



2015 Pillar 3



**Disclosure Report
as at 31 December 2015
Bipiemme Group**



**Banca Popolare
di Milano**

Disclosure to the public

Pillar 3



Banca Popolare di Milano

Co-operative Bank founded in 1865

Parent Company of the BPM - Banca Popolare di Milano - Banking Group

Share capital at 31.12.2015: Euro 3,365,439,319.02

Milan Companies Register No. 00715120150

Enrolled on the National Register of Co-operative Companies No. A109641

Registered office and Operational Headquarters:

Milano - Piazza F. Meda, 4

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Member of the Interbank Guarantee Fund

Registered Bank and Parent Company of the

BPM Banking Group - Banca Popolare di Milano - Registered Banking Group

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Introduction

The new harmonised rules for banks and investment firms contained in (EU) Regulation No. 575/2013 (hereinafter “**CRR**” or the “**Regulation**”) and Directive 2013/36/EU (hereinafter “**CRD IV**” or the “**Directive**”) of 26 June 2013 are applicable from 1 January 2014; they transpose the standards defined by the Basel Committee on Banking Supervision (the so-called “Basel 3 Framework”) into the European Union.

The Regulation (CRR) is directly applicable in the national legal systems, without the need for transposition, and constitutes the so-called “Single Rulebook”; the rules contained in the Directive (CRD IV), on the other hand, have to be transposed into the sources of national law.

In order to implement and facilitate the implementation of the new guidelines, as well as to achieve an overall revision and simplification of the rules for banks, on 19 December 2013 the Bank of Italy issued Circular 285 “Provisions for the prudential supervision of banks” (the “**Circular**”) which:

- i. incorporates the provisions of CRD IV, implementation of which is the responsibility of the Bank of Italy under the Consolidated Banking Act;
- ii. indicates the manner in which the discretionary decisions granted by the EU framework to the national authorities were exercised;
- iii. outlines a comprehensive regulatory framework that is organic, rational and integrated with the directly applicable EU provisions, in order to facilitate its use by the operators.

In this context, the capital adequacy framework is based always on the so-called “Three Pillars”:

- the **First Pillar** has been strengthened by means of a more harmonised definition of capital and higher capital requirements; in fact, in addition to capital requirements for credit risk, counterparty risk, market risk and operational risk, a leverage limit has been introduced. There are also new requirements and a new system for liquidity risk monitoring, focused on a short term liquidity requirement (Liquidity Coverage Ratio – LCR) and on a longer term structural balance (Net Stable Funding Ratio – NSFR);
- the **Second Pillar** requires banks to adopt a strategy and a control process for capital adequacy, both current and prospective, while the Supervisory Authority is responsible for checking the reliability, consistency and fairness of results and for taking appropriate corrective measures, if necessary. Increasing importance is placed on the corporate governance structure and the internal control system of intermediaries as a decisive factor for the stability of individual institutions and the financial system as a whole;
- the **Third Pillar** concerns the provision of information to the general public and the rules for the diffusion of transparent and standardised information to the market on capital adequacy and risks. It has been revised to introduce, among other things, transparency requirements for exposure to securitisations, more information on the composition of regulatory capital and on the methods used by the Bank to calculate capital ratios.

With regard to public disclosures, for the purpose of the identification of the information to be included, chapter 13 of Part Two of Circular 285 makes reference to Part Eight (art. 431 – 455) and Part Ten, Title I, Section 3 (art. 492) of the Regulation.

1. Risk management objectives and policies (art. 435 CRR)

Introduction

In light of the new organisational structure implemented by the Management Board in the third quarter of 2015, the monitoring and control of risk is delegated to the the Parent Company's Chief Risk Officer (CRO) function who, through the organisational units reporting to it, oversees risk management at Group level, ensuring the development and continuous improvement of methodologies and models used in risk measurement. The CRO Function includes the Risk Management and Capital Adequacy, Validation units, which are both continuing the activities performed at the end of 2014, while Regulatory Relationship and Risk Control are new. For more details, reference can be made to paragraph 1.1 "Organisation of the Chief Risk Officer function".

Art 435
para. 1,
a) and c)

In particular, *Risk Management & Capital Adequacy* cooperates in the the formulation and implementation of the Risk Appetite Framework ("RAF"), the ICAAP and ILAAP Reports, the Recovery Plan and related risk governance policies through an adequate risk management process, through the identification, measurement or assessment, monitoring, prevention or mitigation and communication of the risks to which the Group is, or might be, exposed. In addition, it ensures First and Second Pillar capital adequacy as well as liquidity adequacy.

To this end, the Parent Company:

- ensures that the same methods, measurement criteria and control tools are used throughout the Group and that they are suitable for the type and size of the risks being assumed;
- involves the directors and officers of the subsidiaries in the decisions made concerning risk management procedures and policies;
- performs a periodic assessment of the Group's risk profile (risk actually taken by the Group as measured at a given time) through Risk Management & Capital Adequacy and compares it with the limits set within the RAF.

The **Group Risk Committee** is intended to support directors and officers in achieving integrated management of the individual types of risks to which the Group and its individual components exposed. The Risk Committee has the following tasks, among others:

- to review and validate in advance strategies and policies for the integrated management of the Group's risk;
- to define the criteria to be followed and activities to be carried out to maintain control over risk measurement and management and its adequacy on an ongoing basis;
- to provide guidance on and coordinate the main risk management actions, taking the lead in the presence of events of great impact and significance, with implications of a reputational nature;
- to define the Risk Appetite Framework;
- to ensure compliance with the guidelines and policies of Supervision Authorities, including the outcome of the Regulator's evaluation ("SREP");
- to facilitate the development and application of specific indicators capable of detecting anomalies and inefficiencies of risk measurement and control models;
- to receive periodic reports by the competent function on the opinions rendered in relation to larger transactions and their details;
- to implement the ILAAP processes and the guidelines of the Management Board on the ICAAP processes, ensuring that both are in keeping with strategic guidelines;
- to prepare the Recovery Plan and to act in accordance with the resolutions of the Board of Directors;
- to monitor on a continuing basis the evolution of business risks and compliance with the limits on the various types of risk that can be taken;
- to ensure consistency between the risk management process, risk appetite and risk management policies, in view of the Group's internal and external conditions;
- to plan and/or request, as the case may be, any actions necessary to eliminate deficiencies in the processes involving, from time to time, the Committee's role;
- to facilitate the development and dissemination at all levels of an integrated risk culture in relation to the various types of risk, extended to the whole of the Bipiemme Group.

Lastly, in case internal risk measurement systems should be used to determine capital requirements, the Group Risk Committee is responsible for the creation and functioning of the system to be implemented.

In November 2014 BPM's Management Board established a **Risk Committee** in compliance with the Bank of Italy Circular no. 285, with functions of strategic supervision of risk and of the internal control system.

The Risk Committee:

- identifies and proposes, assisted by the Nominations Committee (where this has been set up as part of the Management Board), the heads of internal corporate control functions to be appointed;
- performs a prior review of the work plan (comprising the audit plan) and the reports of the corporate control functions addressed to the Management Board;
- assesses and issues opinions to the Management Board on compliance with the principles on which the internal control system and the corporate organisation are based and the requirements that the corporate control functions must meet, bringing to the attention of the Management Board any weaknesses and any corrective measures to be employed; to this end, it evaluates the Managing Director's proposals;
- contributes, by means of assessments and opinions, to the definition of corporate policy on the outsourcing of corporate control functions;
- verifies that the corporate control functions correctly comply with the indications and guidelines of the Management Board and assists the latter with the preparation of the coordination document;
- assesses the correct application of accounting policies in the preparation of separate and consolidated financial statements, and, to this end, coordinates its work with the Financial Reporting Manager and the Supervisory Board;
- reports to the Management Board, at least every six months, upon approval of the annual and six-monthly report, on the work performed, as well as on the adequacy of the internal control and risk management system;
- may request the Internal Audit function to audit specific operational areas, communicating coherently, the Chairman of the Supervisory Board on such notification.

With particular reference to its duties concerning risk management and control, the Committee provides support to the Management Board:

- in the definition and approval of strategic policies and risk governance policies. As regards the Risk Appetite Framework, the Committee acts in an advisory capacity and makes recommendations to enable the Management Board to define and approve the risk objectives and limits;
- in checking the correct implementation of strategies, of risk governance policies and of the RAF and of its consistency with the business model, the strategic plan, the ICAAP process, the budget, the corporate organisation and the internal control system;
- in the definition of policies and procedures for assessing operating activities, including checking that the price and conditions of operations with customers are consistent with the business model and risk strategies.

The Committee has adequate instruments to carry on its duties with information flows provided by the relevant structures of the Bank. The committee also identifies all the further information flows that need to be assessed in terms of risks (type, subject, format, frequency etc.).

The Bank's internal control system (hereinafter "ICS") reflects an articulated, systemic vision, which sets out the general principles that are designed to ensure the correct and effective management of the systems to be checked for risks, defining, in particular, how they function and the guidelines for the monitoring and coordination of the Group companies' control activities.

The Internal control system consists of a set of rules, procedures and organisational structures designed in accordance with sound and prudent management principles to:

- check the implementation of corporate policies and strategies;
- keep risk levels within the propensity limits set by the RAF;
- protect the value of company assets and the company from any losses;
- ensure the effectiveness and efficiency of corporate processes;
- guarantee the reliability and security of corporate information and IT procedures;

- prevent the risk that the Group might be involved, involuntarily as well, in illegal activities (particularly money laundering, usury and terrorist financing);
- ensure compliance of transactions with the applicable laws and supervisory regulations as well as with internal policies, rules and procedures.

As part of a more general process of value creation for the Group, the correct functioning, formalisation and updating of the Organisational Model for the ICS are also essential conditions for the maintenance of this process, given that the methods for carrying out business processes always have to be suitably aligned with the processes of governance and control.

This Model constitutes a point of reference for a common, standard approach on the part of the entire Group, which presumes widespread knowledge of its contents, complete awareness of the underlying assumptions and common acceptance of the values on which it is based.

The Parent Company also fosters the development of a suitable risk corporate culture also based on customer assistance, providing them with adequate information also regarding complaints and matters that need reporting. This is above all a means of protection for the clientele, while also supplementing the Group's own system of internal control.

Based on the relevant generally accepted principles, on the Supervisory Regulations of the Bank of Italy and on the Corporate Governance Code of Borsa Italiana S.p.A. it is possible to affirm that the Internal control system consists of a set of rules, procedures and organisational structures that, through a suitable process of identification, permits:

- the measurement, management and monitoring of the risks to which the Group is or might be exposed;
- sound and proper management, consistent with the objectives set by the Group's governance bodies;
- the safeguarding of the company's assets and the efficiency and effectiveness of its operations, the reliability of the financial reporting process and compliance with all laws and regulations.

The adequacy, efficacy and effective functioning of the System of Internal Control are assessed, according to their respective areas of competence, by:

- the Management Board of the Parent Company, which is responsible for risk management and internal controls in accordance with art. 39, paragraph 2.d of the Articles of Association, without prejudice to the powers and duties of the Supervisory Board;
- the Managing Director of the Parent Company, who has been assigned the power to promote integrated risk management (art. 45, paragraph 2.m, of the Articles of Association);
- the Supervisory Board of the Parent Company, which is responsible for the assessment of the level of efficiency and adequacy of the Internal Control System, with particular regard to risk control, the internal audit function and the accounting and reporting system; it also checks that the Bank properly performs its strategic and management control activities over the other Group companies (art. 51.e of the Articles of Association);
- the Parent Company's Internal Control and Audit Committee is the means by which the Supervisory Board carries out its control functions and the Committee has to respond to it with up-to-date and timely information;
- the Parent Company's Internal Audit Department, which carries out audit activities, Compliance, which is tasked with the duty of ensuring Bank's compliance with the laws, and the Chief Risk Officer, who is responsible at Group level for the monitoring of risk and the implementation of processes to ensure risk management.

Bipiemme Group's internal control system is substantially adequate for the measurement and management of risks.

The Group has effective safeguards that have been adequately formalised, for which roles and responsibilities have been clearly defined and under which there is a separation of duties. The Group's regulatory framework underwent development and was updated in 2015, thus improving the monitoring of controls by the function.

During the year, the process to identify risks to which the Group is or might be exposed was upgraded. Thus, risks were monitored continuously, also thanks to a pervasive and effective limit system and, in general, to the Risk Appetite Framework which the Group implemented in 2013 and which was further developed in 2014 and 2015.

In the year just ended, activities continued in connection with the AIRB project to revise the Internal Rating System (IRS), in view of its validation by the ECB for reporting purposes.

Additionally, in line with the Bank Recovery and Resolution Directive (BRRD), a recovery plan was developed and submitted to the Regulator.

During the year, the risk monitoring and reporting systems were consolidated so as to have a current and prospective outlook, to consider stress scenarios and to provide benchmarking. Accordingly, quantifiable risks are measured, in compliance with applicable internal regulations and an assessment is made of non-measurable risks. These activities are performed to verify compliance with risk objectives and limits and to decide whether escalation procedures should be activated¹. The reporting system ensures that appropriate information is provided to the corporate bodies, to senior management, to the internal control functions and to the organisational units involved in risk management.

The Risk Management function's staffing has increased with the integration of new resources with an adequate profile with the objective of ensuring, coordinating and guaranteeing timely management of risks and, in general, of all the control activities laid down by applicable external regulations by the CRO.

1.1 Organisation of the Chief Risk Officer function

The Chief Risk Officer (CRO) function is intended to support directors and senior management to manage risk at Group level, through the integrated monitoring of actual or potential risks, control over the risk management process and relationship management with Supervision Authorities.

*Art 435
para. 1,
b)*

The CRO function's main areas of responsibility include:

- the Risk Appetite Framework (RAF), that is, the framework that establishes, in line with the maximum acceptable risk, the strategic plan, the risk appetite, risk limits and objectives, risk management policies and applicable procedures needed to define and implement them;
- contribution to the integrated risk management process by performing second-level controls over financial and credit risks, in keeping with the applicable supervisory rules;
- the proactive management of Supervisory relations and analyses of the impacts derived from the introduction of new regulations within the scope of the Single Supervisor Mechanism (SSM);
- ensuring that all the internal systems that measure risk exposure have been developed in line with regulatory demands, are consistent with best practices and perform properly;
- the integrated risk management process (falling within its purview).

The following report directly to the Chief Risk Officer:

- The "Validation" unit, which guarantees, to the extent of its sphere of competence, the analysis and validation of models developed internally by the Group and used for the quantification of risks. In particular, validation is carried out before these models are used through a process of continuous monitoring. It assesses the risk model together with the Risk Management & Capital Adequacy unit. This organisational unit also validates the calculation of capital requirements, using other Risk Management & Capital Adequacy units and the Accounting Department. For the internal model for the quantification of market risk, validated by the Bank of Italy, it performs the validation activities required by supervisory regulations. Validation activities are planned annually in a separate document and the criteria used are regulated by manuals that are periodically kept up-to-date. Any critical areas encountered are identified and brought to the attention of top management; they are then monitored through a special process to ensure that they are completely resolved;
- the "Risk Control" unit, which performs second-level controls over financial and credit risks, focusing on the accuracy and representativeness of the information used. In particular, with respect to credit risk it evaluates the consistency of credit ratings, the adequacy of provisions and the credit collection process, checks the treatment and valuation of collateral and analyses the non-performing portfolio. Regarding financial risks, the Function started the review of market data utilised for operational, accounting and risk analysis purposes, of certain amounts involved in the management system for the internal rate of fund transfers and certain operational strategies used the Bank's own portfolio. It also checks the ex post consistency of the pricing of financial

¹Escalation means the management procedures and interventions to be activated in the event that it is necessary to reduce the level of risk to below a target or within predetermined limits.

instruments shown on Banca Akros's systematic internaliser and the OTC derivative transactions entered into with customers;

- the "Regulatory Relationship" unit (hereinafter also RR), which supports the Chief Risk Officer in managing relations with the Supervisory Authority, in monitoring and analysing regulations, in coordinating the proactive management of SREP (so-called SREP Mirroring) and in the development and dissemination of a risk culture. RR is the Group's interface for the JST (Joint Supervisory Team), acting as a focal point by activating the appropriate Functions (within the Parent Company and the different subsidiaries) to prepare pertinent data and documents, checking their consistency both internal and with the quality standards established for these communications. This unit is also responsible for providing support in the assessment of the SREP requirements, for developing, maintaining and fine-tuning on an ongoing basis the self-assessment tools related to SREP as well as for activating the pertinent Group units to implement the initiatives necessary to address the improvement areas indicated in the SREP self-assessment and/or by the SSM. It provides regular reports to senior risk managers on the outcome of the self-assessment.

Lastly, it coordinates the gathering of information and analyses useful to provide informative reports to senior management on regulatory developments, monitoring changes in prudential regulations so as to inform a timely analysis of potential impacts of new regulations on capital, liquidity and funding adequacy, on the business model and/or on organisation and risk management;

- the "Risk Management & Capital Adequacy" unit (hereinafter also FRM), which performs risk management at Group level, ensuring the development and ongoing improvement of the methodologies and models related to risk measurement. This Function cooperates also in the preparation of the RAF and the relevant risk governance policies, implementing them through an adequate risk management process. In particular, it identifies actual and potential risks to which the Group might be exposed; it measures and monitors them; it contributes to risk prevention and mitigation; it ensures regular reporting to directors and officers on the Group's risk profile, checking on an ongoing basis the suitability of the risk management processes and the operational limits, and prepares the contents of the ICAAP and ILAAP reports.

The following report directly to Risk Management & Capital Adequacy:

- the "Risk Integration & Capital Adequacy" unit, which provides a periodic and structured update on the Group's overall level of risk, identifying the main critical areas and suggesting corrective action to the corporate bodies. In particular, it collaborates with the Risk Manager in the definition and implementation of the Risk Appetite Framework (RAF), assesses the adequacy of the RAF, and periodically prepares updates of the Risk Appetite Statement, providing support to the Chief Risk Officer and the Risk Manager in developing quantitative and qualitative parameters to be proposed for the RAF, which also make reference to stress scenarios and, in the case of changes in the internal and external operating environment of the Group, the adjustment of these parameters. This Function prepares the Recovery Plan at Group level together with the other Bank Functions. The unit guarantees regular monitoring and updating of the RAF, ensures periodic reports to the corporate bodies on the overall level of risk to which the Group is exposed and defines, develops and implements the integrated the *Risk Report* on Group risks. Together with the Chief Risk Officer and the Risk Manager, it assists governance bodies in evaluating and monitoring strategic risk and gives the Chief Risk Officer and the Risk Manager support in assessing the most significant transactions, checking their consistency with the RAF after acquiring the opinion of other functions involved in risk management, depending on the type of transaction. The Risk Integration & Capital Adequacy unit, together with other organisational units, assesses the positioning of risk profiles with respect to the risk indicators, identifies the main critical areas to be transmitted to the Risk Manager, proposes corrective action, and ensures the implementation of the ICAAP to the extent of Risk Management & Capital Adequacy's area of responsibility. Within the context of the capital adequacy activities, it manages and coordinates the regulatory stress test activities performed under the ECB's supervision. In addition, this function coordinates the preparation of the notes to the financial statements on risk management policies, ensures proper implementation of first-level controls belonging to the Risk Management & Capital Adequacy function, gives operational support to the Risk Committee and acts as Committee secretary, coordinates the preparation of resolutions, reports and presentations on risk management to be submitted to the corporate bodies and to top management, collaborates with the Human Resources function for the definition of the annual remuneration policies and verifies that they are applied correctly;

- the “Credit Risk” unit, which manages the credit risk and the concentration risk at Group level and ensures the correct utilisation of credit risk parameters. In particular, this organisational unit verifies the adequacy of risk management falling within the scope of its responsibilities and the related operational limits that it helps to define, ensures timely alerts in the event of non-compliance with policies or limits, develops and applies indicators able to highlight anomalies and inefficiencies in measurement systems and input data. Where anomalous situations are detected, the unit defines appropriate corrective measures. The Function, which is in charge of the development and updating of statistical models for the calculation of key credit (PD, LGD, EAD) and concentration risk indicators, contributes to the definition of the internal rating system and its continuous improvement, ensuring the quality of input data to the models, and calculates the capital requirements for credit and concentration risk. Lastly, Credit Risk ensures effective periodic performance monitoring of the loan portfolio, performs preventive controls on the information used in the valuation of loans for accounting purposes and produces periodic reports to the Group’s governing bodies on risks falling within its purview;
- the “Market Risk” unit, which manages market and counterparty risk at Group level. In particular, it defines the methodology for monitoring the risks falling within its purview, develops and updates the models for calculating the key indicators for market and counterparty risk. The Function sets the policies and limits on the risks falling under its responsibility, monitoring the relevant compliance and provides early alerts in the event of non-compliance with policies or limits. It also proposes mitigation measures on the risks under its responsibility to the Risk Manager. It checks the effectiveness of hedges (under the hedge accounting rules), defines the requirements for input data of risk models and ensures the quality of data through regular checks and produces periodic reports for the Group’s governing bodies on the risks under its responsibility. It also measures, every month, for financial reporting purposes, the financial assets, financial liabilities and the derivatives of the Group’s commercial banks. Lastly, it verifies ex ante the adequacy of pricing of securities issued or placed by the Group’s commercial banks with retail customers;
- the “Liquidity Risk” unit - which manages, interest rate risk on the banking book and structural and operational liquidity at Group level - develops and updates the models for calculating the key parameters for market, counterparty and interest rate risk on the banking book, with the support of Banca Akros’ Market, Operational and Liquidity Risk Control department. In addition, it calculates the Net Stable Funding Ratios (NSFR) and Liquidity Coverage Ratio (LCR), ensuring compliance with the limits imposed by the Supervisory Authority and defines policies and limits on risks falling within its scope at Group level, monitoring their compliance and providing timely alerts in the event of non-compliance with policies or limits. It also proposes mitigation measures on the risks falling within its scope to the Risk Manager, calculates capital requirements deriving from interest rate risk on the banking book, evaluates the adequacy of liquidity and submits regular reports to senior Group management on the risks falling under its responsibility;
- the “Operational Risk” unit, which at Group level manages the activities related to the measurement, monitoring and mitigation of operational risk. In particular, it identifies all of the types of operational risk that the Group is exposed to, it proposes to the Risk Manager the measurement methodology and the key indicators of operational risk and it ensures efficient collection of data on operational risk (operational losses, Risk Self Assessment) of all organisational units of the Group. Moreover, it develops models for calculating operational risk (in aggregate and by business sector), it proposes to the Risk Manager the policies and limits on operational risk at Group level, it monitors compliance by all O.U. and ensures timely alerts in the event of non-compliance with policies or limits. The organisational unit also proposes ways of mitigating operational risk to the Risk Manager, it calculates capital requirements deriving from operational risk, it communicates to the various structures their contribution to the Group’s operational risk and it outlines strategies for transferring business risk, based on periodic assessments, using insurance cover, membership of guarantee funds and, in special cases, by taking out financial hedging products. Lastly, the structure proposes to the Risk Manager the strategy to transfer the Group’s business risk, it defines the requirements of data for input to the risk models and it ensures the quality of data through regular checks and it produces periodic reports to the Group’s governing bodies on the risks within its purview.

In early 2015, in accordance with UE Regulation no. 575 (i.e. CRR), a review was conducted of the standardised approach (TSA) to determine and calculate capital requirements for operational risk based on the new definition of “Relevant Indicator”.

In addition, upon request of the Joint Supervisor Team (JST) of the European Central Bank, and in pursuance of CRR, action was taken and completed to bring Banca Popolare di Mantova and ProFamily into the standardised approach (TSA).

In the year under review Reputational Risk was reviewed based on the definition of the Group's framework. In this context, internal workshops were held for the qualitative assessment of risk scenarios by Reputational Risk Owners.

In relation to the *Risk Self Assessment* ("RSA") project, RSA fine-tuning and execution activities were carried out. The ground has been paid to implement the Scenario Analysis ("SA") model.

Activities continued to oversee the set of rules that govern the processes and methodologies to manage operational risks, following the preparation and publication occurred last year.

In the second half of 2015, a project was started in relation to the framework for the loss data collection assessment, intended to identify the system's areas for improvement.

Regarding the risks involved in the trading book, which is allocated to Banca Akros, the Parent Company has delegated to it the development, implementation and management of the internal model for the calculation of regulatory capital requirements for market risk in connection with this portfolio. This activity is the responsibility of the Pricing Model Validation and Market Risk Control Office, which is the organisational structure of Banca Akros responsible for the identification and measurement of the market risk assumed. This structure has hierarchical and organisational independence from the departments that take on market risk and has the task of overseeing all types of market risk through a daily routine analysis of positions in the trading books, quantifying the risk involved in them. The structure works in close coordination with the Parent Company's Risk Management & Capital Adequacy function, which is responsible verifying the risk measurement model as part of the annual internal validation process.

1.2 Risk profile and management and measurement systems

To increase the governance bodies' awareness of the absolute level of risk that the Group is willing to take in pursuit of its strategic objectives, Circular 263 requires banks to adopt a *Risk Appetite Framework* (RAF) which:

Art 435
para. 1,
e) and f)

- assigns to the supervisory body the task to explicitly define and approve the risk objectives, tolerance thresholds and policies for the management of risk;
- provides for the adoption of an integrated approach to risk management;
- outlines the circumstances, including the results of stress scenarios, under which the assumption of certain categories of risk should be avoided or limited with respect to the objectives and limits set;
- uses appropriate quantitative and qualitative parameters for the various elements of the RAF;
- lays down the management procedures and interventions to be activated (so-called "escalation") in case that it is necessary to reduce the level of risk to below a target or within predetermined limits;
- suggests actions that can be implemented in the event that it is not possible to achieve the strategic targets set in the RAF due to changes in regulations, reference scenario or internal context.

Bipiemme Group's Risk Appetite Framework consists of four basic elements:

1. Corporate Governance, which defines the role and responsibility of the persons involved and the information flows among them;
2. processes, which represent the set up activities of the Group's RAF;
3. metrics, which set out the distinctive underlying features of the RAF;
4. tools and procedures, being the set of tools that support the performance and operative management of the RAF and most significant transactions.

The RAF is a framework that defines - in line with the maximum acceptable risk, the business model and the strategic plan - the risk limits and objectives, the thresholds of tolerance and the processes needed to define and implement them.

The RAF is thus a tool that makes it possible to establish, formalise, communicate and monitor risk objectives that the Group and the single legal entities intend to assume. To this end, it consists of risk objectives and limits that make it possible to identify beforehand the levels and types of risk that the Bank intends to assume and it sets out the roles and responsibilities of the corporate bodies and business functions involved in the management of these risks. The Group must also ensure that, for its operational application, the RAF is used and internalised by the Group and that it serves as a guideline for the preparation of the strategic plan and budget as well as for the internal capital adequacy (ICAAP) and internal liquidity adequacy (ILAAP) self-assessment process. The framework is used also as a tool in the Recovery Plan.

The CRO function, in collaboration with the Planning and other functions, develops the RAF as a support for the Managing Director, from a regulatory and operational point of view, in line with strategy, business plans and allocation of capital under ordinary conditions and in a situation of stress. The Risk Committee discusses and shares the RAF and submits it for approval by the Management Board via the Managing Director. On receipt of the approval request, the Management Board assesses the Risk Appetite Framework, with support from the Risk Committee, and, if appropriate, gives its approval. The RAF always needs to be updated to take account of changes in internal and external conditions in which the Group operates.

The first step to outline the Risk Appetite Framework - and more generally all the Group's strategic processes, including the budget and the strategic plan, ICAAP and ILAAP – is the risk identification process, to identify all the risks to which the Group is or might be exposed under both normal and stress conditions.

All the significant risks so identified are included in the scope of the Risk Appetite Framework and specific indicators for their monitoring are established. In particular, the scope of the Group's RAF identified different indicators for the main types of risk (Equity and Leverage, Liquidity, Credit quality, Profitability, Operational and Market) in a hierarchical order.

The Risk Appetite metrics thresholds consist of risk objectives and limits and represent the operational application of the Group's risk appetite. The risk objectives represent the level of risk that the Group sets out to achieve in the short and medium-long term.

