Gruppo Banco Desio

THE THIRD PILLAR OF BASEL 3

DISCLOSURE OF INFORMATION TO THE PUBLIC
AS AT 31 DECEMBER 2014

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 new harmonised provisions concerning banks and investment businesses set out in EU Regulation 575/2013 (hereinafter referred to as the "CRR" or the "Regulation") and in EU Directive 2013/36 dated 26 June 2013 (hereinafter referred to as the "CRD IV" or the "Directive") came into force on 1 January 2014. 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, 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 2014 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 2013, 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 public disclosure of 31/12/2014 represents the first application of the new rules with the disclosure of the information expressly required by the CRR. In substance, the new regulations require the disclosure of the same information applicable up to 31 December 2013, with the addition of information relating to governance, remuneration and unrestricted assets, together with the disclosure of the leverage ratio indicator.

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 2014. In particular, information on Group risks is contained in Part E of the Notes to the Financial Statements.

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

1. 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 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). 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;
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 is adequate and functioning as a whole;
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: this expresses the risk actually measured in 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 method adopted by the Group entails a quantitative assessment based on three different indicators (first and second level indicators plus key-risk indicators) and a qualitative assessment involving the evaluation of the organisational supervisory mechanisms. This is supplemented by specific policies regarding the various risk types that provide the criteria for their operational 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.
- The qualitative assessment of organisational mechanisms: the qualitative assessment of current existing organisational institutions dealing with business risk. The goal of these activities is to analyse, on the basis of an examination of the evidence deriving from internal audits and compliance, the 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. Finally, an expected adequacy profile for the organisational institutions is assessed following the implementation of such initiatives through agreement with the affected structures. This is followed by the approval of the initiatives identified 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

Express reference is made in the Group Credit Policies Statement to the following principles to be observed in the provision of 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.

Risk Trend Control Area: this ensures the constant monitoring of loan quality over the Group's network of branch offices, highlighting positions showing critical factors through surveys of trends of individual risk positions based on periodic checks and according to pre-defined criteria (appearance on CAI, protests, increase in non-performing loans, exceeding daily limits and instalments in arrears) or highlighted by other organisational units (Credit Management, Internal Audit Management, Risk Management Division). The Risk Trends Control Area has the power, within the context of its own responsibilities and in compliance with the Business Risk Management Policies, to classify the related positions according to the different categories of deteriorated loans[1] and to assign the "under observation" status to fiduciary relationships for which a precautionary period of observation is considered appropriate (normally lasting between 6 and 12 months). The Risk Trends Control Area is also responsible for the following: a) ensuring the uniformity of the processes for the management of anomalous loans (excluding positions classified as "non-performing" given that these come under the competence of the Legal and Corporate Affairs Management), b) supervision of the activities conducted in this field by subsidiaries, providing the instructions and assistance required, c) the management and monitoring of positions classified as "forbearance" ensuring a precise check of the risks relating to the same throughout the regulatory probationary period; d) providing information to General Management in relation to adjustments made above a particular threshold. The Risk Trends Control Area surveys trends of individual risk positions, intercepted on the basis of

[1] Without prejudice to automatic elements deriving from objective criteria defined by the Supervisory Regulations.

periodic and precise checks, including on the basis of reports produced systematically by IT support procedures such as Credit Quality Management (CQM) and the Credit Rating System (CRS).

In view of the specific nature of the technical forms identified by the legislator as a means of assisting businesses to overcome a crisis situation and in order to ensure constant monitoring of the phenomenon, a new structure has been set up with the following functions: a) to assign probable default positions to external recovery companies; b) to check the network to ensure the actions involved in the management of the phenomenon are carried out correctly and the presence of collateral security.

The Litigation Department reports to Legal and Corporate Affairs Management. As far as the credit process is concerned, it carries out the following duties in the context of the structure to which it reports: 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 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 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. The aforesaid function is also responsible for checking the following aspects: 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.

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

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 if businesses are involved; 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. The analysis must include, in addition to that of the Financial Statements, 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, 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. The rating system uses a methodological framework that combines a statistical component with an (qualitative/expert) assessment component. 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[2]: 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) are analysed in accordance with the criteria of the rating model described above but with 8 solvent class ratings ranging from AAA to CC.

[2] 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.

The policies for Risk Hedging and Mitigation and the related strategies and processes for continuous monitoring of their effectiveness

Even when there is a positive assessment of the applicant in the lending process, the Group seeks whenever possible to obtain collateral security with a view to 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

Given that the market risk profile of the Group's "regulatory trading portfolio" is very limited, it has been decided to adopt a wider perimeter for the application of market risk management principles and policies at a managerial level. 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. This results in a profitable management of cash flows with a view to meeting cash flow needs and optimising profitability. This ability to exploit available funds is then supplemented by the search for and use of instruments for procurement and investment, drawn up and concluded with institutional and trans-national counterparties (e.g. the European Central Bank).

The Structure and Organisation of the relevant 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 the strategic indications and the 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 measuring systems

Consistently with the RAF, the Risk Management Department monitors and analyses risk on a daily basis in relation to the following: a) the size of the bank securities portfolio; b) trends of Value at-risk (VAR); c) trends in the duration of the 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 differentiated 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*.

The Group has adopted an internal model for the quantification of market risk based on the VaR concept. This methodology has the advantage of allowing the aggregation of positions acquired with risk factors of a heterogeneous nature. The model is based on parameters of variance–covariance type for linear instruments and with approximation of delta–gamma type for optional instruments and uses a confidence interval of 99% with a holding period of 10 days, in line with the recommendations made by the Basel Committee. The model uses matrices containing the standard deviations of each risk factor (rates, exchange rates and prices) and the related 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.

Commentato [R1]: to check

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. Losses falling into this category include those from fraud, human error, breaks in system operations, breaches of contract and natural disasters. Operational risk includes legal risk although strategic and reputational risks are excluded.

Risk Management strategies and processes

The Group has implemented a special procedure for the structured collection of prejudicial events which may 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 Italian 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 defines specific monitoring limits per individual loss event with the overall amount of gross operational losses reported annually. This latter limit has been applied to the Group and every legal body belonging to the Group.

The ORM macro-process is made up of the following stages:

- Identification: the process of surveying, collection and classification of the information relating to operational risks through the consistent and co-ordinated processing of all relevant information sources allowing their integrated representation;
- Valuation: the process of the economic valuation of the operational risks identified, connected with the operational activities of the individual business structures;
- Monitoring and reporting: the process involved in the collection, organisation and structured representation of results in order to be able to analyse and check the evolution of the degree of exposure to operational risk over time and prevent the occurrence of damaging events;
- Mitigation and control: the process involved in transferring the risk and the improvement of internal controls and business processes.

The following processes have also been set up to provide support to the operational risk management model:

- Loss Data Collection: The Group has set up a specific Loss Data Collection process made up of the collection, classification, conservation and reporting of data relating to operational losses and the prejudicial events that may generate them. Data collection is effected through the use of special business procedures identified by the initials DBPOA (*Data Base Perdite Operative Aziendale* – Business Operational Losses Database), available in the Intranet. Reference to the Business Operational Losses Database makes it possible to identify, record, classify, archive and report prejudicial events occurring in the context of the individual Group companies both with regard to different types of events and different areas of activity.
- Risk Self Assessment: The Group uses RSA, through the completion of questionnaires and the conduct of interviews with organisational unit managers, to assess the degree of exposure to operational risk of each individual Group entity through the combination of the views expressed relating to economic impact, probability of occurrence, reputational impact and the effectiveness of controls. The result is a representation of the state of the business in relation to operational risks and existing controls with the identification of the areas (processes and business structures) most exposed to operational risk. The collection of information for potential risk assessment is obtained through interviews involving the completion of self-assessment questionnaires.

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 if 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 compliance with the requirements of Bank of Italy instructions (pursuant to circular 263/06 Chapters 8 and 9) the Group has set up the Security Regulation and ICT Area function with the adoption of the following operational procedures: 1) Security Management; 2) Incident Management, and 3) IT risk assessment.
With regard to the IT risk assessment, the Risk Management Department, in collaboration with the Security Regulation and ICT Area, actively participated in a working group set up in this context with the outsourcer Cedacri, aimed at i) the identification of specific IT risk scenarios, ii) the identification of specific threats connected with the IT risk scenarios, iii) the definition of the methods for assessing the probability of the IT threat/scenario occurring.

The scope of application and the nature of the risk reporting and measuring 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

The Group has adopted additional risk mitigation in the form of appropriate insurance designed to cover the main operational risks to which it may be exposed.

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.

As far as management policies and processes are concerned, the Group's lending activities are governed by a policy of division of its loans 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 much 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. The Product Approval process envisages the intervention of different business functions according to their respective areas of competence during the issue of new products and services, with a view to effecting an advance analysis in general terms of the risk of concentration that the Group would be exposed to in the conduct of its commercial activities.

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 and 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 type may take different forms depending on the context in which it arises:

a) funding liquidity risk: the risk that the Group will be unable to meet both its expected and unexpected cash 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 in the reference market or a disturbance of the same.

