**11,773,791**	**10,647,414**

* Obtained as annual average of data as at 31/12/2014 and those as at 31/12/2015

Distribution of exposures to customers by Geographical area broken down by main types of exposure

	Italy			Other European countries			America		
Exposure/ Geographical areas	Gross exposure	Overall value adjustments	Net exposure	Gross exposure	Overall value adjustments	Net exposure	Gross exposure	Overall value adjustments	Net exposure
A. Cash exposure									
A.1 Default	1,067,037	(624,546)	442,491	1,962	(568)	1,394	19	(17)	2
A.2 Probable default	597,560	(185,821)	411,739	250	(25)	225	-	-	-
A.3 Deteriorated overdue exposures	56,092	(7,463)	48,629	39	(2)	37	-	-	-
A.4 Deteriorated overdue exposures	10,165,595	(57,358)	10,108,237	89,733	(95)	89,638	1,490	(3)	1,487
Total A	**11,886,284**	**(875,188)**	**11,011,096**	**91,984**	**(690)**	**91,294**	**1,509**	**(20)**	**1,489**
B. "off Balance sheet" exposures									
B.1 Default	1466	(29)	1437	-	-	-	-	-	-
B.2 Probable default	9,779	(846)	8,933	-	-	-	-	-	-
B.3 Other deteriorated assets	3,949	(2)	3,947	-	-	-	-	-	-
B.4 Deteriorated overdue exposures	419,539	(1,296)	418,243	72	-	72	-	-	-
Total B	**434,733**	**(2,173)**	**432,560**	**72**	**-**	**72**	**-**	**-**	**-**
Total A+B 31/12/2015	**12,321,017**	**(877,361)**	**11,443,656**	**92,056**	**(690)**	**91,366**	**1,509**	**(20)**	**1,489**
Total A+B 31/12/2014	**12,794,520**	**(850,182)**	**11,944,338**	**16,838**	**(794)**	**16,044**	**1,750**	**(2)**	**1,748**

Exposure/ Geographical areas	Asia Gross exposure	Asia Overall value adjustments	Asia Net exposure	Rest of world Gross exposure	Rest of world Overall value adjustments	Rest of world Net exposure	Total Gross exposure	Total Overall value adjustments	Total Net exposure
A. Cash exposure									
A.1 Default	-	-	-	89	(50)	39	1,069,107	(625,181)	443,926
A.2 Probable default	-	-	-	2	(2)	-	597,812	(185,848)	411,964
A.3 Deteriorated overdue exposures	-	-	-	-	-	-	56,131	(7,465)	48,666
A.4 Deteriorated overdue exposures	235	(1)	234	3	-	3	10,257,056	(57,457)	10,199,599
Total A	**235**	**(1)**	**234**	**94**	**(52)**	**42**	**11,980,106**	**(875,951)**	**11,104,155**
B. "off Balance sheet" exposures									
B.1 Default	-	-	-	-	-	-	1,466	(29)	1,437
B.2 Probable default	-	-	-	-	-	-	9,779	(846)	8,933
B.3 Other deteriorated assets	-	-	-	-	-	-	3,949	(2)	3,947
B.4 Deteriorated overdue exposures	-	-	-	-	-	-	419,611	(1,296)	418,315
Total B	**-**	**-**	**-**	**-**	**-**	**-**	**434,805**	**(2,173)**	**432,632**
Total A+B 31/12/2015	**235**	**(1)**	**234**	**94**	**(52)**	**42**	**12,414,911**	**(878,124)**	**11,536,787**
Total A+B 31/12/2014	**253**	**-**	**253**	**150**	**(144)**	**6**	**12,813,511**	**(851,122)**	**11,962,389**

Distribution by Geographical area of credit exposure to banks broken down by main types of exposure

Exposure/ Geographical areas	Italy Gross exposure	Italy Net exposure	Other European countries Gross exposure	Other European countries Net exposure	America Gross exposure	America Net exposure	Asia Gross exposure	Asia Net exposure	Rest of world Gross exposure	Rest of world Net exposure	Total Gross exposure	Total Net exposure
A. Cash exposure												
A.1 Default	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Probable default	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Deteriorated overdue exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Non-deteriorated exposures	308,491	308,491	55,605	55,605	2,342	2,342	2,496	2,496	276	276	369,210	369,210
Total A	**308,491**	**308,491**	**55,605**	**55,605**	**2,342**	**2,342**	**2,496**	**2,496**	**276**	**276**	**369,210**	**369,210**
B. "off Balance sheet" exposures												
B.1 Default	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Probable default	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other deteriorated assets	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Deteriorated overdue exposures	20,013	20,013	1,968	1,968	241	241	2,754	2,754	54	54	25,030	25,030
Total B	**20,013**	**20,013**	**1,968**	**1,968**	**241**	**241**	**2,754**	**2,754**	**54**	**54**	**25,030**	**25,030**
Total A+B 31/12/2015	**328,504**	**328,504**	**57,573**	**57,573**	**2,583**	**2,583**	**5,250**	**5,250**	**330**	**330**	**394,240**	**394,240**
Total A+B 31/12/2014	**338,628**	**338,628**	**79,973**	**79,973**	**1,932**	**1,932**	**1,135**	**1,135**	**686**	**686**	**422,354**	**422,354**

Distribution of deteriorated exposures and value adjustments by economic sector

Exposures/Counterparties	Governments				Other public bodies			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. Cash exposure								
A.1 Default	-			-	3	(3)		-
- of which exposures with concessions	-			-	-			-
A.2 Probable default	-			-	387	(290)		97
- of which exposures with concessions	-			-	-			-
A.3 Deteriorated overdue exposures	-			-	-			-
- of which exposures with concessions	-			-	-			-
A.4 Non-deteriorated exposures	1,732,319			1,732,319	3,801		(6)	3,795
- of which exposures with concessions	-			-	-		-	-
Total A	**1,732,319**	**-**	**-**	**1,732,319**	**4,191**	**(293)**	**(6)**	**3,892**
B. "off Balance sheet" exposures								
B.1 Default	-			-	-			-
B.2 Probable default	-			-	-			-
B.3 Other deteriorated assets	-			-	-			-
B.4 Non-deteriorated exposures	418			418	19,374			19,374
Total B	**418**	**-**	**-**	**418**	**19,374**	**-**	**-**	**19,374**
Total A+B 31/12/2015	**1,732,737**	**-**	**-**	**1,732,737**	**23,565**	**(293)**	**(6)**	**23,266**
Total A+B 31/12/2014	**1,790,446**	**-**	**-**	**1,790,446**	**29,261**	**(268)**	**(339)**	**28,654**

Exposures/Counterparties	Financial companies				Insurance companies			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. Cash exposure								
A.1 Default	1450	(960)		490	-			-
- of which exposures with concessions	-			-	-			-
A.2 Probable default	663	(308)		355	-			-
- of which exposures with concessions	167	(100)		67	-			-
A.3 Deteriorated overdue exposures	26	(3)		23	-			-
- of which exposures with concessions	-			-	-			-
A.4 Non-deteriorated exposures	138,043		(1,192)	136,851	2,824		(1)	2,823
- of which exposures with concessions	1,555		(57)	1,498	-		-	-
Total A	**140,182**	**(1,271)**	**(1,192)**	**137,719**	**2,824**	**-**	**(1)**	**2,823**
B. "off Balance sheet" exposures								
B.1 Default	-			-	-			-
B.2 Probable default	-			-	-			-
B.3 Other deteriorated assets	-			-	-			-
B.4 Non-deteriorated exposures	2,533		(186)	2,347	949		(11)	938
Total B	**2,533**	**-**	**(186)**	**2,347**	**949**	**-**	**(11)**	**938**
Total A+B 31/12/2015	**142,715**	**(1,271)**	**(1,378)**	**140,066**	**3,773**	**-**	**(12)**	**3,761**
Total A+B 31/12/2014	**1,384,200**	**(601,651)**	**(922)**	**781,627**	**6,086**	**-**	**(10)**	**6,076**

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Exposures/Counterparties	Non-financial businesses				Other parties				Total			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	**Gross exposure**	**Specific value adjustments**	**Portfolio value adjustments**	**Net exposure**
A. Cash exposure												
A.1 Default	850,422	(516,333)		334,089	217,232	(107,885)		109,347	1,069,107	(625,181)		443,926
- of which exposures with concessions	7,847	(4,531)		3,316	1,751	(944)		807	9,598	(5,475)		4,123
A.2 Probable default	463,321	(150,653)		312,668	133,441	(34,597)		98,844	597,812	(185,848)		411,964
- of which exposures with concessions	162,368	(43,903)		118,465	45,657	(10,511)		35,146	208,192	(54,514)		153,678
A.3 Deteriorated overdue exposures	41,961	(5,666)		36,295	14,144	(1,796)		12,348	56,131	(7,465)		48,666
- of which exposures with concessions	19,322	(2,711)		16,611	5,289	(747)		4,542	24,611	(3,458)		21,153
A.4 Non-deteriorated exposures	5,620,163		(49,208)	5,570,955	2,759,906		(7,050)	2,752,856	10,257,056		(57,457)	10,199,599
- of which exposures with concessions	128,240		(3,720)	124,520	35,319		(330)	34,989	165,114		(4,107)	161,007
Total A	**6,975,867**	**(672,652)**	**(49,208)**	**6,254,007**	**3,124,723**	**(144,278)**	**(7,050)**	**2,973,395**	**11,980,106**	**(818,494)**	**(57,457)**	**11,104,155**
B. "off Balance sheet" exposures												
B.1 Default	1,419	(15)		1,404	47	(14)		33	1,466	(29)		1,437
B.2 Probable default	9,543	(802)		8,741	236	(44)		192	9,779	(846)		8,933
B.3 Other deteriorated assets	3,896	(2)		3,894	53			53	3,949	(2)		3,947
B.4 Non-deteriorated exposures	357,029		(1,084)	355,945	39,341		(15)	39,326	419,644		(1,296)	418,348
Total B	**371,887**	**(819)**	**(1,084)**	**369,984**	**39,677**	**(58)**	**(15)**	**39,604**	**434,838**	**(877)**	**(1,296)**	**432,665**
Total A+B 31/12/2015	**7,347,754**	**(673,471)**	**(50,292)**	**6,623,991**	**3,164,400**	**(144,336)**	**(7,065)**	**3,012,999**	**12,414,944**	**(819,371)**	**(58,753)**	**11,536,820**
Total A+B 31/12/2014	**6,477,625**	**(149,011)**	**(49,605)**	**6,279,009**	**3,125,890**	**(41,784)**	**(7,529)**	**3,076,577**	**12,813,508**	**(792,714)**	**(58,405)**	**11,962,389**

Temporal distribution by reference to residual contract duration of financial assets and liabilities

Headings/ Temporal categories	At sight	From over one day to 7 days	From over 7 days to 15 days	From over 15 days to one month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Indefinite duration
Cash assets	**2,064,307**	**19,544**	**78,312**	**317,303**	**926,626**	**444,671**	**869,391**	**4,143,923**	**2,824,062**	**97,804**
A.1 Government bonds	2	-	-	-	2,140	27,106	198,625	992,001	462,147	-
A.2 Debt securities and others	43	-	23	1,512	205	82	7,530	64,291	17,732	-
A.3 UCITS units	77,937	-	-	-	-	-	-	-	-	-
A.4 Loans	1,986,325	19,544	78,289	315,791	924,281	417,483	663,236	3,087,631	2,344,183	97,804
- Banks	116,574	1	-	21,512	46,017	1,909	-	-	-	97,804
- Customers	1,869,751	19,543	78,289	294,279	878,264	415,574	663,236	3,087,631	2,344,183	-
Cash liabilities	**6878544**	**209,018**	**85,934**	**105,511**	**655,156**	**416,553**	**499,869**	**1,888,299**	**212,390**	**-**
B.1 Deposits and current accounts	6,833,530	44,769	45,154	71,602	461,579	267,952	269,676	83,229	-	-
- Banks	32,871	4,133	2,235	1,629	-	-	-	-	-	-
- Customers	6,800,659	40,636	42,919	69,973	461,579	267,952	269,676	83,229	-	-
B.2 Debt securities	12,808	12,128	40,770	33,909	193,577	130,209	211,805	1,126,448	191,335	-
B.3 Other liabilities	32,206	152,121	10	-	-	18,392	18,388	678,622	21,055	-
"Off Balance sheet" operations										
C.1 Financial derivatives with capital swap										
- Long positions	-	6,851	1,961	450,834	25,831	14,589	7,012	3,239	-	-
- Short positions	-	7,321	1,959	450,816	25,790	14,195	7,009	3,171	-	-
C.2 Financial derivatives without capital swap										
- Long positions	9698	-	-	272	900	159	811	1,000	-	-
- Short positions	3,114	-	-	1,084	913	363	1,365	-	-	-
C.3 Deposits and loans yet to be received										
- Long positions	-	4,126	-	-	-	-	-	-	-	-
- Short positions	-	4,126	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments for the payment of funds										
- Long positions	1,691	295	-	177	3,063	890	714	22,069	21,944	38
- Short positions	74,772	295	-	-	-	-	-	-	-	-
C.5 Issued financial security	-	-	-	-	21	46	148	1,628	-	-
C.6 Received financial security	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with capital swap										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without capital swap										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Dynamics of overall value adjustments in response to deteriorated customer exposures

Reasons/categories	Default	Probable default	Deteriorated overdue exposures
A. Overall initial adjustments	**271,166**	**113,908**	**5,406**
- of which: non-cancelled assigned exposures	2,420	2,105	94
B. Positive variations	**188,861**	**118,889**	**8,147**
B.1 Value adjustments	140,277	97,527	7,018
B.2 Losses from assignment	1,396	216	-
B.3 Transfers from other deterioration categories	45,156	2,714	94
B.4 Other positive variations	2,032	18,432	1,035
C. Negative variations	**55,094**	**80,910**	**6,123**
C.1 Value recovery from valuation	25,610	12,132	1,272
C.2 Value recovery from receipt	15,682	6,180	632
C.3 Profits from assignment	115	-	-
C.4 Cancellations	13,214	9	-
C.5 Transfer to other exposure deterioration categories	-	44,780	3,185
C.6 Other negative variations	473	17,809	1,034
D. Final overall adjustments	**404,933**	**151,887**	**7,430**
- of which: non-cancelled assigned exposures	2,806	2,401	241

Unrestricted assets (Article 443 CRR)

Qualitative Information

The Group uses some of its assets as a form of security for the following purposes:

- Secured loan operations;
- Access to central bank instruments;
- Guarantee contracts;
- Objective security used in clearing systems.