The threshold system is structured in:

- Risk objectives consisting of:
 - Medium-Long Term Targets, which are typically the risk objectives set out in the Strategic plan at Group level, indicating the optimal level of risk (overall and by type) to which the Group is willing to expose itself in the pursuit of its strategic objectives;
 - Short-Term Targets, which are typically the risk objectives that the Group and the legal entities must achieve within the budget scenario. Indicates the level of concern, which, if exceeded, would trigger the implementation of initial corrective action.
- Risk limits, consisting of:
 - *Tolerance* (tolerance threshold): indicates the maximum deviation from the Risk Appetite that is permitted; the tolerance threshold is set in a manner that ensures that the Group will have sufficient margins to always operate, even under conditions of stress, within the maximum acceptable risk;
 - *Capacity* (maximum acceptable risk): this indicates the maximum level of risk that the Group is technically capable of assuming without breaching the limits set by internal and external rules.

In the event of limits being exceeded, then escalation procedures are activated.

The risk limits and objectives are quantified at the level of the banking group and of the single legal entity, ensuring compliance with the risk appetite approved by the corporate bodies.

Risk appetite framework is also applied in the management of the most significant transactions whereby the *Chief Risk Officer* is required to give a prior, non-binding opinion.

1.3. Risk management strategies and processes

1.3.1 Credit risk

*Art 435
para.1, d)*

1.3.1.1 Organisational aspects

The policies for managing and controlling the quality of the loan book and the associated risks are based on rules of sound and prudent management.

They are implemented through the processes of disbursing, managing and monitoring credit for which specific activities are required and special instruments made available for controlling the risk that varies according to the circumstances of the market and business sector and type of individual borrower.

At each company in the Group, the lending activity is supervised by a specific function dedicated to credit disbursement and control by means of well identified and suitably empowered structures. All of the structures involved are called upon to grant and manage credit, as well as to control credit risk, making use of appropriate procedures, of which the internal rating system is an integral part, to set.

Commercial banking practices allow decisions on proposals to be taken locally by the commercial network, where the risk is low (in terms of rating) and the amounts involved fall within the authority attributed by the Rules on Credit.

The powers delegated by the Management Board on credit approval are based on risk ratings, which reflect decreasing risk as the amount of collateral rises.

In connection with the development and maintenance of internal rating systems, in 2015 the PD, LGD and EAD models were revised and the relevant processes and information systems were adjusted.

The recent revision of the credit risk measurement models under AIRB approach involved also the revision of the procedures to identify the parties responsible for providing and controlling credit, through a specific methodology built taking into account both internal ratings and, more generally, the potential capital requirements attracted by the transaction under consideration, as determined through use of all the pertinent parameters to calculate RWAs. In this way, specialists, properly distributed, perform the research necessary to rate the proposed risk and to adopt a decision on the creditworthiness of the borrower, for amounts for which they have authority, or to prepare a report on the transaction to be submitted to the pertinent senior levels.

Ratings can be changed only by the Rating Desk, which has no credit approval authority. The change, above or below the rating returned by the model, can only vary within a pre-established range and can be due only to reasons that are not adequately reflected in the statistical models or in the presence of significant risks.

1.3.1.2 Management, measurement and control systems

For the assessment of the credit standing of performing counterparties, the Bipiemme Group uses an internal rating system (IRS) which has been developed internally. From a quantitative point of view, the Bank has implemented statistical models for calculating the ratings to be given to counterparties split into four customer macrosegments based on turnover (or equivalent) and/or size of credit line: Individuals, Small Businesses, SMEs and Corporates.

The internal rating process is managed by the Parent Company's Chief Risk Officer (CFO) who, in this respect, is responsible for:

- developing and maintaining the internal rating models: model estimates of the probability of default (PD), the loss given default (LGD) and the exposure to default (EAD) are made by the Credit Risk unit of the Risk Management & Capital Adequacy function;
- internal validation and analysis of the performance of rating and LGD models, which also involve analyses of backtesting and benchmarking on individual rating elements by the Validation Unit, which is separate from the Risk Management & Capital Adequacy function;
- producing reports for the Group's governance bodies.

The annual calibration and update of the internal models guarantee a continuous process of risk metrics improvement, also based on the findings of the audit work performed by the internal control functions (Validation and Internal Audit).

With particular reference to the indicators of credit risk (EAD, PD and LGD) the Group, in line with its strategic objectives, completed in the year under review a process designed to reinforce the Internal Rating System (IRS) in place and to adapt it to the provisions of Regulation no. 575/2013 (i.e. CRR – *Capital Requirement Regulation*) and Bank of Italy's Circular 285/2013, which adopted such Regulation. Specifically, this project saw the revision of the internal models with respect to the above indicators and the upgrading of the credit approval and renewal processes, while maintaining a general framework of reference.

This procedure was designed to make available to the branch network the best credit management methodologies and processes and to request the ECB's authorisation to use the IRS to determine capital requirements for credit risk, which is expected for 2016.

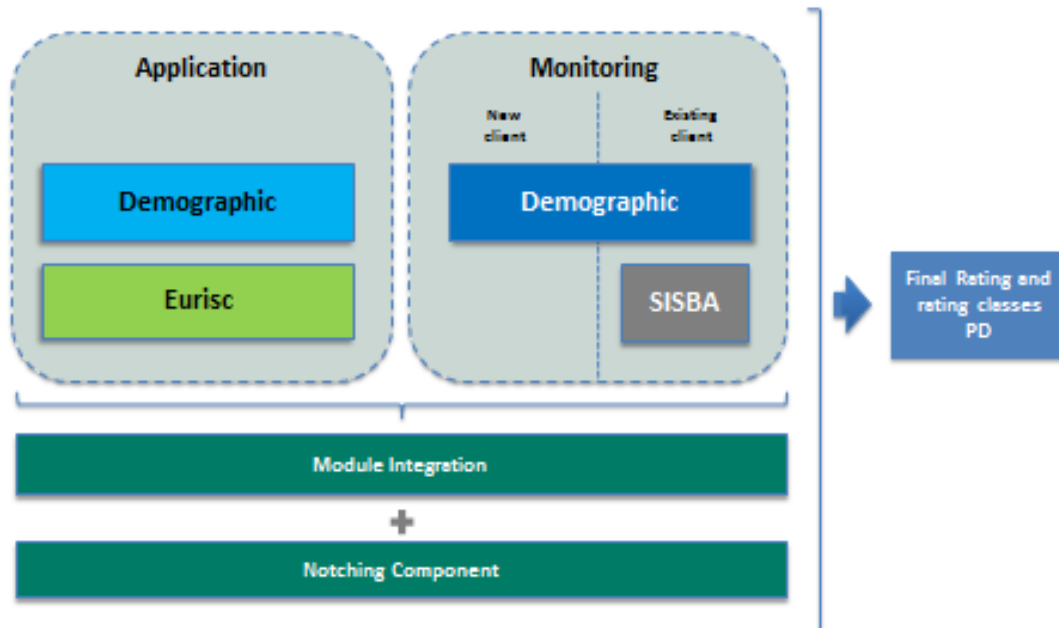
Rating models and estimating the probability of default

The current internal rating models refer to four ordinary customer segments:

- **Individuals** (consumer households);
- **Small Businesses**;
- **SMEs**;
- **Corporates**.

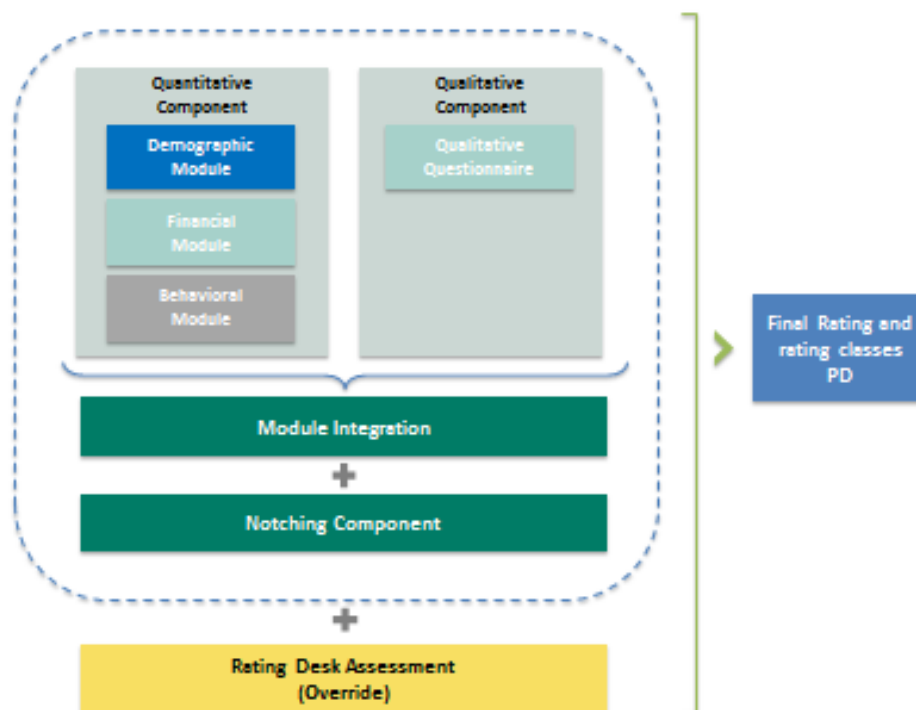
All of the models have been developed internally on representative samples of the Bipiemme Group's customer portfolio. The models' performances are assessed quarterly on an independent basis by the Validation function by applying a series of defined statistical tests. The rating is assigned to the counterparty, quite apart from the type of credit that has been requested (so-called "counterparty rating").

The chart below depicts the structure of the Individual segment:



The rating model for the **Individuals** segment is a system which reviews, when credit is first approved (the counterparty acceptance phase), background information about the counterparty and the product as well as information on the counterparty's credit-worthiness from an external information bureau. During the monitoring and renewal phase for a facility or in the event of new credit being granted, further information of a quantitative and analytical nature is added (internal behavioural information).

The chart below depicts the structure of the Company models: Corporates, SMEs and Small businesses.



Regarding the Company segment, the internal rating system consists of the following modules:

- **the financial module**, based on information acquired from financial statements and broken down by corporation and other entities with full accounting records as well as on the basis of the industry reclassification structure required by the Central Balance-Sheet Office;
- **the internal performance module**, designed to observe the credit behaviour of the counterparty versus the Group by means of aggregate information by risk category;
- **the external performance module**, designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the survey of exposures kept at the Credit Register (CR);
- **the qualitative module**, which is designed to include a subjective assessment of the relationship manager on the applicant's positioning in the market in which it operates through the compilation of specific questionnaires;
- **the background module**, based on information on the type of company and the nature of the business with the Bank.

The five modules in question, which differ by size, contribute to the assignment of an integrated statistical rating. This model output can be changed (through the override process) upon request of the relationship manager who, thanks to his knowledge of the customer and on the basis of objective evidence, submits the rating to the Rating Desk, an independent unit. This unit, which has no decision-making authority, reviews the request and assigns a final rating for these cases in accordance with certain limits, in case of proposed improvements. From the point of view of the process, the new rating system calls for the relationship manager to play a more central role, both when the credit is first approved and when it is renewed, by assigning the rating through a specific workflow. This enhanced role, designed to disseminate a risk culture throughout the branch system, allows the relationship manager to become more aware of the changes in the risk profiles of borrowers and to express an opinion on each of the five areas that make up the system. This opinion becomes a key factor for any override requests.

For both the individual and the company segments early warning indicators can be included whereby the system proposes an automatic rating downgrade.

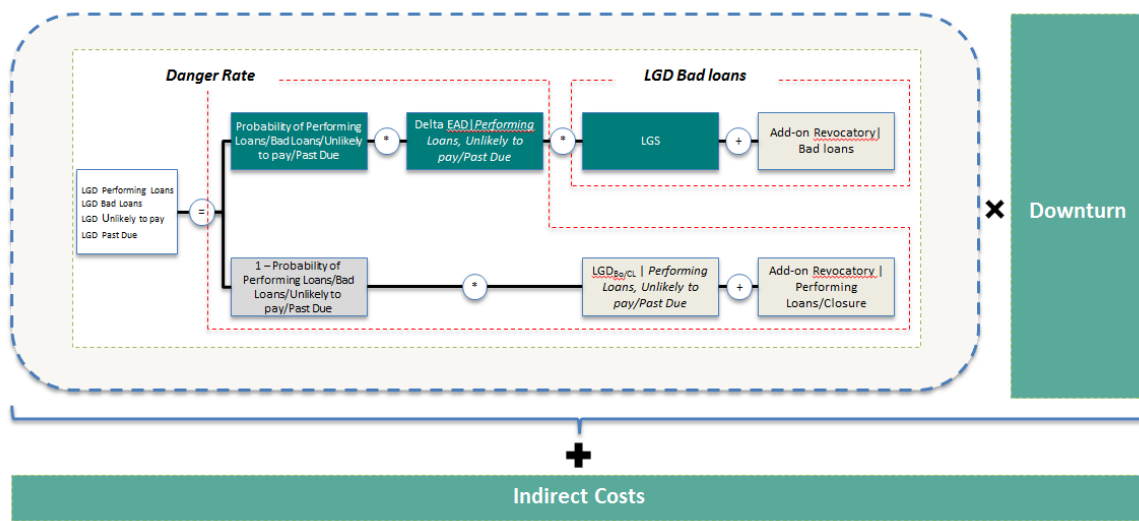
LGD model

For the determination of Loss Given default (LGD), the Bipiemme Group uses a "work-out" model, founded on the observation of the events of interest (exposure to default, expenses incurred for the recovery, recoveries, guarantees, etc.) of default positions closed in the past. The LGD estimate runs through the following steps:

- 1) determination of a loan loss rate, including direct costs, on positions classified as bad loans;
- 2) estimate of a parameter of recalibration (the so-called "danger-rate") for the calculation of the overall LGD, in order to consider the different states of deterioration included in the default. In this way, the LGD rate for bad loans is determined by weighting the LGD on bad loans by the danger-rate.

Lastly, the following two factors listed below are added to the LGD so determined:

- quantification of an additional amount due to the presence of indirect costs (e.g. overheads) for the management of a workout position;
- estimate of a downturn component by identifying a negative phase of the economic cycle and quantification of the loss difference compared to the long-term average.



EAD Model

In 2015 the Bipiemme Group set up an internal model to estimate the credit conversion factor (CCF) with respect to the Retail portfolio, which includes Small Businesses and Individuals. Regarding the Corporate segment, the Bank continues to use the CCF provided for by the CRR. Internal EAD estimates, produced monthly by the calculation engine, are used as drivers of monitoring and constant reporting to senior management and corporate governance bodies as well as by the Risk Management & Capital Adequacy function for risk management, benchmarking and internal analysis purposes.

The IRS – which is structured on the basis of the PD, LGD and EAD – is currently used to:

- evaluate the borrower's credit risk, in credit approval, monitoring and renewal phases;
- monitor current risk;
- formulate credit policies;
- report to management;
- establish allowances for loan losses;
- determine risk-adjusted loan pricing;
- prepare cost accounting reports;
- prepare budgets and evaluate performance.

Typically, credit processes use the IRS as a decision-making tool and are designed in view of the peculiarities of the specific customer segments, to optimise the utilisation of resources deployed in managing/monitoring credit and to achieve the right balance between the need to grow and effective credit management.

In approval and renewal of call loans, the metrics built on the risk indicators are the key factors in determining the approval authority level. In fact, as the proposal is completed in view of the outcome of the evaluation of a borrower, and the potential level of RWAs generated by the proposed credit facility, the system assigns automatically the decision-making level and the amounts that can be approved and affects the application of the automatic renewal mechanisms for call loans.

The credit approval process: corporate, SME and Small Business segments

The credit approval process requires, after the initial identification of the rating manager, the gathering and review of the information necessary to attribute the proper internal risk segment.

Subsequently, after the qualitative evaluation of the borrower (Qualitative Questionnaire), the final evaluation is performed and the rating assigned.

This evaluation plays a central role in the rating assignment process, as it is mandatory and a necessary condition before the credit review and approval are started.

In the process of granting credit to borrowers within the "Company" segments (Corporates, SMEs and Small Businesses) as defined on the basis of size thresholds in the annual process of segmentation, a central role has been given to the relationship manager and his contribution with respect to a purely "statistical" rating. In fact, the "relationship manager's opinion" is a key component of the new rating system and makes it possible to compare the alignment between the expert's opinion and the outcome of automatic algorithms. Whenever there is a misalignment, and there are solid supporting arguments, a new structured override request can be submitted, i.e. a request to change the rating attributed by the model.

The function responsible for handling the relationship manager's request is the Rating Desk which, through an experience-based assessment, reviews the override proposal and assigns a final rating to the borrower.

Another key element of the new system is the usability of the rating and the mechanisms to upgrade it with the objective of providing users with all the necessary information to perform the credit review. In fact, in addition to the rating, the relationship manager has also the following information:

- the risk level, indicating the classification on the 5 levels common to all the Group's segments;
- the risk profile per single module and sometimes per information area (e.g. single Financial Statements area);
- details of the reasons for exclusion from the rating calculation or expiration of same (financial statements too remote in time, qualitative questionnaire expired, etc.);
- rating upgrade or downgrade due to external or internal components.

As the rating also constitutes an essential element in assessing a customer, in addition to the common rules applied for the credit approval process (e.g. review of external negative events, internal risk situations, etc.), the process does not proceed if any of the elements needed to calculate the rating is missing.

The credit approval process: Individuals segment

As regards the Individuals Segment, the credit approval process differs during the analysis phases depending on the product that the customer has requested (overdraft, mortgage, personal loan, special purpose loan).

The outcome of the process incorporates an overall rating, inclusive of the acceptance component, the analysis of internal behaviours where available (performance) and the evidence coming from the financial system as assigned by the relevant credit bureaus.

Specifically, the new rating model calls for the progressive integration between the acceptance and the monitoring components, ensuring from time to time the appropriate review of the latest and most important information. The credit process, which includes also a risk assessment, calls for different steps, depending on the specific requirements of the relevant credit facility category, and is based also on common rules over approval (e.g. review of external negative events, internal risk situations, limits on the loan instalment/income ratio, the presence of residual debt on the property, limits on the "loan to value", the maximum age of the applicant, etc.).

The process also provides access to "black list" databases according to the requirements of the applicable anti-money laundering regulations.

The process of renewal/review of the credit line granted to individuals provides for the use of the performance rating system as a support in determining:

- automatic renewal (without any change in existing credit lines);
- risk analysis during the credit review.

Credit monitoring process and Rating Desk

Control over the credit risk in individual performing exposures is guaranteed by a monitoring process that systematically examines internal and external events and information to identify any signs of a deterioration in the relationship, proposing suitable changes to the rating and the position. Simultaneously, changes in the credit risk associated with performing positions is measured by the rating of the single borrower.

As a result of the transition to the new internal credit rating system, performance control reflects both on the borrower's administrative status and rating class. These functions are performed by two independent and complementary units, i.e. Credit Monitoring and the Rating Desk.

Credit Monitoring is responsible for the proper classification of the position and the supervision over the activity intended to identify positions that show early anomaly/deterioration signals and for any assignment of these positions to specialised relationship managers as well as for the monitoring of actions undertaken and the relevant results obtained.

The entire process is characterised by:

- a high degree of automation;
- centralised management of control policies;
- the transparency and traceability of the decisions taken by the operators assigned to control functions;
- the interaction between these control functions and the commercial network on internal rating matters, making sure that integrity is maintained.

In performing credit monitoring activities, the function can also flag risk situations in the credit analysis of a borrower and, accordingly, request a change in the rating assigned by the relationship manager to the borrower.

The Rating Desk is the function responsible for evaluating override requests and, in some cases, for assigning ratings as the primary decision maker in this area. In fact, as indicated above, requests for upgrade or downgrade overrides can be selected only in the event that the relationship manager has knowledge of factors not included in the rating calculation, which must be submitted to support the override request. These requests are submitted to an independent party – the Rating Desk – responsible for validation activities and for assigning final ratings.

In addition to validating override requests, the Rating Desk assigns ratings whenever data is unavailable, non-significant or incomplete or the characteristics of the borrower require a specialised and experience-based evaluation. This is required by regulations in case of specific borrowers and, in particular: newly-established companies, sole proprietorships or very small companies operating in the agricultural sector, companies with a size indicator (revenue/total assets, used for segmentation purposes) equal to or greater than Euro 150 million, borrowers with insufficient financial statement data or accounts covering periods other than 12 months, for which financial statements cannot be used to determine a rating.

Closely related to credit risk is concentration risk, which arises from very high exposures to borrowers or groups of related borrowers or borrowers operating in the same industry or in the same geographical area or carrying out the same business.

Thus, the Group utilises a system of credit exposure limits designed, essentially, to avoid an excessive concentration in a single borrower/group of related borrowers, based on these customers' equity. This system of limits is set and updated regularly.

Credit risk mitigation techniques

The Bipiemme Group requests guarantees against credit risk on a selective basis according to the customer's credit rating.

For property mortgages, there is a specific monitoring process characterised by:

- setting up a master file of property granted as collateral for mortgage loans;
- the continuous update of databases, by means of internal control processes or by the automatic acquisition of information from specialised suppliers (e.g. the value indicated by an expert appraisal);
- the automatic revaluation of the value of the property based on price trends shown periodically by the real estate market observatory (Land Registry Office).

In the case of collateral, the valuation process follows the procedures and frequency applicable to the specific form of guarantee received.

Personal guarantees are obtained after evaluating the size of the guarantor's assets and personal credit rating.

Special structures within the Credit, and Risk Management & Capital Adequacy and the Operations Function (Smart Centre) supervise the collection, processing, administration and monitoring of guarantees. More specifically, first-level controls are entrusted to the Single Guarantee Centre (CUG - Centro Unico Garanzie), performing directly specific monitoring and upgrading functions as well as activities to resolve issues related to the different types of guarantee. The Credit Risk and Risk and Risk Control functions, both operating within the CRO, perform second-level controls at the portfolio level (the former) and at individual level with controls carried out on a sample basis (the latter).

For more details of the process for the management of personal guarantees and collateral, reference should be made to section 6 of these disclosures.

1.3.1.3 Internal Validation of the Internal Rating System

In order to ensure the consistency and fairness of the rating assigned to the counterparties and, more generally, of the overall internal rating system adopted (which is then called an "Internal Ratings Based" or IRB system), the Bipiemme Group has set up a system of organisational controls and safeguards on three levels:

- **first-level controls:** these are line controls which consist of safeguards (built into procedures or foreseen at the level of internal regulations) to ensure consistency, accuracy and integrity of information used to calculate the rating, as well as correct performance of the activities needed to allocate the rating. First-level controls also include the checks carried out by various functions at the Parent Company – Chief Risk Officer, Credit Function, IT Function and the Organisation Function – which ensure the smooth running of the activities leading up to the choice of the appropriate model for assessing customers and compliance with the internal procedures for acquiring the information needed to apply the internal models;
- **second-level controls:** in this case, we are talking about the process of validation of the internal rating system;
- **third-level controls:** these are the checks carried out by the Internal Audit Department, which also evaluates the adequacy of the Group's internal control system. The Internal Audit Department also analyses the validation process, in order to verify the adequacy and completeness of the activities carried out and the consistency and validity of the results achieved. It also assesses the compliance of the internal rating system with the requirements laid down in the Supervisory Regulations.

The validation process of the internal rating system is carried out by the Validation unit, which functionally reports to the Parent Company's Chief Risk Officer and is independent from the units in charge of developing the IRS. The Validation unit carries out the validation of the models used for calculating the risk parameters, processes and support systems and coordinates second-level controls on the risk assessment systems developed in-house. The results of the validation are summarised in an annual report that is brought to the attention of top management. This report highlights any critical issues and areas of concern identified in the course of the activity and any action that is needed to resolve or mitigate them. The report is also prepared in order to check the stance of the IRS with regard to individual requirements of the Supervisory Regulations for reporting validation purposes.

More specifically, the activities of the Validation unit are designed to:

- evaluate the development process of the model, with particular reference to the underlying logic and the methodological criteria used in estimating the risk parameters. In this context, the compliance of the methodologies used with the regulatory requirements and market best practices is checked;
- validate the process of rating attribution by verifying the level of compliance of the internal rating allocation process with the minimum requirements laid down in the Supervisory Regulations. In this context, specific analyses are performed to verify that the rating calculation models operate in a way that is consistent with what was defined when the

- model was being designed;
- verification of the performance levels achieved by the individual rating models and by the individual components that have been implemented. In particular, the following are checked at least once a quarter:
 - the representativeness of the estimation sample compared to the reference sample, that is, dimensional consistency analysis of the current population, determined by the validation sample, compared to that of the development sample;
 - the models' performance, i.e. the ability to separate customers with a high degree of solvency from those that are potentially risky. In order to make the analysis more objective, the Validation unit has established appropriate internal thresholds to classify the results achieved by the individual models and sub-models. Models' performances are also compared with an external rating system that is used as a benchmark, in order to assess any critical points;
 - calibration of the risk parameters by checking the correspondence of the risk assigned in advance to each rating class compared with the risk observed over a time horizon of one year;
 - the assessment of the stability over time of ratings assigned through the analysis of the annual migration matrices;
- evaluation of the methods used to carry out stress tests for portfolios included in the scope of validation;
- analysis of the use of the IRS in business management (*use test*): in this area, effective integration of the system in decision-making processes and management of business operations is checked.

The Validation unit also checks, on an ongoing basis, as required by the Supervisory Regulations, the consistency between the results of the internal models and the riskiness as summarised by external ratings provided by External Credit Assessment Institutions (ECAI) and used for calculating RWA. The purpose of this control is to ensure consistency between internal and external risk measurements.

The results of the validation activity confirmed also for 2014 substantial compliance with the regulatory requirements imposed by the Supervisory Authority and an overall level of performance that is higher than the minimum threshold identified.

1.3.1.4 Concentration risk

Closely related to credit risk is concentration risk, which arises from very high exposures to borrowers or groups of related borrowers or borrowers operating in the same industry or in the same geographical area or carrying out the same business.

The Bipiemme Group uses a system of loan exposure limits to prevent an excessive concentration of risk with a single customer or with groups of related customers.

Large Exposures

With regard to new facilities, the Group has set limits for large exposures.

In particular, an exposure to a customer or more than one customer belonging to a business group may not exceed a nominal amount of Euro 300 million (so-called "maximum accumulation of risk"). This exposure limit is reduced to Euro 120 million for counterparties or business groups operating in the property sector, with the exception of the infrastructure sector. This threshold may be exceeded only if the counterparties have a high credit standing and are categorised as low risk, but only after the Chief Risk Officer function has given its prior non-binding opinion.

The limits are updated by agreement between the Credit and Risk Management functions.

A periodic review of these limits is carried out by the Parent Company's Risk Management function - as part of the review of credit risk concentration ratios as required by the Risk Appetite Framework.

Related parties

On behalf of the Bipiemme Group, the Parent Company assesses risks concerning transactions with associated persons (of a legal and reputational nature and whether there may be a conflict of

interest), if significant for the business's operations, with a view to regulatory reporting, to risk reporting by which the Group's risk profile is monitored and communicated to the corporate bodies and with a view to the annual internal process of assessment of capital adequacy (ICAAP).

With regard to regulatory reporting, the limits that the Bank has to respect, as per the Regulations, in connection with the acceptance of risk assets with associated persons in terms of consolidated Own Funds, are the following:

Consolidated limits	Corporate officers (and related connected persons)	Shareholders with controlling interests or in a position to exercise significant influence (and related connected persons)	Other shareholders and persons other than shareholders (and related connected persons)	Persons under control or Significant influence (and related connected persons)
		Non-financial related parties		
	5%	5%	7.50%	15%
		Other related parties		
	7.50%	10%	20%	
Individual limit	20%			

These limits relate to consolidated Own Funds and vary based on the type of related party, in proportion to the closeness of the relationship and the significance of the repercussions of the consequent risks on sound and prudent management. Furthermore, within the consolidated limits, each Group Bank may assume risk activities with the same grouping of associated persons up to a limit of 20% of individual Own Funds.