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, 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 the Bank's Counter-balancing Capacity, that is, the management of total immediately available assets so as to ensure they are able to meet liquidity needs. Management of structural liquidity, that is, the management of all Bank portfolio events impacting the Group's overall liquidity position over a time period of more than one year, with the main aim of maintaining adequate interdependence between liabilities and assets, placing a restriction on the financing of medium- to long-term assets with short-term liabilities;
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.

vi. The Group has also adopted a specific Contingency Funding Plan (CFP) 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 reviewed periodically and approved by the Group holding company's Board of Directors and applied to the legal bodies coming within the liquidity risk monitoring perimeter.

The Group has concentrated on the valuation of the LCR (Liquidity Coverage Requirement) indicator for the data as at 31 December 2014. The analysis has been effected on the Italian commercial banks' perimeter given that these account for almost all the liquidity risk expressed by the Group as a whole. Reference was made, for the purposes of the calculation, to the Basel III Committee*:*

International framework for liquidity risk measurement, standards and monitoring, December 2010; Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools, January 2013; EU Regulation 575/2013 of the European Parliament and the Council of 26 June 2013 (CRR), EU Delegated Regulation 2015/61 of the Commission of 10/10/14 which supplements the Regulation 575/2013. Useful supporting indications have been taken from the ABI working tables. In the case of data which was hard to obtain and for a number of figures of marginal importance, the "best effort basis" rule was applied. The value obtained reflects the structural composition of a typical banking group with a prevalently commercial business where that part made up of indefinite contracts with both natural individuals and legal bodies, sole traders or personal companies predominates while investments are for the most part of medium- to long-term maturity with retail customers, small businesses and non-financial corporate entities. The results obtained as at 31/12/14 show a value greater than the minimum liquidity cover of 60% due to come into force in October 2015.

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, it must be subject to continuous monitoring throughout the 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 2014 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 will be provided on request, relating to the time remaining for the completion of the proceedings.

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 providing greater oversight of mortgage collateral in the case of positions defined as non-performing and default, 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 capital 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 Boards of Directors of the Group holding company and banking subsidiary, among their other powers laid down by the law and company Articles, 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 capital 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).

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 2015 Business Plan. As far as Risk Capacity is concerned, in the absence of a current prudential limit, the Group has assessed the details contained in the delegated regulations of the Parliament and the European Council with regard to financial leverage, and the impact study produced by EBA[3]. On the basis of the above details the Group has set a minimum limit of the financial leverage indicator of 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.

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 2014, using the list voting mechanism described in paragraph 2.1.l) above. 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[4] (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.: 2% of the share capital for quoted companies, 5% for supervised companies); b) The office of Executive Director in the Banco Desio will be incompatible with any executive office covered in other listed companies and/or supervised companies (with the exclusion, as before, of the subsidiaries, associated companies of the Banco Desio or companies in which it has a significant shareholding),

[3] See amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio of 10/10/2014.

[4] "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"

In cases in which the "prohibition against interlocking" does not apply pursuant to Article 36 of law 214/2011;
c) The office of CEO of the Bank is incompatible with that of director of another company (not belonging to the Banco Desio Group) in which another of the Bank's director acts as CEO.

Without prejudice to specific provisions laid down by relevant legislation (with particular reference to the rules contained in the law applying to the "prohibition against interlocking" between competing banking, financial and insurance Groups), the above general principles are not to be considered as mandatory and the occurrence of situations which do not conform to their provisions will not, in themselves, lead to disqualification from office. The Board of Directors, in addition to carrying out a specific assessment of the situation with regard to the aforesaid "prohibition against interlocking" at least once a year in compliance with the application criteria issued by the supervisory authorities, also reserves the right to examine any cases not conforming with the above principles on a case-by-case basis. This is without prejudice to the principle, supported by the Code, that the assessment of whether or not it is appropriate to accept the related offices (including positions on internal committees) is exclusively dependent on the judgment of the interested parties if "they believe that they will be able to dedicate the necessary time to the performance of their 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;
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 2013, 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 2014 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 2014 corresponded to the above Profile was verified on an "ex-post" basis by the Board of Directors on 29 May 2014.

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 in 2012, 2013 and 2014, with an appropriate degree of variation of subject matter and speaker. These were focused on the following:
- Questions relating to the practical application of the aforesaid Legislative Decree 231/2001 to the banking environment, concerned with the administrative liability of companies and bodies;
- 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.

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

A session was also arranged involving members of the bodies of the different group companies and a number of managers from the business, dedicated to in-depth consideration of strategic planning and the business model of the "new" banking group, conducted by an external expert in the banking business.

The initiative 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 2015 is substantially analogous to the above, appropriately updated and enhanced by an examination of the changes in the legislative and economic 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. The decisions taken relating to questions of the competence of the Board of Directors are communicated (including verbally) to the latter body on the first meeting thereafter.

Over 2014 the Committee, in its capacity as the consultative/proposing body for questions concerned with internal audit and risk management, met on 14 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 reports to the Board of Directors describing the Committee's activities, the main issues considered included plans and periodic reports concerned with the Internal Audit functions. The Committee also assessed updates of different business policies including those concerned with Risk Appetite and with credit, as well as the 2015 budget in relation to risk management. As far as more project-based activities were concerned, the committee was involved in assessments relating to "gap analysis" and the consequential adaptations to the aforesaid provisions concerned with prudential supervision in the field of the internal control system, the IT system and operational continuity (Bank of Italy Circular 263/2006). In the context of such adaptations, the Committee, *inter alia,* assessed the internal regulations adopted concerned with "More Significant Operations", which applied to the transfer operation described in Section 5 above. The Committee examined the above operation (so far as coming under its competence, highlighted in a specific report by the Risk Management Division) jointly with the Committee for Operations with Related Parties on 18 December 2014. A "Document for the Co-ordination of Controls" was adopted, governing, among other things, so-called "Risk Meetings" held periodically between the various internal control functions and the connection mechanisms between functions and bodies in the internal control and risk management divisions.

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 31.12.2014 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	80.000	Full	Full	Financial
Credito Privato Commerciale S.A. Under liquidation	*Lugano*	1	100.000	Full	Full	Bank
Banca Popolare di Spoleto	*Spoleto*	1	73.156	Full	Full	Bank
Spoleto Mortgages S.r.l. (1)	*Conegliano*	4		N.A. Full	Full	Securitisation company
Brianfid-Lux S.A. in liquidation (2)	*Luxemburg*	1	100.000	Full	Full	Financial
(1) – limited to the separate assets of Spoleto Mortgages S.r.l. to which the conditions of actual control apply						
(2) – Liquidation procedure closed on 23.07.2014						
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*	31,389	Share equity	(*)	Other

Key

Type of relationship
=majority of voting rights in the Ordinary General
1 Meeting

3 = Significant influence

4 = other forms of control

Note (*) – The implicit goodwill of the shareholding deducted from Own resources, the remaining part was taken into account in the calculation of the RWA

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

The new harmonised rules for banks and investment businesses contained in the Community Regulation (CRR) and Directive (CRD IV) of 26/06/2013 came into force on 1 January 2014. The above legislation transposes the standards defined by the Basel Committee for Banking supervision (so-called Basel 3 Framework) into European Union law. The above legislative framework defines, among other things, the elements making up Own Funds on which the capital requirements applicable to credit institutions are founded.

On 31 December 2014 the consolidated Own Funds of the Banco Desio Group were made up as follows:

(Amounts expressed in €/1000)

Description	31.12.2014	31.12.2013
Common equity tier 1 (CET1)	€ 832,234	€ 767,501
Additional Tier 1 Capital (AT1)	€ 12,801	€ 5,492
Tier 2 Capital (T2)	€ 145,728	€ 42,331
Total own funds	€ 990,763	€ 815,324

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 575/2013 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 575/2013 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 575/2013 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 575/2013, 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 575/2013, 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.