The types of restricted assets are made up of debt securities and Balance sheet receivables. Debt securities, for the most part Italian government securities, are used as security to collect short- and medium-term funds through repurchase agreement operations and/or access to central bank instruments.

Unrestricted assets are made up of receivables and, to a lesser extent, debt securities.

Quantitative Information

Template A – Assets of reporting institution

Headings	Balance sheet value of restricted assets	Fair value of the restricted assets	Balance sheet value of unrestricted assets	Fair value of unrestricted assets
	010	040	060	090
010 **Institution's assets**	**-1,030,65**		**-11,217,47**	
020 At sight loans	0	0		0
030 Equity securities	0	0	-92,21	-92,21
040 Debt securities	-726,02	-726,02	-1,077,20	-1,077,43
100 Loans other than At sight loans	-304,62		-9,363,62	
120 Other assets	0		-684,42	

Template B - Collateral received by the reporting institution

Headings	Fair value of collateral received or restricted debt securities issued	Fair value of collateral received or restrictable debt securities issued	Nominal value of collateral received or non-restrictable debt securities
	010	040	070
130 **Collateral received from institution**	**0**	**0**	**-14,068,601**
140 At sight loans	0	0	0
150 Equity securities	0	0	-73,207
160 Debt securities	0	0	-292,813
220 Loans other than At sight loans		0	-26,337
230 Other collateral received	0	0	-13,676,244
240 **Debt securities issued other than Covered bonds and ABSs**	**0**	**-3,208**	**0**

Template C – Sources of investment		
Headings	Corresponding liabilities or loaned securities (+)	Assets, collateral received and issued debt securities differing from Covered bonds and ASBs (-)
	010	030
010 **Balance sheet value of connected liabilities**	**732,887**	**-1,019,465**
020 Derivatives	0	-30
040 Deposits	732,887	-1,019,434
090 Issued debt securities	0	0
120 **Other sources of encumbrance**	**234,250**	**-11,192**
130 Nominal value of commitments received	234,250	0
140 Nominal value of financial security received	0	0
150 Fair value of securities received against non-cash collateral	0	0
160 Other sources of encumbrance	0	-11,192
170 **Total sources of encumbrance**	**967,137**	**-1,030,656**

8. Use of ECAIs (Article 444 CRR)

Qualitative information

The Group uses a standardised method to establish the capital required as against credit risk, designed for the calculation of supervisory requirements to counteract this risk (Section 1, Chapter 3 of Part Two of Circular 285/13). In this context the Group uses, where available, the creditworthiness valuations provided by the Moody’s specialised rating agency for the determination of the exposure weighting factors included in the following portfolios:

- Central administrations and central banks and, indirectly, “supervised banks”, “Public sector Bodies”, and “Territorial Bodies”;
- “Businesses and other parties”.

For all other exposures not falling into the regulatory classes described above, reference is made to the different weighting factors set out in the law itself for the standardised method.

Quantitative Information

Distribution of exposures by reference to credit rating classes and regulatory classes

Sub-heading	Credit rating classes	Net exposure without mitigation of credit risk	Net exposure with mitigation of credit risk
Exposures to, or secured by central administrations and central banks		**2,065,142**	**2,179,096**
	- 0%	1,884,781	1,998,065
	- 20%	-	597
	- 50%	-	73
	- 100%	173,678	173,678
	- 250%	6,683	6,683
Exposures to, or secured by, regional administrations or local authorities		**21,432**	**37,109**
	- 20%	21,432	37,109
Exposures to, or secured by, public sector bodies		**7,737**	**7,737**
	- 100%	7,737	7,737
Exposures to, or secured by, multilateral development banks		**-**	**9,979**
	- 20%	-	9,979
Exposures to, or secured by, international bodies		**-**	**3,434**
	- 0%	-	3,434
Exposures to, or secured by, supervised banks		**510,303**	**372,270**
	- 0%	-	10,158
	- 2%	152,105	-
	- 20%	255,440	256,110
	- 50%	7,925	8,120
	- 100%	94,833	97,881
Exposures to, or secured by, businesses		**3,946,555**	**3,818,562**
	- 50%	518	817
	- 100%	3,946,037	3,817,745
Exposures to retail customers		**4,878,684**	**4,684,572**
	- 75%	4,878,684	4,684,572
Exposures secured by real estate collateral		**2,616,490**	**2,607,091**
	- 35%	1,854,200	1,854,200
	- 50%	752,891	752,891
	- 75%	6,515	-
	- 100%	2,779	-
	- 150%	106	-
Exposures in state of default		**967,444**	**957,239**
	- 100%	721,042	718,134
	- 150%	246,402	239,105
Exposures at high risk		**2,239**	**2,239**
	- 150%	2,239	2,239
Exposures in the form of secured bank bonds		**-**	**-**
Short-term exposures to supervised banks		**-**	**-**
Exposures to Undertakings for the Collective Investment of Transferrable Securities (UCITSs)		**79,744**	**79,755**
	- 100%	79,744	79,755
Exposures to equity instruments		**45,660**	**45,793**
	- 100%	36,029	36,161
	- 250%	9,631	9,631
Other Exposures		**401,599**	**718,110**
	- 0%	62,244	376,860
	- 20%	54,252	56,148
	- 75%	13,768	13,768
	- 100%	271,168	271,168
	- 150%	166	166
Total credit and counterparty risk		**15,543,029**	**15,522,985**

9. Exposure to market risk (Article 445 CRR)

Qualitative Information

Capital requirements to counteract market risk on the trading portfolio are determined in accordance with the standard method as defined by the supervisory law. This method involves the calculation of this requirement on the basis of the so-called building-block approach under which the overall requirement will be the sum of capital requirements to counteract individual risks. In the context of deciding the above method the Group has referred to relevant regulatory provisions (Section 1 of Chapter 9 of Part Two of Circular no. 285/13).

Quantitative Information

The information disclosed in relation to Own Funds requirements has been set out in Section 4.

10. Operational Risk (Article 446 CRR)

Qualitative Information

The Group, in consideration of its own organisational, operational and size characteristics, has resolved to use the Basic Indicator Approach (BIA) to measure its prudential requirements to counteract operational risk. Based on this methodology, the capital requirements against operational risks is measured by applying the regulatory coefficient of 15% to the averages obtained over the past three observations, on an annual basis, of an indicator of the volume of company operations as established in accordance with the provisions of Art. 316 of EU Regulation No. 575/2014 and representing the brokerage margin plus other adjusted trading revenues on a number of components (profits and losses realized on the sale of securities not included in the trading portfolio, revenues deriving from exceptional or unusual deals and revenues from insurances).

11. Exposure to Equity Instruments not included in the trading Portfolio (Article 447 CRR)

Qualitative Information

Definition

The exposures in equities not included in the Bank trading portfolio are recorded:

- Under the heading "Financial assets available for sale". This heading contains interests in equity securities of less than 20%, private equity fund and open investment fund units and other fund units (mostly real estate in type);
- Under the "shareholdings" heading. Interests in associated companies are entered in this heading.

Aims

The main aims are the following:

- Strategic: through the ownership of shareholdings making it possible to exercise significant influence in financial and insurance companies;
- Financial investment: through the ownership of equity shareholdings or fund units for which returns on the investment are expected in terms of the appreciation of the fair value of the shares or fund units owned over a long time period.

Accounting Criteria

Financial assets available for sale

Financial assets available for sale will be valued at their fair value. In the case of unlisted financial assets, including minority shareholdings, technical valuations are used to establish fair value, that is, when a reliable determination of fair value is not possible, valuation is effected at cost (Level 3).

For UCITS units traded on an active market, the valuation will be made at closure on the valuation date observable on the main market or, in the absence of the latter, on the most advantageous market (Level 1 fair value).

For UCITS units not listed on an active market (in particular for closed funds and hedge funds) the valuation will be that of the last N.A.V. published or in any case made available by the Manager, to which an appropriate adjustment is made as necessary (of 20%) to take account of the unit's liquidity (Level 3).

An assessment is made at each Financial Statements date as to whether there is value impairment which has a measurable impact on estimated future cash flows, considering possible financial difficulties of the issuer or other similar elements. As set out in IAS 39 at paragraph 61, for listed and unlisted capital securities and UCITS units quoted on an active market, "significant" value impairment s (over 25%) or "prolonged" impairments (over 24 months) will be treated as objective impairment indicators. In the case of UCITS units not quoted in an active market and shareholdings not representing control or connection, "significant" value impairments (over 30%) or "prolonged" impairments (over 60 months) will be treated as objective impairment indicators.

Taking account of internal policy, the crossing of one of the above thresholds is considered as impairment with consequential indication in the Income Statement of the negative variations accumulated from the date first recorded in the accounts. The amount of the value impairment will be the difference between the book value of the asset and its recoverable value. The effect of this recorded variation is an entry in Share Equity balancing valuation reserves, net of its tax effect up to the complete cancellation of the asset, with the component derived from the amortised cost attributed rather to the Income Statement.

On its extinction, sale, transfer to another category or the recording of value impairment, the amount accumulated in the Valuation Reserve will be attributed to the Income Statement.

Shareholdings

The Net Equity method is applied for valuation after the initial recording. Under this method the initial book value is adjusted to identify the part of the connected company's share equity of pertinence to the Group holding company.

At each Financial Statements closing date objective evidence is assessed to establish whether the shareholding has suffered lasting value impairment (impairment test).

Lasting value impairment occurs when the asset's book value is greater than its recoverable value, the latter being the greater of either the net sale price (that is, the amount obtainable from the sale of the asset in a hypothetical transaction between third parties, net of the costs of disposal) and the use value (equal to the current value of expected future cash flows estimated to derive from the permanent use and the disposal of the asset at the end of its useful life).

At the end of the impairment test process, taking account of internal policy, a "stress test" is also carried out on a number of key parameters considered in the valuation model in order to bring the recoverable value to that recorded in the Financial Statements.

Under IAS 36 the impairment test must be effected annually. Furthermore, at every inter-year interim closure checks are made on the existence of conditions requiring the impairment test to be carried out again. In particular, some quantitative and qualitative indicators are monitored, representing presumptive elements with regard to the value impairment of the shareholding (trigger event).

Any value adjustments due to value impairment have to be entered as balancing entries in the Income Statement.

When the reasons for the value impairment cease to exist following events occurring after the recording of the value impairment, value restoration is effected, recorded in the Income Statement under the heading 240 "Profits/(losses) from shareholdings".

Quantitative Information

Exposures in equity instruments not included in the trading portfolio

	Balance sheet value		Fair value		Market value		Profits/losses realised and impairment		Unrealised capital gains/losses recorded on the Balance sheet	
	Level 1	Level 2/3	Level 1	Level 2/3	Level 1	Level 2/3	Level 1	Level 2/3	Level 1	Level 2/3
Financial assets available for sale										
Capital securities	203	13,677	203	13,677	203	x	(384)	2,165		397
- UCITS units	67,763	10,174	67,763	10,174	67,763	x	852		(870)	(1,168)

Exposures in equity instruments: Shareholdings (Euro/000)

Exposures to equity instruments	Balance sheet value	Fair Value	Revaluations/ write downs	Profits/losse s from realisation	Impairment	Sum deducted from Own Finds
A. Businesses valued at Share equity	15,732		1,699			6,101
A.1 Subject to joint control						
A.2 Subject to significant influence *	15,732		1,699			6,101
Total	**15,732**		**1,699**			**6,101**

* Note that Euro/000 2,471 refers to a shareholding reallocated under the balance-sheet item "Non-current assets and groups of assets held for sale"

12. Exposure to interest rate risk on positions not included in the trading portfolio (Article 448 CRR)

Qualitative Information

The measurement of interest rate risk is effected for the Group's Italian banking businesses covering almost all the bank trading portfolio. The totality of the Group's commercial activity connected with the transformation of maturities of the assets and liabilities of the Financial Statements, the securities portfolio, treasury operations and the respective hedge derivatives, are monitored through the Asset and Liability Management (A.L.M.) method, using the ALMpro application. The static analysis makes it possible to measure the impacts produced by changes in interest rate structures expressed in terms both of changes in the economic value of the assets and interest margins. In this context the results of the Bank portfolio for the purposes of the Financial Statements have been presented, excluding the financial instruments coming within the Supervisory Trading portfolio. The variability of the interest margin, resulting from positive and negative rate variations over a time frame of 365 days, has been estimated by means of Gap Analysis. The variations in the economic value of assets and liabilities are analysed by means of the application of models based on the concept of Duration Gap and Sensitivity Analysis. The analyses are carried out by means of parallel shifts in the rate curve. The simulation analysis makes it possible to provide for specific scenarios of variations in market rates.