With respect to the limits established by the external Regulations, Banca Popolare di Milano, in its role of Parent Company, has identified thresholds of concern by associated person. The thresholds, which have been set at 80% of the related limit, have the objective of alerting the Bank or a Group Bank as to when a position is near the limit.

Consolidated attention thresholds	Corporate officers (and related connected persons)	Shareholders with controlling interests or in a position to exercise significant influence (and related connected persons)	Other shareholders and persons other than shareholders (and related connected persons)	Persons under control or Significant influence (and related connected persons)
		Non-financial related parties		
	4%	4%	6%	12%
		Other related parties		
	6%	8%	16%	
Individual attention threshold	16%			

Compliance with the prudential limits for risk activities with related parties must be continuously ensured.

If, as a result of events that are outwith the control of the Bank or of a Group Bank (e.g. increase in level of risk of transactions, a change in regulatory capital, or where a related party becomes such subsequent to the initial relationship having been established), one or more limits is exceeded, steps must be taken immediately to bring the risk activities within the permitted limits

as soon as possible.

In particular, within 45 days of exceeding the limit, the Bank, in its capacity as Parent Company, has to prepare a plan to respect the limits, which has been approved by the Bank's Management Board, after having consulted the Supervisory Board. The plan has to be transmitted to the Bank of Italy within 20 days of its approval, together with the minutes documenting the approval by the corporate bodies.

Risk appetite and the related thresholds are based on the ratio of total risk-weighted assets (RWA), being the sum of risk activities with all associated persons, to consolidated regulatory capital. RWA take account of the risk associated with the nature of the counterparty and any forms of credit protection; the weighting factors and the conditions for the eligibility of risk mitigation techniques used are those established under the rules for risk concentration ("large exposures").

1.3.2 Financial risk

With reference to financial risks (market, counterparty, liquidity, banking book interest rate risks), the Management Board of the Parent Company identifies and authorises the Group companies that can take and manage financial risks on their own, in compliance with the general guidelines and limits set by the Parent Company.

With respect to market risk, limits are set for the various portfolios as follows:

- company macro-limits, reflecting the maximum exposures for subsidiaries authorised to take financial risks;
- directional limits, i.e. the allocation of company limits to subsidiaries portfolios, defined by each Group company in specific internal regulations.

The Group Finance Committee ensures the coordination of the Group financial assets investment policies, as well as the implementation of the liquidity policy and the monitoring and management of the interest rate risk exposure on the banking book.

With this regard, the Finance Committee:

- monitors the Group short-term and structural liquidity - by checking the exposure to short-term and medium/long-term liquidity gaps, the interbank market exposure, liquidity cash flows and intragroup liquidity pricing - and sets the guidelines for liquidity management;
- approves new banking book investments, within the limits established by the the Parent Company's Management Board upon proposal of the Risk Committee;
- monitors the management of *Asset & Liability (ALM)* and defines corrective actions to balance the interest rate risk exposure of the banking book, both for the Group and for the subsidiaries.

1.3.2.1 Market risk

Bipiemme Group financial assets are split between trading book and banking book; these portfolios are broken down as follows:

- the **trading book** includes financial instruments held to benefit in the short term from positive changes between buy and sell prices, through directional (following market views) and absolute return (aiming to obtain a performance not correlated with the market) strategies as well as acting as a market maker;
- the **banking book** consists of:
 - positions traded for liquidity management purposes, by investing in sovereign securities and/or securities of primary banking issuers, in order to have "high-quality liquid assets" or "eligible assets" for refinancing transactions with the Central Bank;
 - securities used as guarantees and/or as underlyings in repurchase agreement transactions with customers;
 - long-term investments in order to obtain stable returns over time with a low volatility level;
 - derivatives traded on behalf of customers (i.e. matched trades) without assuming direct positions;
 - treasury and forex portfolios and financial instruments traded in order to hedge the interest rate mismatch generated by the commercial banks funding and lending activities (Asset & Liability Management - ALM).

The limits system of portfolios is organised as follows:

- **company macro-limits**, i.e. the maximum exposure that can be assumed by the companies authorised to assume financial risks;
- **directional limits**, i.e. the allocation of company limits to subsidiaries portfolios, defined by each Group company in specific internal regulations.

The current Group Regulation establishes that Banca Akros, the Group investment bank, is the only company of Bipiemme Group authorised to manage the trading book.

The banking book, on the other hand, has been mainly assigned to the Parent Company, Banca Akros and, to a lesser extent, to Banca Popolare di Mantova.

Different types of operating limits are provided in line with the portfolio types. The following limits have been assigned to the Parent Company:

- sensitivity of the portfolio fair value to interest rates and credit spreads: a limit is set on the fair value change of the portfolio as a result of a shift of +/-100 bps in the interest rates curves and +/-25 bps in the credit spreads curves;
- net interest income sensitivity: this limit is quantified on the basis of the change of the net interest income over the next twelve months, generated by a parallel shift in the interest rate curve of +/-100 bps;
- stop loss limits;
- quantitative limits on portfolio positions and concentration by single issuers;
- qualitative limits on the portfolio composition, with issuer risk limits on type of counterparty, rating and country risk.

Banca Akros assigns directional limits to the trading room, and to the single desks that make it up, in accordance with the overall limits established by the Parent Company.

On 17 May 2007, indeed, Bank of Italy authorised Banca Akros to use an internal VaR model to calculate its capital requirements for market risk (with the sole exception of the specific risk on debt securities). Further details on the internal model are provided in Section 10.

1.3.2.2 Counterparty risk

It is the risk that the counterparty of a transaction involving certain financial instruments (such as OTC derivatives, repurchase agreements and forward transactions) could default before the transaction is settled. Taking into account the operating procedures currently in force within Bipiemme Group, settlement risk is also included in this type of risk.

In the Bipiemme Group, counterparty risk is generated primarily by the commercial banks, in addition to the lending and commercial activity with corporate customers, and by the investment banking activity of Banca Akros. For the latter, counterparty risk is associated with trading in financial instruments for settlement in cash and financial derivatives, traded on regulated markets and/or OTC, on behalf mainly of own customers and counterparties, as well as for the Group's commercial banks.

To quantify exposure to this risk (EAD), the Bipiemme Group currently uses the net present value method for OTC derivatives and the comprehensive method with Supervisory volatility adjustments for repurchase agreements (SFT).

For further information on counterparty risk, see Section 9.

1.3.2.3 Exchange rate risk

The foreign exchange transactions conducted by the Parent Company for its own account substantially aim at fulfilling the needs of the commercial functions. Foreign exchange activities are limited to transactions involving foreign currency profits (net income or commissions and fees collected in foreign currency) and foreign banknotes for the purchase and sale of currency by the branch network. There is also a foreign exchange trading activity on behalf of customer, but without keeping significant positions.

Banca Akros exchange rate risk is managed internally by a specific desk, where foreign exchange transactions and currency derivatives also focus on hedging the currency exposure linked to the bank activity.

The main sources of foreign exchange risk are:

- loans and deposits in foreign currency with corporate and/or retail customers;
- purchases of securities and/or equity investments and of other financial instruments in foreign currency;
- trading in foreign banknotes;
- collections and/or payments of interests, dividends, fees, administrative expenses, etc.;
- Banca Akros forex desk activity and currency transactions of the other desks.

Within Banca Popolare di Milano, the authority delegation system allows the Head of the Finance Function to hold an overnight currency position of up to euro 5 million euro. Moreover, the sum of the absolute values of the open positions in all foreign currencies must not exceed the limits set, and periodically reviewed, by the internal regulations. There is also a stop loss of euro 1 million. This position is monitored through the Condor+, a front-office software application.

Banca Akros manages exchange risk within the established operating limits. The principal indexes of exchange rate risk exposure are the FX Area VaR and the sensitivity analysis to exchange rates and interest rates changes, volatility changes and non-linear effects of option components (gamma and Vega).

The exchange rate risk generated by the funding and lending activities on the banking book of the commercial banks and by investments in securities and/or equity instruments is systematically hedged by funding (and/or lending) transactions in the same currency. Also the position created by income flows in foreign currency (interest incomes/expenses, fees and commissions) and foreign banknote transactions with customers is usually hedged through foreign exchange transactions with offsetting effects.

BPM has not implemented internal sensitivity analysis models for exchange risk, as the Parent Company forex operations substantially fulfil the needs of the commercial functions. Moreover, in the 2015 supervisory reports, the capital requirements due to exchange rate risk have always been essentially equal to zero or of a very limited size, since the net forex position has always been below 2% of own funds.

Banca Akros uses its own VaR model to quantify foreign exchange risk exposure (reference is made to Section 10 for details).

1.3.2.4 Interest rate risk on the banking book

Interest rate risk on the banking book is embodied induced by the potential impact that unexpected changes in market interest rates would have on current earnings (cash flow risk) and the Group's own funds (fair value risk). This risk typically occurs typically on positions in the banking book, namely:

- loans and deposits from customers;
- own debt securities;
- debt securities issued for institutional investors;
- interbank operations;
- operations with the European Central Bank (OMO);
- hedging derivatives.

Through the Risk Management Function, Bipiemme Group monitors - both at consolidated and subsidiary level - the banking book exposure to adverse changes in interest rates, in terms of both income statement and balance sheet, by applying parallel and non-parallel shocks to interest rates.

The Group Risk Committee ensures the monitoring and management of interest rate risk exposure on the banking book.

A hedge accounting policy drawn up by the Parent Company is in force within the Group. It defines the methodology and the organisational process for managing the hedging of interest rate risk, with particular reference to the functions involved, the definition of roles and responsibilities and the

description of planned activities and mapping processes.

This Policy also gives the Parent Company the responsibility for managing the interest rate risk of the Bipiemme Group banking book, with reference to the monitoring of the interest rate risk exposure, the compliance with the operational limits and the management and hedging activities.

The responsibility of the interest rate risk management and hedging activities is centralised at the Parent Company Finance Committee, for any legal entity included in the scope of the policy.

The Finance Committee establishes the guidelines about management of assets and liabilities and sets up all interest rate risk hedging transactions. Such hedging transactions, as approved by the Finance Committee, are carried out by the Finance Function of the Parent Company. This department is also delegated to implement hedging strategies, taking positions on the yield curve in order to reduce the interest rate risk exposure generated by the funding and lending activity of the Bank.

Hedging of interest rate risk aims at protecting the banking book from fair value changes due to movements in the yield curve or to reduce the variability of cash flows related to a particular asset or liability.

The main types of derivatives used for hedging purposes are Interest Rate Swap (IRS), Overnight Indexed Swap (OIS), Options on interest rates (cap) and Forwards on government securities.

The Bipiemme Group accounts for hedging transactions through:

- *micro fair value hedge*: hedging of the fair value of assets or liabilities specifically identified, mainly represented by bonds, issued (subordinated and covered bond) or purchased;
- *macro fair value hedge*: hedging of homogeneous pools of assets or liabilities not individually identifiable, mainly represented by loans to ordinary customers as well as call loans and demand deposits.

The Parent Company has micro cash flow hedges in place. At 31 December 2015 it had a cash flow hedge intended to stabilise, through a swap contract, the interest income generated by a financial asset available for sale and several hedges against change in price of government bonds.

For more detailed information on management procedures and measures of the interest rate risk on the banking book, please refer to Section 12.

1.3.2.5 Liquidity risk

Liquidity risk is the risk that Bipiemme Group may not be able to meet its certain and foreseeable payment commitments. Two types of liquidity risk are identified: funding liquidity risk, i.e. the risk that the Group may not be able to meet its payment commitments and obligations efficiently because of an inability to raise funds without damaging its normal business activity and/or its financial situation; market liquidity risk, i.e. the risk that the Group may not be able to liquidate an asset without incurring a capital loss because of the limited depth of the market and/or as a result of the timing with which it is necessary to carry out the transaction. In this second definition, liquidity risk is very close to the traditional market risk. The main difference between the two types of risk lies in the fact that, while market risk measures the sensitivity of a position value to possible future scenarios, liquidity risk focuses on the ability to fund present and future payment commitments in normal and in stressed conditions.

In Bipiemme Group, liquidity risk is managed in light of the Group liquidity policy, which sets out:

- the liquidity risk management model;
- responsibilities of the corporate bodies and business functions;
- the liquidity risk appetite;
- the liquidity risk management and monitoring tools;
- the liquidity risk mitigating tools;
- the Contingency Funding Plan;
- the guidelines for definition and monitoring of the Funding Plan.

Further details on liquidity risk are available in section 13 of these disclosures.

1.3.3 Operational risk

In line with EC Regulation 575/2013 (CRR), operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This type includes losses due to frauds, human resources, breakdown of operations, non-availability of systems, breach of contract, natural disasters and legal risks, whereas strategic risk and reputational risk are excluded.

The supervisory regulations also say that banks have to equip themselves with operational risk management systems that are suitable for their size and risk profile and able to guarantee the identification, measurement, monitoring and control of such risk over time.

Unlike credit and market risk, operational risk is not taken on by the Group on the basis of strategic decisions, as it is inherent in its ordinary operations.

For the management of the Group's operational risk, it was decided to adopt a centralised model of governance at the Parent Company which provides for the definition of principles and methodologies that are common to all of the banks.

The model assigns to Banca Popolare di Milano, as the Parent Company, the task of coordinating and supervising all of the operating activities carried on by the individual banks in the Group through:

- a strategic level performed by the Management Board, the Supervisory Board, the Risk Committee, the Internal Control and Audit Committee with support from the Chief Risk Officer and Risk Management & Capital Adequacy;
- a more operational level involving the Operational Risk of the Parent Company and the Operational Risk Owner identified within each Group bank.

Banca Popolare di Milano has implemented a system for managing operational risk at Group level by means of:

- an organisational process of collecting data on operating losses and insurance recoveries that involves and responsibilities the various bank functions, guaranteeing the completeness, reliability and updating of the data;
- activation of the Risk Self Assessment tool, an annual process of identifying, assessing and measuring (where possible) the Group's exposure to operational risk in its main Business processes and support carried out by means of questionnaires sent to the Process Owner by Operational Risk Management;
- the definition of criteria and methods for linking the Group's activities to the regulatory lines of Business for the calculation of the individual and consolidated capital ratio;
- the implementation of a system of periodic reporting to top management and the operating functions on the main loss events and operational risks identified;
- the preparation of training tools for top management and the operating functions to encourage their involvement and to provide guidelines to the staff concerned for identifying and reporting such risk;
- an annual review of the entire system of operational risk management by means of a process of internal self-assessment, which allows the Group to evaluate the effectiveness of its strategies and the adequacy of the system implemented according to the Group's risk profile.

For more detailed information on operational risk, reference is made to Section 13.

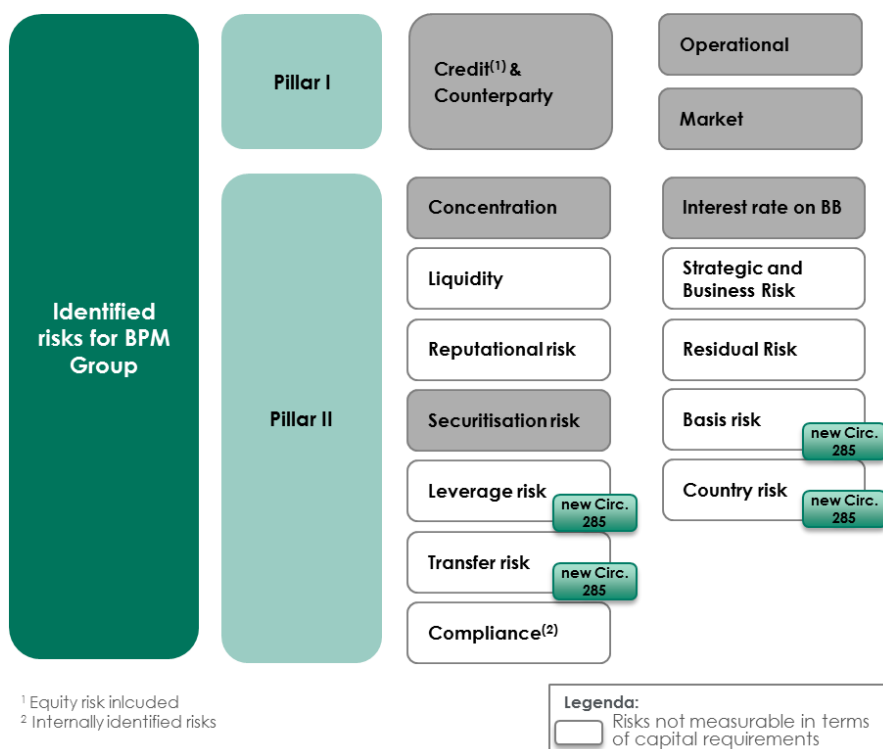
1.3.4 Other types of risks

In the process of assessing capital adequacy ("ICAAP"), the Bipiemme Group has drawn up a "Risk Map", which includes the other risks identified internally that the Group is or could be exposed to, in addition to the risks indicated in Pillar 1 of Basel 2 and other risks introduced by the new Circular no. 285 of the Bank of Italy of 17 December 2013.

In addition to the Pillar 1 risks, for which the Group has taken action, the risks considered and shared internally – for which controls, monitoring systems and, in some cases, measurement

methodologies have been developed – are shown in Figure 1.1.

Figure 1.1 – Risks analysed by the Bipiemme Group in the 2014-2015 ICAAP



For completeness's sake, below a description is provided of the risks considered in connection with Pillar 2 and not already discussed above.

Reputational Risk

This is the risk of a decline in earnings or capital arising from a negative perception of the Group's image or reputation by customers, counterparties, members/shareholders, employees, investors or Supervision Authorities due to:

- direct responsibility, in the case of decisions taken that have resulted in negative effects on the Group's reputation;
- indirect responsibility, in the case of implicit support.

Reputational risk pervades all business operations and is, by nature, attributable to intangible assets (such as brand, image, confidence), or the public environment and exposure to communication processes.

Being intangible and intrinsic to the business it may be associated with an occurrence of other risk factors, which are typically operational risk, compliance and legal above all, and strategic risk because of their public resonance.

Based on this consideration, reputational risk is taken as a second level or derivative risk. As it cannot be quantified, the measurement is of a qualitative nature, based on measurement classes defined in terms of frequency (probability of occurrence) and impact (extent of the damage to the reputation of the Group).

In 2015 the *Operational Risk* unit assessed reputational risk by evaluating 53 risk scenarios with the involvement of 35 Organizational Units at Group level.

Residual Risk

This is the risk that the recognized techniques for mitigating credit risk used by the Group are less effective than expected.

For its quantification, an assessment is made of the various tools for Credit Risk Mitigation (CRM), in terms of the capital requirement reduction obtained from their use.

Strategic and Business Risk

This is the risk of an unexpected decline in earnings/margins associated with certain strategic and operational decisions that are not attributable to other risk factors. It can be sub-divided into:

1. strategic risk: which is the risk arising from incorrect strategic decisions or unexpected changes in the competitive scenario;
2. business risk: which is the risk of changes in earnings/margins, versus budget, due to a lack of responsiveness to changes in the competitive environment or customers' behaviour, inadequate implementation of decisions, or rigidity in the cost structure.

As it cannot be quantified, Strategic and Business risk has to be assessed on a qualitative basis and is evaluated in terms of the adequacy of the processes involved.

Securitisation risk

This is the risk that the economic substance of a securitisation is not fully reflected in pricing decisions and risk management; the risk does not consider self-securitisation transactions and assets sold but not derecognised, which already include in credit risk. Internal capital is calculated by applying the standard methodology to third-party positions held in portfolio.

Compliance risk

This is the risk of incurring in judicial or administrative penalties, significant financial losses or reputation damage as a result of violations of laws and regulations or self-regulatory provisions (e.g. articles of association, codes of conduct, corporate governance codes).

As it cannot be quantified, Compliance risk, which includes the sub-risks of "non-compliance", "money laundering", "transparency" and "usury", has to be assessed on a qualitative basis and is evaluated in terms of the adequacy of the processes involved.

Leverage risk

This is the risk that a particularly high level of debt with respect to equity makes the bank vulnerable, forcing it to adopt corrective measures in its business plan, such as selling off assets at a loss, which could result in impairment on the part of the remaining assets.

Leverage risk is monitored by means of a Basel 3 leverage ratio along with any other indicators based on balance sheet multiples (e.g. Total assets/Tier 1).

Basis risk

Basis risk, which forms part of market risk, is the risk of losses caused by non-aligned changes in matched positions that are similar but not identical. In considering this risk, particular attention has to be paid by banks which, calculating the capital requirement for position risk according to the standardised approach, offset positions in one or more equities included in an equity index with one or more positions in futures or other derivatives related to this index or offset opposite positions in stock index futures, which are not identical in terms of maturity, composition or both.

This type of risk is already considered within the credit spread VaR of Banca Akros.

Country risk

This is the risk of losses caused by events that take place in a country other than Italy. The concept of country risk is broader than that of sovereign risk as it relates to all exposures regardless of the nature of the counterparties, whether they are individuals, businesses, banks or government authorities.

Transfer risk

This is the risk that a bank exposed to a party that borrows in a currency other than the one in which most of its revenues are denominated incurs losses due to the debtor's inability to convert its own currency into the currency of the loan.

In relation to Pillar 2 all the risks have been analysed within the risk map, on the basis of the business of the single company, to evaluate risk and to determine the risks to which the Group is or might be exposed. Figure 1.2 shows the risk map for the Group's most significant companies.

Figure 1.2 – Risk map for the most significant companies of the Bipiemme Group

Group legal entities	Credit	counterparty	Market	Operational	Concentration	IRRBB	Liquidity	Residual	Securitisation	Strategic and business risk	Reputational	Compliance	Leverage	country	Basis	Transfer
Banca Popolare di Milano	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Banca Popolare di Mantova	√	√	√	√	√	√	√	√		√	√	√	√	√	√	√
Banca Akros	√	√	√	√	√	√	√	√		√	√	√	√	√	√	√
ProFamily	√			√		√	√			√	√	√	√		√	

In the last quarter of 2015 the Bipiemme Group completed and formalised the risk identification process to identify the significant risks to which the Group is or might be exposed under normal conditions and in an adverse scenario. The output of this process is the basis upon which capital adequacy will be assessed for the ICAAP carried out on December 2015 data.

The process, which involves business functions as well as the application of materiality thresholds and an “expert” evaluation of risk management, showed the risks listed below as significant and a key factor in measuring capital requirements/the qualitative assessment of the relevant organisational controls:

- **Credit**, including concentration and residual risk;
- **Counterparty**;
- **Market**;
- **Specific for the issuer in the Banking Book**;
- **Interest rate on the Banking Book**;
- **Equity investments**;
- **Leverage**;
- **Liquidity**;
- **Reputational**;
- **Strategic**, including business risk and execution risk;
- **Compliance**, including money laundering risk and terrorism financing;
- **ICT**.

1.3.5. Monitoring and Reporting Activities

The monitoring and control of risk is delegated to the Risk Management & Capital Adequacy function of the Parent Company, which has the task of monitoring risk at Group level, ensuring the development and continuous improvement of methodologies and models used in their measurement.

To this end, the Parent Company prepares reports as established by the corporate bodies and in line with internal Group policy and performs a periodic assessment of the Group Risk Profile as part of Risk Management & Capital and compares it with the threshold values laid down in the Risk Appetite Framework.

During the year, the reporting on the Group's risks profile has been consolidated, taking into account a greater integration and consistency with the Risk Appetite Framework and related regulations (Circular 285 - Provisions for the prudential supervision of banks, Attachment A - Risks to be addressed as part of the ICAAP). In addition, the benchmarking activity with the banks subjected to the Single Supervisory Mechanism (SSM) was strengthened, thus expanding integrated reporting.

Accordingly, quantifiable risks are measured, in compliance with applicable internal regulations and an assessment is made of non-measurable risks. These activities are performed to verify compliance with risk objectives and limits and to decide whether escalation procedures should be activated. The reporting system ensures that appropriate information is provided to the corporate bodies, to senior management, to the internal control functions and to the organisational units involved in risk management.

The reports are read and discussed:

- monthly by the Group's Risk Committee; and
- quarterly the Management and Supervisory Boards and by the Internal Control Committee.

The reports are submitted in a more timely fashion, compared to previous years, allowing the corporate governance bodies to develop greater awareness and to take prompt action where required.

1.3.6 Activities carried out by the Internal Audit Department on risk management processes

Within the scope of its responsibilities, as laid down by Supervisory Regulations (see Circ. 285, 11th update, 21 July 2015), in 2015 the Internal Audit department audited the completeness, adequacy, functionality and reliability of the Group's risk management process.

Specifically, in keeping with the audit plan, the department audited the different risk categories, focusing on market, interest rate, liquidity, credit, leverage and operational risks. Below, a description is provided of its activities on the main risks.

In relation to **market risk**, the department tested early warning indicators and application of the scaling rule, to assess the adequacy of Banca Akros's internal model on market risk, to quantify the relevant capital requirements. A check was performed on the validation of this process conducted by the Validation unit.

Tests were performed on the activity carried out by Banca Akros as systematic internaliser, in relation to the consistency of the prices of the securities traded therein.

Lastly, the department audited the process of attribution of the fair value hierarchy and measurement for a sample of financial assets and derivative contracts held by Banca Akros, to verify compliance with the accounting standards and policies adopted by the Bank on the measurement of financial instruments.

All tests had positive results.

Regarding **interest rate risk**, the department audited the interest rate risk management process of the Banking Book, with specific reference to the identification, valuation, measurement, monitoring, reporting and mitigation phases.

The measurement and control system was considered reliable overall, even though it showed areas for improvement, for which specific actions were planned.

Concerning the Group's **liquidity risk** management system, the department monitors on a daily basis the liquidity situation through the reports received from Risk Management & Capital Adequacy and in performing specific audits in this area. To this end, in 2015 checks were performed on liquidity risk governance and management activities and the ILAAP report, prepared for the first time in April 2015, was reviewed.

Moreover, an audit was conducted of the process to prepare the the monthly LCR (liquidity coverage ratio) warnings, analysing the controls designed to ensure the robustness and correctness of the data reported to the Supervisory Authority.

Overall, the measurement and control system was considered largely functional and reliable, with a number of areas for improvement, for which specific corrective actions were planned.

With respect to **credit risk**, the department participated actively in the AIRB project, undertaken to revise the Internal Rating System (IRS) for subsequent validation by the ECB. The project included a series of activities that entailed both the revision of the internal models to estimate risk indicators, which have long been used in operations, and the IT support systems.

In this regard, thanks to a dedicated team established previously, the department performed a third-level control on the different project activities implemented and the controls developed by the Validation unit as a validation function. The systematic monitoring of the project outputs is still under way, according to a specific activity plan covering all the areas to be audited.

As to **leverage risk**, the department performed an audit that resulted in a positive opinion in terms of controls over calculation and signalling phases as well as corporate management and reporting within the RAF.

Lastly, the Internal Audit Function carries out period checks on the system for managing **operational risk**, in order to assess its completeness, adequacy, effectiveness and reliability through the examination of its individual components:

- corporate governance mechanisms;
- classification of activities into regulatory lines of business;
- the system for gathering and storing data;
- the assessment of exposure to operational risk;
- the reporting system;
- self-assessment process.

Overall, no critical issues arose from the work performed that could jeopardise the system's soundness.

In particular, the following received positive assessments:

- the revision of the regulatory framework of reference;
- the consolidation of the Risk Self-Assessment model, based on its revision in 2014;
- the extension of the standardised method (TSA) to Banca Popolare di Mantova e ProFamily, in keeping with the provisions of Regulation EU 575/13.

Moreover, Internal Audit reviewed the results of the assessment of the loss data collection (LDC) activity performed by Operational Risk, in relation to which recommendations were made to refine the completeness of the process.