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	IT0004654866	IT0004780182
3	Law applicable to the instrument	Italian Law	Italian Law	Italian Law	Italian Law
	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 the level of individual institution/ (sub-) consolidation /of single institution (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	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)	60840	6865	2,385	5,187
9	Nominal amount of instrument (thousands of Euros)	60840	6865	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	Date of original issue	N/A	N/A	01.12.2010	29.12.2011
12	Irredeemable or on maturity	Irredeemable	Irredeemable	On maturity	On maturity
13	Original maturity date	N/A	N/A	01.12.2015	29.12.2016
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 6M +50 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	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)

Banco Desio

	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)	IT0004815855	IT0004921166	IT0005038085	IT0005070179
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 and of (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)	6,386	8,899	46,549	49,754
9	Nominal amount of instrument (thousands of Euros)	13,000	13,000	50,000	50,000
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	Liability amortised cost
11	Original issue date	15.06.2012	03.06.2013	28.08.2014	22.12.2014
12	Irredeemable or on maturity	On maturity	On maturity	On maturity	On maturity
13	Original maturity date	15.06.2017	03.06.2018	28.08.2019	22.12.2019
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 3M +250 bp	IND. EURIBOR 6M +250 bp	IND. EURIBOR 6M +230 bp	IND. EURIBOR 6M +180 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	Banca Popolare di Spoleto	Banca Popolare di Spoleto	Banca Popolare di Spoleto
2	Unique identification (1)	IT0003957112	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)	5,588	5,335	7,111
9	Nominal amount of instrument (thousands of Euros)	30,000	8,226	10,880
9a	Admission price	100	100	100
9b	Refund price	100	100	100
10	Accounting classification	Liability amortised cost	Liability amortised cost	Liability amortised cost
11	Date of original issue	07.12.2005	15.04.2008	15.04.2008
12	Irredeemable or on maturity	On maturity	On maturity	On maturity
13	Date of original maturity	07.12.2015	15.04.2018	15.04.2018
14	Advance refund at discretion of issuer subject to the prior approval of the Supervisory authority	Yes	Yes	Yes
15	Date of discretionary advance refund Dates of advance refund and any amount of refund	07.12.2010 - Not exercised	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 6M +120 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)

Gruppo Banco Desio

The following table provides details of the elements making up Own Funds as at 31/12/2014, according to the outline set out in Annex VI of the Commission EU Implementing Regulation 1423/2013

	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 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)	724,156	
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 the grandfathering Clause up to 1 January 2018	-	
5	Minority interests (amount permitted in consolidated Common Equity Tier 1 capital) *(1)*	34,258	148
5a	Period profits confirmed by independent person net of all foreseeable charges and dividends	30,597	
6	Common Equity Tier 1 capital before regulatory adjustments	865,996	
	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)	- 23,246	
9	Empty field 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)	- 6,213	- 1,243
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	- 2,108	
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	Empty field 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 the 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	- 7,165	
	Of which: unrealised profits on exchange rate differences	- 4,870	
	Of which: unrealised profits on capital securities	48	
	Of which: unrealised profits on debt securities issued by Central Administrations belonging to the European Union	- 2,073	
	Of which: unrealised profits on debt securities referring to issuers other than Central Administrations belonging to the European Union	- 270	
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	4,970	
	Of which: deduction of deferred tax assets which depend on future profitability and do not derive from temporary differences	4,970	
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)**	**- 33,762**	
29	**Common Equity Tier 1 capital (CET1)**	**832,234**	

	Additional Tier 1 capital (AT1): instruments		
30	Equity instruments and 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	7,309	
35	Of which: instruments issued by affiliates subject to progressive elimination	-	
36	**Additional Tier 1 capital (AT1): before regulatory adjustments**	**14,174**	
	Additional Tier 1 capital (AT1): regulatory adjustments		
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 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)	-	
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)	- 1,373	
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	-	
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)**	**- 1,373**	
44	**Additional Tier 1 capital (AT1)**	**12,801**	
45	**Tier 1 capital**	**845,035**	
	Tier 2 capital (T2): instruments and monies set aside		
46	Equity instruments and the related share premium reserves	132,354	
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 the 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	9,745	
49	Of which: instruments issued by affiliates subject to progressive elimination	-	
50	Value adjustments on receivables	-	
51	**Tier 2 (T2) capital: before regulatory adjustments**	**142,099**	
	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	3,629	
	Of which: possible filters for unrealised losses	-	
	Of which: unrealised profits on AFS securities subject additional national filter	89	
	Of which: unrealised profits on exchange rate differences subject to additional national filter	-	
	Of which: minority interests subject additional national filter	3,540	
57	**Total regulatory adjustments to Tier 2 capital (T2)**	**3,629**	
58	**Tier 2 capital (T2)**	**145,728**	
59	**Total capital (TC = T1 + T2)**	**990,763**	
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**	**8,079,684**	

	Coefficients and capital reserves		
61	Common Equity Tier 1 capital (as percentage of risk exposure value)	10.300%	
62	Tier 1 capital (as a percentage of the risk exposure value)	10.459%	
63	Total Capital (as percentage of risk exposure value)	12.262%	
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)*	2.46%	
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	5.492	
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 84.00% of the Group's Own Funds while Additional Tier 1 and Tier 2 capital make up about 1.29% and 14.71% respectively of Own Funds.
The Board of Directors of the Group holding company and the subsidiary Banca Popolare di Spoleto resolved, with effect from 1 January 2014, 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 2013.

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 headings	Accounting Data	Amounts Relevant for the purposes of Own funds
100, Shareholdings	14,806	-6,101
130, Intangible Assets of which	18,384	
- Goodwill	15,322	-14,090
- Other Intangible fixed assets	3,062	-3,055

Headings of Liabilities and Share Equity	Accounting data	Amounts Relevant for the purposes of Own Funds
30. Securities in circulation	2,798,752	
Of which subordinate liabilities counting towards Tier 2 capital	201,407	132,353
140. Valuation reserves of which, principally	27,975	
- Valuation reserves of securities available for sale	2,304	2,304
- Actuarial Profits/(losses) relating to defined benefits pension plans	-2,980	-2,980
- Special laws concerning revaluation	22,896	22,896
- Exchange rate Differences	4,870	4,870
- Parts of the valuation reserves relating to invested companies valued by reference to share equity	885	885
170. Reserves	693,201	693,201
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	5,492
210. Third party assets (+/-)	54,427	34,258
220. Period profits/(losses) (+/-)	40,601	30,597

Other elements completing description of Own Funds	Amounts relevant for the purposes of Own Funds	
Total other elements of relevance to Own Funds	13,148	(1)

Total own Funds	990,763

(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. Capital 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 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, must have 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 described by the consolidated banking group as indicated by the supervisory legislation.

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. This refers both to 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, 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), 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 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 represent, at any given time, at least 5.5% of risk weighted assets (referring to the transitional regulations applying to the 2014 accounting period);
- 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 2014, including the Capital conservation reserve of 2.5%, are thus 7% Common Equity Tier 1, 8% Tier 1 and 10.5% Total Tier.
Finally, the Supervisory Body has the power to request additional capital measures resulting from the prudential supervisory revision and evaluation process (SREP). The Bank has not received a request of this kind as at the date of approval of this document.

The new EU legislation, which came into force on 1 January 2014, 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

Regulatory Portfolio	Amount on 31.12.2014				Amount on 30.09.2014			
	Credit risk		Counterparty risk		Credit risk		Counterparty risk	
	RWA	Capital Requirement	RWA	Capital requirement	RWA	Capital requirement	RWA	Capital requirement
1. Exposures to, or guaranteed by, central administrations and central banks	190,905	15,272	-	-	169,833	13,587	1,760	141
2. Exposure to, or secured by, regional authorities or local authorities	4,346	348	-	-	4,823	386	-	-
3. Exposure to, or secured by, bodies in the public sector	6,832	547	-	-	6,479	518	1	0
4. Exposure to, or secured by, multilateral development banks	2,086	167	-	-	1,843	147	-	-
5. Exposure to, or secured by, international organisations	-	-	-	-	-	-	-	-
6. Exposure to, or secured by, supervised banks	162,946	13,036	62,937	5,035	246,041	19,683	106,772	8,542
7. Exposure to, or secured by, businesses	2,505,181	200,415	1,550	124	2,585,114	206,809	749	60
8. Retail exposure	1,893,025	151,442	9	1	1,835,308	146,825	36	3
9. Exposure secured by real estate	983,602	78,688	-	-	1,002,367	80,189	-	-
10. Exposure in state of default	905,975	72,478	-	-	871,619	69,729	339	27
11. Exposure at high risk	12,511	1,001	-	-	12,113	969	-	-
12. Exposure in form of secured bank bonds	-	-	-	-	-	-	-	-
13. Short term exposure to supervised businesses or banks	-	-	-	-	-	-	-	-
14. Exposure to undertakings for collective savings investment (UCITSs)	46,901	3,752	-	-	25,002	2,000	-	-
15. Exposure in equity instruments	86,555	6,924	-	-	90,790	7,263	-	-
16. Other exposures	297,571	23,806	2,019	162	298,560	23,885	3,082	247
17. Securitisation positions	643	51	-	-	643	51	-	-
Total standardised method	**7,099,079**	**567,926**	**66,515**	**5,321**	**7,150,535**	**572,043**	**112,740**	**9,019**

Credit and Counterparty risk	Capital requirement 31.12.2014	Capital requirement 30.09.2014
Total credit risk	567,926	572,043
Total counterparty risk	5,321	9,019
Total credit and counterparty risk	**573,248**	**581,062**

Market risk: Capital requirement

Market risk, standardised method	Capital requirement 31.12.2014	Capital requirement 30.09.2014
- Risk of debt instrument position	1,093	1,079
-Risk of equity instrument position	64	64
-Exchange rate risk	2,343	2,502
Total market risk	**3,500**	**3,645**

Operational Risk: Capital requirement

Operational Risk	Capital requirement 31.12.2014	Capital requirement 30.09.2014
Basic Method	68,680	51,004
Total operational risk	**68,680**	**51,004**

Specific risks: Capital requirement

Risk of credit adjustment value	Capital Requirement 31.12.2014	Capital Requirement 30.09.2014
Standard method	947	995
Total credit adjustment value	**947**	**995**

Capital coefficients

Supervisory coefficients	31.12.2014	30.09.2014
Common Equity Tier 1 ratio	10.300%	10.510%
Tier 1 ratio	10.459%	10.688%
Total capital ratio	12.,262%	11.972%