With a view to Prudential and active management of the risks associated with its operations, the Group follows a policy of coverage that includes both Fair Value Hedging in order to protect the balance sheet against the risks deriving from adverse variations in Fair Value and Cash Flow Hedging with the aim of stabilising the cash-flows of the covered instrument by means of the flows provided by the coverage instrument. Currently the hedged instruments refer both to assets (fixed rate mortgages already paid out) and liabilities (issued bond loans). Various types of hedge relating to asset headings have been implemented in the form of micro and macro group hedges and specific micro-hedges. All hedges for liability entries however, are specific micro-hedges. The hedge instruments used are derivative hedges represented by unlisted securities – for the most part Interest Rate Swaps and rate options – employed only for hedging interest rate risk. The Group holding company has created a model capable of managing hedge accounting consistently with the reference regulations dictated by the IAS accounting principles. The method used by the Group holding company to carry out effectiveness tests is the "Dollar Offset Method" (hedge ratio) on an cumulative basis. The Group applies the Fair Value Option to a number of types of bonds it issues with the aim of making the fair value of the whole instrument more reliable and representative.

Quantitative Information

The Group's management and strategic structure is concerned with the consideration of the volatility of interest margins and the overall economic value of own funds.

The exposure to risk is not critical, remaining within the limits defined by the prudential supervisory regulations. The distribution of Balance sheet entries in terms of maturity dates and re-pricing nonetheless present a number of peculiarities deriving from the entry of the Banca Popolare di Spoleto within the Group consolidation perimeter. In particular, it should be noted that it has not been possible for the latter, during its receivership, to issue new bond loans with consequential increase in at sight and short term funds. This has lead to a physiological reduction in the average duration of liabilities while the Balance sheet assets have not changed substantially in terms of average duration, including a group of fixed-rate components made up both of government bonds and mortgages with medium- to long-term maturities.

The following table indicates the impact on interest margins from a static perspective and without behavioural models for the at sight entries. The analyses were effected as at 31 December 2015 on the basis of the hypothesis of a parallel shift in the rates curve and considering the effect of the re-pricing time for the entries.

Degree of risk indices: parallel shifts in rates curve as at 31.12.2015

	+100 bp	*-100 bp*
% on expected margin	*1.61%*	*-13.39%*
% on banking margin	*0.89%*	*-7.41%*
% on period results	*9.33%*	*-77.87%*
% on Share equity	*0.40%*	*-3.31%*

13. Exposure to securitisation positions (Article 449 CRR)

Qualitative information

Third party securitisation operations

As at 31 December 2015, the Group holds senior notes for third party securitisation amounting to €538 thousand. The securitisation operation refers to the assignment of real estate to the Special Purpose Company by INPS and its legal maturity is 2025.

Own securitisation operations

The Group's "own" securitisation operations (traditional in type) refer to the sale of customer receivables secured by mortgages over real estate. The purpose of the operation is essentially that of freeing financial resources to be used in other investment activities and/or to generate assets which can be used as collateral for re-financing operations with the Central Bank.

Law 130/99 containing "provisions on receivable securitisation" introduced the possibility of concluding securitisation operations in Italian law, through companies formed under Italian law set up specifically (SPVs – Special Purpose Vehicle Companies), permitting the "assignor" to collect financial resources from the assignment of specifically identified assets. The basic scheme entails the assignment of assets (normally receivables due from retail customers) recorded by a party in the Financial Statements of an SPV which, to finance the purchase, will issue bond notes to place on the market (or with the assignor itself). The voucher yields and the amortisation of the notes are directly connected with the cash flow generated by the assigned receivables.

The Group has been involved in two securitisation operations, held by the following SPVs:

- Spoleto Mortgages Srl
- Spoleto Mortgages 2011 Srl:

Characteristics

Spoleto Mortgages Srl

We have summarised the values relating to the assigned receivable portfolio:

Original value of the assigned receivables: €207,026 thousand
Price of immediate assignment: €207,026 thousand
Original Deferred price (excess spread): €8,439 thousand
Gross value of the assigned receivables as at 31.12.2015: €13,537 thousand

The securitisation operation was carried out with a view to the dynamic management of the assets and freeing the resources necessary to continue to develop long-term receivables in order to direct credit activities towards specific productive uses.

In the context of the above operation, Banca Popolare di Spoleto SpA (Originator Bank) did not subscribe to junior notes but held receivables of a subordinate nature (Deferred Purchase Price), to be refunded subject to the achievement of a given level of cash reserves by the SPV in accordance with the priority order laid down by the Notes Regulation. The aforesaid loans are recorded as 'loans to clients' since the loans were granted to the issuer (SPV).

On 31.12.2015 the SVP refunded 100% of the senior notes. The notes issued originally and the amounts refunded from time to time, have been summarised as follows:

Class A1: €47,618 thousand – Refunded in full

Class A2: €144,920 thousand – Refunded in full

Class B: €7,246 thousand – €4,134 thousand remained

Class C: €7,246 thousand – remains to be refunded in full

It should also be noted that a back to back swap derivative contract was signed in the context of the above operation under which Banca Popolare di Spoleto SpA receives, quarterly and from a third party counterparty, the amount received by the SPV over the same period by way of interest payments on the assigned mortgages and pays a variable rate plus spread (paid by the counterparty to the SPV). This swap is recorded in the Banca Popolare di Spoleto's trading portfolio.

The excess spread (Deferred Purchase Price) is received on the basis of the order of payment defined by the Notes Regulation and on the achievement by the SPV of a minimum liquidity limit. A regular assessment of recoverability is conducted on this loan, based on an anticipated cash-flow forecasting model.

Please note that on 18 December 2014 the Board of Directors of Banca Popolare di Spoleto adopted a resolution on the early closure of the securitisation operation.

During the course of the financial year the necessary preliminary activities for the closure of this operation were carried out, including the granting of an indemnity to the Shareholder Representative (RON) by which the Bank agrees to indemnify the Representative against any damages, losses and costs deriving from any legal action, claims or demands instituted or received after the date on which the letter of withdrawal from the loan agreement was signed. After the RON's consent was obtained on 23 December 2015 and in compliance with the 60-day deadline prior to the closure of the operation, a "*Notice of early redemption of the Notes and termination of the related Transaction Documents"* was published, containing notification of the early termination of the operation and the reimbursement of outstanding securities at nominal value. The final closure of the operation is scheduled for the *payment date* on 25.2.2016.

The decision to proceed with the early closure of the operation was based on financial considerations, including the negligible residual value of the existing loans. As regards the *excess spread* loan of 3.9 million Euro, given the positive trend of the operation, the aforesaid sum is deemed to be fully recoverable.

Spoleto Mortgages 2011 Srl

We have set out below the values of the assigned receivables portfolio:

Original value of the assigned receivables: €424,966 thousand
Assignment price: €424,966 thousand
Gross value of the assigned receivables as at 31.12.2015: €290,246 thousand

The Operation was put into effect in 2011 in order to obtain equity securities to be lodged with the ECB for re-financing operations. It was indeed, a self-securitisation operation in that the Originator Bank (Banca Popolare di Spoleto) subscribed to all the notes issued by the SPV.

The notes issued originally and the amounts refunded from time to time, have been summarised as follows:

Class A: €320,000 thousand – €163,747 thousand remained as at 31.12.2015

Class B: €105,000 thousand – remains to be refunded in full.

The operation does not include a part with deferred purchase price or the signing of a derivative contract between the Originator and the SPV.

Bodies involved and their respective roles

We have set out below a list of the parties involved in the two securitisation operations described above:

Spoleto Mortgages Srl:

SPV/issuer	Spoleto Mortgages S.r.l.
Assignor	Banca Popolare di Spoleto S.p.A. (Banco Desio Group)
Originator	Banca Popolare di Spoleto S.p.A. (Banco Desio Group)
Servicer	Banca Popolare di Spoleto S.p.A. (Banco Desio Group)
Sub Servicer (possible)	-
Back-Up Servicer	Banca Monte dei Paschi di Siena S.p.A.
Corporate Servicer	Securitisation Services S.p.A.
Computation Agent	BNP Paribas Securities Services, Milan branch
Account Bank	BNP Paribas Italian Branch
Paying Agent	BNP Paribas Securities Services, Milan branch
Cash manager	BNP Paribas Italian Branch
Luxembourg Agent	BNP Paribas Securities Services, Milan branch
Representative of the Bearer of the Notes	BNP Paribas Securities Services, Milan branch
Subscribers to notes (where known)	-
Hedging Counterparty	CDC IXIS Capital Markets, London Branch
Lead Manager(s)	-

Spoleto Mortgages 2011 Srl:

SPV/issuer	Spoleto Mortgages 2011 Società per la Cartolarizzazione S.r.l.
Assignor	Banca Popolare di Spoleto S.p.A. in extraordinary receivership
Originator	Banca Popolare di Spoleto S.p.A. in extraordinary receivership
Servicer	Banca Popolare di Spoleto S.p.A. in extraordinary receivership
Corporate Servicer	Securitisation Services S.p.A.
Computation Agent	Securitisation Services S.p.A.
Italian Account Bank	BNP Paribas Securities Services, Milan branch
Paying Agent	BNP Paribas Securities Services, Milan branch
Cash manager	BNP Paribas Securities Services, Milan branch
Listing Agent	BNP Paribas Securities Services, Luxemburg Branch
Representative of the Bearer of the Notes	BNP Paribas Securities Services, Milan branch
Subscribers to the notes	BNP Paribas Securities Services, Milan branch
Sub Loan Provider	Banca Popolare di Spoleto S.p.A. in extraordinary receivership

Methods of calculation of the exposures

The Banco Desio Group uses the "standard method" for the calculation of capital requirements relating to the amount of exposure subject to securitisation.

Accounting Policies

The accounting policies adopted by the Banco Desio Group with reference to the treatment and recording in the accounts of securitisation operations are in line with IAS 39 dealing with the cancellation of assets or liabilities of a financial nature (so-called derecognition).

IAS 39 requires, in the case of a substantial transfer of all risks and benefits inherent to the entries transferred to an assignee, that all assigned assets be cancelled from the Balance sheet with the recording of the payment received as a balancing entry, also recording any profit or loss deriving from the sale-purchase.

In a case however, when the rules of IAS 39 are not satisfied, the assignor should not delete the asset from the Balance sheet but should rather record, as a balancing entry to the price received, the payable due to the assignee without recording any profit or loss deriving from the sale-purchase in the accounts. In the case under consideration of receivable securitisation operations, the related entries will not be cancelled from the assignor's assets when the Originator assigns a part of its receivables to the SPV in exchange for the subscription to the notes (at least those of the junior, lower priority, class) issued by the SVP, thus remaining exposed to the risks and benefits of the assigned assets.

The securitisation operations effected by the Banco Desio Group do not satisfy, at a consolidated level, the rules laid down by the IAS/IFRS for derecognition and have thus been recorded in the accounts in the manner described above.

Quantitative Information

Banking Group – Exposures deriving from securitisation operations distinguished by reference to the quality of the underlying assets

Quality of underlying assets/exposures	Cash exposure					
	Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets					**3,895**	**3,895**
a) Deteriorated						
b) Others					3,895	3,895
B. With third party underlying assets	**538**	**538**				
a) Deteriorated						
b) Others	538	538				

Exposures deriving from main "Own" securitisation operations broken down by type of asset securitised and type of exposure

Type of securitised asset/exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Balance sheet value	Adjustments /value restorations	Balance sheet value	Adjustments/ value restorations	Balance sheet value	Adjustments /value restorations
Not derecognised from the Balance sheet						
Spoleto Mortgages						
- Real estate mortgages in form of 1st level mortgage security on residential properties	-	-	-	-	3,895	-

Type of underlying asset/exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Balance sheet value	of which Adjustments/ value restorations	Balance sheet value	Adjustments/ value restorations	Balance sheet value	Adjustments/ value restorations
A.1 F.I.P 26.04.25						
- Real estate	538	3				

Banking Group – Amount of securitised assets underlying Junior notes or other forms of credit support

Assets/value	Traditional securitisation	Synthetic securitisations
A. Own underlying assets	**12012**	
A.1 Subject to full derecognition		
1. Default		
2. Probable default		
3. Overdue exposures		
4. Other assets		
A.2 Subject to partial derecognition		
1. Default		
2. Probable default		
3. Overdue exposures		
4. Other assets		
A.3 Not derecognised	12012	
1. Default	690	
2. Probable default	579	
3. Overdue exposures	146	
4. Other assets	10597	
B. Third party underlying assets		
1. Default		
2. Probable default		
3. Overdue exposures		
4. Other assets		

14. Remuneration Policy (Article 450 CRR)

Bodies and parties involved in the preparation and approval of remuneration policies

Senior Management bodies

Group holding company

The Group holding company draws up the document representing the policy on remuneration and incentives for the entire banking group, ensuring its overall consistency, issuing the instructions necessary for its implementation, and checks that it has been correctly applied. The individual group companies, if not listed, are allowed not to draw up a separate document of their own.

The Group holding company's Ordinary General Meeting

In addition to setting the remuneration of the Directors and Statutory auditors in compliance with the Articles of Association, it approves the "Annual Report on the Banco Desio Group's Remuneration Policies", any plans based on financial instruments and the criteria for the setting of any severance pay to be agreed in the case of the early termination of the employment relationship or early termination of office.