1.4. Governance System

Details are provided below of offices held by current members of the Management Board of the Bank in other companies (including offices held in Bipiemme Group companies) at 22 March 2016:

Art 435
para.2,
a)

Management board members	Offices in other issuers, intermediaries and large companies	No. Other offices	Total
Mario Anolli			0
Giuseppe Castagna	Director of Banca Akros S.p.A. (Bipiemme Group)	0	1
Davide Croff	Chairman of the Board of Directors of Permasteelisa S.p.A. Director of Istituto Europeo di Oncologia S.r.l. Director of Gala S.p.A. Director of Elica S.p.A.	2	6
Paola De Martini	Director of Tiscali S.p.A. Executive of STMicroelectronics	0	2
Giorgio Angelo Girelli	Chairman of the Board of Directors of ProFamily S.p.A. (Bipiemme Group)	4	5

Pursuant to article 31 of the Articles of Association, the system of appointment and dismissal of the Management Board by the Supervisory Board follows the strict procedure laid down by article 49, paragraph 7 of the Articles of Association (to which reference is made), which requires a qualified quorum to pass resolutions and the casting vote of the Supervisory Board members nominated by "institutional investors" (collective investment schemes and the Bipiemme Group's strategic partners pursuant to article 63 of the Articles of Association). In this context, the Nomination Committee, referred to in article 53 of the Articles of Association, is responsible for selecting and proposing candidates for appointment to the Management Board and can make recommendations on the appointment of the Managing Director.

Art 435
para.2,
b)

In order to guarantee the high level of professionalism of the management board members and a suitable composition, note that art. 32 of the Articles of Association provides that:

- (i) all members of the Management Board must have at least five years' experience, in Italy or abroad, of management activities in banking, asset management companies or insurance, or in other types of companies providing they have shares traded on an Italian or foreign regulated market;
- (ii) at least four members must have gained the experience mentioned in point (i) above in banks, asset management companies or insurance companies or in other companies with shares traded on an Italian or foreign regulated market, having, in any case, a size comparable with that of the Bank and not belonging to the Group, and they must not be employees of the Bank or of other Group companies;
- (iii) at least one of the members must meet the independence requirements of art. 148, third paragraph, of Legislative Decree 58 of 24 February 1998;
- (iv) the less represented gender must be reserved at least the share of Board members established by current legislation on equal access to administrative and control bodies of companies with shares traded on regulated markets;
- (v) of the five members that make up the Management Board, two of the, including the Chairman, are non-executive members. Of the other three members, one is Managing Director.

In addition to fulfilling the requirements provided for by the Articles of Association, all the members of the Management Board must meet the independence, experience and integrity requirements provided for by law to serve in office.

As to the actual knowledge, capabilities and experience of each member of the Management Board, attention is called to the following notes:

Mario Anolli: he has gained several years of managerial experience in banks. In particular: he has been a member of the Board of Directors of Credito Artigiano S.p.A. (from April 2008 to April 2012) and of the Credito Valtellinese S.C.p.A. (from May 2012 to January 2014).

Giuseppe Castagna: he has experience in management in banks in Italy and abroad. In particular, among other things, he has been General Manager of Banco di Napoli S.p.A. from 2009 to 2013 and a Director in Société Européenne de Banque S.A. Luxembourg from 2004 to 2009.

Davide Croff: he has gained several years of managerial experience in banks and in companies listed on regulated markets. Previous positions held include those of Managing Director of Banca Nazionale del Lavoro S.p.A. from November 1990 to June 2003 and member of the Management Board of Banca Popolare di Milano from October 2011 till today (and held the position of Managing Director from October 2013 to January 2014).

Paola De Martini: she has gained management experience in companies listed on regulated markets. In particular, among other positions held, since 2005 she has held the position of Director of Corporate and Tax Affairs with Luxottica Group S.p.A. (a listed company), where she is a member of the senior management team and is a key manager. In addition, from 1994 to 1998, she has been a Group Director of Corporate and Tax Affairs with Bulgari S.p.A. and, from 1999 to 2004, she held the position of Director of Legal Corporate and Tax Affairs with the Grimaldi Group S.p.A.

Giorgio Angelo Girelli: he has gained several years of managerial experience in banks. Previous positions held include those of Managing Director of Banca Generali S.p.A. (from May 2000 to April 2012) and, subsequently, Chairman of the Board of Directors of the same bank (from April to July 2012).

As already mentioned above, in selecting the members of the Management Board of the Bank, under current legislation on equal access to administrative and control bodies of companies with shares traded on regulated markets, the less represented gender must be given at least one-fifth of the places on the Board during the first mandate and at least one-third during subsequent mandates.

Art 435
para.2,
c)

In compliance with the foregoing legislation, on 17 January 2014, the Supervisory Board - having accepted the proposal of the Nominations Committee - appointed the Management Board of the Bank for the period 2014 to 2016, reserving one position, out of the five members appointed, for a Board member pertaining to the less represented gender, that is, Paola De Martini.

In accordance with the regulations laid down in the Bank of Italy Circular no. 285 (Title IV, Chapter 1, Sect. IV), on 18 November 2014, the Management Board set up a Board Risk Committee, approving at the same time the regulation thereof.

Art 435
para.2,
d) and
e)

The Risk Committee supports the Management Board on risk management and control and on the internal control system. In this context, the Committee pays particular attention to all the necessary steps to ensure that the Management Board is able to arrive at a correct and effective determination of the RAF (Risk appetite Framework) and of risk management policies.

The Committee has adequate instruments to carry on its duties with information flows provided by the relevant structures of the Bank. The committee also identifies all the further information flows that need to be assessed in terms of risks (type, subject, format, frequency etc.). The Committee, however, has the right to request, through its Chairman, information on the functions and structures of the Bank and/or other Group companies and – where necessary – may interact with the internal audit, risk control and regulatory compliance functions.

The Risk Committee held 15 meetings in 2015.

2. Scope (art. 436 CRR)

The information in this Public Disclosure document refers to the BPM Banking Group. The Parent Company, Banca Popolare di Milano S.C. a rl, is the entity to which the present public disclosure requirements apply. Art.436, a)

The Table below lists the companies in the Group and their treatment for the purposes of the consolidated financial statements and consolidated supervision. Art.436, b)

Name	Activity	% interest	Accounting treatment	Treatment for Supervision purpose
Banca Popolare di Milano S.c. a r.l.	Banking	-	Line-by-line	Line-by-line
Banca Akros S.p.A.	Banking	96.89%	Line-by-line	Line-by-line
Banca Popolare di Mantova S.p.A.	Banking	62.91%	Line-by-line	Line-by-line
Ge.se.so S.r.l.	Non-financial	100%	Line-by-line	Line-by-line
ProFamily S.p.A.	Finance	100%	Line-by-line	Line-by-line
BPM Covered Bond S.r.l.	Loan securitisation vehicle	80%	Line-by-line	Line-by-line
BPM Covered Bond 2 S.r.l.	Loan securitisation vehicle	80%	Line-by-line	Line-by-line
BPM Securitisation 2 S.r.l.	Loan securitisation vehicle	n.a.	Line-by-line	Excluded
BPM Securitisation 3 S.r.l.	Loan securitisation vehicle	n.a.	Line-by-line	Excluded
Profamily Securitisation S.r.l.	Loan securitisation vehicle	n.a.	Line-by-line	Excluded
Calliope Finance S.r.l	Finance	50%	Equity method	Proportionate

Attention is called to the following:

- "BPM Securitisation 2" (the special purpose vehicle used for the securitisation of mortgages in 2006, in which the Parent Company does not hold any interest) is fully consolidated for reporting purposes (as it met the control requirements for IFRS purposes). This vehicle does not fall within the consolidated supervision as it is not part of the banking group under the definition of the Supervisory Authority. The securitised assets have not been derecognised and form part of risk-weighted assets;
- BPM Securitisation 3" (the special purpose vehicle used for the securitisation of mortgages in 2014, in which the Parent Company does not hold any interest) is fully consolidated for reporting purposes (as it met the control requirements for IFRS purposes). This vehicle does not fall within the consolidated supervision as it is not part of the banking group under the definition of the Supervisory Authority. The securitised assets have not been derecognised and form part of risk-weighted assets;
- "Bpm Covered Bond" (the vehicle used for the issuance of covered bonds in 2009, 2011, 2013 and 2015 for which the Parent Company holds a majority stake) is fully consolidated for both financial reporting and consolidated supervisory purposes. Also in this case the securitised assets have not been derecognised and form part of risk-weighted assets;
- "Bpm Covered Bond 2" (the vehicle used for the issuance of two tranches of covered bond in the second half of 2015 for which the Parent Company holds a majority stake) is fully consolidated for both financial reporting and consolidated supervisory purposes. Also in this case the securitised assets have not been derecognised and form part of risk-weighted assets;
- "Profamily Securitisation 3" (the vehicle used to securitise Profamily's consumer loans for 2015, in which the Parent Company does not hold any interest) is fully consolidated for financial reporting purpose (as it met the control requirements for IFRS purposes). This vehicle does not fall within the consolidated supervision as it is not part of the banking group under the definition of the Supervisory Authority. the securitised assets have not been derecognised and form part of risk-weighted assets;

- "Calliope Finance" is a joint venture. For the purposes of the consolidated financial statements, this company is accounted for with the equity method, in accordance with IFRS 11. For the purposes of consolidated supervision and Part E of the notes to the consolidated financial statements, this company is proportionately consolidated as required by the regulations.

There are no current or foreseeable situations that could lead to impediments of fact or law for the transfer of funds or repayment of liabilities between the Parent Company and the above companies. Art.436, c)

At the level of individual companies included in the scope of application, there are no cases, at the date of publication of the present document, whereby Own Funds are lower than the regulatory minimum levels. Art.436, d)

None of the companies within the scope of application, took advantage of articles 7 and 9 of the Regulation. Art.436, e)

3. **Own funds (arts 437 and 492 CRR)**

Own funds are the first line of defence against the risks involved in the banking business as a whole and are the first parameter of reference for any assessment of a bank's soundness.

The new regulation prescribes that Own Funds consist of the sum of the following capital levels:

- **Tier 1 Capital** in its turn split into:
 - **Common Equity Tier 1 or CET1;**
 - **Additional Tier 1 or AT1;**
- **Tier 2 or T2.**

Of the elements that make up CET1, the bulk consists of paid-in share capital and reserves, with the rest consisting of valuation reserves, minority interests included in the calculation and income for the year included in the calculation. To qualify for inclusion in the calculation, these components must have certain features set out in the CRR to guarantee the absorption of losses.

Art. 437,
1. b)

The regulation provides for some prudential filters related to (with reference to the Group):

- unrealised profits or losses arising from liabilities (derivatives or otherwise) measured at fair value due to their credit rating;
- adjustments to assets measured at fair value that have been subject to "prudent measurement".

It is envisaged that certain elements shall be deducted, such as:

- goodwill;
- intangible assets;
- deferred tax assets (DTA) based on future taxable income;
- significant and insignificant investments in CET1 instruments of other finance-sector entities, which are deducted if their amount exceeds the amount envisaged in the CRR.

Additional Tier 1 capital includes equity instruments which meet the regulatory requirements for inclusion in Own Funds. In the Group's case, they consist mainly of subordinated instruments issued with clauses required from time to time by the Bank of Italy for inclusion in the calculation of Own Funds and which are instruments subject to provisional rules.

Tier 2 capital is mainly composed of financial liabilities that qualify for inclusion in the calculation, issued with the clauses required from time to time by the Bank of Italy for inclusion in the calculation of Own Funds.

Art. 437,
1. f)

As already mentioned, the introduction of the new regulations will take place gradually until the end of 2017 (except for additional Tier 1 instruments and Tier 2 instruments which qualify for inclusion in the calculations until 31 December 2021). During this transitional period, for certain elements that will eventually qualify for full inclusion or for full deduction, it is envisaged that there will a gradual inclusion in or exclusion from Own Funds.

It is envisaged that changes will be made to CET1 subsequent to the application of transitional provisions for the period from 1 January 2014 to 31 December 2017 as required by the CRR, but the final decision will be made by the national supervisory authority.

In particular, with reference to the transitional arrangements for own funds, banks have the option - which they have to exercise by 31 January 2014 - not to include unrealised capital gains and losses related to exposures to central governments classified as " financial assets available for sale " in any element of own funds. The Management Board of BPM has resolved to exercise this option in the calculation of the individual own funds of all Group banks and of consolidated own funds. This option is a continuation of a similar option granted by the Bank of Italy in 2010 and adopted by BPM for the calculation of regulatory capital in accordance with the regulations contained in Circular 263.

Set out below is a quantification of consolidated own funds at 31 December 2015:

(Euro/000)

	31 December 2015	31 December 2014
A. Common Equity Tier 1 – CET1 before the application of prudential filters	4,472,836	4,352,272
of which CET1 instruments subject to transitional provisions	-	-
B. Prudential filters of CET1 (+/-)	-4,405	-5,977
C. CET1 before items to be deducted and the effects of transitional provisions (A +/- B)	4,468,431	4,346,295
D. Items to be deducted from CET1	-190,364	-150,276
E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions	-240,679	-296,347
F. Total Common Equity Tier 1 – CET1) (C – D +/- E)	4,037,388	3,899,672
G. Additional Tier 1 – AT1 before items to be deducted and the effects of the transitional regime	187,326	213,499
of which AT1 instruments subject to transitional provisions	184,572	210,940
H. Items to be deducted from AT1	-	-
I. Transitional regime - impact on AT1 (+/-), including instruments issued by subsidiaries included in AT1 as per transitional provisions	-	-
L. Total Additional Tier 1 - AT1 (G – H +/- I)	187,326	213,499
M. Tier 2 capital (T2) before items to be deducted and the effects of the transitional regime	815,326	1,073,546
of which T2 instruments subject to transitional provisions	253,988	460,786
N. Items to be deducted from T2	38,492	37,999
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 as per transitional provisions	18,973	20,790
P. Total Tier 2 capital (T2) (M – N +/- O)	795,807	1,056,337
Q. Total own funds (F + L + P)	5,020,521	5,169,508

The following table provides a reconciliation between Common Equity Tier 1 and the book value of the Group shareholders' equity.

Art. 437,
1. a)

Items	(Euro/000)	
	31 December 2015	
Shareholders' equity of the Parent Company	4,627,346	
Minority interests	19,974	
Total shareholders' equity	4,647,320	
Dividend	-118,578	
Shareholders' equity after distribution to shareholders	4,528,742	
Adjustments for instruments included in AT1 or T2		
Minority interests included in calculation of AT1	-2,754	
Minority interests included in calculation of T2	-1,997	
Other minority interests non included in calculations	-2,375	
Other items not included in calculations related to valuation reserves for financial instruments available for sale	-8,545	
Other items: share of profits awarded to employees	-16,651	
Treasury shares: difference between book value and regulatory adjustments	-23,584	
Common Equity Tier 1 before regulatory adjustments	4,472,836	
Regulatory adjustments: prudential filters and deductions	-435,448	
Common Equity Tier 1 after regulatory adjustments	4,037,388	

More specifically, the table below provides a breakdown of own funds by level of capital:

Art.
437,
1. d)

Items	(Euro/000)	
	31 December 2015	31 December 2014
CET1 instruments		
Paid-in share capital	3,365,439	3,365,439
Share premium reserve	445	-
Treasury shares	-25,000	-854
Reserves		
Retained earnings	737,065	601,361
Net income for the period attributed to own funds	170,329	136,032
Accumulated other comprehensive income (OCI)	198,268	224,912
Other reserves	13,442	13,442
Minority interests	12,848	11,940
Tier 1 capital prudential filters	-4,405	-5,977
of which: Profits or losses arising from a change in credit rating (DVA)	-505	-1,436
of which: Supervisory adjustments (prudent valuation)	-3,900	-4,541
Deductions:		
Intangible assets - Goodwill	-39,686	-41,899
Intangible assets - Other intangible assets	-136,931	-108,377
Deductions with 10% threshold: Significant investments in CET 1 instruments of other financial entities	-13,747	-
Adjustments arising from transitional provisions	-240,679	-296,347
Common Equity Tier 1 - CET1	4,037,388	3,899,672

Adjustments arising from transitional provisions relate to unrealised income, of which Euro 202.7 million arises from exposures to public administrations, for which the Group has exercised the option set out in the qualitative information. Moreover, for the purpose of the calculation of T1, net reserves relating to exposures that differ from those to central administrations have a positive balance (Euro 63,244 thousand) and, according to the transitional provisions for 2015, they are calculated for an amount equal to 40% or Euro 25,298 thousand (art. 468 CRR). Again, in accordance with the transitional provisions, these have been included in the calculation of T2, in an amount equal to 50% of the remaining 60% (Euro 18,973 thousand).

	(Euro/000)	
Additional Tier 1 – AT1	31 December 2015	31 December 2014
Additional Tier 1 capital equity instruments subject to transitional provisions (grandfathering)	184,572	210,940
Minority interests	2,754	2,559
Additional Tier 1 - AT1	187,326	213,499

Instruments included in the calculation of Additional Tier 1 capital subject to Grandfathering transitional provisions:
(Euro/000)

Bond	31 December 2015		Original nominal amount issued	Issue price	Interest rate	Issue date/ maturity	Early repayment from
	Book value	Contribution to own funds					
Additional Tier 1 - AT1	207,023	184,572					
Preference shares Bpm Capital Trust I – 8.393%	-	-	160,000 Euro	100	Floating	02.07.2001 Perpetual	02.07.2011
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	207,023	184,572	300,000 Euro	98.955	Floating	25.06.2008 Perpetual	25.06.2018

The CRR reflect a transitional calculation regime for instruments issued or eligible as own funds before 31 December 2011. According to article 486 the amount to be included is calculated by applying to the instruments in issue as of 31 December 2012 decreasing percentages starting from 2014 until 2021. For 2015 the applicable percentage is 70%.

On 2 April 2015 BPM repaid the preference shares issued by BPM Capital Trust I. The repayment was authorized by the ECB on 27 February 2015 and, given the transitional regime described above, it did not have an impact on capital ratios.

The terms and conditions of the Tier 1, additional Tier 1 and Tier 2 instruments – as well as the EBA's transitional Model for the disclosure of information on Own Funds – are in the annexes.

The table below shows details of Tier 2 capital:

Tier 2 capital (Additional Tier 1 – AT1)	(Euro/000)	
	31 December 2015	31 December 2014
Instruments and subordinated debt included in calculation of Tier 2 capital	559,341	610,903
Tier 2 capital equity instruments subject to transitional provisions (grandfathering)	253,988	460,786
Minority interests	1,997	1,857
Deductions pertaining to Tier 2 capital equity instruments in which the entity holds a significant investment	-38,492	-37,999
Adjustments arising from transitional provisions	18,973	20,790
Tier 2 capital	795,807	1,056,337

The instruments included in the calculation of tier 2 capital are listed below:

Bond	31 December 2015		Original nominal amount issued	Issue price	Interest rate	Issue date/ maturity	Early repayment from	
	Book value	Contribution to own funds						
Tier 2 capital	1.256.019	813.329						
Banca Popolare di Milano Subordinated bond (Lower Tier 2) Fixed rate 4.5% 18 April 2008/2018	260,646	115,392	252,750	Euro	100	4.50	18.04.2008/18	Not expected
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate 20 October 2008/2018 (*)	454,743	253,988	502,050	Euro	100	Floating	20.10.2008/18	20.10.2013
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Fixed rate 7.125% (issued as part of the EMTN Programme)	540,130	443,949	475,000	Euro	99.603	7.125	01.03.2011/21	Not expected
Banca Popolare di Milano subordinated bond - Floating rate – 18.06.08/18	500	-	17,850	Euro	100	Floating	18.06.2008/18	Not expected

(*)T2 instruments subject to transitional provisions (grandfathering)

Thresholds for the deduction of DTAs and investments in finance-sector companies

	(Euro/000)	
	31 December 2015	31 December 2014
a. Threshold of 10% for insignificant investments in CET1 instruments relating to finance-sector entities	405,113	389,967
b. Threshold of 10% for significant investments in CET1 instruments relating to financial sector entities and for DTAs that depend on future earnings and which arise from temporary differences	405,113	389,967
c. Threshold of 15% for significant investments and DTAs not deducted above (*)	607,670	524,447

(*) Threshold of 15% is that envisaged by transitional provisions; post-transition the percentage will be 17.5%

In accordance with the regulations, DTAs that are based on future earnings and which arise from temporary differences and significant investments not included in CET1 instruments issued by financial sector companies are deducted from Tier 1 capital only to the extent of the portion that exceeds the thresholds stated above. Amounts not deducted are risk weighted using rates envisaged for the case in question.

At 31 December 2015 the Group as a whole exceeded the threshold related to significant investments and, as such, Euro 13,747 thousand was deducted from CET1.

As required by Art 465 of the CRR, set out below are the amounts by which the Group exceeded the minimum levels of Common Equity Tier 1 and Tier 1 capital.

	(Euro/000)		
	Amount at 31 December 2015	Threshold	Excess over threshold
Common Equity Tier 1 - CET1	4,037,388	4.5%	2,461,049
Tier 1 capital	4,224,714	6.0%	2,122,929

As regards amounts relating to minority interests included in Own Funds, note that these relate to the subsidiaries Banca Akros and Banca Popolare di Mantova.

	(Euro/000)	
Minority interests included in:	Amount at 31 December 2015	Amount at 31 December 2014
Common Equity Tier 1 capital	12,848	11,940
Additional Tier 1 capital	2,754	2,559
Tier 2 capital	1,997	1,857

4. Capital Requirements (art. 438 CRR)

Qualitative information

In order to provide management and the Supervision Authority with adequate information on the adequacy of its capital, which is the first line of defence against risks assumed, Bipiemme Group measures its current and prospective capital, both in terms of First and Second Pillar, based on Basel 3 rules (as applied through the CRR/CRD IV) and national discretion rules. Self-assessment of capital adequacy is performed through a specific process implemented - and integrated with other key Bank processes (e.g. RAF, Recovery Plan) - specifically for this purpose.

Art. 438,
a) e b)

With regard to Pillar 1, the Group's capital adequacy involves monitoring and managing on an ongoing basis the capital ratios, calculated by the Accounting and Financial Reporting Function by application of the rules laid down in the Supervisory Regulations, in order to verify the compliance with regulatory limits and ensure maintenance of the minimum levels of capital required by the Supervisory Authority. These ratios are also estimated by the Planning function for purposes of the budget or strategic plan and, together with Risk Management & Capital Adequacy, they are verified quarterly to ensure they comply with the thresholds set by the Risk Appetite Framework and the assessments carried out in the Capital Plan purview.

In the context of Pillar 2, Risk Management & Capital Adequacy Function has the task of coordinating the internal process for assessing the Group's capital adequacy, in line with the regulations, making current and future estimates which are summarised in the annual ICAAP (Internal Capital Adequacy Assessment Process) report.

The ICAAP process, which is governed internally by specific regulations and circulars, takes into consideration not only Pillar 1 risks (credit, counterparty, market and operational), but also the other major risks identified internally or on the basis of regulations. This internal risk identification process makes it possible to identify – through interviews as well as qualitative and quantitative assessments – to identify every year major risks to which the Group is or may be exposed in the course of its operations.

The final output of the risk identification process is the Risk Map.

The guidelines for the assessment of capital adequacy and the formulation of the related opinion are determined annually by the Risk Committee at the time that it approves the ICAAP Framework and then submitted for the approval of the Parent Company's Management Board, prior to the approval of the ICAAP Report.

Specifically, the ICAAP Framework defines:

- the list of major risks for the Group resulting from the internal risk identification process (Risk Map) and related management procedures (calculation of capital requirements or mitigation actions in case of non-quantified risks);
- the companies subject to ICAAP;
- the methodologies adopted for the calculation of Pillar 2 capital requirements and to determine available financial resources (AFR);
- the methodology adopted for the stress scenario;
- the Pillar II capital ratios considered relevant to the assessment of capital adequacy and the related thresholds, in compliance with the Risk Appetite Framework.

The assessment of capital adequacy and the relevant opinion, within the ICAAP, takes place by monitoring specific capital ratios that take into account the cost of economic capital originated by pillar 2 risks.

Measurement of the risk profile is done by quantifying overall internal capital and is equal to the aggregation, by means of the "building block" methodology, of the internal capital for the individual risks that have been identified. The prospective internal capital for each risk is calculated by making growth estimates for the following year provided for in the budget and on the basis of parameters for the macroeconomic scenario.

The outcome of the self-assessment of capital adequacy is summarised in a qualitative opinion with reference to the Company's situation at the end of the last financial year and at the end of the current year in the normal course of business (with a current and prospective outlook), also taking into account the stress scenario applied.

Self-assessment of capital adequacy is based on a comparison between available financial resources (or AFR) and total internal capital available to cover measurable risks that are deemed relevant and which are measured by the use of advanced methodologies (IRB) or methodologies developed internally and validated by the competent function

Available financial resources represent the capital available to the Group to meet all of the risk factors involved in operations and consists of the capital elements that the Group believes could be used to cover total internal capital. Available financial resources are calculated separately with a current, prospective and stressed outlook. For the purposes of self-assessment of capital adequacy related to the latest reporting period sent to the Supervision Authority on 30 April 2015, available financial resources are equal to the amount of consolidated Own Funds with just the correction for the shortfall (difference between expected loss calculated with IRB methodology and adjustments).

Following the determination of the current, prospective and stressed levels of available financial resources and overall internal capital, an opinion of the Group's capital adequacy is formulated by comparing the current and prospective Risk Appetite indicators to the assessment thresholds.

In particular, the metrics are assessed and monitored by means of thresholds adopted for the pursuit of RAF objectives.

Infringement of the set limits, depending on how serious it is, involves the activation of specific countermeasures to bring the value of the indicator back to the levels seen during the "normal course of business". These countermeasures as foreseen in the RAF must be suitably agreed and formalised with all the structures potentially involved in the management of the emergency situation and brought to the attention of the Company's management, which will in turn decide and ensure their timely and effective implementation.

After the assessment of the Group's capital adequacy, the capital adequacy of the individual entities is assessed through the allocation of internal capital, informing all Boards of Directors of Group companies.

It is also worth emphasising that the assessment of capital adequacy will be subject to verification in the presence of significant changes in the composition of the Bank's risks and/or a review of the Strategic Plans.

Quantitative information

Credit and counterparty risk: capital requirements by class of assets (Euro/000)

Art. 438,
c), d)
and f)

Regulatory portfolios	2015			2014		
	Capital requirements for credit risk	Capital requirements for counterparty risk	Total	Capital requirements for credit risk	Capital requirements for counterparty risk	Total
Exposures to central administrations and central banks	64,109	180	64,289	66,653	5	66,658
Exposures to regional administrations or local authorities	1,962	19	1,981	1,589	37	1,626
Exposures to public sector bodies	4,379	-	4,379	2,480	-	2,480
Exposures to multilateral development banks	-	-	-	-	-	-
Exposures to international organisations	-	-	-	-	-	-
Exposures to supervised intermediaries	124,015	16,496	140,511	115,204	16,748	131,952
Exposures to companies	1,080,728	17,212	1,097,940	986,561	15,592	1,002,153
Retail exposures	356,924	71	356,995	375,376	43	375,419
Exposures guaranteed by mortgage charge on property	248,753	-	248,753	230,346	-	230,346
Exposures with default status	402,692	155	402,847	399,252	955	400,207
Exposures associated with a particularly high risk	6,224	-	6,224	7,873	-	7,873
Exposures in the form of guaranteed bank bonds	-	-	-	823	-	823
Short-term exposures to companies or supervised intermediaries	-	-	-	-	-	-
Exposures to collective investment undertakings	50,546	-	50,546	58,893	70	58,963
Exposures in equity instruments	49,160	1,608	50,768	58,543	1,346	59,889
Other Exposures	74,552	-	74,552	71,336	-	71,336
Exposures to securitisations	18,115	-	18,115	22,070	-	22,070
TOTAL CREDIT AND COUNTERPARTY RISK	2,482,159	35,741	2,517,900	2,396,999	34,796	2,431,795

Capital requirements for market risk (Euro/000)

Capital requirements	2015	2014
Market risk: standardised approach	29,852	21,303
Market risk: internal models	33,461	17,457
Settlement risk	97	313
Risk of downgrading of credit rating	8,469	9,920
TOTAL MARKET RISK	71,879	48,993

Capital requirements for operational risk (Euro/000)

Capital requirements	2015	2014
Operational risk - basic approach	1,794	8,135
Operational risk - standardised approach	210,808	205,202
TOTAL OPERATIONAL RISK	212,602	213,337

CAPITAL RATIOS	2015	2014
<i>CET 1 capital ratio</i> (Common Equity Tier 1 /total risk-weighted assets)	11.53%	11.58%
<i>Tier 1 Capital ratio</i> (tier 1 capital/total risk-weighted assets)	12.06%	12.21%
<i>Total capital ratio</i> (total own funds/total risk-weighted assets)	14.33%	15.35%

No calculation has been made of capital requirements as per art. 92, paragraph 3 b) (position risk and large exposures exceeding the limits) and 3 c) (exchange rate risk, settlement risk or commodity position risk) given that there is no exposure to these types of risk.