5. Exposure to counterparty risk (Article 439 CRR)

Qualitative information

The Group uses the standardised method applied in the calculation of the supervisory requirements in relation to credit risk to calculate the capital requirement for the same risk, (Section 2, Chapter 3 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

Financial derivatives - The supervisory trading portfolio: Notional end-of-period values and averages

Underlying assets/derivative type	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**59,537**			
a) Options	8,936			
b) Swap	50,601			
c) Forward				
d) Futures				
e) Others				
2. Equity securities and equity indices		**36**		**33**
a) Options		36		33
b) Swap				
c) Forward				
d) Futures				
e) Others				
3. Currencies and gold	**290,920**		**115,222**	
a) Options				
b) Swap				
c) Forward	290,920		115,222	
d) Futures				
e) Others				
4. Goods				
5. Other underlying assets				
Total	**350,457**	**36**	**115,222**	**33**
Average values	**88,198**	**36**	**8,774**	**33**

Financial Derivatives - Bank Portfolio: notional end-of-period values and averages

Hedges

Underlying assets/derivative type	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**139,852**		**189,217**	
a) Options	13,749			
b) Swap	126,103		189,217	
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	**139,852**		**189,217**	
Average values	**140,791**		**189,217**	

Banco Desio

Financial Derivatives - Bank portfolio: notional end-of-period values and averages

Other derivatives

Underlying assets/derivative type	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt Securities and interest rates	**68,700**		**103,700**	
a) Options	45,800		65,800	
b) Swap	22,900		37,900	
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	**3,789**			
a) Options				
b) Swap				
c) Forward	3,789			
d) Futures				
e) Others				
4. Goods				
5. Other underlying assets				
Total	**72,489**		**103,700**	
Average values	**71,304**		**103,700**	

Financial derivatives: positive gross fair value – division by product

Portfolios/derivative types	Positive Fair value			
	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	**8,352**	**36**	**497**	**33**
a) Options	49	36		33
b) Interest rate swaps	6,161			
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards	2,142		497	
f) Futures				
g) Others				
B. Bank portfolio – hedge	**8,372**		**5,052**	
a) Options	20			
b) Interest rate swaps	8,352		5,052	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Others				
C. Bank portfolio - Other derivatives	**1,488**		**1,541**	
a) Options				
b) Interest rate swaps	1,339		1,541	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards	149			
f) Futures				
g) Others				
Total	**18,212**	**36**	**7,090**	**33**

Financial derivatives: Gross negative fair value – Broken down by product

Portfolios/Derivative type	Negative Fair value			
	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	**3,146**		**480**	
a) Options	12			
b) Interest rate swaps	1,010			
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards	2,124		480	
f) Futures				
g) Others				
B. Bank portfolio - Hedges	**6,717**		**2,894**	
a) Options				
b) Interest rate swaps	6,717		2,894	
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	**9,976**		**3,374**	

"*Over the counter*" financial derivatives – Regulatory Trading portfolio: notional values, positive and negative gross fair value by counterparty *contracts not coming within set-off relationships*

Contracts not coming within set-off agreements	Governments and central banks	Other public institutions	Banks	Financial companies	Insurance companies	Non-financial businesses	Others
1. Debt securities and interest rates							
- notional value			40,096			1,615	
- positive fair value			6,146			40	
- negative fair value			1,021				
- future exposure			184			8	
2. Equity securities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
3. Currencies and gold							
- notional value			140,630	99,798		25,777	24,715
- positive fair value			614	767		580	181
- negative fair value			1,376	112		532	104
- future exposure			1,406	998		258	232
4. Other values							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

"*Over the counter*" financial derivatives – Regulatory Trading portfolio: notional values, positive and negative gross fair value per counterparty contracts counted as set-off agreements

Contracts coming within set-off agreements	Governments and central banks	Other public institutions	Banks	Financial companies	Insurance companies	Non-financial businesses	Others
1. Debts securities and interest rates							
- notional value			17,826				
- positive fair value (before set off)			24				
- negative fair value (before set-off)							
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)							

"Over the counter" Financial derivatives –Bank portfolio: notional values, positive and negative gross fair value for counterparties

Contracts not coming within set-off agreements

Contracts not coming within set-off agreements	Governments and central banks	Other public institutions	Banks	Financial companies	Insurance companies	Non-financial businesses	Others
1. Debts securities and interest rates							
- notional value			31,676				
- positive fair value			4,586				
- negative fair value			941				
- future exposure			258				
2. Equity securities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
3. Currencies and gold							
- notional value			2,553			1,235	
- positive fair value			38			111	
- negative fair value			113				
- future exposure			26			12	
4. Other values							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

"*Over the counter* " Financial derivatives – bank portfolio: notional values, Positive and negative gross fair value for counterparties

Contracts coming within set-off agreements

Contracts coming within set-off agreements	Governments and central banks	Other public institutions	Banks	Financial companies	Insurance companies	Non-financial businesses	Others
1. Debts securities and interest rates							
- notional value			176,876				
- positive fair value			5,307				
- negative fair value			5,957				
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	**310,020**	**11,550**	**11,060**	**332,630**
A.1 Financial derivatives on credit securities and interest rates	19,100	11,550	11,060	41,710
A.2 Financial derivatives on Equity securities and equity indices				
A.3 Financial derivatives on exchange rates and gold	290,920			290,920
A.4 Financial derivatives on other values				
B. Bank portfolio	**51,710**	**133,308**	**27,323**	**212,341**
B.1 Financial derivatives on debt securities and interest rates	47,921	133,308	27,323	208,552
B.2 Financial derivatives on Equity securities and equity indices				
B.3 Financial derivatives on exchange rates and gold	3,789			3,789
B.4 Financial derivatives on other values				
Total 31/12/2014	**361,730**	**144,858**	**38,383**	**544,971**
Total 31/12/2013	**279,822**	**128,317**		**408,139**

Credit derivatives: end-of-period notional values and averages

Operation Categories	Supervisory trading portfolio		Bank portfolio other contracts	
	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 31/12/2014				
Average values				
Total 31/12/2013				
2. Protective sales				
a) Credit default products	25,000			
b) Credit spread products				
c) Total rate of return swaps				
d) Others				
Total 31/12/2014	**25,000**			
Average values	**25,000**			
Total 31/12/2013	**25,000**			

"*Over the counter*" Credit derivatives: Positive gross fair value – broken down by product

Portfolios/derivative types	Positive fair value	
	31.12.2014	31.12.2013
A. Supervisory Trading portfolio	61	164
a) Credit default products	61	164
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**	**164**

"*Over the counter*" Credit derivatives: Positive and negative gross fair value by counterparty

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
Supervisory trading							
1. Protective acquisitions							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
2. Protective sales							
- notional value			25,000				
- positive fair value			61				
- negative fair value							
- future exposure			2,500				
Bank portfolio							
1. Protective acquisitions							
- notional value							
- positive fair value							
- negative fair value							
2. Protective sales							
- notional value							
- positive fair value							
- negative fair value							

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	**25,000**			**25,000**
A.1 Derivatives on loans with “qualified” "reference obligation"	25,000			25,000
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 31/12/2014	**25,000**			**25,000**
Total 31/12/2013		**25,000**		**25,000**

Regulatory Portfolio	SFT Operations	Derivative contracts and operations with long-term settlement
1. Exposure to, or secured by, central administrations or central banks	-	-
2. Exposure to, or secured by, regional administration or local authorities	-	-
3. Exposure to, or secured by, public sector bodies	-	-
4. Exposures to, or secured by multi-lateral development banks	-	-
5. Exposures to, or secured by, international organisations	-	-
6. Exposures to, or secured by supervised banks	198,366	23,370
7. Exposure to, or secured by businesses	9	1,541
8. Retail exposure	12	-
9. Exposure secured by real estate	-	-
10. Exposure in state of default	-	-
11. High-risk exposure	-	-
12. Exposure in the form of secured bank bonds	-	-
13. Short term exposure to supervised businesses or intermediaries	-	-
14. Exposure to Undertakings of Collective Investment in Transferrable Securities (UCITSs)	-	-
15. Exposure in equity instruments	-	-
16. Other exposures	165,726	-
Total	**364,113**	**24,912**

6. Value adjustments on receivables (Article 442 CRR)

Qualitative information

The following are the relevant definitions of anomalous and deteriorated receivables used in the measuring, monitoring and management of credit risk.