The General Meeting is provided with adequate information on the implementation of remuneration policies. The General Meeting resolutions in that regard are passed following a process which, depending on the powers which have been granted in the area at any time, involve, in addition to the Board of Directors, the Remuneration Committee, the Control and Risks Committee, the Board of Statutory Auditors, the Chairman, the CEO, the General Manager, the Deputy "business" General Manager together with some operational functions and the internal control functions as defined below.

The Group holding company's Board of Directors

The Board approves, on proposal by the Chairman, the "Annual Report on the Banco Desio Group's Remuneration Policy" to submit to the General Meeting together with any updates or reviews of the remuneration policy.
It approves any plan regulations based on financial instruments and resolves on the related assignments and grants (following checks on the conditions to which they are subject).
It approves the criteria for the determination of possible severance pay to be agreed in the event of the early termination of the employment relationship or early termination of office.
Based on the processes undertaken individually by the single "Relevant Business Units", it resolves on the staff to which the "More Detailed Rules" apply.
It resolves on the economic-business and risk objectives making up the reference framework for the Group company incentive system and the Target Bonuses for the most important staff, expressed in terms of percentages of fixed remuneration.
It resolves on the assessment sheets relating to the achievement of quality targets assigned to the most important staff in the Group holding company (as defined below).
It declares when group and individual "gates" have been achieved and decides the amount of bonuses for the Group holding company's important staff on an ex post basis.
It resolves on the guidelines for the payment of bonuses for the remaining staff of group companies and the criteria for the definition of maximum expenditure limits to that end which can be set aside.
It resolves on Group policy in relation to maximum expenditure limits granted to the General Managers of the Group companies within which Payments can be resolved on in relation to the remaining staff.
The above resolutions are passed after obtaining the opinion of the Remuneration Committee.

The Group holding company CEO

The General Manager: Co-ordinates the related activities of the functions reporting to him or her as shown in the business organisational chart.
Proposes to the Board of Directors possible updates and reviews of the Group remuneration policy, of the economic-business and risk objectives representing the reference framework for Group companies' incentive schemes and of target bonuses for most important staff identified within the different group companies.
Communicates general instructions to Group companies in relation to remuneration policies.
Proposes to the Board the qualitative criteria for the adjustments to be applied to the bonuses of the most important staff of the Group holding company.

Group holding company General Manager

The General Manager: Co-ordinates the related activities of the functions reporting to him or her as shown in the business organisational chart.
Proposes to the Board of Directors the maximum expenditure limits for the implementation of remuneration policies for the remaining Group holding company staff.

The Deputy "Business" General Manager of the Group holding company:

In collaboration with Resources Management, draws up the incentivising system for the sales network in the context of the guidelines for remaining staff set out in the Annual Report on Remuneration Policies.
Communicates the bonus system within the distribution network. Provides the quantitative elements to the Resources Management necessary to check the achievement of targets assigned.
Collaborates with the management of group companies and Resources Management in the development of incentive systems for the sales network consistent with the business model adopted by the Bank.

Subsidiaries

Ordinary General Meetings of subsidiaries (excluding those in liquidation)
They receive and approve, so far as coming within their spheres of competence, the Group's remuneration policies (taking account of the specific characteristics of individual businesses as also their respective national/sector regulations). If listed they will draw up their own separate document.
The General Meetings are kept adequately informed on the implementation of remuneration policies.

Boards of Directors of Subsidiaries (excluding those in liquidation)
They receive and approve, so far as within their sphere of jurisdiction, the resolutions of the Group holding company Board of Directors described above (taking account of the specific characteristics of individual businesses as also their respective national/sector regulations).
They resolve on the assessment sheets produced in relation to the achievement of quality targets set for any senior staff not being top management who may have been identified in the subsidiary.
They register when Group thresholds have been met and, on confirmation that individual company thresholds have been achieved, they establish the amount of bonuses to award the most important staff on an ex post basis.

The above resolutions are passed after obtaining the opinion of the Remuneration Committee.

The "Appointment" and "Remuneration" Committees

On 10 February 2015 the Appointments and Remuneration Committee was split into two separate committees:

- An <u>Appointments Committee (“C.N.”)</u> with jurisdiction over appointments
- A <u>Remuneration Committee (“C.R.”)</u> with jurisdiction over remuneration

They are made up of the same members as the previous Appointments and Remuneration Committee and thus by 3 non-executive directors of whom 2 independent, including the Chairman. The CEO may be invited to take part in meetings (except when dealing with matters relating personally to him or her).

<u>The Appointments Committee</u>

This Committee is a consultative/proposing body with the following main duties:

- The drawing up of opinions for the Board of Directors in relation to the size and composition of the Board itself and the making of recommendations regarding professionals whose presence on the Board of Directors is considered appropriate, also in order to maintain consistency with the supervisory provisions concerned with company governance[3], as also in relation to the following subjects:
    - The consideration of the maximum number of directorships or offices of Statutory auditor which is deemed to be appropriate for effective conduct of the office of director of the Company, taking account of directors’ participation in Committees and, to such end, the identification of general criteria differentiating between the commitment required for each position (distinguishing between executive, non-executive and independent directors), also in relation to the nature and size of the companies in which the related positions are held and whether or not the companies concerned belong to the Group;
    - The evaluation on the merits of possible cases posing problems in relation to the prohibition against competition laid down by law or regulations;
- The provision of support to the Board of Directors in relation to any resolutions for the co-option of directors and the appointment/dismissal of other senior positions in the Bank together with the designation of senior staff in subsidiaries and possibly in connected and/or invested companies of strategic importance;
- The provision of support to the Board of Directors in self-assessment activities carried out in compliance with the Supervisory Regulations concerned with Corporate governance together with confirmation of legal requirements pursuant to Article 26 of the Consolidated Banking Law;
- The provision of support to the Board of Directors in the considerations relating to drawing up plans for succession to the highest executive positions provided for in the aforesaid Supervisory regulations;
- The provision of support for the Board of Directors in the resolutions relating to the appointment and dismissal of managers of internal control functions, interacting to such end with the Control and Risks Committee.

<u>The Remuneration Committee</u>

The above committee is a consultative/propositional body with the following main duties:

- The drawing up of opinions or proposals for the Board of Directors relating to the remuneration of the CEO and other directors holding specific offices (including those who may hold operational powers);
- The drawing up of opinions or proposals for the Board of Directors relating to the division of the overall remuneration set by the General Meeting for the other directors pursuant to the Articles of Association;
- On request by the CEO, The drawing up of opinions or proposals for the Board of Directors relating to the remuneration policy for other persons coming within the perimeter described in the Consolidated Text on the Remuneration and incentive System;

[74] Bank of Italy Circular 285 - First update.

- The periodic assessment of the adequacy, the overall consistency and the practical application of the above remuneration policies, using the information provided by the CEO to such end;
- The presentation of proposals or the provision of opinions to the Board of Directors on the setting of performance targets correlated to the variable component of such remuneration; the monitoring of the application of decisions adopted by the Board itself, checking in particular, actual achievement of performance targets and the fulfilment of all conditions laid down for the payment or accrual of entitlement to the Payments.

The points listed above include any Stock Option or share assignment plans. In compliance with the supervisory regulations issued relating to this matter[4], the Committee also:

- Carries out direct supervision of the correct application of the related rules and the remuneration of the Internal Control function managers in close agreement with the Board of Statutory Auditors;
- Is responsible for the preparation of the documentation to be submitted to the Board for decisions relating to remuneration policies;
- Collaborates with the Control and Risks committee in relation to aspects of remuneration connected with risk policies;
- Ensures the involvement of the competent business functions in the process of drawing up and checking of remuneration policies;
- Expresses its views, including with use of the documentation received from the competent company functions, on the achievement of performance targets tied in with the incentive plans and on the assessment of the other conditions to which the payment of the bonuses is subject;
- Provides an appropriate report on the activities it has carried out both to the Board and the General Meeting.

The Remuneration Committee may also, with the assistance of Resource Management, use external consultants in the analysis and monitoring of market practices and remuneration levels with particular reference to executive directors and managers with strategic responsibilities.
The Committee may also obtain assistance from internal functions when dealing with the matters of risk management, capital and liquidity.

Shared rules governing the functioning of the Appointments Committee and the Remuneration Committee

The Committee will meet whenever convened by the Chairman or whenever a request to such effect is made by at least two members acting together. Committee meetings will be valid even though calling formalities have not been satisfied, if all members are present.
The Committee's decisions will be valid if the majority of members appointed are present and decisions will be taken on the votes of the absolute majority of those present, the vote of the person chairing the meeting prevailing in the case of a parity of votes. Any directors who are interested parties will abstain from the Committee's decisions relating to them just as directors will absent themselves from the meetings of the Board of Directors at the moment when the consequential proposals are made.
The Committee's decisions will be confirmed by specific minutes entered in the related book, to be signed under the responsibility of the Chairman and other members present or a secretary if appointed. Such decisions will be communicated, including orally, during the first full meeting, to the Board of Directors for the passing of the resolutions coming under the competence of the latter.

[4] Bank of Italy Circular 285, 7th update.

The Holding company's Operational Functions involved in the

Planning, Management Control and Participation **processes**

This sets the "gate" targets for the triggering of the incentive systems of the group companies to submit to the respective Boards of Directors, confirming the achievement of the same. On receipt of approval it communicates such decisions to the managements of the respective group companies, the Group holding company's Administration Management and the Responsible Manager.

Legal and Corporate Affairs Management

This becomes involved in the preparation process of remuneration policies when considering aspects of corporate governance. It is responsible for the completion of the documents to be submitted to the Board of Directors and the General Meeting as also the aspects relating to the disclosure of information to the public pursuant to law and regulations governing such documents.

Administrative Management

On instruction from the Group holding company's Resource Management, it records the actual amounts to be set aside in the reference period's Financial Statements for group companies. It establishes the ratio between adjusted profit of current operations gross of tax and the adjusted profit of current operations gross of tax of the budget for each company and at the consolidated level.

Human Resources Management

It organises and regulates the process involving the formulation of proposals concerning remuneration policies for the different group companies and manages and guarantees their correct implementation.

It is responsible for the updating and review of remuneration policies. It co-ordinates the process for the definition and management of the remuneration and incentive system and, in this context, contributes, in concert with the management of the individual companies, to the definition of the bonus system for the rest of the staff (sales network and Head Office).

It acts for the Group holding company in collecting the results achieved and the assessments made by superiors for the purpose of the calculation and payment of bonuses, confirming compliance with the maximum payable for each staff beneficiary.

Internal Control Functions

The Risk Management Division

It takes part in the process for the drawing up of remuneration policies in order to guarantee that they remain consistent with the Group's risk strategy. The Division provides support in the definition of gate parameters for liquidity and capital consistent with the Risk Appetite Policy and business risk management, confirming compliance with the levels adopted on an ex post basis. It carries out functions analogous to those of an outsourcer for subsidiaries.

Compliance Department

It collaborates with the other functions involved in the process for the drawing up of Group remuneration policies and confirms in advance that the related processes and contents comply with the reference legislative framework, the Articles of Association and any ethical codes or other applicable standards of conduct. It carries out functions analogous to those of an outsourcer for subsidiaries.

Internal Audit Management

It draws up an annual report on the checks effected to confirm that the remuneration policies adopted are adequate and conform with regulations and they are functioning correctly, bringing the attention of the competent bodies and functions to the information so obtained and any anomalies so that possible corrective actions may be adopted. It carries out functions analogous to those of an outsourcer for subsidiaries.

The General principles of remuneration policies

The Group's Remuneration Policies are founded on the following principles with a view to developing remuneration and incentive mechanisms capable of improving its Competitiveness over the medium- to long-term:

- The provision of incentives and retention within the Group of people whose professionalism and abilities are suited to the requirements of the business, particularly in the case of those holding high office within the business organisation;
- The alignment of remuneration systems with business values and goals, long-term strategies and the policies of prudent risk management for the companies belonging to the Group;
- Short-, medium- and long-term incentives aligned to the risks taken and the capital required to be able to carry out the activities undertaken which are structured in such a way as to avoid the creation of possible conflicts of interest.

Any fees connected with positions held by employed staff in subsidiary and/or connected companies will be repaid to the bank in full by 1 May 2015, also in compliance with sector best practices.

Scope of Application

Group remuneration policies refer to the following categories:

- Most important staff;
- Remaining staff.

The process for the identification of the "Most important Staff", who are then subject to the application of the more detailed regulations, is carried out individually by each single company indicated as an important business unit, under the supervision and with the co-ordination of the Group holding company's Resource Management on the basis of the technical regulation rules relating to the qualitative and quantitative criteria appropriate for the identification of the staff categories whose professional activities have a substantial impact on the institution's risk profile, as approved by the European Commission on 6 June last and applied according to the instructions contained in the 7th update of circular no. 285 issued by the Bank of Italy on 18/11/2015.

At its meeting of 25 February 2016, the Group holding company's Board of Directors took formal notice of the process carried out which had identified the following positions **at the Group level**:

MOST IMPORTANT STAFF	BDB	BPS	FIDES	TOTAL	WITH VARIABLE REMUNERATION
Directors	11	11	5	27	1
General Manager, Deputy General Manager	2	2	2	6	6
Risk Takers:	12	4	0	16	16
Control functions	7	3	0	10	10
Total	32	20	7	59	33

The Remuneration Policies for the Most Important Staff

Members of the Board of Directors

The remuneration package set for the members of the Board of Directors may be composed of the following:

- Basic pay;
- Pay connected to specific offices held within the Board of Directors;
- Pay for participation on committees within the Board of Directors;
- Refund of expenses incurred for the performance of their duties and attendance tokens;
- Benefits.