Art.438,
e)

5. Credit risk adjustment (art. 442 CRR)

Qualitative information

The following information is provided with regard to the classification of non-performing assets and a description of the methods used to determine the adjustments.

Art. 442,
a)

Each time financial statements are prepared, a review of financial assets classified as loans is carried out to identify those which show objective signs of impairment as a result of events that occurred after they were booked. These signs become visible as a consequence of the following events in particular:

- significant financial difficulties on the part of the issuer or the debtor to honour their obligations;
- situations of default on the part of the issuer or the debtor or non-payment of interest or principal;
- modification with the debtor or issuer, for economic or legal reasons linked to the financial difficulties of the issuer, of terms and conditions that the Group would not otherwise have taken into account;
- probable bankruptcy of the debtor or issuer or their involvement in other insolvency proceedings;
- lack of access to an active market for that particular financial asset because of the financial difficulties of the debtor or issuer;
- deterioration in the quality of a homogeneous group of loans due for example:
 - to payment difficulties on the part of debtors within the group;
 - to national or local economic conditions that adversely affect the group.

The impairment test of the loans is divided into two phases:

- the phase of individual or specific assessments, in which individual impaired loans are selected and the related losses estimated;
- the phase of collective or portfolio assessments, in which latent potential losses on performing loans are estimated.

In the first place, we evaluate the assets representing the impaired exposures (non-performing loans), classified into different risk categories according to regulations issued by the Bank of Italy, consistent with IAS/IFRS regulations, integrated with internal arrangements that set criteria and rules for the transfer of the loans to the different risk buckets. To this end, it is noted that starting 1 January 2015, the Bank of Italy revised the buckets of deteriorated loans.

This revision was necessary to adapt the previous risk buckets to the definition of Non-Performing Exposure (NPE) introduced by the European Banking Authority ("EBA") with the publication of the Implementing Technical Standards ("ITS"), EBA/ITS /2013/03/rev1, of 24 July 2014.

Thus, the section on "Asset Quality" of Circular no. 272 of 30 July 2008 (6th update of 7 January 2015) was updated, with the identification of the following categories of deteriorated exposures:

- **Bad loans:** cash and "off-balance sheet" exposures to borrowers in a state of insolvency (even if not yet established by a court) or substantially similar situations, independently of any loss forecasts made by the bank. Bad loans include loans to local authorities (municipalities and provinces) in a state of insolvency for the amount subject to the pertinent liquidation procedure;
- **Unlikely to pay:** classification in this category is, first of all, the result of the bank's judgment that, without action such as calling on the relevant guarantees, the borrower is unlikely to repay principal and/or interest. This judgment must be independent of any past due amounts or instalments. Thus, it is not necessary to wait for signals to materialise, such as a defaulted payment, in the presence of elements that suggest a risk of the borrower's default (such as a crisis of the industry where the borrower operates). The "unlikely to pay" status is assigned to all cash and off-balance-sheet exposures to a single borrower in such a condition;
Past due exposures and/or overdrafts breaching the advised limits: cash exposures, other than those categorised as bad loans or unlikely to pay, which, as of the reference date, are past due and/or in breach of the advised limit for more than

90 days. The Bipiemme Group determines past due exposures and/or overdrafts exceeding limits by reference to the position of the single borrower.

EBA's ITIS introduces an additional disclosure requirement on forbore exposures. EBA's concept of forbearance refers to borrowers that have or may have difficulties in honouring their obligations and who have been granted new terms and conditions. Thus, a necessary condition to identify a forbore exposure is the existence of a request to renegotiate terms and conditions of a loan due to the borrower's difficulties.

In January 2015 the Bank of Italy issued an update of circular no. 272, in the wake of EBA's technical standards, which defines "non-performing exposures" and "forborne exposures". Forbearance is not a new concept for problem loans but is an additional disclosure requirement as forbore exposures are transversal to existing risk categories and may include both performing and non-performing exposures, based on the reasons that led to the renegotiation.

The forbore status for an exposure may cease after a review of the borrower's financial conditions, operating results and cash flows. This review takes place over a period of 2 or 3 years, depending on whether loans are performing or non-performing.

If there is objective evidence of *impairment*, the amount of the write-downs is equal to the difference between the book value of the asset at the time of the evaluation (amortised cost) and the present value of the expected future cash flows of principal and interest, calculated by applying the effective interest rate on impairment.

Art. 442,
b)

The expected cash flows take into account the foreseeable recovery time, the realisable value of any guarantees on the positions, any prepayments received (excluding future loan losses that have not yet arisen), and the costs that will be incurred to recover the loan. The present value of future cash flows of a collateralised financial asset reflects the cash flows that might result from the collateral, net of realisation costs, regardless of the actual probability of realisation. Cash flows related to loans that are expected to be recovered in the short term are not discounted. The original effective interest rate for each loan remains unchanged over time even in the case of a restructuring that has led to a change in the contractual rate and also when the relationship becomes, in practice, non-interest bearing from a contractual point of view. If a loan has a variable interest rate, the discount rate for measuring the loss is the current effective interest rate determined under the contract.

In the event of an adjustment, the book value of the asset is reduced by setting up an allowance for bad and doubtful accounts that offsets the value of the asset and the amount of the adjustment is booked to the income statement under "Net losses/recoveries on impairment of loans". If the loan is regarded as uncollectible, it is written off against the allowance. If in a subsequent period the amount of the adjustment decreases and the decrease is objectively attributable to an event that occurred after determination of the write-down, as an improvement in the creditworthiness of the borrower, the adjustment recorded previously is eliminated or reduced by booking a writeback to the income statement, though the writeback cannot in any case exceed the amortised cost that the loan would have had if no adjustments had been made previously.

Reversals of impairment losses, like reversals associated with the passage of time, for interest earned in the period on the basis of the original effective interest rate (previously used for calculating the impairment loss), are recognised at each balance sheet date under "Net losses/recoveries on impairment of loans" in the income statement.

The restructuring of loans that envisages the cancellation thereof in exchange for equity instruments (shares, participating instruments or units of collective investment undertakings) via debt/equity swap transactions is, from an accounting point of view, a substantial amendment to the original contractual terms leading to the termination of the pre-existing contract and the consequent recognition at fair value through profit or loss of the new instrument, with initial recognition resulting from the difference between the book value of the terminated loan and the fair value of the financial instruments received

Loans for which no objective evidence of impairment has been identified ("performing loans") are submitted to collective or portfolio evaluation.

The evaluation of performing loans (loans to borrowers who, at the balance sheet date, have not shown any specific risk of default) takes place for homogeneous categories of loans in terms of credit

risk and loss rates are estimated taking into account past statistics and other elements that are observable at the valuation date, which make it possible to estimate the latent loss in value of each loan category.

For this purpose, we use a model developed on the basis of Risk Management methodologies seeking all possible synergies (as permitted by the various regulations) with the advanced approach for evaluating the creditworthiness of a counterparty, under the current supervisory legislation. From an operational standpoint, the best possible proxy for determining the creditworthiness of a counterparty is the rating calculated by the models that we have developed and validated internally. All of the positions identified using the methods explained above are evaluated on a collective basis by determining the amount of adjustments to be booked to the income statement, as the product of the exposure at the balance sheet date, the probability of default (PD) and the loss in case of default (LGD).

The estimation process for the above factors, PD and LGD, takes account of assumptions that permit the closest possible approximation of the notion of "incurred loss", that is, the loss arising from actual events but which have not yet been reflected in the revision of the level of risk of the counterparty ("Incurred but not reported"), as envisaged by IAS 39. In particular, a time horizon of one year is used for the identification of a deterioration in creditworthiness that is then corrected by means of a mitigating factor ("Loss Confirmation Period") that represents the time period between the detection of the initial signs of anomalies and the point in time when the default event is recorded by the Bank.

The adjustments are determined collectively and booked to the income statement. At each balance sheet and interim report date, we update the assessment with reference to the entire portfolio of performing loans as of that date and any additional adjustments or writebacks are recalculated differentially with reference to the entire portfolio.

Interest on the loans is classified in the income statement under "Interest and similar income" and is recognised on an accrual basis. Any gains and losses on disposal are reported in the income statement under "Profits (losses) on disposal or repurchase of: loans".

A similar method is used for determining specific and general write-downs against guarantees given which do not represent derivative contracts. The liabilities resulting from this valuation process are booked to "Other liabilities" in accordance with the Bank of Italy's instructions. Impairment losses on the guarantees issued and any subsequent writebacks are recognised in the income statement under "Net losses/recoveries on impairment of: other financial activities".

Quantitative information

Distribution of credit exposures by originating portfolio and credit quality (book value) (Euro/000) (Art. 442 c)

	Bad Loans	Unlikely to pay	Impaired past due positions	Performing past due positions	Other performing positions	Total
1. Financial assets available for sale	0	0	0	0	8,998,999	8,998,999
2. Investments held to maturity	0	0	0	0	0	0
3. Due from banks	0	0	0	0	1,224,717	1,224,717
4. Loans to customers	1,490,591	2,043,317	90,316	1,476,785	29,085,828	34,186,837
5. Financial assets designated at fair value through profit and loss	0	6,774	0	0	68,769	75,543
6. Financial assets due for disposal	0	0	0	0	0	0
31 December 2015	1,490,591	2,050,091	90,316	1,476,785	39,378,313	44,486,096

Average distribution of credit exposures by originating portfolio and credit quality (book value) (Euro/000) (Art. 442 c)

	Bad Loans	Unlikely to pay	Impaired past due positions	Performing past due positions	Other performing positions	Total
1. Financial assets available for sale	0	0	0	0	9,025,107	9,025,107
2. Investments held to maturity	0	0	0	0	0	0
3. Due from banks	230	0	0	0	1,104,517	1,104,747
4. Loans to customers	1,417,498	2,080,383	113,182	1,362,555	28,159,223	33,132,841
5. Financial assets designated at fair value through profit and loss	0	3,873	0	0	81,113	84,986
6. Financial assets due for disposal	0	0	0	0	0	0
Average 31 December 2015	1,417,728	2,084,256	113,182	1,362,555	38,369,960	43,347,681

Geographical distribution of cash and "off-balance sheet" exposures to banks (book value) (Euro/000) (Art. 442 d)

Geographical areas	ITALY				OTHER EUROPEAN COUNTRIES			
	Gross exposure	Net exposure	Specific adjustments	General adjustments	Gross exposure	Net exposure	Specific adjustments	General adjustments
Exposures								
A. Cash exposures								
A.1 Bad loans	-	-	-	X	34	-	34	X
A.2 Unlikely to pay	-	-	-	X	-	-	-	X
A.3 Past due impaired exposures	-	-	-	X	-	-	-	X
A.4 Performing exposures	1,193,493	1,192,516	X	977	336,134	335,464	X	670
Total cash exposures	1,193,493	1,192,516	-	977	336,168	335,464	34	670
B. Off-balance sheet" exposures"								
B.1 Bad loans	-	-	-	X	-	-	-	X
B.2 Unlikely to pay	-	-	-	X	-	-	-	X
B.3 Other impaired assets	-	-	-	X	-	-	-	X
B.4 Performing exposures	357,713	357,704	X	9	681,433	681,388	X	45
Total off-balance-sheet exposures	357,713	357,704	-	9	681,433	681,388	-	45
Total cash and off-balance sheet exposures to banks	1,551,206	1,550,220	-	986	1,017,601	1,016,852	34	715

Geographical areas	AMERICA				ASIA			
	Gross exposure	Net exposure	Specific adjustments	General adjustments	Gross exposure	Net exposure	Specific adjustments	General adjustments
Exposures								
A. Cash exposures								
A.1 Bad loans	1,355	-	1,355	X	-	-	-	X
A.2 Unlikely to pay	-	-	-	X	-	-	-	X
A.3 Past due impaired exposures	-	-	-	X	-	-	-	X
A.4 Performing exposures	48,601	48,368	X	233	2,289	2,255	X	34
Total cash exposures	49,956	48,368	1,355	233	2,289	2,255	-	34
B. Off-balance sheet" exposures"								
B.1 Bad loans	-	-	-	X	-	-	-	X
B.2 Unlikely to pay	-	-	-	X	-	-	-	X
B.3 Other impaired assets	-	-	-	X	-	-	-	X
B.4 Performing exposures	23,123	23,121	X	2	39,195	39,152	X	43
Total off-balance-sheet exposures	23,123	23,121	-	2	39,195	39,152	-	43
Total cash and off-balance sheet exposures to banks	73,079	71,489	1,355	235	41,484	41,407	-	77

Geographical areas	REST OF THE WORLD				TOTAL			
	Gross exposure	Net exposure	Specific adjustments	General adjustments	Gross exposure	Net exposure	Specific adjustments	General adjustments
Exposures								
A. Cash exposures								
A.1 Bad loans	-	-	-	X	1,389	-	1,389	X
A.2 Unlikely to pay	-	-	-	X	-	-	-	X
A.3 Past due impaired exposures	-	-	-	X	-	-	-	X
A.4 Performing exposures	2,916	2,908	X	8	1,583,433	1,581,511	X	1,922
Total cash exposures	2,916	2,908	-	8	1,584,822	1,581,511	1,389	1,922
B. Off-balance sheet" exposures"								
B.1 Bad loans	-	-	-	X	-	-	-	X
B.2 Unlikely to pay	-	-	-	X	-	-	-	X
B.3 Other impaired assets	-	-	-	X	-	-	-	X
B.4 Performing exposures	1,578	1,575	X	3	1,103,042	1,102,940	X	102
Total off-balance-sheet exposures	1,578	1,575	-	3	1,103,042	1,102,940	-	102
Total cash and off-balance sheet exposures to banks	4,494	4,483	-	11	2,687,864	2,684,451	1,389	2,024

Geographical distribution of cash and "off-balance sheet" exposures to customers (book value) (Euro/000) (Art. 442 d)

Geographical areas	ITALY				OTHER EUROPEAN COUNTRIES			
	Gross exposure	Net exposure	Specific adjustments	General adjustments	Gross exposure	Net exposure	Specific adjustments	General adjustments
Exposures								
A. Cash exposures								
A.1 Bad loans	3,267,305	1,489,416	1,777,889	X	5,756	998	4,758	X
A.2 Unlikely to pay	2,613,341	2,040,971	572,370	X	21,184	4,182	17,002	X
A.3 Past due impaired exposures	96,535	87,318	9,217	X	2,996	2,994	2	X
A.4 Performing exposures	39,797,368	39,616,005	X	181,363	358,502	354,569	X	3,933
Total cash exposures	45,774,549	43,233,710	2,359,476	181,363	388,438	362,743	21,762	3,933
B. Off-balance sheet" exposures"								
B.1 Bad loans	74,893	57,490	17,403	X	-	-	-	X
B.2 Unlikely to pay	481,972	467,899	14,073	X	20,671	20,671	-	X
B.3 Other impaired assets	157,584	157,378	206	X	-	-	-	X
B.4 Performing exposures	6,915,558	6,905,316	X	10,242	222,038	221,858	X	180
Total off-balance-sheet exposures	7,630,007	7,588,083	31,682	10,242	242,709	242,529	-	180
Total cash and off-balance sheet exposures to customers	53,404,556	50,821,793	2,391,158	191,605	631,147	605,272	21,762	4,113

Geographical areas	AMERICA				ASIA			
	Gross exposure	Net exposure	Specific adjustments	General adjustments	Gross exposure	Net exposure	Specific adjustments	General adjustments
Exposures								
A. Cash exposures								
A.1 Bad loans	4,990	6	4,984	X	3,409	171	3,238	X
A.2 Unlikely to pay	7,987	6,487	1,500	X	-	-	-	X
A.3 Past due impaired exposures	2	1	1	X	4	3	1	X
A.4 Performing exposures	29,612	29,607	X	5	1,904	1,903	X	1
Total cash exposures	42,591	36,101	6,485	5	5,317	2,077	3,239	1
B. Off-balance sheet" exposures"								
B.1 Bad loans	-	-	-	X	-	-	-	X
B.2 Unlikely to pay	1,651	1,651	-	X	-	-	-	X
B.3 Other impaired assets	-	-	-	X	-	-	-	X
B.4 Performing exposures	16,533	16,533	X	-	-	-	X	-
Total off-balance-sheet exposures	18,184	18,184	-	-	-	-	-	-
Total cash and off-balance sheet exposures to customers	60,775	54,285	6,485	5	5,317	2,077	3,239	1

Geographical areas	REST OF THE WORLD				TOTAL			
	Gross exposure	Net exposure	Specific adjustments	General adjustments	Gross exposure	Net exposure	Specific adjustments	General adjustments
Exposures								
A. Cash exposures								
A.1 Bad loans	-	-	-	X	3,281.460	1.490.591	1.790.869	X
A.2 Unlikely to pay	-	-	-	X	2,642.512	2,051.640	590.872	X
A.3 Past due impaired exposures	-	-	-	X	99.537	90.316	9.221	X
A.4 Performing exposures	20,303	20,265	X	38	40,207.689	40,022.349	X	185,340
Total cash exposures	20,303	20,265	-	38	46,231.198	43,654.896	2,390.962	185,340
B. Off-balance sheet" exposures"								
B.1 Bad loans	-	-	-	X	74.893	57.490	17.403	X
B.2 Unlikely to pay	-	-	-	X	504.294	490.221	14.073	X
B.3 Other impaired assets	-	-	-	X	157.584	157.378	206	X
B.4 Performing exposures	-	-	X	-	7.154.129	7.143.707	X	10,422
Total off-balance-sheet exposures	-	-	-	-	7,890.900	7,848.796	31,682	10,422
Total cash and off-balance sheet exposures to customers	20,303	20,265	-	38	54,122.098	51,503.692	2,422.644	195,762

Sector distribution of exposures (Euro/000) (Art. 442 e), g)

Governments and other public authorities						
	Gross exposure	Average annual gross exposure	Specific adjustments	General adjustments	Specific adjustments for the year	General adjustments for the year
A. Cash exposures						
A.1 Bad loans	1	516	-	X	82	X
A.2 Unlikely to pay	-	794	-	X	32	X
A.3 Past due impaired exposures	531	266	82	X	82	X
Total deteriorated exposures	532	1,576	82	X	196	X
A.4 Performing exposures	9,430,893	9,334,059	X	140	X	97
TOTAL A	9,431,425	9,335,635	82	140	196	97
B. Off-balance-sheet exposures						
B.1 Impaired exposures	132	66	-	X	-	X
B.2 Other exposures	237,444	240,320	X	4	X	8
TOTAL B	237,576	240,386	-	4	-	8
TOTAL (A+B) 31 December 2015	9,669,001	9,576,021	82	144	196	105

Financial companies, banks and insurance companies						
	Gross exposure	Average annual gross exposure	Specific adjustments	General adjustments	Specific adjustments for the year	General adjustments for the year
A. Cash exposures						
A.1 Bad loans	18,086	23,923	15,982	X	999	X
A.2 Unlikely to pay	120,668	149,387	47,498	X	576	X
A.3 Past due impaired exposures	53	108	1	X	3	X
Total deteriorated exposures	138,807	173,418	63,481	X	1,578	X
A.4 Performing exposures	1,740,211	2,077,709	X	10,862	X	5,045
TOTAL A	1,879,018	2,251,127	63,481	10,862	1,578	5,045
B. Off-balance-sheet exposures						
B.1 Impaired exposures	74,611	88,148	5,988	X	6	X
B.2 Other exposures	678,487	644,470	X	399	X	202
TOTAL B	753,098	732,618	5,988	399	6	202
TOTAL (A+B) 31 December 2015	2,632,116	2,983,745	69,469	11,261	1,584	5,247

Non-financial companies						
	Gross exposure	Average annual gross exposure	Specific adjustments	General adjustments	Specific adjustments for the year	General adjustments for the year
A. Cash exposures						
A.1 Bad loans	856,107	942,458	500,320	X	53,750	X
A.2 Unlikely to pay	831,205	806,957	227,789	X	101,906	X
A.3 Past due impaired exposures	12,492	7,979	1,509	X	175	X
Total deteriorated exposures	1,699,804	1,757,394	729,618	X	155,831	X
A.4 Performing exposures	5,710,692	5,051,901	X	52,546	X	12,609
TOTAL A	7,410,496	6,809,295	729,618	52,546	155,831	12,609
B. Off-balance-sheet exposures						
B.1 Impaired exposures	470,748	363,988	10,559	X	1,494	X
B.2 Other exposures	4,109,971	3,775,025	X	6,503	X	629
TOTAL B	4,580,719	4,139,013	10,559	6,503	1,494	629
TOTAL (A+B) 31 December 2015	11,991,215	10,948,308	740,177	59,049	157,325	13,238

Sector distribution of exposures (Euro/000) (Art. 442 e, g) – Cont'd

Households						
	Gross exposure	Average annual gross exposure	Specific adjustments	General adjustments	Specific adjustments for the year	General adjustments for the year
A. Cash exposures						
A.1 Bad loans	548,809	502,565	251,354	X	48,001	X
A.2 Unlikely to pay	165,253	155,457	31,527	X	14,033	X
A.3 Past due impaired exposures	34,566	32,389	3,767	X	512	X
Total deteriorated exposures	748,628	690,411	286,648	X	62,546	X
A.4 Performing exposures	11,696,644	11,222,654	X	24,042	X	3,050
TOTAL A	12,445,272	11,913,065	286,648	24,042	62,546	3,050
B. Off-balance-sheet exposures						
B.1 Impaired exposures	5,664	4,105	553		137	
B.2 Other exposures	244,301	300,659	X	477	X	128
TOTAL B	249,965	304,764	553	477	137	128
TOTAL (A+B) 31 December 2015	12,695,237	12,217,829	287,201	24,519	62,683	3,178

SMEs						
	Gross exposure	Average annual gross exposure	Specific adjustments	General adjustments	Specific adjustments for the year	General adjustments for the year
A. Cash exposures						
A.1 Bad loans	1,858,457	1,697,134	1,023,213	X	172,998	X
A.2 Unlikely to pay	1,528,436	1,545,251	287,108	X	132,136	X
A.3 Past due impaired exposures	51,895	83,289	3,862	X	-	X
Total deteriorated exposures	3,438,788	3,325,674	1,314,183	X	305,134	X
A.4 Performing exposures	11,622,550	11,355,294	X	90,447	X	-
TOTAL A	15,061,338	14,680,968	1,314,183	90,447	305,134	-
B. Off-balance-sheet exposures						
B.1 Impaired exposures	185,616	222,198	14,582	X	3,538	X
B.2 Other exposures	1,883,925	1,933,066	X	3,038	X	-
TOTAL B	2,069,541	2,155,264	14,582	3,038	3,538	-
TOTAL (A+B) 31 December 2015	17,130,879	16,836,232	1,328,765	93,485	308,672	-

TOTAL						
	Gross exposure	Average annual gross exposure	Specific adjustments	General adjustments	Specific adjustments for the year	General adjustments for the year
A. Cash exposures						
A.1 Bad loans	3,281,460	3,166,596	1,790,869	X	275,830	X
A.2 Unlikely to pay	2,645,562	2,657,846	593,922	X	248,683	X
A.3 Past due impaired exposures	99,537	124,031	9,221	X	772	X
Total deteriorated exposures	6,026,559	5,948,473	2,394,012	X	525,285	X
A.4 Performing exposures	40,200,990	39,041,617	X	178,037	X	20,801
TOTAL A	46,227,549	44,990,090	2,394,012	178,037	525,285	20,801
B. Off-balance-sheet exposures						
B.1 Impaired exposures	736,771	678,505	31,682	X	5,175	X
B.2 Other exposures	7,154,128	6,893,540	X	10,421	X	967
TOTAL B	7,890,899	7,572,045	31,682	10,421	5,175	967
TOTAL (A+B) 31 December 2015	54,118,448	52,562,135	2,425,694	188,458	530,460	21,768

Distribution by residual contractual duration: summary table by residual duration (Euro/000) (Art. 442 f)

Type/Time bands	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Beyond 5 years	Unspecifi and duration	Total
Cash assets	7,917,369	531,442	274,723	759,741	1,545,416	1,821,607	3,466,112	14,348,848	14,566,411	115,334	45,347,003
A.1 Government securities	2,652	-	-	-	40,215	360,146	837,017	4,318,097	2,939,991	-	8,498,118
A.2 Other debt securities	7,190	15	1,114	34,955	14,516	2,625	10,514	456,419	225,663	9,761	762,772
A.3 Collective investment undertakings	131,688	-	-	-	-	-	-	-	-	-	131,688
A.4 Loans	7,775,839	531,427	273,609	724,786	1,490,685	1,458,836	2,618,581	9,574,332	11,400,757	105,573	35,954,425
- Banks	683,378	-	2,109	17,949	12,475	8,129	24,763	241,666	-	105,573	1,096,042
- Customers	7,092,461	531,427	271,500	706,837	1,478,210	1,450,707	2,593,818	9,332,666	11,400,757	-	34,858,383

Cash exposures to banks: changes in total impairments (Euro/000)² (Art. 442 i)

Description/Categories	Bad loans	Unlikely to pay	Impaired past due exposures	Total
A. Total impairments – opening balance	9,827	-	-	9,827
B. Increases	1,148	24,960	-	26,108
B.1 adjustments	240	24,960	-	25,200
B.1 bis losses on disposals	-	-	-	-
B.2 transfers from other categories of impaired exposures	-	-	-	-
B.3 other increases	908	-	-	908
C. Decreases	9,586	24,960	-	34,546
C.1 write-backs	-	-	-	-
C.2 write-backs on collections	868	-	-	868
C.2 bis gains on disposals	-	-	-	-
C.3 write-offs	8,718	24,960	-	33,678
C.4 transfers to other categories of impaired exposures	-	-	-	-
C.5 other decreases	-	-	-	-
D. Total impairments – final balance	1,389	-	-	1,389
E. Impairments: of which write-offs	-	24,960	-	24,960

² Adjustments on impaired exposures are exclusively “specific”.

Cash exposures to customers: changes in total impairments (Euro/000) (Art. 442 i)

Description/Categories	Bad loans	Unlikely to pay	Impaired past due exposures	Total
A. Total impairments – opening balance	1,707,326	550,774	12,488	2,270,588
B. Increases	370,561	251,490	775	622,826
B.1 adjustments	275,830	248,660	773	525,263
B.1 bis losses on disposals	25,904	-	-	25,904
B.2 transfers from other categories of impaired exposures	61,854	-	-	61,854
B.3 other increases	6,973	2,830	2	9,805
C. Decreases	287,018	208,342	4,042	499,402
C.1 write-backs	72,091	61,141	4,042	137,274
C.2 write-backs on collections	18,085	13,054	-	31,139
C.2 bis gains on disposals	997	-	-	997
C.3 write-offs	169,941	71,455	-	241,396
C.4 transfers to other categories of impaired exposures	-	61,854	-	61,854
C.5 other decreases	25,904	838	-	26,742
D. Total impairments – final balance	1,790,869	593,922	9,221	2,394,012
E. Impairments: of which write-offs	15,348	40,479	-	55,827

"Off-balance sheet" exposures: changes in total impairments on impaired exposures to customers and banks (Euro/000) (Art. 442 i)

Description/Categories	Impaired exposures to customers	Impaired exposures to banks	Total
A. Total impairments – opening balance	51,320	960	52,280
B. Increases	5,244	-	5,244
B.1 adjustments	5,175	-	5,175
B.2 transfers from other categories	-	-	-
B.3 other increases	69	-	69
C. Decreases	24,882	960	25,842
C.1 write-backs	21,162	960	22,122
C. write-backs on collections	-	-	-
C.3 write-offs	3,651	-	3,651
C.4 transfers to other categories of impaired exposures	-	-	-
C.5 other decreases	69	-	69
D. Total impairments – final balance	31,682	-	31,682

6. Use of credit risk mitigation techniques (art. 453 CRR)

Qualitative information

The regulatory provisions in force permit the recognition, for the purposes of the computation of capital requirements, of typical forms of credit risk mitigation techniques (CRM).