Positions under observation: These are the positions for which a cautionary period of observation is considered appropriate, lasting from between 6 and 12 months. The classification of a position as "under observation" may be by the Risk Trend Control area or by the Internal Audit Area, then communicating the change in the customer's classification status to the local branch. The classification proposal may be made by the Credit Area, by the Area Head or the branch itself. In general, positions are classified in this way showing one or more anomalies attributable for the most part to:

- Conduct of the relationship;
- Constant use of credit facilities up to limit or even over limits with little rotation;
- Use of inflexible facilities even though within limits, lacking adequate movements;
- Records dealing with advances characterised by high percentage of shortfall on collection, settled with difficulty;
- Operations disproportionate with respect to business volumes;
- Many bills recalled prior to maturity and replaced by bank documents of the same kind;
- Unpaid instalments;
- Problems with the business's asset, financial or income -generating situation or other elements or facts of a negative nature with a potentially negative impact on the business's asset, financial or income-generating structures to the extent that it could compromise the normal course of business;
- Other elements considered significant such as: increased drawings on "Centrale Rischi";
- Continuous tensions and exceeding Centrale Rischi limits;
- Failure to pay mortgage instalments shown in Centrale Rischi;
- Reduction of institutions reporting to Centrale Rischi without justification;
- Conflicts between company shareholders of such a nature as to negate ability to run the business;
- Reduction and/or value impairment of collateral assets following sales, prejudicial entries etc.

Commentato [R2]: foglio anticipato

Exposure to overdue/excessive or deteriorated loans: These are the positions which at the reference date have been overdue or exceeding limits for a continuous period of more than 90 days. This category of receivables includes those where the bank has monitored persistent non-performance as specified in the Bank of Italy's Circular 272 of 30 July 2008 as subsequently updated. The individual positions are classified as overdue or exceeding limits – this is different from those classified as in default and/or probable default and those which have been overdue or exceeding limits for more than 90 days at the report reference date. The individual positions which are overdue and/or exceeding limits must be determined by reference to the individual criterion of the debtor and the criterion of the individual transaction.

Forborne Exposure: The EBA (European Banking Authority) defines Forborne exposures as those benefiting from concessions (so-called forbearance measures) where the debtor is not or would not be able to fulfil its contractual commitments because of financial difficulties. The EBA makes the following distinctions in relation to "concessions":

a) An amendment of the time limits and conditions of the original contract which the debtor is unable to observe because of its financial difficulties (so-called embedded forbearance clauses). Such amendments would not be allowed if the debtor were not in financial difficulty;
b) A partial or total re-financing of a problematic debt which would not have been granted in the absence of the counterparty's financial difficulties (so-called refinancing). In other words, recourse is

had to a new loan contract defining (in whole or in part) the payment terms of an existing obligation.

The above rules include a number of cases of forbearance measures:

- An exposure in which the amended contract would be classified as non-performing in the absence of the contractual amendments;
- The contractual amendment includes the cancellation or total or partial elimination of the obligation. Such a situation results in a direct loss suffered by the Group which thus waives receipt of some or all of the amount due from the borrower, representing a direct and immediate benefit for the latter;
- The provision of the new loan makes it possible, either contemporaneously or at some time immediately after, for the borrower to fulfil a different obligation for the payment of capital and interest, deriving from another contract which has either been classified as non-performing or which would have been so classified without the new loan;
- An amendment which makes provision for the payment of the obligation through the use of the related collateral when such amendment constitutes a concession such as, for example, the agreed enforcement of a pledge or the expropriation of the value of a receivable which has been assigned with recourse.

It is moreover presumed, except when proved otherwise, that there will be a forbearance measure in the cases in which:

- The obligation governed by the contract forming the subject matter of the amendment has been affected by delays of more than 30 days at least once over the last three months without becoming non-performing, or would have experienced delays without contractual amendments;
- Contemporaneously with the granting of new credit facilities or loan, or immediately after such time, the borrower refunds either capital or interest for another obligation with the Group which had experienced delays, in whole or in part, of at least 30 days over the last three months ;
- An amendment in contractual terms is approved for borrowers who are 30 days late in the fulfilment of obligations or would have been so without such approval.

Probable default: The Bank of Italy rules define these positions as those credit exposures other than default, for which the institution considers it 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 (see, for example, an industrial sector economic crisis in which the customer operates). 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.

Default: 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 and thus to be in a state of insolvency even if not judicially declared so.
That said, the Litigation Department will classify the following as default in any case:

- Leasing loans when contracts have been declared terminated by reason of insolvency and no result is forthcoming;
- Consumer credit, when all attempts at amicable recovery have been unsuccessful and debt recovery agents have intervened without results, with the consequential decision by the Litigation Department to send letters declaring the loss of the benefit of time to pay;

- Mortgages classified as “probable default” when attempts at amicable settlement have no effect and the Risk Trends Control Area decides to remove the benefit of time to pay from the borrower;
- Loans to customers which have entered insolvency proceedings (save cases where the procedure involves a restoration of the borrower’s position with a reasonable prospect of return to solvency);
- Loans to customers entering into arrangements with creditors when the purposes of the latter are final in nature;
- Loans to customers which have already been transferred to default by other institutions and which in any case have shown themselves to be unable to deal with their commitments to the Group (so-called “”extended default”). If Group customers demonstrate solvency (to the extent that they comply with a repayment plan or pay regularly) they will not be transferred to default.

Loans a subjected to assessment on a regular basis and are classified as “performing” and “non-performing” according to the state of deterioration of the loan.
Loans are subjected to procedures designed to identify those which, following their initial registration, show objective evidence of possible value impairment.

The loans portfolio is assessed, as a minimum, at every closure of the Financial Statements or the production of an interim Balance sheet over periods of less than a year to identify and calculate any objective value impairment. This is done both by considering the specific situation of borrower solvency and the local or national economic conditions affecting the sector in which the borrower is operating.

“Performing” loans are assessed collectively, dividing them into homogeneous risk categories. Expected loss is obtained by the calculation of the probability of default by reference to risk category and to the Loss Given Default – LGD econometric, produced by the Credit Rating System model. These parameters are obtained from historical analysis -statistics relating to a series of variables capable of predicting probable future deterioration in credit quality. Expected Loss represents the estimate of latent loss at the reference date.

Specific analyses are carried out for exposures of significant value.

All loans are categorised as “non-performing” where 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 value of loans to non-resident borrowers is adjusted on a one-off basis in relation to the difficulty experienced in servicing debt in the country where they are resident.

Quantitative information

Quantitative information as at 31 December 2014 refers to the classification of existing exposures prior to the updating of the Bank of Italy rules (Circular 272). The new classification, now incorporated in the monitoring systems and described above, will be applied from the 2015 accounting period onwards.

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

Banking Group

	Default			Non-performing			Restructured		
	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)
1. Financial assets held for trading			-			-			-
2. Financial assets available for sale			-			-			-
3. Financial assets held to maturity			-			-			-
4. Bank receivables			-			-			-
5. Trade receivables	697,797	426,631	541,747	481,943	368,703	365,292	15,034	14,366	8,515
6. Financial assets valued at fair value			-			-			-
7. Financial assets in course of disposal			-			-			-
8. Hedge derivatives			-			-			-
Total 31/12/2014	**697,797**	**426,631**	**541,747**	**481,943**	**368,703**	**365,292**	**15,034**	**14,366**	**8,515**
Total 31/12/2013	**385,696**	**233,383**	**328,564**	**248,641**	**177,754**	**234,262**	**1,995**	**1,722**	**3,806**

* Obtained as annual average of data as at 31.12.13 and those as at 31.12.14

Banking group

	Overdue			Other assets			**TOTAL**		
	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)	**Gross**	**Net**	Average gross (*)
1. Financial assets held for trading	174	174	87	17,048	17,048	9,923	17,222	17,222	10,010
2. Financial assets available for sale			-	1,818,609	1,818,609	1,604,170	1,818,609	1,818,609	1,604,170
3. Financial assets held to maturity			-			90,784	-	-	90,784
4. Bank receivables			-	288,282	288,282	282,065	288,282	288,282	282,065
5. Trade receivables	49,672	44,266	49,378	8,870,386	8,812,934	7,705,464	10,114,832	9,666,900	8,670,395
6. Financial assets valued at fair value			-			-	-	-	-
7. Financial assets in course of disposal			-			-	-	-	-
8. Hedge derivatives			-	8,372	8,372	6,711	8,372	8,372	6,711
Total 31.12.2014	**49,846**	**44,440**	**49,465**	**11,002,697**	**10,945,245**	**9,699,117**	**12,247,317**	**11,799,385**	**10,664,135**
Total 31.12.2013	**49,083**	**46,272**	**49,361**	**8,395,537**	**8,351,463**	**8,195,397**	**9,080,952**	**8,810,594**	**8,811,389**

* Obtained as annual average of data as at 31.12.13 and those as at 31.12.14

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

Exposure/ geographical area	Italy			Other European countries			America		
	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure
A. Cash exposure									
A.1 Default	1,026,482	601,321	425,161	1,871	413	1,458	7		7
A.2 Non-performing	550,292	181,885	368,407	366	70	296			
A.3 Restructured exposures	16,810	2,444	14,366						
A.4 Overdue exposures	48,021	5,336	42,685	1,772	197	1,575	7	1	6
A.5 Other exposures	10,597,008	57,338	10,539,670	12,759	113	12,646	1,686	1	1,685
Total A	**12,238,613**	**848,324**	**11,390,289**	**16,768**	**793**	**15,975**	**1,700**	**2**	**1,698**
B. "off Balance sheet" exposures									
B.1 Default	2,201	86	2,115						
B.2 Non-performing	9,041	813	8,228						
B.3 Other deteriorated assets	3,012	4	3,008	31	1	30			
B.4 Other exposures	541,652	954	540,698	39		39	50		50
Total B	**555,906**	**1,857**	**554,049**	**70**	**1**	**69**	**50**		**50**
Total A+B 31/12/2014	**12,794,519**	**850,181**	**11,944,338**	**16,838**	**794**	**16,044**	**1,750**	**2**	**1,748**
Total A+B 31/12/2013	**9,026,014**	**272,110**	**8,753,904**	**63,056**	**137**	**62,919**	**612**		**612**