In some cases the pay may be set contractually with recompense for all functions carried out on a unitary basis.
Only the Group holding company's CEO will be included in the incentive plan for the management of the Banco Desio Group. For the other executive directors, variable remuneration is not awarded in consideration of the low level of the monies received for participation in the Executive Committee – neither non-executive directors nor Statutory auditors will be entitled to variable pay either.

General Manager

The General Manager's remuneration package is made up of the following:

- Gross annual pay;
- Variable short- to medium-long-term pay (Incentive Plan for the Management of the Banco Desio Group);
- Benefits.

Any fees connected with positions held in subsidiary and/or connected companies will be repaid to the bank in full by 1 May 2015, also in compliance with sector best practices.

Managers with Strategic Responsibilities

The remuneration package for managers with strategic responsibilities is made up as follows:

- Gross annual pay;
- Variable short- to medium-long-term pay (Incentive Plan for the Management of the Banco Desio Group);
- Benefits.

Any fees connected with positions held in subsidiary and/or connected companies will be repaid to the bank in full by 1 May 2015, also in compliance with sector best practices.

Other Most Important Staff

The remuneration package of the other members of the Most important Staff is made up as follows:

- Gross annual pay;

- Variable short- to medium-long-term pay (Incentive Plan for the Management of the Banco Desio Group);
- Benefits.

Any fees connected with positions held in subsidiary and/or connected companies will be repaid to the bank (or to the Group Company responsible for the applicable employment relationship) in full by 1 May 2015, also in compliance with sector best practices.

Structure and components of the Pay-Mix

The main elements making up the remuneration package of the Group's "Most Important Staff" are the following:

- **Annual fixed pay**
  This component reflects, and is commensurate with, the technical, professional and managerial skills of the staff member and/or collaborator. It is monitored continually and checked against the market context, taking into consideration the level of experience and professional skill required for each position;

- **Variable pay**
  Variable pay is made up of two components: the Company Bonus contemplated in the National Labour Agreement (Art. 48 1/2012, as revised in the agreement dated 31/3/2015), which is linked to the Company's financial results and that all company employees are entitled to receive, and an individual incentive scheme that rewards annual "performance" based on the objectives set and actual results achieved. This second component is set in accordance with parameters including risk weighting systems, the adequacy of liquidity levels and the connection with actual and long-term results. The individual incentive scheme bonus is paid in part over the year following that for which the performance has been measured and partly in deferred form up to the third year from that in which it accrued, subject to the checking of further conditions, in order to reward value creation over the a medium-long term and to align management interests with those of the shareholders.

  The Bank sets limits to the proportionate size of the variable element as compared with the fixed element for the different beneficiary categories in advance, as summarised in the following table:

Directors in executive posts, Group Bank General Managers and Deputy General Managers and General Managers of non-banking subsidiaries	90%
Other Risk Takers	60%
Managers of Control functions	25%

  The limits adopted by the Bank comply with the ceilings for the proportionate size of variable remuneration as compared with the fixed element laid down by current regulations (100% for risk-takers and one third for the control functions).

- **Benefits**
  As completion to the pay-package offered to staff, an additional package of benefits is offered such as, by way of example, a supplementary pension plan, supplementary forms of insurance and health cover in addition to the grant of specially advantageous conditions with regard to the services offered by the Bank. The grant of a company car is reserved for the highest management positions.

Variable pay for important staff: the Incentive Plan for the Management of the Banco Desio Group

The system is subject to the achievement by the Group of specific consolidated targets ("gate" targets regarding liquidity, capital and profitability). It weights payments in accordance with the percentage achievement of targets - the target ratio of Net Returns on risk-adjusted (absorbed[5]) capital (RORAC) and is paid out, deferred to a considerable extent – over a medium-term time period. This system ensures that the incentive system for important staff is consistent with business results and is appropriately adjusted to take account of all risks borne over a multi-year time scale. The appropriate cash to financial instrument component ratio of variable remuneration is ensured by the system's correlation of deferred amounts as against the current value of ordinary shares. The European Banking Authority's recent announcement regarding the application of the principle of proportionality essentially confirmed the correctness of this practice even in the case of listed companies.

Correlation between risks and remuneration

The variable pay component is defined by reference to parameters in the form of performance indicators measured net of risks over a multi-year horizon (so-called ex ante risk adjustment) and takes account of the level of capital resources and liquidity necessary to carry out the activities undertaken. Furthermore, the incentive system for Group Management provides that the accrual and quantification of the bonus, as well as the confirmation for the payment of the deferred elements is linked to the achievement of the RORAC target. The use of the aforesaid parameter, consistent with the measures used for managerial purposes by the Risk Management Function, assessed at a consolidated level and, for the subsidiaries, also at an individual level, further reinforces the link between results, risks taken and remuneration.

Gate targets

On the basis of the proposal by the CEO, the Group holding company's Board of Directors, following the opinion of the Remuneration Committee, will set the Group Gate targets for liquidity, capital and profitability giving access to bonuses according to the principles described below:

- **Liquidity Target:**
  The gate threshold is deemed to have been crossed if the following two conditions have been satisfied:

  - Liquidity Cover Requirement (LCR): average of the four quarterly observations relating to the year prior to that of payment, not below the Risk Tolerance threshold envisaged in the RAF for that same period.

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[5] "Absorbed Capital" means "total internal capital covering the 1st and 2nd pillar" calculated in accordance with the methods and criteria set out in the ICAAP document.

Indicator of structural liquidity (proxy NSFR): average of the four quarterly observations relating to the year prior to that of payment, not below the Risk Tolerance threshold envisaged in the RAF for that same period.

- **Capital Target:**
  - **Total Capital Ratio (TCR) ≥ asset requirement outcome from the SREP (Supervisory Review and Evaluation Process) by the Supervisory Authority + internal safeguard buffer[6];**
  - **Common Equity Tier1 (CET1) ≥ 1st pillar risk tolerance indicator envisaged in the Risk Appetite Framework.**

  Currently:
  TCR ≥ 11.90% (10.50%, outcome of the SREP 2015 notified by BKI as at 27.11.2015 + internal safeguard buffer of 1.40%)**;**
  CET1 ≥ 10% (1st pillar risk tolerance indicator envisaged by the RAF and approved by the Holding Company Board of Directors at the sitting held on 11 February 2016).

- **Profitability target:** Adjusted current Group results gross of tax:
  Adjusted consolidated profits of current operations gross of tax[7] ≥75% the adjusted consolidated profits of current operations gross of taxes of the consolidated budget.

For **identified staff working in the Group holding company control functions**, the **profitability indicator gate** is represented by the **adjusted consolidated pre-tax results of current operations** in order to further detach the related bonuses from economic/financial variables.
For staff belonging to the control function identified in subsidiaries, the opening of the profitability gate is dependent on the contemporaneous checking of the following two conditions: **Adjusted consolidated Pre-tax results of current operations and the individual adjusted Pre-tax results of current operations.**

[6] The **internal safeguard buffer** is equal to the difference between the Risk Capacity indicator (supervisory limit) and the Risk Tolerance indicator within the scope of the calibration of the 1st and 2nd pillar prudential requirements within the RAF approved by the Board of Directors on 11 February 2016.

[7] **Pre-tax Profits/ (losses) on current operations** – heading 280 of the Consolidated Financial Statements

(-)	Profits/ (losses) from assignment (sub-heading of heading 240. Profits/(losses) on shareholdings)	(A)
(-)	Net results of fair value valuation of tangible and intangible assets (Heading 250)	(B)
(-)	Profits/(losses) from investment assignment (Heading 270)	(C)
(-)	Profits from assignment/repurchase circulating securities (Heading 100. Financial liabilities – sub-heading 3)	(D)
(-)	Net results of financial assets/liabilities valued at fair value (Heading 110)	(E)
(=)	**Adjusted consolidated Pre-tax Profits/(losses) on current operations**	

(A) Neutralisation of the results of shareholding assignment operations clearly coming within the strategic decision-making sphere of individual Group companies (Boards of Directors)
(B) Neutralisation of the positive or negative impact of non-instrumental investments and thus not correlated or only marginally correlated to more typical management activities;
(C) Neutralisation of the results deriving from the assignment of non-instrumental tangible or intangible assets (as in the previous case) not correlated or only marginally correlated with more typical management activities.
(D) Neutralization of capital gains or losses deriving from the fair value valuation of financial assets and liabilities;
(E) Neutralization of profits of an extraordinary nature deriving from the buy-back of liabilities issued by ourselves;

The failure to achieve even only one of the targets will prevent the activation of the incentive system for the related year.

Definition of Targets and Incentives

The Group holding company's Board of Directors, following the receipt of the opinion of the remuneration committee, will approve the following on an annual basis:

- The target ratio of consolidated net returns on risk-adjusted capital (RORAC);
- The target ratio of individual Returns on Risk-adjusted capital (individual RORAC) for individual subsidiary companies;
- The individual target of profitability of the subsidiary companies in terms of the ratio between the adjusted individual pre-tax income from current operations ≥ 75% of the adjusted pre-tax income from current operations in the individual budget;
- Target Bonuses are expressed as percentages of fixed pay associated with different levels of achievement of the (consolidated or individual) RORAC target for each resource category within the maximum proportion the variable component is allowed to bear to the fixed component as defined for the individual categories of most important individuals in the following table;

	Directors in executive posts, General Managers, Bank and Group Deputy General Managers, General Managers of non-banking subsidiaries	**Other Risk Takers**
Actual Consolidated RORAC < 80% of Budget consolidated RORAC	*No bonus*	*No bonus*
80% ≤ actual consolidated RORAC <100% of Budget consolidated RORAC	25% Gross annual income	15 % Gross annual income
100%≤ Actual consolidated RORAC<120% Budget consolidated RORAC	40 % Gross annual income	25 % Gross annual income
Actual consolidated RORAC ≥120% Budget consolidated RORAC	50 % Gross annual income	35 % Gross annual income

- The Target Bonuses, expressed as percentages of the fixed pay and their association with different levels of achievement of the RORAC target for each resource category, are resolved on from year to year by the Board of Directors.
- The assessment sheets for the managers of the Group holding company's main business functions - Risk Takers and the managers of the control function – relate to the achievement of the qualitative targets identified on the basis of the mission and the business functions allocated to each position on the functional diagram;

The Board of Directors of the Subsidiary Companies, following the opinion of the Remuneration Committee (if it exists), receives and approves the following:

- The Group's Gate objectives;
- The target ratio of consolidated net returns on risk-adjusted capital (consolidated RORAC);
- The target ratio of individual Returns on Risk-adjusted capital (individual RORAC);
- The individual target of profitability of the subsidiary companies in terms of the ratio between the adjusted individual pre-tax income from current operations ≥ 75% of the adjusted pre-tax income from current operations in the individual budget;
- The Target Bonuses expressed in terms of a percentage of the fixed remuneration associated with different levels of the achievement of the individual RORAC target for each resource category.
- The assessment sheets for the managers of the Group holding company's main business functions - Risk Takers and the managers of the control function – relate to the achievement of the qualitative targets identified on the basis of the mission and the business functions allocated to each position on the functional diagram;

Calculation of the Value of the Bonuses

If the Group's gate targets are achieved, the calculation of the actual bonuses to the **non-control staff beneficiaries identified at the Group holding company** is effected by the application of the target bonus deriving from the ratio between actual consolidated RORAC and that of the target.

So far as the calculation of the Bonus for **important staff not belonging to control functions identified in subsidiary companies** is concerned, the payment of the bonus is dependent on the achievement of at least 80% of the consolidated RORAC target and exceeding 75% of the adjusted individual pre-tax results from current operations of the budget. For risk takers other than directors with executive positions, General Managers and Deputy General Managers, the payment of the bonus is subject to obtaining an assessment "in line with expectations" in relation to the achievement of the qualitative targets set out in the individual assessment sheets drawn up by Resources Management on the basis of the periodic indications received from General Management and the CEO. Once these further gates have been passed the calculation of the bonus is connected with the achievement of the individual RORAC target.
The calculation of the actual bonus to be paid to the **managers of the control functions** is effected by applying the correction to the target bonus (expressed as a percentage of the fixed remuneration resolved by the Board of Directors for the related accounting period. The correction identifies the precise figure for such percentage (0 to 125%) in turn based on the score taken from the assessment sheets for the qualitative targets drawn up under the direction of Resources Management on the basis of the periodic indications received from the CEO and General Manager.

Payment of bonuses

The Board of Directors resolves on the bonuses calculated in the manner described above and with adjustments made in accordance with the results of the individual assessment sheets completed by the Resources Management on the basis of the periodic indications received from General Management and CEO. The payment of the bonuses is effected in accordance with the procedure described as follows:

Risk Takers:

System for the deferment of bonuses accruing during the “t” accounting period

- 40% of bonus during the “t+1”, period paid by the end of the month subsequent to the date of approval of the Consolidated Financial Statements of the “t” period;
- 30% in the accounting period “t+2”, on the confirmation of the liquidity and capital gates for the period “t+1” and that the consolidated RORAC for the accounting period “t+1” was at least 80% of the consolidated RORAC of the period “t”, to be paid within the month following the date of approval of the Financial Statements for the period “t+1”;
- 30% in the period “t+3”, following the confirmation of the liquidity and capital gates for the period “t+2” and that consolidated RORAC for the period “t+2” was at least 80% of the consolidated RORAC of the period “t+1”, to be paid in the month following the date of the approval of the Financial Statements for the period “t+2”;

The amounts deferred to the periods “t+2” and “t+3” will be adjusted to take account of changes in the price of the ordinary BDB securities between the “t+1” accounting period and the date of payment with a maximum corridor of +/- 20%.