In the CRM area, in July 2015 the Bipiemme Group published the paper "Policies on Credit Risk Mitigation" and, subsequently the methodological manual for the "Review of the eligibility of security interests used to mitigate risk". Several circulars describe the operational processes related to the prevention and mitigation of credit risk, to the perfection of security interests and their monitoring and update over time.

Bipiemme Group does not net its banking book exposures to credit risk against offsetting items.

Art. 453,
a)

Bipiemme Group applies counterparty risk mitigation policies by stipulating GMRA (Global Master Repurchase Agreements) for repos and ISDA (International Swaps and Derivatives Association) on CSA (Credit Support Annex) type agreements for transactions in derivatives.

Bipiemme Group requests security against credit risk on a selective basis according to the customer's credit rating.

Art. 453,
b) e c)

In these cases, lending approval is subject to the perfection of security interests.

Security interests include collateral, in the form of mortgages and securities, as well as personal guarantees.

The main types of collateral raised by the Group are mortgage charges on properties, pledges over cash deposits, equities, mutual fund units, Italian government securities and own securities issued with the exception of subordinated securities.

In the case of mortgages, the amount recorded is equal to:

- one and a half times the amount of funding granted for any length of time to individuals (twice in case of taking on a mortgage on the subdivision of a building loan);
- twice the amount of funding granted for any length of time to companies.

In order to ensure effective acquisition and management of guarantees, the Group has defined the general requisites to be submitted to control with regard to property guarantees, financial pledges (cash and cash equivalents) and personal guarantees.

For property mortgages, there is a specific monitoring process characterised by:

- setting up a master file of property granted as collateral for mortgage loans;
- the continuous update of databases, by means of internal control processes or by the automatic acquisition of information from specialised suppliers (e.g. the value indicated by an expert appraisal);
- the automatic revaluation of the value of the property based on price trends shown periodically by the real estate market observatory (Land Registry Office).

In the case of collateral, the valuation process follows the procedures and frequency applicable to the specific form of guarantee received.

Personal guarantees are obtained after assessing the adequacy of the guarantor's assets and personal credit rating, where available.

Special structures within the Credit, and Risk Management & Capital Adequacy and the Operations Function (Smart Centre) supervise the collection, processing, administration and monitoring of guarantees. More specifically, the Single Guarantee Centre (CUG - Centro Unico Garanzie) was set up in July 2015 to ensure that all the guarantee documents are received, to perfect security interests not activated yet, to manage the security interests perfected (e.g. mortgage renewals), to carry out first-level monitoring over the eligibility and the amount of the security interests used to mitigate credit risk, overseeing their value.

Credit derivative transactions are carried out with domestic and international banks and financial institutions.

At 31 December 2015 the Bipiemme Group had only one credit derivative transaction outstanding, for a small amount and expiring in 2016.

Art. 453,
d)

The use of techniques for the mitigation of credit risk can lead to other risks arising, such as risks related to the failure, the reduction or the cessation of the protection (so-called "residual risks") as well as risks of assessment of and potential concentration of specific counterparties. In relation thereto, the Bipiemme Group defines suitable processes and mechanisms to control, manage and, where appropriate, measure these risks. In particular, based on the characteristics of the various types of guarantees, the Group assesses, where relevant, the following specific risk profiles:

Art. 453,
e)

- the extent of the correlation between the amount of the guarantee (or the creditworthiness of the guarantor) and the creditworthiness of the main debtor;
- the credit quality of the guarantor or the issuer of the security provided as collateral;
- the extent of the concentration of exposures to or guaranteed by the same counterparty or by the same group of related counterparties, as well as that of exposures to or guaranteed by counterparties that carry out the same activities or which belong to the same economic sector or the same geographical area;
- other risks related to the type of guarantee (for example, the risk of damage/fire for property).

Based on the outcome of the assessment of the aforementioned risk profiles, the Group, even during the course of the acquisition of the guarantee, adopts specific measures aimed at containing the risks by means of the definition of consistent risk assumption policies.

With respect to the concentration of market or credit risk within the ambit of the instruments used to mitigate credit risk adopted by the Bipiemme Group, it should be noted that the guarantees used for prudential purposes at 31 December 2015 are mainly secured and relate to exposures to supervised intermediaries and companies.

The mitigation of the risk for the regulatory class "supervised intermediaries" is essentially by means of repurchase agreements and netting agreements entered into by Banca Akros with its customers.

Quantitative information

Risk mitigation techniques: secured amount (Euro/000)

Art. 453, f)
e g)

	Exposures without credit risk mitigation	Financial collateral – comprehensive method (1)	Personal guarantees	Total secured exposures
Exposures to or guaranteed by central administrations and central banks	10,952,509	-	176,353	10,952,509
Exposures to or secured by regional administrations or local authorities	124,042	-	22,772	124,042
Exposures to or guaranteed by public sector bodies	140,821	-	15,148	140,821
Exposures to or secured by Multilateral development banks	4	-	18	4
Exposures to or guaranteed by supervised intermediaries	9,436,019	5,495,329	135,136	4,208,444
Exposures to or guaranteed by companies	15,655,429	443,928	154,671	15,260,448
Retail exposures	6,986,744	87,844		6,944,086
Exposures guaranteed by property	8,675,243	262		8,674,981
Exposures with default status	3,895,991	8,750		3,888,069
High-risk exposures	51,866	-		51,866
Exposures in the form of guaranteed bank bonds	-	-		-
Short-term exposures to supervised intermediaries and companies	-	-		-
Exposures in equity instruments	413,024	586		412,438
Exposures to collective investment undertakings	631,821	-		631,821
Other Exposures	1,694,617	242		1,694,375
TOTAL	58,658,130	6,036,941	504,098	52,983,904

(1) This reflects the amount of security interests that, given their eligibility features, can be used to mitigate the original positions.

7. Use of External Credit Assessment Institutions (ECAI) (art. 444 CRR)

Qualitative information

The Bipiemme Group determines its capital requirements for credit and counterparty risk using the standardised approach. Art. 444, a) and b)
 The Group has chosen to use the assessments issued by the external agencies for the evaluation of creditworthiness (ECAI - External Credit Assessment Institutions) shown in the following table.

External agencies for the evaluation of creditworthiness (ECAI) used by the Bipiemme Group

Portfolio	ECA/ECAI	Characteristics of ratings
Exposures to central administrations and central banks	Fitch ratings Moody's Investors Service	<i>Solicited/Unsolicited</i>
Exposures to supervised intermediaries, public sector entities and territorial entities	Moody's Investors Service Fitch ratings	<i>Solicited/Unsolicited</i>
Exposures to international organisations	The use of ECAI is not foreseen	
Exposures to multilateral development banks	Moody's Investors Service Fitch ratings	<i>Solicited/Unsolicited</i>
Exposures to companies and other entities	Moody's Investors Service Fitch ratings Cerved Group	<i>Solicited Solicited Unsolicited</i>
Exposures to collective investment undertakings	Moody's Investors Service Fitch ratings	<i>Solicited</i>
Exposures to securitisations with a short-term rating	The use of ECAI is not foreseen	
Exposures to securitisations other than those with a short-term rating	Fitch ratings	

When a specific risk position held by the Group is given a creditworthiness assessment carried out by the ECAI chosen by the Group, this assessment is used to determine the risk weighting factor to be applied to that position. Art. 444, c)

In the absence of a specific rating, if there is an assessment made by the above ECAI on another risk position to the same borrower/issuer or if there is an overall assessment of the creditworthiness of the borrower/issuer, the Group applies one of these ratings in accordance with the provisions of prudential supervision in the following cases:

- a) when a position without a specific rating is ranked the same as or higher than one with a rating or it is an unsecured senior grade position, of the borrower/issuer, if use of the rating implies a weighting of less than 100%;
- b) in any case, if use of the rating involves a weighting equal to or greater than 100%.

Exposures with and without mitigation of credit risk by risk weight (Euro/000)

Regulatory portfolio	Risk weight	Exposure with mitigation of credit risk	Exposure without mitigation of credit risk
Exposures to or secured by central administrations and central banks		10,952,509	10,952,509
	0%	10,201,877	10,201,877
	50%	4,505	4,505
	100%	709,306	709,306
	250%	36,821	36,821
Exposures to or secured by regional administrations or local authorities		124,042	124,042
	20%	124,042	124,042
Exposures to or secured by public sector bodies		140,821	140,821
	20%	91,613	91,613
	50%	25,458	25,458
	100%	23,750	23,750
Exposures to or secured by multilateral development banks		4	4
	0%	4	4
Exposures to or secured by supervised intermediaries		4,208,444	9,436,019
	0%	-	641,454
	2%	215,282	215,282
	20%	2,909,835	4,905,023
	50%	593,899	774,988
	100%	233,909	2,643,753
	150%	2,150	2,150
	250%	253,369	253,369
Exposures to or secured by companies		15,260,448	15,655,429
	0%	-	246,954
	20%	7,293	7,293
	50%	3,767,689	3,769,653
	100%	10,361,445	10,506,910
	150%	1,124,021	1,124,619
Retail exposures		6,944,086	6,986,744
	0%	-	21,009
	75%	6,944,086	6,965,735
Exposures guaranteed by property		8,674,981	8,675,243
	35%	7,921,779	7,921,990
	50%	753,202	753,253
Exposures with default status		3,888,069	3,895,991
	100%	1,593,026	1,594,952
	150%	2,295,043	2,301,039
High-risk exposures		51,866	51,866
	150%	51,866	51,866
Exposures in equity instruments		412,438	413,024
	0%	-	586
	2%	5,563	5,563
	100%	255,130	255,130
	250%	151,745	151,745
Exposures to collective investment undertakings		631,821	631,821
	100%	631,821	631,821
Other exposures		1,694,375	1,694,617
	0%	302,258	302,258
	20%	509,197	509,197
	100%	820,440	820,440
	Other(*)	62,480	62,722
Securitisations		22,319	22,319
	20%	4,272	4,272
	1,250%	18,047	18,047

(*) Finance leases: where the exercise of the purchase option for the leased asset is not reasonably certain, the residual amount is included in "other exposures" and is weighted on the basis of the remaining length of the lease contract. This calculation leads to multiple weighting percentages.

As indicated in the section dedicated to Own Funds, exposures relating to DTAs and investments in finance-sector companies are deductible from CET1 only if they exceed certain thresholds laid down by law. The Group exceeded the limit for significant investments in supervised intermediaries and, accordingly, Euro 13,747 thousand was deducted from CET1.

With regard to exposures with credit risk mitigation, the following types of amount were considered:

- on-balance-sheet assets: adjusted exposure;
- guarantees given and commitments to disburse funds: credit equivalent;
- securities financing transactions (SFT): adjusted exposure;
- derivatives and long-term settlement transactions: adjusted exposure.

With regard to exposures without credit risk mitigation, the following types of amount were considered:

- on-balance-sheet assets: amount of the exposure;
- guarantees given and commitments to disburse funds: credit equivalent/adjusted amount of the exposure*amount of the exposure;
- securities financing transactions (SFT): amount of the exposure;
- derivatives and long-term settlement transactions: amount of the exposure.

In the case of exposures to which a rating is assigned by one of the ECA/ECAI mentioned above, the weighting coefficients were assigned on the basis of the levels of creditworthiness shown in the following table:

Rating level	Central administrations	Supervised intermediaries, public sector entities, local authorities	Multilateral development banks	Companies and other entities	Moody's	Fitch	Cerved CERVED GROUP (*)
1	0%	20%	20%	20%	from Aaa to Aa3	from AAA to AA-	
2	20%	50%	50%	50%	from A1 a A3	from A+ a A-	from A1.1 to A3.1
3	50%	100%	50%	100%	from Baa1 to Baa3	from BBB+ to BBB-	B1.1
4	100%	100%	100%	100%	from Ba1 to Ba3	from BB+ to BB-	from B1.2 to B2.2
5	100%	100%	100%	150%	from B1 to B3	from B+ to B-	C1.1
6	150%	150%	150%	150%	Caa1 and below	CCC+ and below	from C1.2 to C2.1

(*):only for companies and other entities

8. Exposure to securitisation positions (art. 449 CRR)

Qualitative information

At 31 December 2015, Bipiemme Group was involved in a traditional securitisation - "Bpm Securitisation 2"- and two self-securitisations - "Bpm Securitisation 3" and "ProFamily Securitisation".

Art. 449,
a), d) and
e)

The securitisation transactions were fulfilled to pursue a diversification of funding sources and lower funding costs compared with issues of senior instruments on the debt capital market.

Regarding the traditional securitisation, the Parent Company, acting as the servicer, continues to manage collections of the portfolio that was assigned and to maintain relationships with customers directly, transferring on a day-to-day basis the collections of principal and interest of the portfolio to the Collection Account at the custodian bank, net of the sums received by way of insurance premiums; these are deducted to pay the premiums to the respective insurance companies and mortgage instalment collection fees paid by customers for the service.

Servicing is performed by an in-house function of the Bank which, in accordance with the Servicing Agreement, looks after:

- each day, the activities involved in handling collections and checking cash flows;
- each month, balancing the month's transactions according to the internal monthly report with the daily schedules;
- each quarter, preparing the report (containing the information on the performance of the securitised portfolio) to be sent to the functions that monitor the portfolio (the Arranger, the special purpose vehicle, the cash manager, the paying agent and the rating agencies), calculating the weighted average rate and the notional capital for the swap (split between fixed and floating-rate mortgages), handling the collection of fees and commissions, expense reimbursements and interest on the servicing activity and on the line of credit granted to the entity. A statement of the Collection Account is also sent at the same time as the quarterly report;
- to proceed on a quarterly basis with the verification, completion and transmission of the loan by loan templates requested by the Agencies.

The self-securitisations of performing loans were structured in such a way as to improve liquidity risk management, focusing on efficient management of the loan portfolio and diversification of funding sources, reducing their cost and covering the natural maturities of assets with those of liabilities. In such cases, the direct and full subscription by the Bank of the notes issued by the special purpose vehicle, despite not permitting direct access to liquidity from the market, did make it possible to have securities eligible for refinancing with the European Central Bank.

In order to structure its "own" securitisations, the Group used special purpose vehicles (Bpm Securitisation 2, Bpm Securitisation 3 and ProFamily Securitisation) set up to hold segregated assets (which, in these cases, were loans) transferred thereto by the Parent Company and which issued bonds to finance their purchase. The commitments towards the subscribers of the notes are backed by the cash flow generated from the loans sold.

For information purposes, it is hereby disclosed that there is an ongoing ten year covered bonds programme intended for institutional investors, for which the Parent Company has a triple role of originator bank, issuer and financing bank.

The main risks associated with securitised assets are:

- credit risk linked to the quality of the assets sold to the special purpose vehicle;
- liquidity risk linked to the performance of the loan portfolio, given that the impairment thereof could make it difficult for the special purpose vehicle to redeem the notes and pay the interest thereon;
- interest rate risk linked to the existence of fixed rate and floating rate securities associated with a mortgage loan portfolio with different interest rates.

Art. 449,
b) and f)

The Parent Company regularly monitors the risks pertinent to securitisations. In particular, the performance of the portfolio is monitored in terms of levels of default, delinquency and pre-payment by means of quarterly reports.

Monitoring of credit risk is performed by the pertinent internal structures along with other loans outstanding. Reference should thus be made to section 1 that is dedicated to the credit risk monitoring process.

For operations completed after 1 January 2004, the receivables are not derecognised where there is a substantial retention of risks and benefits, even though formally being sold without recourse to a special purpose vehicle (SPV). This occurs, for example, if the Group subscribes to the junior tranche of securities or similar exposures, and therefore bears the risk of first loss and, in the same way, benefits from the performance of the operation. In particular, the Group retains all of the risks and benefits of securitised loans, not proceeding to their derecognition when, according to the specifications of the contracts in place, there is no change in the Group's risk and exposure to them.

Art. 449 j)

The receivables are therefore maintained as assets in the financial statements by recording:

- in the separate financial statements a debt with the vehicle company for the loan received, net of the securities issued by the company and subscribed by the Group that made the assignment;
- in the consolidated financial statements, following consolidation of the vehicle company, the amount of the Notes issued by the vehicle and subscribed by non-Group companies.

Since the Parent Company is exposed and has rights to variable returns from its involvement with the investee (IFRS 10 paragraph 7(b)), it has not derecognised the transferred assets, which, accordingly, remain on the Parent Company's balance sheet and also on the consolidated balance sheet.

Given that the in the self-securitisation transactions the Group has retained substantially all of the risks and benefits of the assets that were sold, the entire amount of these receivables has been kept on its balance sheet (applying the accounting treatment envisaged in IAS 39 for the category of financial instruments to which these belong), whereas the notes issued by the vehicle and subscribed by the Bank are not shown.

At least until part of the Junior securities are placed on the market, these assignment and purchase transactions, which are to be considered jointly according to the principle of substance over form, are in effect a straightforward transformation of receivables into financial instruments (securities), without there being any real economic effect.

Description of outstanding securitisations

a) Bpm Securitisation 2 Srl (traditional securitisation)

In July 2006 the Bank finalised the securitisation operation which involved transferring without recourse, as permitted by Law 130 of 30.4.99, a portfolio of around Euro 2,011.3 million in performing loans to BPM Securitisation 2 S.r.l. These loans refer to property and other secured loans given by the Bank itself and backed by senior mortgages.

The BPM Securitisation 2 operation was given a rating by the three main agencies: Standard & Poor's, Moody's and Fitch. The same agencies will look after the annual monitoring for the entire duration of the operation.

The operation involved BPM Securitisation 2 S.r.l. issuing in July 2006 the following securities for a total of Euro 2,015.3 million, listed on the Luxembourg Stock Exchange:

Security	Issue date		Balance sheet date		Characteristics
	Rating	Amount (In millions of euro)	Rating	Amount (In millions of euro)	
Class A1	AAA/Aaa/AAA	350	-	-	Notes repaid in full
Class A2 (*)	AAA/Aaa/AAA	1,574.6	AA-/Aa2/AA+	248.5	Maturity 15 January 2043. Early redemption as per offering document (described below). Interest 3-month Euribor + 14 bps.
Class B	AA/Aa2/AA	40.3	A/Aa2/AA	12.3	Maturity 15 January 2043. Early redemption as per offering document (described below). Interest 3-month Euribor + 20 bps.
Class C	BBB/Baa2/BBB	50.4	A/Baa2/BBB	50.4	Maturity 15 January 2043. Early redemption as per offering document (described below). Interest 3-month Euribor + 70 bps.
Total		2,015.3		311.2	

(*) The balance shown under "Balance sheet date" includes buybacks. Considering also the amount bought back, the net amount of the notes outstanding is Euro 174.6 million.

The Senior securities feature a sequential type of amortisation profile, with pro-rata amortisation being adopted upon the occurrence of certain events agreed with the rating agencies. There is also a clean-up option, whereby the Bank has the option to buy back the loans sold if the residual nominal value of the securitised portfolio (expected maturity 15 July 2020) is equal to 10% or less of the portfolio's initial nominal value.

At 31 December 2015 the following amounts had been repaid: the whole of "Class A1", Euro 1,326.1 million of "Class A2" and Euro 28 million of "Class B". The Bank bought back various tranches of Class A2 notes, in the amount of Euro 73.9 million at the balance sheet date.

The operation involved the execution of back-to-back swap contracts between BPM and the Arranger and between the arranger and the SPV. The notional value of the swaps, one for the fixed-rate mortgages, the other for the floating-rate mortgages, is represented by the amount of the securitised loans at the start of the operation, subsequently declining as the portfolio is repaid.

b) Bpm Securitisation 3 Srl (self-securitisation)

As at the reporting date, there is an ongoing self-securitisation that was finalised by the Bank in September 2014 and approved by the Management Board on 25 February 2014. In detail, this is a securitisation of mortgage loans with a view to issuing Asset Backed Securities (ABS), that is financial instruments issued under Law 130 of 30 April 1999 (as amended and supplemented). Loans (and other assets) will be used to honour the obligations related to these notes and to cover the cost of the securitisation.

This operation was carried out through a sale without recourse to the vehicle company BPM Securitisation 3 S.r.l. (a company created ad hoc) of a portfolio of performing loans totalling approximately Euro 864 million, deriving from commercial loans secured by senior mortgages and unsecured loans granted by the Bank.

The cash flows generated by the portfolio sold will be used to repay interest and principal of one class of senior ABS (Class A), with an "A2/AA" rating assigned by Moody's and DBRS, respectively, and an unrated class of ABS Junior securities (Class Z).

In 2015 the senior note was upgraded to Aa2 by Moody's and AAA by DBRS.

Securities	Original amount in Euro	Amount in Euro at 31 December 2015	Characteristics
Class A - rating AA/A2	573,000,000	254,055,585	Legal maturity: 20 January 2057; coupon: 3-mth Euribor + 60 bps., to be paid quarterly from 20 January 2015; quotation: Luxembourg Stock Exchange (" Senior Securities ")
Class Z - junior notes	304,000,000	304,000,000	Legal maturity: 20 January 2057; no interest; no rating; unlisted (" Junior Securities ")
	877,000,000	558,055,585	

The transaction structure provides for a call option under which Banca Popolare di Milano will have the right to repurchase all of the loans sold to the SPV, the issuer of the ABS, and not yet collected at each payment date.

BPM Securitisation 3 S.r.l. and Banca Popolare di Milano entered into a servicing agreement, whereby the the management and administration of the loans, including collections of principal and interest, are performed by the Bank.

The Parent Company subscribed in full to the notes issued by BPM Securitisation 3 S.r.l. which, even though they cannot be used to raise funds from investors, are eligible for refinancing with the European Central Bank.

c) ProFamily Securitisation S.r.l. (self-securitisation)

The self-securitisation transaction called Pro Family Securitisation was approved by the Board of Directors of ProFamily, a subsidiary, on 7 July 2015 and by the Parent Company's Finance Committee on 22 June 2015. The operation involves the securitisation of consumer loans intended to issue asset-backed securities (ABSs), that is financial instruments issued pursuant to law no. 130 of 30 April 1999 (as amended and supplemented).

The operation took place through the sale on a non-recourse basis to ProFamily Securitisation S.r.l., a special purpose vehicle, of a portfolio of performing consumer loans (except wage-assignment loans) for a total of Euro 712.6 million provided by ProFamily on 3 November 2015.

Under the terms of the Master Agreement governing the sale, there will be a revolving structure in place for the first 18 months.

The cash flows generated by the portfolio sold will be used to repay interest and principal of the notes issued by the vehicle on 27 November 2015, a senior ABS class (Class A) with an "A2/AA" rating assigned by Moody's and DBRS, respectively, and an unrated class of ABS Junior securities (Class J).

Securities	Amount in Euro	Characteristics
Class A - rating AA/Aa2	584,300,000	Legal maturity: 21 December 2039; interest: 1-month Euribor + 100 bps., payable monthly starting 20 December 2015; quoted on the Luxembourg Stock Exchange (" Senior Securities ")
Class J - junior notes	140,040,000	Legal maturity: 21 December 2039; interest: 1-month Euribor + 200 bps., payable monthly starting 20 December 2015; unrated; unlisted (" Junior Securities ")
	724,340,000	

The notes issued by the vehicle were fully subscribed by Pro Family S.p.A. which in turn sold them, through a pledge agreement over securities, to the Parent Company. The pledge will enable the subsidiary to take advantage of lower costs of funds, on one side, and the Parent Company to use securities eligible for refinancing with the European Central bank, on the other.

For the weighting of risk assets, the credit risk was considered as not transferred to a significant extent; accordingly, the two securitisations were not recognised for prudential purposes. Art. 449 h)

Third parties' securitisations

The Parent Company's "Loans and Receivables" portfolio includes securities related to securitisations by third-party issuers. These investments are of relatively modest amounts and constitute a residual alternative form of loan diversification Art. 449 o)

The exposures to third-party securitisations consist of three tranches of securities issued by Pharma Finance Srl, a company classified in 2015 as unlikely to pay. The three classes of securities have been measured at fair value for financial reporting purposes. With respect to

their measurement at 31 December 2015 the following should be noted:

- the senior class A is entirely covered by securitised assets (100%);
- the mezzanine class B was subject to impairment in 2015 given that its measurement indicated potential difficulties in the recovery of a portion of the residual capital element;
- the mezzanine class C, even though it has the same level of subordination as Class B, is guaranteed by the EIF (European Investment Fund) and it is envisaged that it will be recovered in 2028.

The table below shows the external rating agencies involved in each securitisation transaction.

Art. 449 k)

Bpm Securitisation 2 Srl	Fitch ratings Moody's Investors Service Standard & Poor's Rating Services
Bpm Securitisation 3 Srl and ProFamily Securitisation Srl	Moody's Investors Service DBRS

Quantitative information

Total amount of securitised assets underlying junior securities or other forms of credit enhancement (Euro/000) (Art 449 n), p)

Assets/Amounts	Bpm Securitisation 2		Bpm Securitisation 3		ProFamily Securitisation	
	Traditional securitisations	Losses recognised in the period	Traditional securitisations	Losses recognised in the period	Traditional securitisations	Losses recognised in the period
A. Own underlying assets:	323,970	1,766	523,146	43	683,791	-
A.1 Written off	-	-	-	-	-	-
A.2 Partially written off	-	-	-	-	-	-
A.3 Not written off	323,970	1,766	523,146	43	683,791	-
1. Bad loans	30,520	1,766	2,167	43	2	-
2. Unlikely to pay	4,535	-	2,244	-	-	-
3. Past due exposures	472	-	808	-	-	-
4. Other assets	288,443	-	517,927	-	683,789	-
B. Underlying assets of third parties	-	-	-	-	-	-

There are no synthetic securitisations or securitisations for which the Parent Company has acted as promoter.

Exposures deriving from the main "own" securitisations broken down by type of asset securitised and by type of exposures (Euro/000) (Art. 449 n)

Type of securitised assets/Exposures	Cash exposures					
	<i>Senior</i>		<i>Mezzanine</i>		<i>Junior</i>	
	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks
A. Written off	-	-	-	-	-	-
B. Partially written off	-	-	-	-	-	-
C. Not written off	73,869	-	50,471	-	10,117	-
C.1 BPM Securitisation 2 S.r.l	73,869	-	50,471	-	10,117	-
- residential mortgages	73,869	-	50,471	-	10,117	-

The parts of the table relating to guarantees given and credit lines have not been shown as there is nothing to report.

There are no assets about to be securitised.

Exposures arising from securitisations broken down by quality of underlying assets (Euro/000) (Art 449 n), p)

Quality of underlying assets/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:	73,855	73,869	50,401	50,471	10,127	10,117
a) Impaired	-	-	-	-	-	-
b) Other	73,855	73,869	50,401	50,471	10,127	10,117
B. With underlying assets of third parties:	17,710	17,710	4,609	4,609	-	-
a) Impaired	17,710	17,710	4,609	4,609	-	-
b) Other	-	-	-	-	-	-

The parts of the table relating to guarantees given and credit lines have not been shown as there is nothing to report.

There are no resecuritisation positions.

Exposures arising from main third party securitisations broken down by type of securitised asset and by type of exposure (Euro/000) (Art 449 n), p)

Type of securitised assets/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjustments/writebacks	Book value	Adjustments/writebacks	Book value	Adjustments/writebacks
A.1 Pharmafin 3 cl. A	17,710	-	-	-	-	-
A.2 Pharmafin 3 cl. B	-	-	337	-39	-	-
A.3 Pharmafin 3 cl. C	-	-	4,272	-	-	-

The parts of the table relating to guarantees given and credit lines have not been shown as there is nothing to report.

The amounts in the "book value" column include accrued interest.