Exposure/ Geographical areas	Asia			Rest of world			**Total**		
	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure	Gross exposure	Adjustments	Net exposure
A. Cash exposure									
A.1 Default				149	144	5	1,028,509	601,878	426,631
A.2 Non-performing							550,658	181,955	368,703
A.3 Restructured exposures							16,810	2,444	14,366
A.4 Overdue exposures							49,800	5,534	44,266
A.5 Other exposures	253		253	1		1	10,611,707	57,452	10,554,255
Total A	**253**		**253**	**150**	**144**	**6**	**12,257,484**	**849,263**	**11,408,221**
B. "off Balance sheet" exposures									
B.1 Defaults							2,201	86	2,115
B.2 Non-performing							9,041	813	8,228
B.3 Other deteriorated assets							3,043	5	3,038
B.4 Other exposures							541,741	954	540,787
Total B							**556,026**	**1,858**	**554,168**
Total A+B 31/12/2014	**253**		**253**	**150**	**144**	**6**	**12,813,510**	**851,121**	**11,962,389**
Total A+B 31/12/2013	**148**		**148**	**2**	**1**	**1**	**9,089,832**	**272,248**	**8,817,584**

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

Exposures by Geographical areas	Italy		Other European countries		America		Asia		Rest of world		Total	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposure												
A.1 Default												
A.2 Non-performing												
A.3 Restructured exposures												
A.4 Overdue exposures												
A.5 Other exposures	292,711	292,711	76,673	76,673	1,932	1,932	1,135	1,135	405	405	372,856	372,856
Total A	**292,711**	**292,711**	**76,673**	**76,673**	**1,932**	**1,932**	**1,135**	**1,135**	**405**	**405**	**372,856**	**372,856**
B. "off Balance sheet" exposure												
B.1 Default												
B.2 Non-performing												
B.3 Other deteriorated assets												
B.4 Other exposures	45,917	45,917	3,300	3,300					281	281	49,498	49,498
Total B	**45,917**	**45,917**	**3,300**	**3,300**					**281**	**281**	**49,498**	**49,498**
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**
Total A+B 31/12/2013	**276,980**	**275,839**	**95,778**	**95,778**	**708**	**708**	**600**	**600**	**958**	**958**	**375,024**	**373,883**

Distribution of deteriorated exposures and value adjustments by economic sector

	Governments and central banks				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		
A.2 Non-performing					352	264		88
A.3 Restructured exposures								
A.4 Overdue exposures					10	1		9
A.5 Other exposures	1,765,269			1,765,269	10,622		339	10,283
Total A	**1,765,269**			**1,765,269**	**10,987**	**268**	**339**	**10,380**
B. "off Balance sheet" exposures								
B.1 Default								
B.2 Non-performing								
B.3 Other deteriorated assets								
B.4 Other exposures	25,177			25,177	18,274			18,274
Total B	**25,177**			**25,177**	**18,274**			**18,274**
Total A+B 31/12/2014	**1,790,446**			**1,790,446**	**29,261**	**268**	**339**	**28,654**
Total A+B 31/12/2013	**1,509,907**			**1,509,907**				

	Financial companies				Insurance businesses			
	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	1,027,539	601,368		426,171				
A.2 Non-performing	891	283		608				
A.3 Restructured exposures								
A.4 Overdue exposures								
A.5 Other exposures	347,999		905	347,094	5,103		3	5,100
Total A	**1,376,429**	**601,651**	905	**773,873**	**5,103**		**3**	**5,100**
B. "off Balance sheet" exposures								
B.1 Default								
B.2 Non-performing								
B.3 Other deteriorated assets								
B.4 Other exposures	7,771		17	7,754	983		7	976
Total B	**7,771**		**17**	**7,754**	**983**		**7**	**976**
Total A-B 31/12/2014	**1,384,200**	**601,651**	**922**	**781,627**	**6,086**		**10**	**6,076**
Total A+B 31/12/2013	**214,477**	**373**	**405**	**213,699**	**28,580**		**9**	**28,571**

	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					967	507		460	1,028,509	601,878		426,631
A.2 Non-performing	423,964	141,348		282,6,6	125,451	40,060		85,39	550,658	181,955		368,703
A.3 Restructured exposures	16,810	2,444		14,366					6,810	2,444		14,366
A.4 Overdue exposures	38,945	4,437		34,508	10,845	1,096		9,749	49,800	5,534		44,266
A.5 Other exposures	5,604,341		48,708	5,555,633	2,878,372		7,496	2,870,876	10,6,.706		57,451	10,5,54,255
Total A	**6,084,060**	**148,229**	**48,708**	**5,807,123**	**3,015,635**	**41,663**	**7,496**	**2,966,476**	**12,257,483**	**79-,811**	**57,451**	**11,408,221**
B. "off Balance sheet" exposures												
B.1 Default	2,108	41		2,067	94	45		49	2,202	86		2,116
B.2 Non-performing	8,540	738		7,802	500	75		425	9,340	813		8,227
B.3 Other deteriorated assets	2,437	3		2,434	605	1		604	3,042	4		3,038
B.4 Other exposures	380,480		897	379,583	109,056		33	109,023	541,741		954	540,787
Total B	**393,565**	**782**	**897**	**391,886**	**110,255**	**121**	**33**	**110,101**	**556,025**	**903**	**954**	**554,168**
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**
Total A+B 31/12/2013	**5,087,054**	**180,938**	**40,046**	**4,866,070**	**2,249,814**	**45,376**	**5,101**	**2,199,337**	**9,089,832**	**226,687**	**45,561**	**8,817,584**

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	**2,050,656**	**252,410**	**73,829**	**348,656**	**872,063**	**436,382**	**802,544**	**4,376,307**	**2,792,026**	**81,316**
A.1 Government bonds	3		281		4,106	7,013	167,576	1,286,501	253,612	
A.2 Debt securities and others	99		7,542	313	3,884	36,817	22,116	73,264	10,181	
A.3 UCITS units	46,247									
A.4 Loans	2,004,307	252,410	66,006	348,343	864,073	392,552	612,852	3,016,542	2,528,233	81,316
- Banks	100,735	29,486		10,000	18,594					81,316
- Customers	1,903,572	222,924	66,006	338,343	845,479	392,552	612,852	3,016,542	2,528,233	
Cash liabilities	**6,624,615**	**162,857**	**91,416**	**481,680**	**637,693**	**447,016**	**686,942**	**2,085,265**	**96,997**	
B.1 Current accounts and deposits	6,580,604	54,276	52,587	78,718	240,677	143,446	152,466	16,317		
- Banks	73,710	8,750	6,751		3					
- customers	6,506,894	45,526	45,836	78,718	240,674	143,446	152,466	16,317		
B.2 Debt securities	18,638	15,521	38,829	142,642	237,433	297,156	528,747	1,486,188	75,648	
B.3 Other liabilities	25,373	93,060		260,320	159,583	6,414	5,729	582,760	21,349	
"Off Balance sheet" operations										
C.1 Financial derivatives with capital swap										
- Long positions		13,224	2,451	251,095	10,409	15,442	16,527	3,479	20	
- Short positions		13,518	2,450	251,071	10,405	15,254	16,510	3,393	12	
C.2 Financial derivatives without capital swap										
- Long Positions	6,210			671	3,812	1,657	5,118	3,132	2,436	
- Short positions	997			8,248	6,431	400	658			
C.3 Deposits and loans yet to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments for the payment of funds										
- Long positions	997	11,646	44	64	259	2,084	370	10,935	3,008	
- Short positions	97,590	11,646								
C.5 Issued financial security	95				28	50	207	4,001		
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	Non-performing	Restructured exposures	Deteriorated overdue exposures
A. Overall initial adjustments	**152,393**	**70,889**	**273**	**2,810**
- Of which: non-cancelled assigned exposures				
B. Positive variations	**159,157**	**92,579**	**734**	**5,426**
B1. Value adjustments	115,915	91,373	137	5,210
B.1 bis Losses from assignment	1,694			
B.2 Transfers from other deterioration categories	40,567	1,019	597	190
B.3 Other positive variations	981	187		26
C. Negative variations	**40,384**	**50,227**	**339**	**2,830**
C.1 Value recovery from valuation	11,738	5,522	333	883
C.2 Value recovery from receipt	3,389	3,805	6	449
C.2 bis Profits from assignment	61			
C.3 Cancellations	23,502	25		
C.4 Transfer to other exposure deterioration categories		40,875		1,498
C.5 Other negative variations	1,694			
D. Final overall adjustments	**271,166**	**113,240**	**668**	**5,406**
- of which: non-cancelled exposures	2,420	2,105		94