The amount of the deferred bonus may thus increase or decrease up to a maximum of +/- 20% on the basis of the price fluctuations of Banco Desio ordinary shares on the Stock Exchange from the time between the accruing of the bonus and its deferred payment.
The reference price for the purposes of this Incentive Plan for the Management of Banco Desio is made up of the average of the Stock Exchange price of Banco Desio and Brianza Spa ordinary shares over the relevant accounting period in the 30 days prior to the approval of the Financial Statements for the preceding period.

T	t+1	t+2	t+3
Financial Year in which bonus accrued	**40%** **Payment Of the bonus**	**30%** <u>Subject to confirmation of t+1 gates:</u> - Capital - Liquidity Consolidated RORAC t+1 ≥ 80% of consolidated RORAC t **<u>Payment Of the bonus</u>** *Adjusted for changes in share price between t+1 and t+2 with a corridor of +/- 20%.*	**30%** Subject to confirmation of t+2 gates: - Capital - Liquidity Consolidated RORAC t+2 ≥ 80% of consolidated RORAC t+1 **<u>Payment Of the bonus</u>** *Adjusted for changes in share price between t+1 and t+3with a corridor of +/- 20%.*

For the <u>identified staff working for subsidiaries</u>, the payment of the deferred element of the bonus is subject to the confirmation of the following conditions:

- 30% in the “t+2” accounting period: following confirmation of the liquidity and capital gates for the “t+1” period, that consolidated RORAC for the “t+1” period was at least 80% of the consolidated RORAC of the “t” period and that individual RORAC for the “t+1”period was at least 80% of individual RORAC for the “t”period;
- 30% in the “t+3” accounting period: following confirmation of the liquidity and capital gates for the “t+2” period, that consolidated RORAC for the “t+2” period was at least 80% of the consolidated RORAC of the “t+1” period and that individual RORAC for the “t+2”period was at least 80% of individual RORAC for the “t+1”period;

If BPS ordinary shares were to be re-admitted to listing on a regulated market, the deferred elements of the bonuses of important staff identified at Banca Popolare di Spoleto would also be adjusted in the manner described above, except that the reference shares would be those of BPS rather than Banco Desio Spa shares.

Control functions:

System for the deferment of bonuses accruing during the “t” accounting period

- 40% of bonus during the “t+1”, period paid by the end of the month subsequent to the date of approval of the Consolidated Financial Statements of the “t” period;
- 30% in the “t+2” period, following the confirmation of the liquidity and capital gates for the “t+1” period and that the adjusted consolidated pre-tax results from current operations for the”t+1” accounting period is not negative, it will be paid by the end of the month following the date of approval of the “t+1” period Financial Statements;
- 30% in the “t+3” period, following the confirmation of the liquidity and capital gates for the “t+2” period and that the adjusted consolidated pre-tax results from current operations for the”t+2” accounting period is not negative, it will be paid by the end of the month following the date of approval of the “t+2” period Financial Statements;

t	t+1	t+2	t+3
Financial Year in which bonus accrued	**40%** **Payment Of the bonus**	**30%** Subject to confirmation of t+1 gates: - Capital - Liquidity Adjusted consolidated pre-tax profits from current operations for the t+1 period	**30%** Subject to confirmation of t+2 gates: - Capital - Liquidity Adjusted consolidated pre-tax profits from current operations for the t+2 period

For identified staff belonging to the control functions of subsidiaries, the payment of the deferred bonus is subject to the confirmation of the following conditions:

- 30% in the “t+2” accounting period: following confirmation of the liquidity and capital gates of the “t+1” period, that the adjusted consolidated pre-tax results of current operations of the”t+1” period are not negative and that the adjusted individual pre-tax results from current operations for the ”t+1”period are not negative;
- 30% in the “t+3” accounting period: following confirmation of the liquidity and capital gates of the “t+2” period, that the adjusted consolidated pre-tax results of current operations of the”t+2” period are not negative and that the adjusted individual pre-tax results from current operations for the ”t+2”period are not negative.

Severance pay in the case of resignation or termination of the relationship and individual pension benefits

In compliance with the provisions of Article 21 of the Articles of Association, the General Meeting will resolve on the following criteria for the determination of the payment to be made in the event of the early conclusion of the employment relationship or the early termination of the term of office:

- The maximum limit for the payment is two years’ fixed remuneration. In the case of staff employed under a subordinate employment contract, the agreement of any payment for the termination of employment fixed within the above limits will be deemed to replace whatever conditions of the National Collective Employment Contract apply in that regard;
- The total amount paid out to a single staff member may not in any case exceed the limit of €1.5 million;
- In the case of only the most important staff, what is agreed for the early termination of the employment relationship or early cessation of the term of office will be paid in the manner of payment used for variable remuneration of the staff identified as risk takers (deferral, correlation with share price trends, malus, claw back). For important staff employed under a contract of employment, the manner of payment laid down for the variable remuneration of important risk taker staff will only be applied to that part of the payment exceeding the entitlement to advance notice calculated according to the provisions of the National Collective Employment Contract.

Currently, no Group staff member is entitled to an indemnity over and above what is laid down in his or her employment contract or the Italian Civil Code in the case of resignation or termination of the relationship. There are no agreements making provision for the assignment or maintenance of non-monetary benefits for persons who have come to the end of their appointment (so-called post retirement perks) or the entry into consultancy agreements for a period following the termination of the employment or for restraint of trade agreements. There is provision in the case of some specific professionals, for the entry into restraint of trade agreements involving the making of Payments based on gross annual remuneration following the termination of the employment relationship and commensurate with the duration and scope of the restriction deriving from the agreement. In such cases the payment is calculated in accordance with the limits and procedures laid down by the related rules and regulations.

No provision has been made for discretional pension benefits.

During the course of 2015 there were no terminations amongst the relevant members of staff.

Quantitative Information

Incentive Plan for the Banco Desio Group Management

The Group's final figures for the 2015 accounting period confirm the Bank's achievement of the "gate" targets of liquidity, capital and profitability thereby triggering the application of the incentive scheme for the Banco Desio Group management.

Based on the consolidated RORAC the bonuses for the important staff not belonging to the Group holding company control functions were calculated according to the targets applying to the different staff categories in circumstances where the ratio of actual to budget is greater than 120%.

The individual results of the subsidiary companies Banca Popolare di Spoleto and Fides achieved levels leading to the activation of the incentive scheme for those identified as their most important staff as well.

The Consolidated Balance Sheet results and the relationship between the RORAC for the 2015 financial year and that of the 2014 financial year were sufficient to warrant us paying out the first portion of deferred bonus relating to the 2014 financial year. As regards non-control function personnel, the amounts to be paid out will be determined in accordance with the plan and based on the average share price of Banco Desio ordinary shares over the 30 days prior to the date of approval of the Consolidated Financial Statements by the Shareholders Meeting.

2011 - 2013 Stock Grant Plan

As regards the Stock Grant Plan for the three-year period 2011-2012-2013 and relative to the free allocation of ordinary shares in the Holding Company to the Management of the Banco Desio Group, as approved at the Ordinary Shareholders Meeting held on 29 November 2011, we advise that the necessary conditions were met for the 3rd share allocation cycle relative to the 2013-2015 three-year period. On the basis of the consolidated results for the 2015 Financial Year, it appears that the three-year liquidity and asset gate targets have been met and that the ratio of Adjusted Consolidated Results and the applicable Budget is such that, in terms of the Plan Rules, the necessary conditions have been met to justify the free increase of share capital and the allocation of a total of 89,823 ordinary Banco di Desio shares to 26 beneficiaries and to award an amount equivalent to 24,648 ordinary shares to the Managing Director. Considering that the direct and indirect costs and the management complexities associated with this operation relate to a negligible increase in assets and is viewed as such, and also considering that the Plan Rules do not provide for any lock-up restrictions applicable to beneficiaries (so much so that, in fact, that they could in any event encash the benefit without any additional waiting period), it was deemed preferable to pay out the equivalent amount in cash to all the beneficiaries simultaneously. This option is in fact contemplated in the Plan Rules applicable to managers in executive positions. With the aforesaid alternative al location, the 2011-2013 Stock Grant Plan is now deemed to have been officially concluded, to all intents and purposes.

Details of the figures representing the quantitative information have been set out in the following tables:

Remuneration of Most Important Staff for 2015

Category	No. of staff	Fixed pay	Variable pay in cash	Stock Grant	Variable pay in cash and Stock Grant	Proportion of variable as against fixed pay
Top Management	6	2,265,501	1,032,183	44,937	1,077,120	48%
Risk Takers	15	1,989,860	640,760	28,196	668,956	34%
Control functions	11	1,196,176	184,861	7,930	192,791	16%
Total	32	5,451,537	1,857,804	81,063	1,938,867	36%

Deferral of cash component

Category	Deferred variable pay accruing 2015 period	Deferred variable pay deriving from previous periods	Deferred variable pay to be confirmed for subsequent periods
Top Management	619,310	286,680	905,990
Risk Takers	384,456	103,005	487,461
Control functions	110,917	42,007	152,924
Total	**1,114,682**	**431,692**	**1,546,374**

Pay mix

Category	Fixed pay (cash)	Non-deferred variable pay	Deferred variable pay	Incidence of variable pay
Top Management	68.70%	12.52%	18.78%	45.56%
Risk Takers	75.64%	9.74%	14.61%	36.74%
Control functions	86.61%	5.35%	8.03%	18.63%

The Remuneration Committee met 4 times over 2015 with the main item of discussion being the implementation and adaptation of remuneration policies described in the report under consideration.

Over the 2015 accounting period only one member of staff received pay of more than €1 million.

The reports on Remuneration Policies, available on the Internet sites of the Group's listed banks www.bancodesio.it and www.bpspoleto.it, set out all the information required by Article 450 of the CRR in relation to the remuneration policies and practices adopted by the Group including names and positions, as required by Article 450 of the CRR, of the remuneration for the 2015 accounting period.

15. Financial Leverage (art. 451 CRR)

Qualitative Information

The risk of excessive financial leverage is the risk that a particularly high level of indebtedness in relation to internal capital renders the Bank vulnerable, making it necessary to introduce corrective measures to its Business Plan, including the sale of assets and the recording of losses in the accounts which might result in value impairment for the remaining assets. The Group takes steps to calculate and give notice of the leverage ratio indicator as required by current regulations (EU Regulation 575/2013).

The Group has adopted an RAF which envisages, inter alia, specific limits on financial leverage. The choice to include this metric in its RAF, with periodic monitoring of the related threshold values, derives both from the awareness that a high leverage ratio may have important economic/capital effects on the Group, and from the desire to monitor this indicator specifically in view of the future application of effective prudential limits to be introduced at the end of the trial period envisaged by the prudential regulations. During the application of the RAF limits, reference has been made to the measurement rules defined by the legislation in force. The Group has also defined the values of the indicators both in terms of Risk Appetite and Risk Tolerance, consistently with the dimensional limits of risk and capitalisation implicit in the figures contained in the 2016 Business Plan.

In this regard, the Basel Committee for bank supervision takes into account a minimum calibration level of 3% for the introduction of the financial leverage indicator as a minimum requirement to be adhered to with effect from 2018. This value can also be inferred on the basis of the content of the delegated act of the European Parliament and Council as regards financial leverage and the impact study developed by the EBA.

In the light of what has been said and as regards Risk Capacity, in the absence of any current prudential limit the Group has thus set the minimum value of said indicator at 3%.

The financial leverage indicator is monitored periodically and it is set out as an integral part of the reports produced by the Risk Management Division in the risk Tableau de Bord. The maintenance of a balanced ratio between assets and liabilities is also an integral part of the valuations connected with the preparation of the RAF and the Business Plan.

Quantitative Information

DISCLOSURE AND CALCULATION OF THE FINANCIAL LEVERAGE INDICATOR		**31.12.2015**
NUMERATOR – CLASS 1 OWN FUNDS		
OWN FUNDS – CLASS 1 (TIER 1) CAPITAL – TRANSITIONAL PERIOD		870,722
OWN FUNDS – CLASS 1 (TIER 1) CAPITAL – AT FULL REGIME		866,402
DENOMINATOR (TOTAL EXPOSURE USED TO CALCULATE FINANCIAL LEVERAGE)		
EXPOSURE VALUE TO SFT-TYPE COMPENSATION AGREEMENTS		7,192
EXPOSURE VALUE - DERIVATIVES: MARKET-VALUE METHOD: CURRENT REPLACEMENT COST		13,015
EXPOSURE VALUE - DERIVATIVES: MARKET-VALUE METHOD: ADD-ON		2,785
EXPOSURE VALUE – UNUTILISED, REVOCABLE CREDIT LINES		275,918
EXPOSURE VALUE – MEDIUM-LOW RISK OFF-BALANCE SHEET ITEMS		52,983
EXPOSURE VALUE - MEDIUM RISK OFF-BALANCE SHEET ITEMS		70,188
EXPOSURE VALUE - OTHER OFF-BALANCE SHEET ITEMS		32,790
EXPOSURE VALUE – OTHER ASSETS		12,193,837
GROSS EXPOSURE VALUE		**12,648,708**
PRUDENTIAL FILTERS AND DEDUCTIONS – TRANSITIONAL PERIOD	-	28,020
PRUDENTIAL FILTERS AND DEDUCTIONS - A FULL REGIME	-	25,028
NET EXPOSURE VALUE – TRANSITIONAL PERIOD		**12,620,688**
NET EXPOSURE VALUE – AT FULL REGIME		**12,623,680**
FINANCIAL LEVERAGE INDICATOR		
LEVERAGE INDICATOR – TRANSITIONAL PERIOD		**6.899%**
LEVERAGE INDICATOR - AT FULL REGIME		**6.863%**

16. The use of credit risk mitigation techniques (Article 453 CRR)

Qualitative information

For the purposes of eligibility in the context of prudent supervision, the Group makes use of collateral in the form of mortgages and other objective/financial security (including pledges on insurance policies in compliance with the ISVAP Order 2946 of 6 December 2011). The eligibility verification process for mortgage collateral is based on a decentralised management model. The latter requires that when surveyed during the collateral security procedure, the collection and archiving of the information necessary to confirm eligibility requirements (without prejudice to the analysis of the general requirements conducted by the competent central functions) are carried out by the branch network. In order to ensure adequate oversight of the survey activities, Credit Management and the Organisational Development Department provide the commercial network with information relating to anomalies identified by diagnostic systems during the survey process and calling for their rapid removal.