Weighted amount of exposures arising from third party securitisations broken down by level of creditworthiness (Euro/000) (Art. 449, n)

Regulatory portfolio	Level of creditworthiness	Type of securitisation	Role of securitisation	Senior	Mezzanine	Total amount of exposure	Total amount of risk-weighted assets	Capital requirement 8%
Securitisations								
	20%	traditional	Investor	-	4,272	4,272	854	68
	1,250%	traditional	Investor	17,710	-	17,710	221,376	17,710
	1,250%	traditional	Investor	-	337	337	4,213	337
Total				17,710	4,609	22,319	226,443	18,115

9. Exposure to counterparty risk (art. 439 CRR)

Qualitative information

In the Bipiemme Group, counterparty risk is generated primarily by the commercial banks, in addition to the lending and commercial activity with corporate customers, and by the investment banking activity of Banca Akros. Art. 439, b)

This is the risk that the counterparty to a transaction involving certain financial instruments (such as OTC derivatives, repos and forward transactions) could default before the transaction is settled. Taking into account the operating procedures currently in force within the Bipiemme Group, settlement risk is also included in this type of risk.

For the calculation of internal capital, the same methodology was applied for determining EAD as was used to calculate the capital requirements of Pillar 1: the current value method for OTC derivatives and the comprehensive method with Supervisory volatility adjustments for repurchase agreements.

Exposures are divided by counterparty and type of instrument, also in terms of their time horizon and, within each class, netting is used as a risk mitigation technique. Bipiemme Group uses Global Master Repurchase Agreements (GMRA) for repurchase agreements and International Swaps and Derivatives Association (ISDA) based agreements with the Credit Support Annex (CSA) for derivatives.

The functioning of the CSA can be influenced by a possible downgrading of the counterparty, if the CSA foresees threshold and minimum transfer amount (MTA) levels that are not fixed in absolute terms, but variable according to the counterparty's rating.

The Group has a policy of collateralising its operations, giving priority initially to cash-type collateral. The impact, in terms of additional guarantees to be provided as cash collateral, in the event of downgrading of the Group companies that hold derivatives, has been quantified as a maximum of Euro 6.15 million.

For Banca Akros, counterparty risk is associated with its trading in financial instruments for cash and financial derivatives, traded on organised markets and/or OTC, mainly for its own customers and counterparties and the Group's commercial banks.

With regard to the commercial banks, the policy of commercialisation of interest and exchange rate derivative products aims at offering this type of product to potentially interested customers based on specifically identified needs.

The Bipiemme Group limits retail customers to hedging transactions and customers classified as "professionals" for MiFID purposes are limited to hedging and/or investment transactions only.

Regardless of the classification of customers, the purpose of hedging transactions has to be:

- clear from a specific link between the notional amount hedged and the hedging instrument used ("partial hedging" transactions are also considered hedges, both in terms of amount and maturity with respect to the underlying, but those considered "overhedging" are excluded");
- confirmed by the presence of documentation on the "hedging" transaction (e.g. loan agreement to hedge interest rates, letter of credit, invoice, supply contract, etc. to hedge exchange rates).

As regards pricing and, in particular, the maximum level of spread to be applied, this is determined according to the following factors:

- the creditworthiness of the counterparty (internal rating);
- the maturity of the transactions;
- the type of transaction carried out.

Regarding Banca Akros, the policy for the underwriting, management and control of credit risk is set, within the limits established by the Parent Company in the Risk Appetite Framework, by the Board of Directors, which has delegated powers to a Credit Committee subject to predetermined credit limits for each Group and customer/counterparty, depending on the type of transaction. For lower limits, the Board of Directors has attributed other specific powers to individual members of the Committee, subject to obligatory subsequent ratification by the entire Credit Committee. For limits that exceed the authority delegated by the Bank's Board of Directors to the Credit Committee, credit lines are submitted for approval by the Board of Directors, subject to the non-binding technical opinion of the Parent Company's Credit Committee. The Board of Directors also approves the methods for measuring credit, counterparty and performance control risk.

The Credit Committee is also responsible for determining and classifying any "deteriorated exposures" in the single categories indicated by the regulations, on the basis of procedures approved previously by the Board of Directors, as well as to indicate the impairment charges for the single positions/allowance for loan losses. The meetings of the Credit Committee are attended also by the Board of Statutory Auditors.

The Credit Office is responsible for credit analysis and the initial review of lines of credit as well as to monitor the relevant uses and the relevant collateral. The credit and counterparty risk management and mitigation process is strengthened by the participation of a Documentation and Netting office which is part of the Compliance function.

The lending process is expressed both in the granting of loans (to banks and customers) and credit lines by "operating limits", split in nominal terms for the activity in financial instruments in cash and the activity in regulated financial derivatives and in terms of marginal risk and/or mark to market for the activity in OTC financial derivatives.

Within the scope of the Group's Risk Appetite Framework (RAF)ⁱ, in relation to Banca Akros's counterparty risk, a capacity threshold and a tolerance threshold were set, which are measured in terms of Risk-Weighted Assets, in keeping with RAF indicators.

The operating limits in nominal terms are represented by the total value of transactions in debt and/or equity securities executed with a counterparty on a cumulative basis during the settlement period; for regulated derivatives the reference is the nominal value, appropriately weighted for the percentage of initial margins required by the Clearing Houses.

Art. 439,
a)

Lastly, also in nominal terms, limits for intraday operations are permitted, representing the activities typically carried out by specific professional customers, who buy and sell financial instruments with during the day.

There is also an operating limit, expressed in nominal terms, for the settlement of transactions in financial instruments on behalf of specific professional customers, regardless of whether they use Banca Akros as their dealer.

The operating limits in terms of marginal risk are represented by a credit equivalent, use of which is related to the notional value of the transaction, its duration and the underlying OTC financial instrument.

Limits in terms of "mark to market" and/or "threshold amount" contribute toward determining the amount above which the borrower has to pay cash and/or securities until they reach the "mark to market" amount, taking into account the "threshold amount" and the "minimum transfer amount" contractually defined in the appropriate ISDA Credit Support Annex.

The above limits are defined for each customer and/or counterparty, or groups, based on the specific credit and counterparty risk, measured through qualitative and quantitative analysis, including any external and/or internal ratings developed by the Parent Company. The analyses are submitted to the Credit Committee for its assessment. The Front Office operators have workstations that allow them to see the limits set by the IT system used by the Credit Office and are required to check compliance before carrying out a transaction.

In turn, the Credit Office carries out daily monitoring of compliance with the limits (second-level control).

The estimate of counterparty risk for OTC derivatives is carried out by an evaluation system which adjusts the risk calculation, the gross positive market value ("mark to market") weighting it on the basis of the "probability of default" attributed to counterparties by external agencies or, for those without an official rating, associated with specific classes of internal rating of the Parent Company. The estimate of this risk also takes into account the existence of netting agreements and/or collateral in the form of securities or cash and/or pledges on securities or cash.

The counterparty risk associated with transactions in financial instruments traded for cash and in derivatives traded on regulated markets is mitigated by the settlement mechanisms of these markets and/or rules applicable at international level:

- *"delivery versus payment"*;
- in certain regulated markets, the presence of a clearing house for securities traded in cash;
- daily margining for transactions in derivatives traded on organised markets.

For transactions in OTC derivatives entered into to mitigate counterparty risk, Banca Akros uses with its counterparties the reciprocal signing of "bilateral netting arrangements" and/or exchange of collateral in cash or securities, regulated by ISDA contracts and related CSA contracts, respectively. The positions are assessed on a daily or weekly basis.

Quantitative information

Gross positive fair value of OTC financial and credit derivatives (Euro/000) (Art. 439, e)

a) trading book

Counterparties/values	Gross positive fair value of contracts	Reduction of the gross positive fair value due to netting	Positive fair value after effects of netting arrangements
Government and Central Banks	1,717	-	1,717
Other public entities	878	-	878
Banks	698,125	495,049	203,076
Financial companies	335,599	259,118	76,481
Insurance companies	-	-	-
Non-financial companies	73,253	5,138	68,115
Other parties	19,320	5,053	14,267
Total	1,128,892	764,358	364,534

b) banking book

Counterparties/values	Gross positive fair value of contracts	Reduction of the gross positive fair value due to netting	Positive fair value after effects of netting arrangements
Government and Central Banks	-	-	-
Other public entities	-	-	-
Banks	45,111	-	974
Financial companies	974	-	-
Insurance companies	-	-	-
Non-financial companies	-	-	-
Other parties	-	-	-
Total	46,085	-	46,085

Gross positive fair value of derivatives by underlying (Euro/000) (Art. 439, e), f), g) and h)

a) trading book

Underlying/Counterparties	Governments and central banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities	Total
Debts securities and interest rates	-	878	604,663	258,765	-	56,841	5,349	926,496
Equities and stock indices	-	-	60,773	59,364	-	382	13,222	133,741
Currencies and gold	1,717	-	32,689	17,470	-	16,030	749	68,655
Other valuables	-	-	-	-	-	-	-	-
Credit derivatives: protection purchases	-	-	-	-	-	-	-	-
Credit derivatives: protection sales	-	-	-	-	-	-	-	-
Total	1,717	878	698,125	335,599	-	73,253	19,320	1,128,892

b) banking book

Underlying/Counterparties	Governments and central banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities	Total
Debts securities and interest rates	-	-	40,624	974	-	-	-	41,598
Equities and stock indices	-	-	-	-	-	-	-	-
Currencies and gold	-	-	-	-	-	-	-	-
Other valuables	-	-	-	-	-	-	-	-
Credit derivatives: protection purchases	-	-	-	-	-	-	-	-
Credit derivatives: protection sales	-	-	4,487	-	-	-	-	4,487
Total	-	-	45,111	974	-	-	-	46,085

At 31 December 2015 there was only one credit derivatives exposure of a notional value of Euro 4,653 thousand.

OTC financial and credit derivatives: Future exposure (Euro/000) (Art. 439, e), f), g) and h))

a) trading book

Counterparties/values	Derivatives not subject to netting arrangements	Derivatives subject to netting arrangements
Government and Central Banks	2,776	-
Other public entities	1,951	-
Banks	19,163	111,600
Financial companies	4,629	59,138
Insurance companies	4	-
Non-financial companies	14,549	6,345
Other parties	3,480	2,121
Total	46,552	179,204

b) banking book

Counterparties/values	Contracts not subject to netting arrangements	Contracts subject to netting arrangements
Government and Central Banks	-	-
Other public entities	-	-
Banks	10,508	-
Financial companies	575	-
Insurance companies	-	-
Non-financial companies	-	-
Other parties	-	-
Total	11,083	-

Protected amount

Regulatory portfolio	Exposure without mitigation of credit risk	Financial collateral – comprehensive method	Personal guarantees	Exposure after mitigation of credit risk
Derivative contracts	697,970	248,260	-	449,710
Securities Financing Transactions (SFT)	5,900,418	5,526,896	-	646,659
TOTAL	6,598,388	5,775,156	-	1,096,369

10. Exposure to market risk (art. 445 CRR) and use of internal models for market risk (art. 455 CRR)

Art. 445
and Art.
455

Qualitative information

10.1 Authorisation of internal models approach issued by the Bank of Italy

Starting with the supervisory report of June 2007, following recognition by the Bank of Italy, Banca Akros has been using its own internal model based on VaR metrics also to determine the capital requirements for the following market risk classes stemming from trading activities:

- generic and specific risk on equities;
- generic risk on debt securities;
- position risk on investments in mutual fund units (excluding investments in Hedge Funds);
- exchange rate risk.

Therefore, the calculation of the capital requirements for market risk for the above mentioned risk factors is being carried out on the basis of the internal model ("regulatory VaR") for the *Fixed Income*, *Equity* and *FX* portfolios.

The prudential capital requirements for the specific risk component of debt and credit default swaps (on single names and indices), which is not included in the previously mentioned risks, is calculated on the basis of the Standardised Approach. For the same reason, the credit derivative book is excluded from the internal model used for calculating minimum capital requirements. Similar considerations apply to the residual market risk generated by the transactions carried out by the Bank's Treasury Department (repurchase agreements).

As a result of the above, the additional information requested by the supervisory regulations with respect to capital requirements for Incremental Risk Charge (IRC) and All Price Risks (APR) has not been provided.

10.2 Characteristics of the models used

To measure the market risks of its trading book, the Bank has developed a quantitative and organisational model ("internal model"). The main indicator used to quantify market risk is Value-at-Risk (VaR), calculated according to the Montecarlo simulation method. This method implies the estimate of the probability distribution function of the future potential profits and losses by recalculating the value of the portfolio according to a large number of simulated risk factor scenarios generated according to the dynamics of volatility and correlation implicit in the historical trend of the risk factors. The estimate of the maximum potential loss is identified on the basis of a suitable percentile of this distribution. The presence, within the simulations, of the historical correlations between risk factors gives rise to the so-called "diversification effect", according to which the economic effects of changes in individual market variables on the portfolio can, to a certain extent, offset each other, compared with the scenarios generated by uncorrelated variables.

The main types of risks captured by the internal model are:

- delta risk (price sensitivity of a financial instrument to the main risk factor), that is:
 - price risk, in the case of the equity market;
 - interest rate risk, in the case of fixed or floating rate positions;
 - exchange risk, in the case of the Forex market;
- gamma risk (sensitivity to the delta factor of a financial instrument to the underlying risk factor);
- vega risk (price sensitivity of a financial instrument to the volatility of risk factors);
- rho risk (price sensitivity of a financial instrument to interest rate risk);
- theta risk (price sensitivity of a financial instrument to the aging of the financial instruments).

The Bank is not permitted to assume market risk on commodities or other factors for which the Bank does not have systems or models that have been checked and validated by the Pricing and Market Risk Control Model Validation Office.

The individual financial contracts are represented in the VaR model on a "full evaluation" basis, i.e. by a set of theoretical pricing models implemented in the VaR model. This allows the Bank to capture portfolio non linearities, also to higher orders. The non-linear "partial evaluation" method is used in a limited number of cases⁽³⁾. The pricing models are subjected to checks to ensure that they have been formulated correctly in theory, that correct input data is used and that the numerical results obtained are reasonable. The checks carried out are documented in specific manuals.

The parameters of the VaR model are:

- historical period used for estimating volatility and empirical correlations: 12 months (252 observations);
- confidence interval: 99%, unilateral;
- holding period: 1 day;
- weighting factor: 0.992.

The time series of risk factors are updated on a daily basis. The 10-day VaR calculation is estimated by applying the the square-root-of-time rule but, to verify the prudence of this approach with respect to capital requirements, risk is calculated directly by adopting log-returns obtained on a ten-day horizon.

In addition to regulatory VaR calculated under current conditions, Banca Akros has implemented a model for calculating regulatory VaR under stressed market conditions (so called "stressed VaR"), which adopts, as a maximum severity scenario, the market scenario between 10 March 2008 - 10 March 2009 ("Lehman" scenario). This model has been notified to the Supervisory Body and, as required by rules on capital adequacy, and it has been adopted to compute the capital requirement for market risk starting from the last quarter of 2011, as well as for operational purposes.

Credit spread VaR

For internal risk monitoring purposes, the Pricing Models and Market Risk Control Validation Office has developed an extension of the regulatory model aimed at including, within the VaR estimates, also the risk specific to debt securities (so called "Credit Spread VaR"). This extended version of the VaR model allows the Bank to quantify the contribution offered by the issuer risk to the expected maximum daily loss. The specific risk is mapped upon a set of bond credit spread curves, derived from the prices of the more liquid bonds traded on active markets. A set of generic credit spread curves has also been defined, split by rating and business sector, and used as a proxy for those issuers a specific credit spread cannot be attributed to. The historical series of issuer curves are updated on a daily basis. The credit spread VaR estimate is carried out using the same approach adopted for other risk factors (Montecarlo simulation of the expected scenarios), including the diversification effects among portfolio risks implicit in the historical trends of credit spreads.

In order to keep the risk perimeters of the two measurements apart and well defined (regulatory VaR, calculated on the regulatory validated risk factors, and internal VaR, calculated on the extended perimeter which includes credit spreads), an organisational and IT procedure, to that used for regulatory VaR, has been created. This procedure involves the mapping of the positions of the risk factors represented by the credit curves of the individual issuers and the preparation of VaR reports for the various portfolios including the credit spread risk factor. The report output generated by the model on this specific development reflects similar processing performed for the regulatory VaR measure and is historicised in the market risk repository.

Within the issuer risk measurement for internal purposes, the MRC Office has implemented the calculation of the Incremental default Risk Charge (IRC) measure, which quantifies the impact on the trading portfolio of potential issuer default risks (or potential losses due to the insolvency of an issuer) and of migration of rating class (that is, potential direct or indirect incurred losses due to changes to the credit rating of one or more issuers). The model (Merton equity factor model in CreditManagerTM methodology) is based on the use of historical rating transition matrices, while correlations between issuers are estimated by means of an ample set of equity indices used to map each obligor.

³ These include a limited number of options, for which the non-linear partial revaluation model makes it possible to represent the payoffs of the options in a way that is reasonably complete (up to the second order, including cross gamma risks). Certain plain vanilla options with baskets of equities as their underlying are also handled using the same method of partial revaluation.

Advanced Credit and Debit Valuation Adjustment method

In keeping with the criteria set out in the Group policy on Credit Valuation Adjustments and Debit Valuation Adjustments, the Group's banks calculate for all positions in OTC derivatives, except the intercompany ones, the CVA/DVA parameter by using the Expected Future Exposure approach, which is based on the expected changes in the mark-to-market value of the derivative contracts through Monte Carlo simulations. Such simulations are based in turn on evolutionary models of risk factors (e.g. interest rates, exchange rates, prices, volatility) calibrated to their current market value, in keeping with the inputs feeding the corresponding pricing models. In particular, the "risk free" fair value of financial instruments is adjusted through the additive factor known as Bilateral Credit Valuation Adjustment, resulting from the difference between CVA and DVA. The former represents the economic value of the counterparty's risk arising from the counterparty's probability of default while the latter incorporates the probability of default of the reporting Bank.

Risk Appetite Framework and operational limits

The construction of second-level indicators (L2) of the Risk Appetite Framework (RAF) of the Bipiemme Group, started at the end of 2014 and completed in 2015, includes, among the individual indicators related to Banca Akros, three metrics related specifically to market risk:

- regulatory VaR for the entire trading book;
- *credit spread* VaR for the entire *trading book*;
- basis point value for the bonds classified as available for sale (AFS) in the banking book.

With reference to the first two indicators, the RAF of the Bipiemme Group, in keeping with its nature as a framework for the main risk measures already adopted, confirmed their importance by classifying them as level 2 (L2) metrics specific for Banca Akros. For both metrics tolerance and capacity levels were established, as determined assuming a total or partial utilisation of the free component of Own Funds that, all other uses being equal, would result in individual CET1 levels close to their respective RAF thresholds. This method determined the levels shown in the table below.

<i>RAF-L2</i>	<i>Tolerance Area</i>	<i>Capacity Area</i>
Regulatory VaR	1,1501,300	1,300..... 1,450
<i>Credit spread</i> VaR	1,4001,575	1,575..... 1,750

(amounts in thousands of Euros)

A comparison between the two levels of risk capacity with the operational limits in place for these metrics (Euro 1,750 thousand for regulatory VaR and Euro 2,100 for credit spread VaR), from which the entire system of limits for portfolios and sub-portfolios of the trading book is derived, shows that the risk capacity levels of the RAF are lower than such limits. Given that it must be consistent with the RAF, in 2015 the structure of operational limits was revised so as to be compliant with the capacity levels expressed by the Risk Appetite Framework. The overall revision of the limits entailed also the review of the way such limits are re-allocated to the different risk areas, portfolios and sub-portfolios that make up Banca Akros's trading book. Such reallocation was performed by ensuring consistency with the overall limits and taking into account the requirements of the individual operating units and their respective objectives for the current year. The structure of the VaR operational limits was approved by the Board of Directors in the meeting held on 30 July 2015. In keeping with the revision of the VaR limit structure, a revision was conducted also of the structure of the operational position limits (directional, sensitivity, stop loss limits), which go hand in hand with the operational limits expressed in terms of statistical measures (VaR). Such structure was approved by the Board of Directors on 30 September 2015.

The tolerance and capacity limits for the basis point value (BPV) metrics adopted, for Banca Akros, to measure the risk of bonds held in the banking book as available for sale, were set assuming increases in financial assets, at 31 December 2014, consistent with the tolerance and capacity limits of the "Financial Assets to Total Assets ratio", a first-level RAF metric. The risk tolerance and risk capacity for Banca Akros's BPV are set, for 2015, at Euro -300 thousand and Euro - 375 thousand, respectively.

10.3 Internal validation of the model

In 2015 the Parent Company's Validation Function analysed, in relation to 2014, the periodic validation of the Regulatory VaR model applied by Banca Akros to determine the capital requirements for market risk.

As per Group policy, the validation process involved a quantitative assessment of the internal model and a qualitative and quantitative assessment of the "model risk".

The former involves performance of several quantitative tests designed to: verify the assumptions underlying the model to detect situations of risk underestimation; to assess the calibration of the early warnings to check over time the severity of the stress period; to analyse the law of scaling, that is the methodology utilised to calculate ten-day risk measures starting from daily measures. The results of the quantitative assessment show that the performance of the regulatory VaR model, to manage the risk factors monitored by the model, was substantially adequate. This led the Validation Function to issue a positive opinion on Banca Akros's regulatory VaR model for 2014.

Also the assessment of the "model risk" - described in the *Model Risk assessment of the Market Risk Internal Model of Banca Akros – Year 2014* and conducted in cooperation with the Audit Function – showed a low risk level and a substantial adequacy of the model and the controls associated to it. The assessment was intended to test qualitative, quantitative, technological/infrastructural and regulatory aspects related to the regulatory VaR model.

10.4 Review of the internal model and checks performed

Also the Internal Audit department carried out the scheduled review of the internal system for market risk measurement with reference to year 2014, and completed the audits planned for 2015, in order to verify whether it is constantly compliant with regulatory requirements, does not underestimate risks, and is integrated with daily operations.

The results of the review show that, with reference to the compliance of the internal model with organisational and quantitative standards prescribed by current regulation, the Bank complies with the rules on market risk, for both VaR and the stressed VaR. Utmost severity was determined for the stress scenario adopted to calculate stressed VaR and prudentiality was ascertained in the use, for 2014, of the law of scaling for both VaR and stressed VaR, with both processes checked during the year by Market Risk Control. Regarding the degree of coverage and adequacy of the internal model used to quantify the risk exposure of the trading book, the analyses and the statistical tests carried out on 2014 data (tests of exceptions at different confidence levels) indicated that, at the trading room level, the internal model used in calculating VaR, within the validated perimeter, tends at most to overestimate market risk; the statistical analysis of exceptions performed for the Fixed Income risk area, extending the scope of the model to specific risk factors, confirmed the adequacy of the model. Lastly, with reference to the integration of the model for the daily management of risk, the Bank uses the internal model to monitor market risk on an ongoing basis and to support operational and strategic decision-making. In 2015, the internal model was integrated into the RAF.

The audits performed revealed also possible areas for improvement, mainly of a documentary nature for the validated internal model, and the need to complete the development of the model to measure issuer risk.

10.5 Systems and controls designed to ensure consistent and reliable valuations of the trading portfolio

The Pricing and Market Risk Control Model Validation Office is the organisational structure that is in charge of the identification and measurement of the market risk assumed. This structure has hierarchical and organisational independence from the departments that assume market risk. Its task is to oversee all types of market risk through a daily routine analysis of positions in the trading books, quantifying the risk involved in them. The Pricing and Market Risk Control Model Validation Office is responsible for validating the models adopted for the valuation of financial instruments, ensuring that each of them calculates the fair value and risk of these instruments correctly. The same office formally reports to senior management and to the single heads of the business units on daily risk exposures and compliance with risk limits.

The activities performed by this Office can be summarised as follows:

- daily calculation of fair values for the end of day trading book revaluation (the so called "end of day" procedure);

- daily quantification, for overnight risk positions, of the regulatory and managerial Value-at-Risk (VaR), both in current market and in stressed conditions;
- checks of the reliability and robustness of the results produced by the VaR model through daily back testing, both in actual and in hypothetical mode;
- verification of compliance with the operating limits of each Area or desk, both at the end of the day ("overnight") and, in the situations envisaged by the trading limit structure during trading ("intraday"), through real-time monitoring of the positions, ensuring day-by-day consistency between the market risk taken on by the Bank and the guidelines set by the Board of Directors;
- checks of stop-loss limit breaches;
- calculation of the sensitivity measurements for derivatives (delta, gamma, vega, theta, rho);
- quantification of daily gains and losses on the trading book;
- assessment of the quality and significance of the market data used for determining the fair value of all financial instruments, also incorporating in the valuation elements related to the level of liquidability as well as the proper allocation of the corresponding fair value hierarchy;
- analysis of the robustness of the portfolio in extreme market scenarios (so-called "stress test analysis");
- testing activity of the pricing models for new types of financial contracts and/or risk factors (so-called "model testing").

As part of the risk control activity, the contribution of the Internal Audit Function is of particular importance, acting both for the prevention of problems and as a control over the Bank's activities. The Internal Audit Function, which also has resources with quantitative skills, gets assigned specific tasks that involve monitoring and periodically reviewing the Pricing and Market Risk Control Model Validation Office, as required by the Regulatory Instructions.

Quantitative information

Art. 445
and Art.
455

Trend in the VaR of the trading book

The average daily Value at Risk of the trading book in 2015, related only to the market risks included within the perimeter of the internal model acknowledged for supervisory purposes and measured over a holding period of 1 day and with a confidence interval of 99 per cent, was about Euro 518 thousand, up about 25% on the previous year, where the average daily regulatory VaR was Euro 416 thousand euro. The VaR ranged, in the 2015, between Euro 208 thousand euro and Euro 923 thousand, whereas the prior year VaR had ranged between Euro 174 thousand and Euro 833 thousand. As indicated previously, the Bank's risk capacity, as measured by regulatory VaR, is Euro 1,450 thousand.

During the first half of the year under review, the regulatory VaR rose from the lows early in the year (Euro 250 thousand) to slightly less than Euro 880 thousand by the end of June. In the summer months the risk profile decreased but went back up again in September, reaching Euro 6/700 thousand. Eventually, it declined progressively until the end of the year, with the exception of a peak early in December. At year-end regulatory VaR amounted to Euro 450 thousand.

The increase of the trading book's risk profile of the previous year was due mainly to the increased exposure to interest rate risk in the first quarter, also following the bond investments budgeted for 2015. These investments in Italian bank and corporate issues resulted in a greater use of the Bank's risk limits, causing also a higher interest rate risk relatively to other risks (equity, forex, volatility). The observed increase in VaR was due also to the different phases (particularly in May, June and December) of rapid and intense increases of volatility in a large number of market variables, as a consequence of pressures determined by signs of market vulnerability (sustainability of Greece's debt in the Euro zone, weak international growth, trend in oil and other commodity prices, significant slowdown of the Chinese economy, fear of problems in the banking sector). Consequently, even though it remained within the limits of the risk capacity and risk tolerance set by the Group's RAF, in the year VaR exhibited a clear increase in the market risk to which the trading book is exposed, due to the combined effect of the above-mentioned investments and the higher market risk reflected by the volatility of financial variables.

The main levels of regulatory VaR (average, maximum, minimum and period-end) for 2015, both for the entire trading portfolio and for the areas of risk into which it is split, are shown in the following table. The diversification effect is quantified for average and year-end VaR, as both data points are comparable. The same table shows the number of exceptions found in relation to regulatory VaR (i.e. events in which the loss actually recorded exceeded the loss estimate calculated the previous day) both for tests carried out considering the hypothetical change in portfolio value (in which only the change in value due to price change is considered, without including daily operations, "hyp."), and considering the actual change (i.e. that which reflects the actual change in value, obtained excluding commissions and the component of coupon accruals from the day's operating result, "act.").

99% - 1 day 2015	FIXED INCOME AREA	EQUITY AREA	FX AREA	UNDIVERSIFIED TRADING BOOK	DIVERSIFICATION EFFECT	TRADING BOOK
Ave. VaR EUR (000)	443	235	123	801	-283	518
Max VaR EUR (000)	818	458	357	-	-	923
Min VaR EUR (000)	145	115	7	-	-	208
Last VaR EUR (000)	444	136	11	591	-141	450
no. of hyp./act. exceptions	13/12	2/1	8/5	-	-	5/4

(*) Undiversified VaR and the diversification effect are quantified only for average and end-of-period VaR, and not for those of maximum and minimum VaR, as these figures refer to different days.