7. 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**	**-1,580,597**		**-10,983,075**	
020	At sight loans	0	0	0	0
030	Equity securities	0	0	-60,856	-60,856
040	Debt securities	-1,209,875	-1,209,938	-682,111	-681,985
100	Loans other than At sight loans	-370,722		-9,518,366	
120	Other assets	0		-721,741	

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**	**-222.774**	**-387.768**	**-550.056**
140	At sight loans	0	0	0
150	Equity securities	0	0	-69.416
160	Debt securities	-222.774	-325.879	-354.876
220	Loans other than At sight loans		-61.889	-81.353
230	Other collateral received	0	0	-44.411
240	**Debt securities issued other than Covered bonds and ABSs**	**-14.631**	**-31.859**	**0**

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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**	**1,095,129**	**-953,825**
020	Derivatives	0	0
040	Deposits	1,095,129	-953,825
090	Issued debt securities	0	0
120	**Other sources of encumbrance**	**0**	**-56,872**
130	Nominal value of commitments received	0	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	-56,872
170	**Total sources of encumbrance**	**1,095,129**	**-1,010,697**

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
Exposure to, or secured by central administrations and central banks		**2,096,024**	**2,160,646**
	- 0%	1,915,570	1,979,572
	- 20%	-	400
	- 50%	-	15
	- 100%	173,579	173,784
	- 150%	150	150
	- 250%	6,725	6,725
Exposure to, or secured by regional administrations or local authorities		**20,180**	**34,966**
	- 20%	20,180	34,966
Exposure to, or secured by public sector bodies		**8,532**	**8,532**
	- 100%	8,532	8,532
Exposure to, or secured by multilateral development banks		**-**	**10,905**
	- 20%	-	10,905
Exposure to, or secured by international bodies		**-**	**2,098**
	- 0%	-	2,098
Exposure to, or secured by supervised banks		**816,887**	**673,816**
	- 0%	-	10,671
	- 20%	666,476	511,420
	- 50%	19,039	19,264
	- 100%	131,372	132,461
Exposure to, or secured by businesses		**3,917,175**	**3,814,038**
	- 50%	520	569
	- 70%	-	36,915
	- 100%	3,916,655	3,776,553
	- 150%	0	0
Exposure to retail customers		**4,951,923**	**4,770,198**
	- 75%	4,951,923	4,770,198
Exposures secured by real estate		**2,745,530**	**2,745,530**
	- 35%	1,944,304	1,944,304
	- 50%	801,226	801,226
Exposures in state of default		**928,113**	**918,906**
	- 100%	749,163	746,574
	- 150%	178,949	172,331
High risk exposures		**8,340**	**8,340**
	- 150%	8,340	8,340
Exposures in the form of covered bank bonds		**-**	**-**
Short-term exposures to supervised businesses or banks		**-**	**-**
Exposures to Undertakings for Collective Investment in Transferrable Securities (UCITSs)		**47,681**	**47,708**
	- 100%	47,681	47,708
Exposures to equity instruments		**64,517**	**65,029**
	- 100%	56,098	56,610
	- 250%	1,003	1,003
	- 370%	7,416	7,416
Other Exposures		**429,481**	**773,673**
	- 0%	62,829	390,203
	- 10%	-	815
	- 20%	83,999	100,001
	- 75%	12,946	12,946
	- 100%	269,393	269,393
	- 150%	314	314
Total credit and counterparty risk		**16,034,383**	**16,034,383**

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. Under this method the capital requirement to counteract operational risk is measured by applying the regulatory coefficient of 15% to the average of the last three observations, on an annual basis, of an indicator of the volume of business activity, identified in accordance with the definition of Article 316 of EU Regulation 575/2013.

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 use 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	140	14,068	140	14,068	140	x	10		(200)	397
- UCITS units	40,270	4,872	40,270	4,872	40,270	x	(24)		849	(1,102)

Exposures in equity instruments: Shareholdings (Euro/000)

Exposure in equity instruments	Balance sheet value	Fair Value	Revaluations/write downs	Profits/losses from realisation	Amount of Impairment deducted from own funds
A. Businesses valued at Share equity	14,806		1,061		6,100
A.1 Subject to joint control					
A.2 Subject to significant influence	14,806		1,061		6,100
Total	**14,806**		**1,061**		**6,100**

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.
From the perspective of a prudent and active management of the risks associated with business operations, the Group only effects hedges of the Fair Value Hedge type and solely for the Italian banking components of the Group in order to protect the Income Statement from risks deriving from adverse variations in fair value. The objective of a hedge is that of setting off changes in fair value of the hedged instrument with the changes in fair value of the hedging 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.
The Group has not carried out any hedges of financial flows.

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 2014 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 31.12.2014

	+100 bp	*-100 bp*
% on expected margin	*3.74%*	*-12.67%*
% on banking margin	*2.53%*	*-8.56%*
% on period results	*18.31%*	*-61.96%*
% on Share equity	*0.84%*	*-2.84%*

13. Exposure to securitisation positions (Article 449 CRR)

Qualitative Information

Third party securitisation operations

As at 31 December 2014, the Group holds senior notes for third party securitisation amounting to €643 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 assigned receivables as at 31.12.2014: €18,051 thousand

The securitisation operation was carried out in 2003 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 individual Financial Statements of the Originator Bank (the Banca Popolare di Spoleto) the receivables concerned were deleted from the Financial Statements given that the Bank took advantage of the option provided for in IFRS-1 relating to securitisation operations concluded before 1 January 2004.
In the context of the above operation the 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. As part of the structuring of the Group consolidated financial situation, the above subordinate receivables were deleted in the context of the consolidation of the SPV's separate assets.
On 31.12.2014 the SVP refunded 99.11% of the senior notes. The notes which had been issued originally and the refunds paid from time to time, have been summarised below:

Class A1: €47,618 thousand – Refunded in full
Class A2: €144,920 thousand – €1,707 thousand remained as at 31.12.2014
Class B: €7,246 thousand – remains to be refunded in full
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 the bank 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).

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. An periodic assessment of the recoverability of the receivable is carried out for the purposes of the drawing up of the Originator Bank's individual Financial Statements on the basis of a financial model to estimate expected cash flows. The receivable is recorded in the individual Financial Statements of the Banca Popolare di Spoleto at a value of €3,895 thousand.

Please note that on 18 December 2014 the Board of Directors of Banca Popolare di Spoleto resolved on the early closure of the securitisation operation to be completed in operational terms in the 2015 accounting period .

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 31.12.2014: €332,903 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 – €217,979 thousand remained as at 31.12.2014
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 notes bearers	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

	Cash exposure					
	Senior		Mezzanine		Junior	
Quality of underlying assets/exposures	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	**643**	**643**				
a) Deteriorated						
b) Others	643	643				

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

Type of Asset	Cash exposure					
	Senior		Mezzanine		Junior	
Securitised/exposure	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	-

Banking Group – exposures deriving from the main "third party" securitisation operations broken down by reference to type of asset securitised and type of exposure

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	643					

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	**18.051**	
A.1 Subject to full derecognition		
1. Default		
2. Non-performing		
3. Restructured exposures		
4. Overdue exposures		
5. Other assets		
A.2 Subject to partial derecognition		
1. Default		
2. Non-performing		
3. Restructured exposures		
4. Overdue exposures		
5. Other assets		
A.3 Not derecognised	18.051	
1. Default	1,887	
2. Non-performing	633	
3. Restructured exposures		
4. Overdue exposures	454	
5. Other assets	15,077	
B. Third party underlying assets		
B.1 Default		
B.2 Non-performing		
B.3 Restructured exposures		
B.4 Overdue exposures		
B.5 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 whom 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 voted on having obtained the opinion of the Remuneration Committee.
The Group holding company CEO

The CEO:
Co-ordinates the related activities of the functions reporting to him or her as shown in the business organisational diagram.
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 confidence, 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 gates have been met and, on confirmation that individual company gates have been achieved, they set 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 Appointments Committee ("C.N.") with competence in the area of appointments

- A Remuneration Committee ("C.R.") with competence in the area of 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 business relating to him or her).

The Appointments Committee

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 same 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[5], as also in relation to the following subjects:
  - The consideration of the maximum number of directorships or offices of Statutory auditor which can be held compatible with an 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.

The Remuneration Committee

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;

[5] 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[6], 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.

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

The Group holding company's Operational Functions involved in the process

The Planning, management control and Shareholdings Management

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.

Resource 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 also carries out functions analogous to those of an outsourcer for the 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 the 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 18/11/2014.

At its meeting of 24 February, 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 positions	no.	Of whom beneficiaries of the incentive system
Directors	27	1
General Manager, Deputy General Manager	5	5
Other Risk Takers	13	13
Staff belonging to the control function	10	10
Total Most Important Staff	55	29

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:

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

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

Other Most Important Staff

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

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

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**
  This component rewards annual performance in relation to the targets assigned and results achieved and 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 variable component 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 with executive positions, General Managers and Deputy General Managers (where appointed)	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[7]) 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.

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.

[7] "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.