So far as objective financial collateral is concerned, the Group employs a structured process for their collection and management, with particular concentration on aspects of eligibility (general and specific requirements) and has issued specific management and operational instructions dealing with the issue. Eligibility is thus conferred on financial collateral which successfully overcomes the control points imposed by the related legislation and implemented in the Group's IT systems.

Quantitative Information

Credit Risk Mitigation Techniques: Protected amount

Supervisory portfolio	Objective financial collateral	Personal collateral	Secured by residential property	Secured by commercial property
1. Exposures to, or secured by central administrations and central banks				
2. Exposures to, or secured by, regional administrations or local authorities				
3. Exposures to, or secured by, public sector bodies	0			
4. Exposures to, or secured by, multilateral development banks				
5. Exposures to, or secured by, international bodies				
6. Exposures to, or secured by, supervised banks	152,105			
7. Exposures to, or secured by, businesses	95,387	32,978	91,544	
8. Exposures to retail customers	122,200	71,912	1,762,656	327,744
9. Exposures secured by real estate collateral	7,758	1,642		425,147
10. Exposures in state of default	5,613	4,592		
11. Exposures at high risk				
12. Exposures in the form of secured bank bonds				
13. Short-term exposures to supervised banks				
14. Exposures to Undertakings for the Collective Investment of Transferrable Securities (UCITSs)				
15. Exposures to equity instruments				
16. Other Exposures				
17. Positions arising from securitisation				
TOTAL	**383,064**	**111,124**	**1,854,200**	**752,891**

17. Glossary

- **ABS (Asset Backed Securities)**

Debt Securities generally issued by a "*Special Purpose Vehicle* (SPV)" and guaranteed by various types of asset portfolios (mortgages, consumer credit, credit deriving from credit card transactions, etc.) and that are specifically aimed at providing coverage of the rights incorporated in the actual financial instruments themselves. The repayment of the capital and interest is reliant on the performance of the securitised assets and that of any other guarantees lodged as backup to the transaction. ABS securities are subdivided into various *groups* (*senior*, *mezzanine*, *junior*) on the basis of their ascribed priority in terms of repayment of capital and interest.

- **AFS (Available for Sale)**

An IAS accounting category used to classify financial instruments available for sale. This category may include financial assets that are actually for sale, as well as any other financial assets not covered in any other financial instrument category.

In the case of financial assets that fall into this category, the accounting principle provides that they must be valued at *fair value* with recognition of the relative changes to Net assets, and that any difference between the purchase price and the redemption value be handled according to the effective interest method and that they contribute to the determination of the amortised costs.

- **AIRB (Advanced Internal Rating Based)**

A method that requires the financial intermediary to evaluate all the main risk parameters (in particular the PD, LGD and EAD, as defined below) utilised in the weighting formulae for the calculation of the regulatory minimum credit risk requirements.

- **ALM (Asset & Liability Management)**

An integrated asset and liability management process (cash and commitment exposures, including exposures to derivatives) aimed at ensuring the proper governance of exposures to financial risks in accordance with the objectives and risk limits, and at optimising the intermediary's risk vs returns profile.

- **AQR (Asset Quality Review)**

A quality audit of assets. This is a general audit promoted by the European Central Bank and aimed at assessing the solidity of the major European banking institutions, improving transparency as regards the financial statements of major banks, push for any necessary corrective action as regards financial statements and restore investor confidence by means of adherence to harmonised European criteria and methods.

- **AT1 (Additional Tier 1)**

Additional Tier-1 Capital is a regulatory capital sub-component of *Common Equity Tier-1* and contributes, together with the latter, to the calculation of Class 1 (*Tier 1*) Capital and the corresponding ratio. It consists, in particular, of the "new" hybrid securities (and associated issue premiums) characterised by their greater ability to absorb losses – both as regards so-called *going concerns* and those under liquidation – when compared to the traditional innovative instruments.

- **BIA (Basic Indicator Approach)**

A method for determining operational risk capital requirements, based on a single regulatory coefficient (15%) applied to the brokerage margin plus management revenues and adjusted for various components (profits and losses incurred on the sale of securities not included in the trading portfolio, revenues from exceptional or unusual deals and insurance revenues).

- **Business Continuity (Operational Continuity)**

Operational continuity. An approach that begins by identifying critical company processes and then establishes organisational controls for each of them, as well as operational continuity measures commensurate with their respective levels of risk. The actual measures to be adopted, aimed at reducing to an acceptable level any potential damages resulting from incidents or disasters that may directly or indirectly impact on the intermediary, take into account international *standards and best practices* and/or those developed by the sector bodies.

- **CAR (“Controllo Andamento Rischi” Area)**

An organisational unit within the Banco Desio Holding Company, designated as an Area, charged with managing the in *bonis*/*past due positions* encountered by the instruments in use and for which there are not yet sufficient grounds on which to institute either out of court debt recovery actions or legal action.

- **Cash Flow Hedge (Cash-flow coverage)**

An activity aimed at covering the bank’s exposure to the risk of cash-flow fluctuations, the objective being to stabilise the cash-flows of the covered instrument via the cash-flows of the instrument providing the cover. Items that may be covered include future cash-flows deriving from various types of operations such as, for example, variable interest rate financial receivables and variable interest rate loans.

- **CET1 (Common Equity Tier 1)**

Common Equity Tier-1 Capital consisting of paid-up capital, capital instruments that meet the established regulatory requirements (Articles 28 and 29 of the CRR), associated issue premiums and profit reserves, net of the own-shares portfolio, start-up, other intangible assets and overall value adjustment surpluses as against forecast losses.

- **CFRP (Contingency Funding Recovery Plan)**

A plan which makes it possible to identify intervention strategies in circumstances of liquidity tension, following the determination of the external or internal nature of the situations giving rise to the tension and defining the specific areas of competence and responsibilities of the business functions in emergency situations. The plan is approved by the Group holding company’s Board of Directors, reviewed periodically and applied to the legal bodies coming within the liquidity risk monitoring perimeter.

- **Change Management (Management of organisational change)**

Initiatives to change the organisational structure, the instruments and the company processes in order to meet the requirements of the prudential supervisory regulations applicable to banks that intend to adopt the A-IRB advanced internal models.

- **Collateral (Assets lodged as guarantees)**

Assets lodged as backup guarantees in financial operations.

- **Counterbalance Capacity**

The amount of high-quality, unrestricted, liquid assets that can be lodged with the central bank and readily converted into cash in order to meet liquidity requirements.

- **Coverage Ratio (Coverage rate)**

That portion of the reserve linked to an individual balance sheet *asset* in relation to the nominal value of the credit.

- **CRD IV**

European Parliament and Council Directive No. 2014/36/EU relating to access to financial institution activities and the prudential supervision of financial institutions and investment companies, which amends Directive No. 2002/87/CE and repeals Directive Nos. 2006/48/CE and 2006/49/CE.

- **CRR**

European Parliament and Council Regulation (EU) No. 575/2014, dated 26 June 2013, relating to the prudential requirements applicable to financial institutions and investment companies, which amends (EU) Regulation No. 648/2012.

- **CRS (Credit Rating System)**

The procedure on which the internal rating system for management purposes is based, developed at association level and appropriate for the Banco Desio Group's portfolio, enables banks to classify every counterparty into one of a number of homogenous risk categories with increasing levels of probability of default.

- **CUSIP (Committee on Uniform Securities Identification Procedures)**

A nine-digit alphanumeric code that identifies specific types of *Securities* and the associated issuer.

- **Data Quality (DQ) / DQ Process**

The quality of the data utilised in company processes, defined in terms of its accuracy (absence of systematic bias caused by the input data or the data gathering and integration processes), completeness (utilisation of all relevant information) and pertinence (usefulness for the intended purposes). The *data quality* process is driven by the utilisation of data gathering, storage and processing procedures that have to meet the highest quality standards. The functions involved in data gathering and the production of information are identified, as well as their respective roles and responsibilities. The envisaged controls are also identified, as well as the measures for dealing with missing or unsatisfactory data.

- **DBPOA**

An Operating Losses database kept and updated at company level in which information relating to significant operational loss events is gathered.

- **DPP (Deferred Purchase Price)**

Deferred purchase price.

- **Derecognition (Cancellation)**

Cancellation of a previously recorded financial asset from the balance sheet (IAS 39).

- **DIPO (Italian Operational Losses Database)**

An Operating Losses database kept and updated at the association level based on regular reports of operational loss events submitted by the associated Italian banks.

- **Dollar Offset Method**

A method used to conduct tests aimed at checking the efficacy, in terms of the consistency between *fair value* fluctuations, of the item covered (asset or liability) and the derivative used as cover instrument.

- **Drive-by – Expert Appraisals**

Appraisals aimed at assessing the accuracy of the commercial value of a fixed asset. It involves conducting an external site inspection based on the information provided by the commissioning party, drawn from documents such as preliminary sale and/or purchase deeds and/or the original appraisal.

- **Duration (Financial duration)**

The financial duration of a debenture, expressed in years and defined as the weighted average – for the relative sums – of the due dates for capital and interest payments related to said debentures. This is essentially an interest rate risk indicator to which the bond is subjected: the higher the value, the greater is the bond's exposure to fluctuations in market interest rates. The indicated exposure declines as the bond due date approaches, whereas it increases when the coupon payment frequency declines. The *duration* of a portfolio is equal to the weighted average durations of the individual bonds contained therein.

- **Duration Gap (Financial duration Delta)**

A method for measuring interest rate risk, based on the calculation of the duration of assets and liabilities and used to quantify the sensitivity of the financial value (market value) of said assets and liabilities to fluctuations in market interest rates.

- **EAD (Exposure at Default)**

Forecast financial exposure at the time of default in relation to a general position, calculated as the sum of utilised credit line and any remaining margin, weighted by the application of a credit conversion factor (CCF, *Credit Conversion Factor*). The latter is obtained from the ratio of the unutilised portion of the line of credit that it is felt could be used in the case of default, and the currently unutilised portion of the line of credit. This factor therefore indicates the probability that the unutilised component will be "pulled". This parameter is used to forecast expected losses and RWAs in the AIRB approach.

- **ECAI (External Credit Assessment Institutions)**

Parties, recognised by the Supervisory Authorities, which assess creditworthiness and award *ratings* that can be used by financial brokers to calculate the applicable regulatory minimum credit-risk requirements using a standardised method.

- **EL (Expected Loss)**

The extent of the loss that the bank expects to incur, on average, on each in *bonis* exposure (or pool of exposures) during the course of one year, at the time of measuring. It is the product of the class PD (or pool), the LGD and the EAD.

- **Fair Value – Fair Value Hedge**

This is the amount for which an asset could be exchanged or a liability settled in a free transaction between consenting independent parties. The coverage aimed at protecting the balance sheet against the risk of unfavourable fluctuations *Fair Value* is known as the *Fair Value Hedge*.

- **FEU (Single Front End)**

A Banco Desio Group company procedure that enables access to the various departmental procedures (for example: current accounts, deposits, mortgages, etc.) in both consulting and operating mode.

- **Forborne exposures (Exposures with concessions)**

Financial exposures for which changes to the terms and conditions or total or partial refinancing have been conceded due to the debtors financial difficulties and that could result in a loss for the lender. In order for exposures to be classified as being in *forbearance*, the positions must have been more than one month overdue at least once within the three months prior to contractual amendment, thereby lowering the alarm threshold to below the 90 days contemplated in the definition of *default*.

- **FVTPL (Fair Value Through Profit or Loss)**

Financial instrument (financial asset or liability) held for the trading purposes and that, at the time of initial detection, is designated at *fair value* as reflected on the balance sheet.

- **Going Concern**

A situation of normal trading.

- **G-SII (Global Systemically Important Institutions)**

Institutions that are particularly significant on a global scale.

- **IAS/IFRS**

International Accounting Standards determined by the International Accounting Standards Board (IASB), a body that includes the major Countries' accounting professionals, as well as observers from the European Union, IOSCO (*International Organization of Securities Commissions*) and the Basel Committee. This body, which has taken over the legacy of the *International Accounting Standards Committee* (IASC), is responsible for promoting the harmonization of the rules pertaining to the drafting of corporate financial statements. With the conversion of the IASC to the IASB, it was decided, inter alia, to change the name of the new accounting principles to "*International Financial Reporting Standards*" (IFRS).

- **ICAAP (Internal Capital Adequacy Assessment Process)**

A process pertaining to the "Second Pillar" of the Basel prudential supervision regulations that require the banks to equip themselves with processes and instruments to establish the adequate level of internal capital required in order to be able to face significant risks, including those other than those already protected by the overall asset requirement ("First Pillar"), as part of an assessment of current and future exposure that takes into account the strategies and the evolution of the reference environment, even under conditions of stress.

- **ICT (Information Communication Technology, Area)**

A Banco Desio Group organisational unit, designated as an Area, charged with, inter alia: (i) managing the planning and control aspects of the portfolio of IT projects linked to architecture evolution and technological innovation, (ii) safeguarding the technological infrastructure by means of interventions aimed at ensuring the development and innovation of resources linked to the functioning of the IT and telecommunications systems that support the company processes, (iii) ensuring that appropriate mechanisms are set up to link the various lines of business, particularly as regards the identification and planning of IT initiatives.

- **Impaired / Impairment - Credits**

Clients/Exposures with an ongoing history of irregular payment and that fall into the category of *Non-Performing Exposures* or NPLs. A situation of *impairment* exists when the balance sheet value of a financial asset is higher than the estimated recovery value of the said asset, in other words, the amount that could be realised by selling or utilising the said asset. To this end, *impairment tests* are conducted on a regular basis, which involves the estimation of the recovery value (i.e.: *fair value* less selling costs, or utilisation value, whichever is the greater) of an asset or a group of assets. *Impairment tests* must be conducted annually on fixed assets with an indefinite useful life-span, initial purchases in a business merger operation and, in general, any asset where there is any indication that it may have suffered an ongoing loss of value.

- **Probable defaults**

Financial exposures, other than non-performing loans, where the bank considers it to be unlikely that the debtor will fully meet his/her financial commitments (capital and/or interest) without the bank resorting to certain actions, such as calling in the relative guarantees.

- **ISIN (International Securities Identification Number)**

International securities identification number.

- **Key-Risk Indicators**

Risk indicators used for risk-assessment and risk-monitoring purposes.

- **LCR (Liquidity Coverage Requirement)**

A regulatory indicator of liquidity. It measures short-term liquidity (30 days) and is calculated as a ratio of high quality liquid assets (HQLA) (e.g.: government bonds) to *net cash flow* (*cash out* - *cash in*) over a 30-day period, utilising hypotheses of stress. The introduction of this indicator envisages a *phase-in* period, from 2015 to 2018 and the application of a minimum requirement of 100% with effect from 1 January 2019.

- **Leverage Ratio (Financial leverage)**

An indicator, given by the ratio between *Tier 1* and Total Assets, introduced by the Basel Regulations with the aim of limiting the increasing financial leverage in the banking sector by accompanying the risk-based requirements with another measurement based on balance sheet aggregates.

- **LGD (Loss Given Default)**

The extent of the loss incurred in the event of insolvency (*default*), defined as the relationship between the loss incurred on an exposure due to *default* by a counterparty, and the residual value as at the time of *default*.

- **LLP (Loan Loss Provision)**

Downward adjustment of the value of an asset due to a reduction in the creditworthiness of the counterparty, which is reflected as a cost on the balance sheet and an increase in the loan loss provision account. *Performing* loans are valued collectively and subdivided into homogenous groups based on risk and the relative "collective" write-down is calculated by multiplying three risk parameters, namely the PD, the LGD and the EAD. N*on-performing* loans are instead assessed analytically, taking into account the assumed possibility of recovery, the time required to recover the money and any valid guarantees. The write-down provision for each position is calculated as the difference between the nominal value of the credit and the current forecast of future cash flow value. In the event that, as time passes, the prospects of recovery are revised upwards, or simply brought forward in terms of time, the associated write-down is reallocated as a revenue on the balance sheet, under the heading of value recovery or *write-back*.

- **Lock-up (Restriction clause)**

A restriction written into the *stock grant* plan that prevents any ordinary shares awarded being converted into cash by selling them on the market prior to expiry of a set deadline.

- **Logit – Statistical model**

The *logit* model, or logistical model, which falls into the category of regression models, is used to develop internal *rating* models for assessing the relationships between explanatory dependent variables (for example: balance sheet ratios) and the independent variable being analysed, as represented by the counterparty's status (in *bonis* or *default*).

- **Loss Data Collection**

A structured process for gathering together operational losses incurred within the Bank.

- **LTV (Loan to Value)**

Ratio of loan amount to guarantee value.

- **Maturity Gap (Expiry Delta)**

A method used to assess the exposure of the broker's profitability to fluctuations in market interest rates, applied to assets and liabilities that are sensitive to interest-rate fluctuations, and based on the measurement and analysis of the relative delta values or *mismatches* by maturity date.

- **N.A.V. (Net Asset Value)**

This is the net overall value of assets held in a fund. It is given by the algebraic sum of all the held assets, net of any liabilities. In order to calculate the NAV, you need to know the quantity and market price of each financial instrument and each asset included in the portfolio.

- **NCG**

A code number indicating company-type (Joint stock company, Pty ltd, General partnership, etc.).

- **NPL (Non Performing Loans)**

Receivables for which there is objective evidence of a loss of value, measured by the difference between the book value and the current value of forecast future cash flows, discounted at the actual interest rate. This category includes receivables classified as *past due* (expired/overdue), probable defaults and non-performing.

- **NSFR (Net Stable Funding Ratio)**

A regulatory index of liquidity. It is defined as the relationship between the *Available Amount of Stable Funding* and the *Required Amount of Stable Funding*. The time period considered for the purposes of assessing stable funding provisions is one year. A formula for calculating the NSFR is currently being determined by the EBA and will come into effect as a regulatory minimum requirement on 1 January 2019.

- **OICR**

A Mutual Savings Investment Body.

- **SFT operations (Security Financing Transactions)**

Term repurchase transactions on securities or commodities, acquisitions or disposals of securities or commodities on loan and margin lending transactions.

- **ORM (Operational Risk Management)**

An operational risk management model that governs the roles and responsibilities of the functions involved in managing the risk. In addition, said model also sets out specific monitoring limits for individual loss events and the amount of gross operational losses reported per year.

- **O-SII (Other Systemically Important Institutions)**

Systemically important institutions other than global ones (G-SII).

- **OTC (Over the Counter)**

An unregulated securities market on which securities are listed, exchanged or repurchased. This market's operations, the securities traded and the market traders are not subject to specific regulation or to oversight by the Regulated Market Supervisory Authorities and are not officially registered. Their trading methods are not standardized and it is possible to negotiate "non-conventional" contracts. Here in Italy, OTC markets are configured as "Sistemi di Scambi Organizzati" (SSO) or Organised Trading Systems.

- **Outsourcer**

An external party that acquires goods and services. Outsourcing agreements specify minimum service levels and permit access to the outsourcer's systems by the supervisory authorities.

- **Rating Override (Manual intervention on ratings)**

Potential manual adjustment of an automatic rating obtained via a statistical rating model on the grounds of expert opinion.

- **Pay-mix (Remuneration composition)**

The break-down of remuneration into fixed and variable components, with the latter component being further broken down into deferred and non-deferred.

- **Past Due (Expired or overdue exposures)**

Exposures to debtors (other than those reported as non-performing or probable defaults) that, as at the date of reporting, have payments outstanding or overdue for longer than 90 days, with an absolute material threshold of 500 Euro for both companies and private individuals.

- **PD (Probability of Default)**

The probability that a counterparty will go into default within a period of one year.

- **Probation Period (Trial period)**

A time period of 2 years after which a *bonis* position previously classified as in *forbearance* (exposure with concessions) can exit from *forbearance* status.

- **Product Approval**

A Banco Desio Group operational and decision-making process for defining and approving new products/services and the entry into new markets. The process defines the various operational phases and the roles and responsibilities of the company bodies and functions involved in the process for whatever reason.

- **RAF (Risk Appetite Framework)**

A reference frame work to establish – in accordance with the maximum acceptable level of risk, the business model and the strategic plan – the risk propensity, risk limits, risk management policies and the applicable processes for determining and implementing them.

- **Retirement Perks (Pension benefits)**

Non-monetary benefits granted to individuals that have vacated their posts.

- **Risk Appetite (Risk target or risk propensity)**

The overall risk and the risk per type that the bank intends to take on in order to achieve its strategic goals.

- **Risk Capacity (Maximum acceptable risk)**

The maximum risk level that a bank is able to take on without breaching regulatory requirements or other restrictions imposed by shareholders or by supervisory authorities;

- **Risk Limits**

The expression of risk appetite in terms of defined operational limits, in line with the principle of proportionality by risk type, business unit and/or area, product line and customer type.

- **Risk Profile**

The risk actually measured in a given moment in time.

- **Risk Self-Assessment**

A structured process for evaluating potential operational risk, aimed at providing an overview of risk events in terms of their potential impact and worst-case impact.

- **Risk takers**

The group of parties ("most important personnel") whose activities can have a major impact on the bank's risk profile. Included in this group – unless proven otherwise – individuals such the executive directors, the general manager and managers of the main business lines and other senior managers; the managers and senior staff of internal control functions; other individuals that are in a position to jointly or severally assume significant risk on the bank's behalf, as well as parties whose remuneration is the same as, or similar to that of top managers and other *risk takers*.

- **Risk Tolerance (Risk threshold)**

The maximum deviation from the permitted risk appetite. The tolerance threshold is set in such a way as to ensure that the bank has sufficient margins to continue operating within the maximum risk capacity even in conditions of stress.

- **Risk Triggers**

Internal or external risk indicators used to detect anomalies and aimed at the classification of in *bonis* exposures in positions under control, which are subject to specific monitoring.

- **RON (Representative of the Note holders)**

Representative of the Note holders.

- **RORAC (Return On Risk Adjusted Capital)**

The ratio of Net Consolidated Returns (adjusted for risk on the basis of estimated long-term losses) to Capital Absorbed.

- **RWA (Risk Weighted Assets)**

Risk weighted assets. These are cash and off-balance sheet assets (derivatives and guarantees) classified and weighted on the basis of fixed coefficients that reflect the specific counterparty and operation risks (even where there are existing guarantees in place), in accordance with the prudential supervision regulations.

- **Sensitivity Analysis**

A method of analysis that quantifies the effects of fluctuations in the input parameters (risk factors) on the cash flow values of asset gathering or utilisation operations.

- **SICAV ("Società di Investimento a Capitale Variabile")**

A co-operative company with registered offices and management headquarters located in Italy and whose sole business purpose is the mutual investment of assets gathered by means of own-share public offerings. Unlike the mutual investment funds, in the case of SICAV the investor is also a participating shareholder and, as such, is able to impact on the company's business affairs and investment policy by exercising his/her voting rights.

- **SPV (Special Purpose Vehicle)**

A company vehicle established for the purposes of achieving specific objectives, mainly as protection against financial risks. Its assets consist of a portfolio whose revenues are utilised to service existing shareholder loans (liabilities). Typically, these vehicles are used for the purposes of asset securitisation operations.

- **SREP (Supervisory Review Evaluation Process)**

A review and prudential evaluation process established by the Supervisory Authority, made up of three main elements: a Risk Assessment System (RAS) that assesses the level of risk and the financial institution control activities, an overall review of the ICAAP and ILAAP processes and a method for quantification of capital and liquidity in the light of the outcome of the risk assessment.

- **Stock Grant – Share allocation plan**

A beneficiary's entitlement to receive free shares in the company for which he/she works, subject to the achievement of specific objectives and targets.

- **T.U.F.**

Legislative Decree No. 58/1998 (TUF), dated 24 February 1998, Consolidated Text of provisions relating to financial brokerage, pursuant to Articles 8 and 21 of Law No. 52, dated 6 February 1996.

- **T1 (Tier 1)**

Tier 1 capital, represented by the sum of CET1 and AT1.

- **T2 (Tier 2)**

Tier 2 Capital. The capital amount that principally includes recoverable subordinated liabilities and any surpluses resulting from value adjustment of expected losses on weighted exposures (only for banks authorised to utilise the AIRB method).

- **TC (Total Capital)**

Total own Funds. The total extent of Group-held assets, calculated as the sum of the following components: *Common Equity Tier 1* (*CET1*), *Additional Tier 1* (*AT1*) and *Tier 2* (*T2*).

- **TUB (Consolidated Banking Text)**

The Consolidated Text of Laws pertaining to Banking and Credit, introduced by Legislative Decree No. 385, dated 1 September 1993 and in force since 1 January 1994.

- **Unlikely to Pay (Probable defaults)**

Exposures for which it is deemed unlikely that the debtor will be able to meet his/her loan commitments fully without the Bank having to resort to calling-in the applicable guarantees.

- **VAR (Value At Risk)**

A risk value that reflects the maximum potential losses associated with a portfolio of financial instruments, determined by statistical means with a given confidence interval or probability level (99% in the case of market risk) over a specified time period (10 days in the case of market risk).

- **What-if - Analysis**

A technique used to determine how performance projections are influenced by changes in the assumptions on which the projections themselves are based and thereby evaluating the probability and the consequences of scenarios before they actually occur. By analysing historical data, forecasting systems can be created to predict future outcomes, thereby enabling the formulation of a number of forecast scenarios with the aim of evaluating the behaviour of a real system.

Declaration of the manager responsible for the drafting of accounting and company documents

Mauro Colombo, the Manager responsible for the drafting of accounting and company documents, hereby declares that, in terms of paragraph 2 of Article 154 bis of the Consolidated Finance Law, the accounting information contained in this document "Third Pillar of Basel 3 as at 31 December 2015" corresponds to the documentary records, books and accounting records.

Mauro Colombo

Manager responsible for the drafting of accounting and company documents