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 amount of liquidity reserves must be adequate with reference to the risk tolerance threshold: Liquidity Reserve ≥ **€900 million**
  The liquidity reserve adequacy gate is set in relation to the liquidity risk tolerance threshold and is defined, with reference to both content and criteria, by the "Risk appetite and business risk management policy", as the maximum risk exposure considered sustainable in the context of the normal course of business (going concern) over a time period of three months supplemented by stress scenarios over a time period of one month;

- **Capital target**: total internal capital necessary to cover prudential requirements of the first and second pillars: Own Funds/ **RWA**[8] taking into consideration the first and second pillar risks ≥ **10.5%**

- **Profitability target:** Adjusted current Group results gross of tax:
  Adjusted consolidated profits of current operations gross of tax[9] **≥ 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**.**

[8] **Risk Weighted Assets** determined as follows: **Total risk-adjusted capital of the 1st or 2nd pillar / 8%**

[9] **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;

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.**
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 profitability target for subsidiary companies in terms of ratio between adjusted individual Pre-tax profits from current operations ≥ 75% of the adjusted pre-tax profits from current operations of 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 as laid down in paragraph 3.2.1 in the following table;

	Directors with executive office, General Managers, Deputy General Managers (where appointed)	**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 returns on risk-adjusted capital (consolidated RORAC);
- The target ratio of individual Results 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 functions - Risk Takers and the managers of the control functions – relating to the achievement of the qualitative targets identified on the basis of the mission and the functions attributed to each position on the business 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 25%) 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:

Bonus deferment system for those accrued in the "t" accounting period

- 40% of the bonus during the period "t+1" paid the month following the approval of the Consolidated Financial Statements of the period "t";
- 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%** Subject to confirmation of gates for period t+1: - Capital - Liquidity Consolidated RORAC t+1 ≥ 80% of consolidated RORAC t **Payment of bonus** *Adjusted for changes in share price between t+1 and t+2 with a corridor of +/- 20%.*	**30%** Subject to confirmation of gates for period t+2: - Capital - Liquidity Consolidated RORAC t+2 ≥ 80% of consolidated RORAC t+1 **Payment of bonus** *Adjusted for changes in share price between t+1 and t+3with a corridor of +/- 20%.*

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

- 30% in the "t +2": following confirmation of the liquidity and capital gates for the "t+1" period, that consolidated RORAC for the "t+1" period is at least equal to 80% of the consolidated RORAC for the "t" period and the individual RORAC for the "t+1" period is at least equal to 80% of the 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 confirmation of the liquidity and capital gates for the "t+2" period and that the adjusted consolidated pre-tax returns for current operations for the"t+2" period are not negative, to be paid by the end of the month following the date of approval of the Financial Statements for the "t+2" period;

t	t+1	t+2	t+3
Accounting period when bonus accrues	**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 gates for t+2 period: - 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.
The Group General Manager is the only employee whose employment contract makes provision, in the event of unjustified dismissal by the business, for the replacement of the Payments set out in Articles 30, 31 and 32 of the National Collective Employment Contract, with severance pay calculated on the basis of a pre-set number of months pay, each being one thirteenth of the gross annual remuneration, equal to the difference between the number of monthly instalments that may be actually due by way of notice and 24. This contract will be appropriately adapted, based on the criteria and payment procedures described above, to the terms laid down in the transitional provisions of the 7th update of Circular no. 285 of 18 November 2014.

No provision has been made for discretional pension benefits.

In 2014, 4 members of staff identified as important staff terminated their employment with Banco di Desio, with total Payments of €227,385.63 being made by way of severance pay for employed staff. None of the individual contracts made provision for the payment of additional monies relating to the early termination of the employment relationship or of the term of office. In one case, prior to the publication of the 7th update of Circular 285, the payment of €100,000 was agreed as part of the consensual termination of the relationship in consideration of the waiving by both sides of the obligation for advance notice and pay in lieu of notice. Thus no payment was made over and above that provided for in terms of the contract and the National Collective Employment Contract.

We would also note that, following the re-organisation of the Group management over the first months of 2014, one manager, no longer identified as one of the important staff category, resigned to be able to take advantage of the redundancy fund. A conciliated settlement agreement was reached with the manager concerned prior to the publication of the 7th update to Circular285, for the payment of €120,000 in the context of an agreement against competition. The related employment actually terminated in 2015.

Over 2014 5 managers ceased their employment with the Banca Popolare di Spoleto, three of whom were re-employed in Group companies. Payments were made to these staff members as part of their termination packages by way of severance pay for employed staff, of a total amount of €360,754.42.

Over 2014 a payment was agreed following negotiations involving the Territorial Employment Management and paid to an ex-manager with strategic responsibilities, included as one of the 5 managers indicated above. The amount was agreed prior to the accounting period running from 1 August 2014 to 31 December 2014 and thus referring to, and attributed to, the period of the Financial Statements drawn up under the receivership management.
It should also be noted that a conciliated settlement agreement was reached with another manager over the BPS accounting period from 1 August 2014 to 31 December 2014, as part of the agreed employment termination package involving the payment of €170,000 in addition to the legal entitlement to severance pay. The termination of the employment relationship took effect on 31 January 2015.

Quantitative Information

It should be noted by way of introduction that there was no Incentive Plan applicable to the Banca Popolare di Spoleto over the 2014 accounting period given the fact that it was under extraordinary receivership. Furthermore, BPS's capital and financial situation did not in any case permit the payment of variable pay, either as individual incentives or as a company bonus. Subject to the above we have set out the variable pay entitlement accruing to the category of Most important Staff of the Group for the 2014 accounting period.

Incentive Plan for the Banco Desio Group Management

The Group's final figures for the 2014 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 control function 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 Fides and Banco Desio Lazio (referring to the data from the merger Financial Statements as at 30/9/2014) achieved levels leading to the activation of the incentive scheme for those identified as their most important staff as well.

2011 - 2013 Stock Grant Plan

With reference to the 2011-2013 Stock Grant Plan, it was possible to use the figures of the 2014 Consolidated Financial Statements to establish whether the conditions for the award of stock related to the second assignment cycle based on the three-year performance period 2012-2014 had been satisfied. Although the three-year liquidity and capital gate conditions had been satisfied for the three-year performance period for 2012-2014, the ratio between the accumulated adjusted consolidated results and the related budget was below the minimum level allowed by the Regulation for the assignment of stock. Given that there was no entitlement arising from the second cycle, it only remains to check the conditions for the assignment of shares in relation to the third and last assignment cycle linked to the performance period 2013-2015.

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

Remuneration of Most Important Staff for 2014

Category	No. of staff	Fixed pay	Variable pay in cash	Stock Grant(1)	Variable pay in cash and Stock Grant
CEO	1	666,664	333,332	23,561	356,893
General Manager + Deputy General Manager	3	980,637	490,319	-	490,319
Risk Takers	6	981,000	343,350	17,081	360,431
Directors, General Managers + Deputy General Managers of subsidiaries	3	504,500	176,575	6,479	183,054
Control functions	6	780,000	140,025	5,301	145,326
Total	*19*	3,912,801	1,483,601	52,422	1,536,023

(1) Stock Grants are either valued at fair value at the moment of the assignment as required by the Plan Regulation, or at cost at the time of allocation where, in the latter case, it is not a guaranteed entitlement for the beneficiary in that subject to the achievement of the reference cycle targets.

In the case of staff who worked with more than one group company, the figure shown is their total annual pay.

Deferral of cash component

Category	Deferred variable pay accruing 2014 period	Deferred variable pay deriving from previous periods	Deferred variable pay to be confirmed for subsequent periods
CEO	199,999	-	-
General Managers + Deputy General Managers	294,191	-	-
Risk Takers	206,010	-	-
Control functions	84,015	-	-
Directors, General Managers + Deputy General Managers of subsidiaries	105,945	-	-
Total	890,160	-	-

Pay mix

Category	Fixed pay (cash)	Non-deferred variable pay	Deferred variable pay	Deferred variable pay (Stock grant)	Proportion of variable as against fixed pay
CEO	65.13%	13.03%	19.54%	2.30%	53.53%
General Manager + Deputy General Manager	66.67%	13.33%	20.00%	0.00%	50.00%
Risk Takers	73.13%	10.24%	15.36%	1.27%	36.74%
Directors. General Managers + Deputy General Managers of subsidiaries	73.38%	10.27%	15.41%	0.94%	36.28%
Control functions	84.29%	6.05%	9.08%	0.57%	18.63%

The Appointments and Remuneration Committee met seven times over 2014 with the main item of discussion being the implementation and adaptation of remuneration policies described in the report under consideration. It also produced an opinion dealing with its area of competence with regard to proposals concerning company positions within the Group as a whole;

Over the 2014 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 2014 accounting period.

15. 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				
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	155,224			
7. Exposures to, or secured by, businesses	100,951	39,408		
8. Exposures to retail customers	144,054	37,671		369,617
9. Exposures secured by real estate collateral			1,944,304	431,609
10. Exposures in state of default	6,950	2,257		
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	**407,180**	**79,336**	**1,944,304**	**801,226**

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 2014" corresponds to the documentary records, books and accounting records.

Mauro Colombo

Manager responsible for the drafting of accounting and company documents