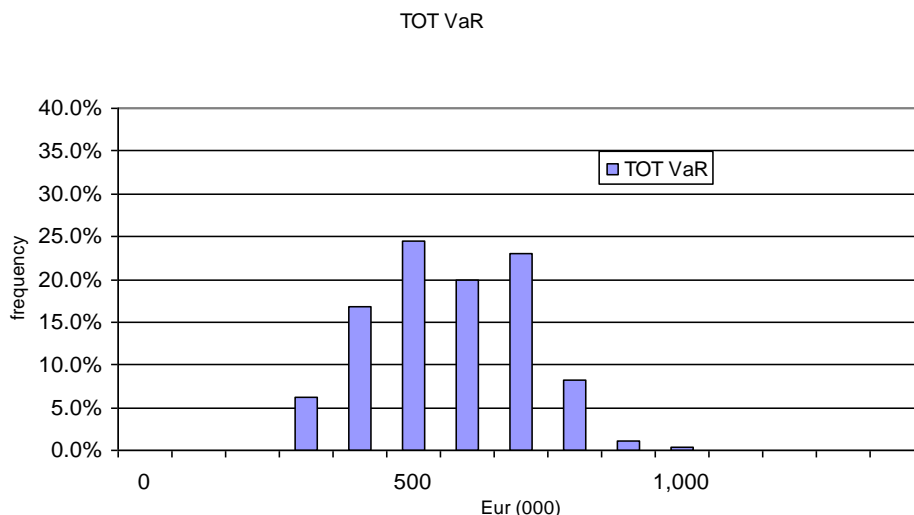
Figures of regulatory VaR related to 2014 have been reported for comparison purposes.

99% - 1 day 2015	FIXED INCOME AREA	EQUITY AREA	FX AREA	UNDIVERSIFIED TRADING BOOK	DIVERSIFICATION EFFECT	TRADING BOOK
Ave. VaR EUR (000)	286	339	95	719	-304	416
Max VaR EUR (000)	787	787	205	-	-	833
Min VaR EUR (000)	115	106	13	-	-	174
Last VaR EUR (000)	204	126	55	386	-142	243
no. of hyp./act. exceptions	11/8	0/1	1/0	-	-	1/1

(*)Undiversified VaR and the diversification effect are quantified only for average and end-of-period VaR, and not for those of maximum and minimum VaR, as these figures refer to different days.

Breaking down the VaR of the entire trading book in its three portfolios (Fixed Income, Equity and FX and FX derivatives) it can be seen that, in 2015, the most significant contribution was generated, on average, by the Fixed Income portfolio, with a daily average VaR of Euro 443 thousand, consistent with the above-mentioned increase in bond exposures. The equity portfolio contributes for about half (Euro 235 thousand) while the VaR for the FX and FX derivatives portfolio amounted to Euro 123 thousand. A comparison with the previous year reveals, consistent with the information provided previously on the risk profile, a growing interest rate risk (from Euro 286 thousand in 2014 to Euro 443 thousand in 2015), a simultaneous decrease in equity risk (from Euro 339 thousand in 2014 to Euro 235 thousand in 2015) and a slight increase in currency risk (from Euro 95 thousand to Euro 123 thousand). The average impact of the diversification effect, measured as the relative difference between total regulatory VaR and undiversified VaR for the three risk areas, comes to -35%, on average, for 2015, down from the comparable metric in 2014 (-42%).

The chart below shows the frequency distribution of the daily regulatory VaR for the entire trading book during 2015. The daily VaR figures are concentrated within a range of between Euro 400 and Euro 700 thousand, into which 90% of the sample observations falls.



Stressed VaR

Unlike the measurement of regulatory VaR, which is calculated with regard to current market conditions, the corresponding metric related to a stress scenario ("stressed VaR") differentiates itself in that this is calculated on the same portfolio positions, but taking as reference points a historical period characterised by particularly severe market conditions in terms of intrinsic risk, with very high values for the volatility of the risk factors and related correlations. Direct comparison between the two metrics (current VaR and stressed VaR) makes it possible to readily identify the contribution to risk that could result from a significant deterioration in market conditions, all other positions being unchanged. This overcomes the intrinsic limit in the measurement of VaR which is to base future

estimates of correlations and volatility on a relatively recent time window, leading potentially to an underestimation of the prospective risk (procyclicality effect).

The average stressed regulatory VaR for 2015 was Euro 2,004 thousand, up approximately 25% on Euro 1,598 thousand in 2014 with a range varying from Euro 1,011 thousand to Euro 3,017 thousand (between Euro 694 thousand and Euro 3,863 thousand in 2014). Accordingly, in 2015, daily average VaR under conditions of stress was around 3.9 times (3.8 times in 2014) that computed under ordinary conditions, which confirms the degree of severity of the chosen stress scenario ("Lehman" scenario). In 2015 the daily ratio of stressed VaR to current VaR showed that stressed VaR was regularly higher than current VaR, consistent with the assumption that, for the set of risks considered, the historical interval adopted to calculate stressed VaR is a scenario of utmost severity also in relation to current conditions. A comparison between VaR and stressed VaR is the basis for a number of control mechanisms for the persistence of the stress scenario severity characteristics adopted with reference to the risk factors considered. The chart below shows the trend in the VaR/VaR ratio during the course of 2015 and the outcome of the two control processes based on the number of times the alarm thresholds for this indicator were exceeded. The early warning thresholds, which indicate that the choice of stress scenario may need to be reviewed, were never reached, confirming the choice of stress scenario adopted.

Credit spread VaR

The average credit spread VaR amounted in 2015 to Euro 1,069 thousand, ranging during the period from a minimum of Euro 428 thousand to a maximum of Euro 1,639 thousand.

It was substantially higher than in the previous year, when the average credit spread VaR was Euro 551 thousand, due to the assumption of the issuer risk associated with the above-mentioned investments in government, bank and corporate bonds in the first quarter of 2015.

The credit spread VaR increased constantly in the first quarter of the year, stabilising subsequently between Euro 1,000 thousand and approximately Euro 1,200. As with regulatory VaR, the credit spread VaR peaked in connection with significant shocks experienced by financial variables in the cited turmoil periods.

The assumption of risk associated with fluctuations in credit spreads is generated mainly by the cash component of the portfolio of Government and corporate debt securities (banks in particular).

The maximum potential loss under stressed conditions calculated on the basis of the internal measurement (stressed credit spread VaR), with reference to the same scenario adopted for regulatory VaR, amounted on average to Euro 1,976 thousand (maximum amount Euro 2,872 thousand, minimum amount Euro 1,064 thousand), slightly lower than 2 times the average credit spread VaR calculated under current conditions.

As already noted, the credit spread VaR is used to measure risks and to calculate internal capital (ICAAP). For the calculation of the prudential requirement (regulatory measurement), the capital attracted just by issuer risk is determined according to the standardised approach (so-called mixed model).

Back testing of the trading portfolio

Back testing of the trading portfolio in terms of regulatory VaR showed that in 2015 the maximum daily loss was exceeded five times in one test performed in hypothetical configuration and in four performed in actual configuration.

The first breach took place on 15 January 2015, in hypothetical configuration, and was due to the unexpected decision of the National Swiss Bank to lift its support to the 1.20 level set for the Swiss franc against the Euro, which had been in place for over three years. The maximum daily loss was exceeded only in the hypothetical back test, which assumes unchanged portfolio conditions and does not include, in the VaR comparison, the contribution of daily trading, which instead is key to obtaining an actual daily result lower than the hypothetical one. Statistically, the probability of occurrence of such an event is almost null, both when compared with the historical trend of the EUR/CHF risk factor in the past year and considering longer time intervals (5 years), thereby falling outside of the predictive capabilities of the VaR measure.

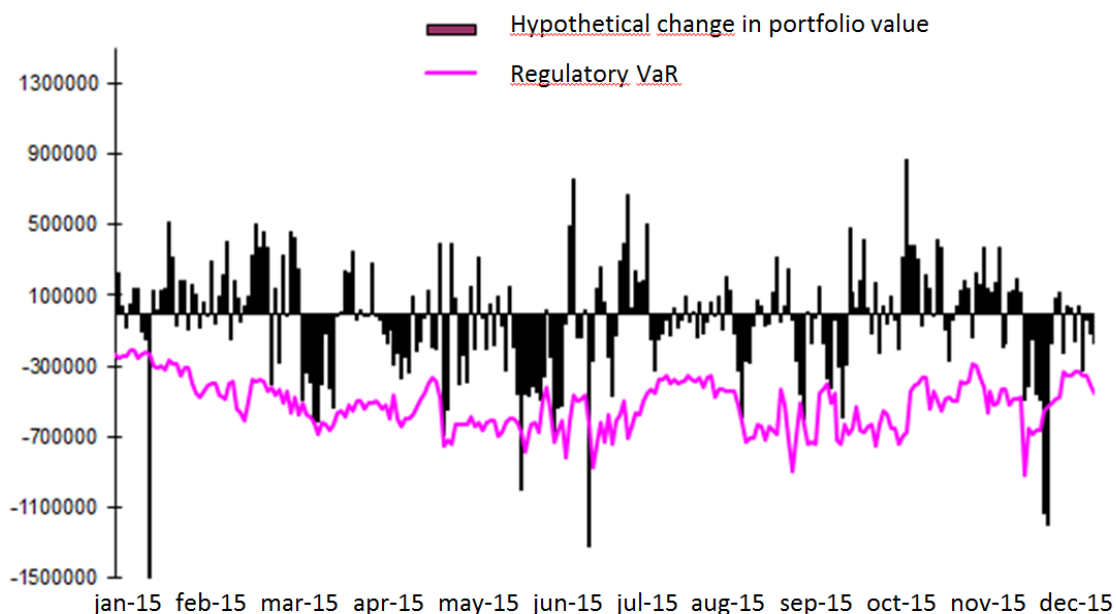
The second breach of the regulatory VaR, in both the actual and hypothetical configurations, took place on 3 June 2015. The main driver was a strong shock experienced by the Euro risk-free yield curve whose magnitude was such as to exceed, to a significant extent, the 99% confidence interval contemplated by the VaR model on the basis of the historical trends of risk factors. The substantial movement of interest rates was due to comments of the European Central Bank on the simultaneous increase in bond yields. Thus, it was a case where market variables, which determined the exception, exceeded the confidence level pre-established for the model to a point where breaches of VaR estimates are expected.

The third breach of regulatory VaR occurred on 29 June 2015, a day characterised by a significant flight to quality resulting from the unilateral break-up of negotiations with the international creditors by the Greek government and the decision to call a referendum on whether to accept the conditions for the implementation of support to Greece. This event, which was interpreted as a sign of the Euro's weakness, resulted in a collapse of European equity markets, undermining particularly bank shares, and in a significant rises in the returns on the treasury bonds of peripheral countries. The impact of extensively widening credit spreads, which are not incorporated in regulatory VaR, drove the maximum expected loss for both back test configurations. The shock experienced by credit spreads was so strong as to determine an exception also in the back tests with respect to regulatory VaR, even though the extent of the breach was much lower than that for the regulatory VaR.

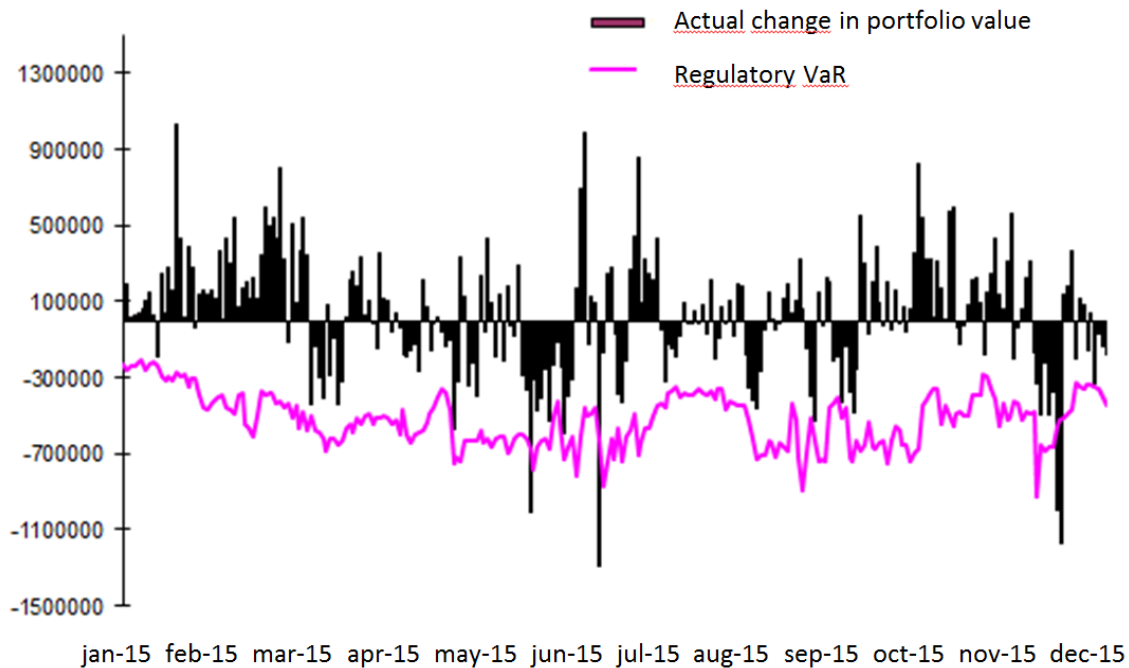
Two additional breaches of regulatory VaR took place in the two consecutive days of 11 and 14 December 2015. A detailed analysis revealed that these events were due to significant shocks resulting from widening credit spreads for a large number of Italian bond issuers following the decisions made, in accordance with the new international bail-in rules, in the process to save four Italian banks (Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Ferrara, Cassa di Risparmio di Chieti); such rules involved, among other, the full loss of principal for all subordinate bondholders of those banks. The sell-off, which had begun in the preceding days and culminated on the cited dates, penalised subordinated bonds, in particular, and, more generally, all domestic bank and corporate bonds, to which Banca Akros was exposed. Also in this case, the breach of expected maximum loss did not take place for the credit spread VaR, which incorporates in loss estimates also issuer risk. This was further confirmation that the two breaches were due to the different sets of risks considered for both VaR measures.

These events were reported to the Supervision Authority, in accordance with the procedures introduced in 2015 by the European Central Bank for internal models on market risk.

The chart below compares the regulatory VaR at the end of the day and the daily changes in portfolio value of the next business day for hypothetical and actual back testing purposes.

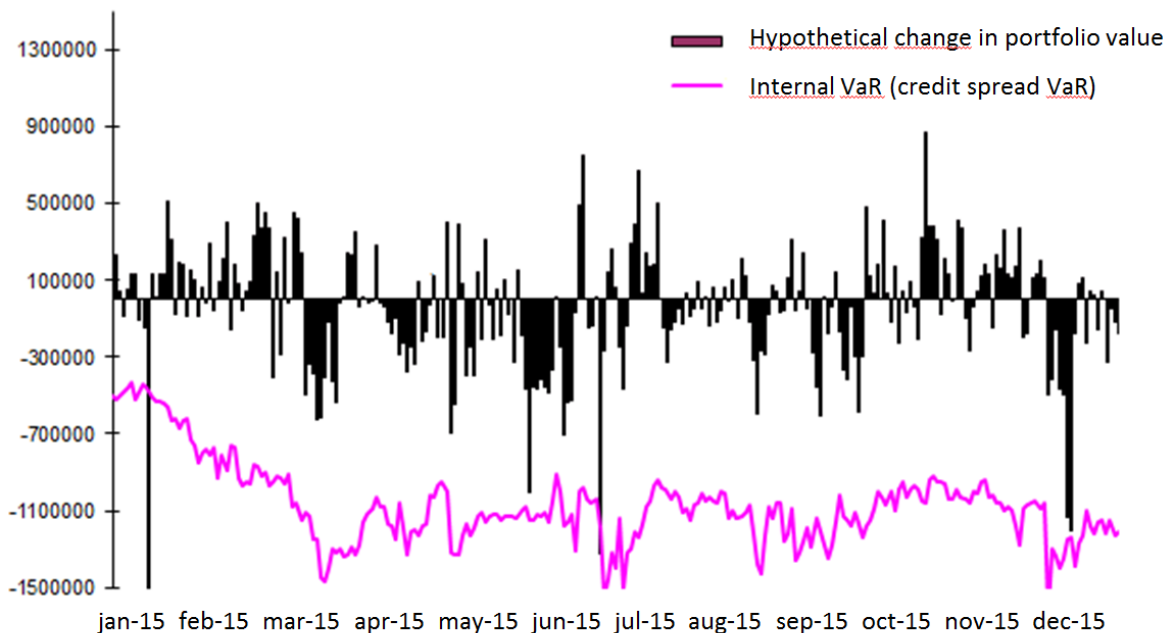


Hypothetical back testing of the trading book with respect to regulatory VaR – year –2015

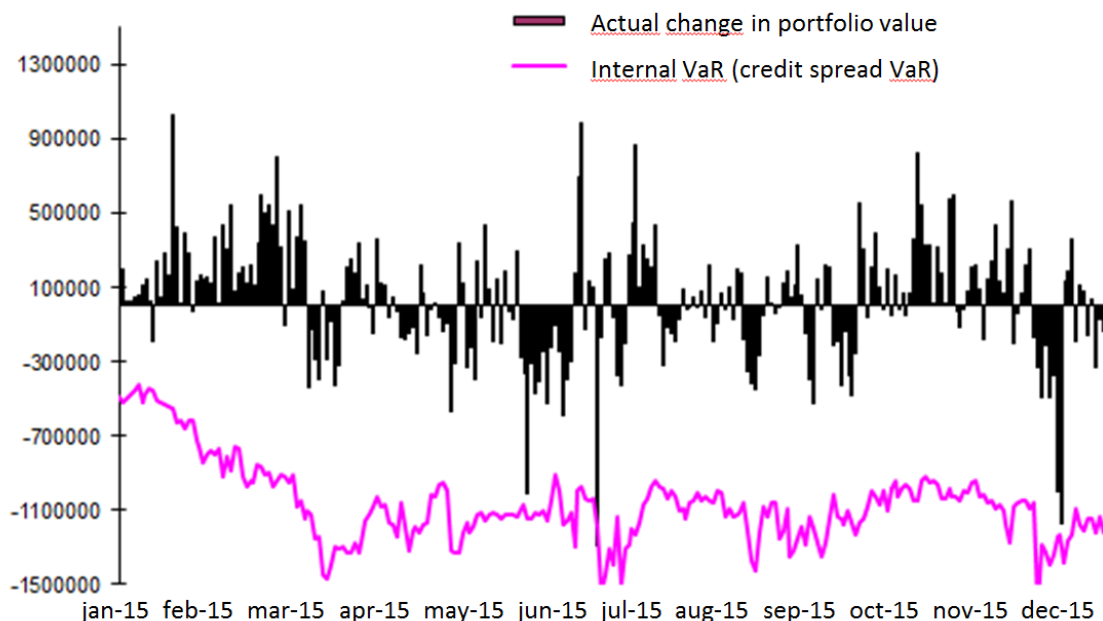


Actual back testing of the trading book with respect to regulatory VaR – year 2015

Moving on to back testing against the extended measure of Credit Spread VaR (and therefore including issuer risk), only two breaches are observed in the hypothetical configuration and one in the actual configuration, as the following graphs shows. The higher capacity of credit spread VaR, which is based on the same risks as those present in the underlying portfolio, is such as to regard the number of breaches as consistent with that expected on the basis of the assumptions underlying the model.



Hypothetical back testing of the trading book with respect to credit spread VaR – year 2015



Actual back testing of the trading book with respect to credit spread VaR – year 2015

Stress testing

Banca Akros regularly carries out stress testing on its trading portfolio in order to determine weaknesses in the portfolio that fall outside the capabilities of regulatory risk measurement and to ascertain the ability of the Bank's regulatory capital to absorb any potential losses. The types of stress scenarios (hypothetical and specific) involve all the major risk factors of the portfolio and get disrupted both jointly (historical and hypothetical scenarios) and individually (specific scenarios). In particular, sensitivity tests to credit spread VaR are performed for each issuer curve and for rating/segment curves, aggregating them by rating class, sector of activity or portfolio. The scenarios adopted foresee a deterioration in creditworthiness as a result of a widening in credit spreads of +25 and +50 basis points. To take account possible negative impacts resulting from short position, symmetrical improvement scenarios of credit spread (-25 and -50 basis points) have also been implemented. In addition to these tests, we also estimate the impacts for non-parallel shifts in credit curves (steepening and flattening of the yield curve).

Consistent with with the risks taken by the trading book in 2015, the most unfavourable stress scenarios were, on average, the specific ones, where a widening of credit spreads was assumed. In addition to these scenarios, to assess their potential impact, other scenarios were adopted that envisaged specific, large shifts in the yield curve (parallel shifts of the Euro curve, *tilting* around a pivotal point), as well as some scenarios that envisaged substantial idiosyncratic shocks on specific equities. Generally speaking, the results of historical and hypothetical scenarios were less severe.

The potential impacts on the income statement of certain interest rate and credit spread shock scenarios for the entire trading portfolio at the end of 2015 are summarised in the table below. In particular, due to the effect of an assumed parallel widening of all the credit spread curves of +25 and +50 basis points, the negative change in the portfolio would be Euro -2,834 thousand euro and Euro - 5,547 thousand, respectively. On the interest rate scenarios, a parallel upward shift of the entire Euro interest rate curve of +50 basis points would lead to a fall in the value of the entire trading book of about Euro - 4,012 thousand, while an upward shift of the short and medium term part of the Euro yield curve, along with a fall in medium-to-long-term interest rates ("Tilting Up-Down"), would produce a reduction in the value of the portfolio of Euro -1,018 thousand.

(Euro thousand)

Interest Rates				Credit Spread			
-50 bps	+50bps	Tilting Down-Up	Tilting Up-Down	-50 bps	-25 bps	+25 bps	+50 bps
5,323	-4,012	1,219	-1,018	6,989	3,312	-2,834	-5,547

11. Exposures in equity instruments not included in the trading book (art. 447 CRR)

Qualitative information

Equity exposures in the banking book are recognised:

Art. 447 a)

- under “Financial assets designated at fair value through profit and loss”. These include collective investment undertakings that are mainly equity based (at 31 December 2015 there were no shares/units in collective investment undertakings);
- under “Financial assets available for sale”. These include equity interests below 20%, in private equity funds and Sicavs and shares/units in other funds (mainly property based);
- under “Investments in associates and companies subject to joint control”. These include interests in joint ventures and associated companies.

The main objectives are as follows:

- **strategic goals.** This objective is pursued primarily by holding equity interests that make it possible to exercise significant influence in financial and insurance companies with which the Bank has commercial and governance agreements. This category also includes a joint venture. They are shown in the balance sheet under “Investments in associates and companies subject to joint control”;
- **commercial business development goals.** This purpose is pursued by holding minority interests classified as "Financial assets available for sale" in banking and financial companies with which the Bank has commercial agreements;
- **banking system institutional goals.** This aim is pursued by holding minority stakes in consortiums that provide services to banks, organisations and institutions linked to the territory. These interests are primarily included in "Financial assets available for sale " for an amount which is not material;
- **restructuring of credit exposures.** In the "Financial assets available for sale" portfolio there are stakes that came from the restructuring of debts that resulted in the conversion of part of the loans into equity instruments issued by the debtor companies;
- **financial investment goals.** This objective is pursued by investing in minority interests in non-financial companies or units of private equity funds for which it is expected a return on investment in terms of appreciation of the fair value of holdings or units held long-term.

As regards accounting policies adopted:

- securities recognised as “Financial assets designated at fair value through profit and loss” and “Financial assets available for sale” are measured at fair value, but, for the former, the change in fair value is recognised in the income statement, while, for “Financial assets available for sale”, the change is recognised in an equity reserve, net of the related tax effect. The fair value of investments listed on active markets is determined with reference to the market bid price reported at the balance sheet date. The fair value of investments for which no price is listed on an active market is determined using estimates and valuation models that take account of all the risk factors related to the instruments along with published price quotations, if available. These techniques may take account of prices reported for recent similar market transactions, discounted cash flows, option pricing models and other well-established methods used in financial markets. As regards equities recognised as “Financial assets available for sale”, a significant or prolonged decrease in their fair value below the original purchase price would be considered to be objective evidence of impairment and would lead to the recognition of the cumulative negative change in fair value (IAS 39 paragraph 61). In this regard, the following quantitative limits were set for identification of the impairment:
 - a decrease in fair value at the balance sheet date of more than 50% of the original book value;
 - a decrease in the fair value below the original book value for a continuous period of:
 - 18 months for shares and similar instruments (e.g. participating financial instruments);
 - 48 months for shares/units of collective investment undertakings.

Lastly, where it is not possible to establish a reliable fair value, equities are carried at cost.

- Investments in "associates and companies subject to joint control" are recognised in

the consolidated balance sheet with the equity method, which requires their initial recognition at cost and subsequent adjustment to calculate the share of profits and losses realised after the acquisition. A pro-rata share of the company's operating results is recognised under "Profits (losses) on investments in associates and companies subject to joint control" in the consolidated income statement. If there are signs that the value of an investment may be impaired, an estimate of the recoverable amount of the investment is carried out, this being represented by the higher of the fair value net of costs to sell and its value in use. The value in use is the present value of the cash flows that the investment is expected to generate, including its ultimate disposal value. If the recoverable amount is less than the carrying value, the difference is reported in the consolidated income statement under item 240 "Profits (losses) on investments in associates and companies subject to joint control". If the reasons for making a write-down cease to exist due to an event occurring after recognition of an impairment, writebacks are made in the consolidated income statement to the same line item 240 "Profits (losses) on investments in associates and companies subject to joint control".

Quantitative information

Exposures in equity instruments not included in the trading book: financial assets designated at fair value through profit and loss and financial assets available for sale (Euro/000) (Art. 447 b), c), d) and e))

Exposures in equity instruments	Book value/fair value	Profits and losses realised during the period		Total unrealised gains and losses booked to shareholders' equity		Unrealised gains and losses included in Own Funds	
		Profits	Losses	Gains	Losses	Gains	Losses
Portfolios financial assets available for sale and financial assets designated at fair value through profit and loss							
A. Equities							
A.1 Listed	41,618	75,752	-	5,180	(283)	5,180	(283)
A.1.1 Shares	41,618	75,752	-	5,180	(283)	5,180	(283)
A.1.2 Equity instruments	-	-	-	-	-	-	-
A.1.3 Other equity instruments	-	-	-	-	-	-	-
A.2 Unlisted	318,947	682	(32)	54,916	(7,740)	37,386	-
A.2.1 Shares	304,185	682	(32)	52,218	(7,740)	34,688	-
A.1.2 Equity instruments	-	-	-	-	-	-	-
A.2.3 Other equity instruments	14,762	-	-	2,698	-	2,698	-
Total equities	360,565	76,434	(32)	60,096	(8,023)	42,566	(283)
B. COLLECTIVE INVESTMENT UNDERTAKINGS							
B1 Listed	1,911	324	-	-	(58)	-	(58)
B1.1 Italian	1,911	38	-	-	(58)	-	(58)
B1.2 of other EU countries	-	286	-	-	-	-	-
B1.3 of non EU countries	-	-	-	-	-	-	-
B.2 Unlisted	129,773	709	(2)	11,688	(211)	11,688	(211)
B1.1 Italian	122,133	709	(2)	11,669	(211)	11,669	(211)
B1.2 of other EU countries	7,640	-	-	19	-	19	-
B1.3 of non EU countries	-	-	-	-	-	-	-
Total COLLECTIVE INVESTMENT UNDERTAKINGS	131,684	1,033	(2)	11,688	(269)	11,688	(269)

Exposures in equity instruments: banking book, investments in associates and companies subject to joint control (Euro/000)

Name	Book value at 31 December 2015	Fair value	Increased/decreases in fair value	Realised gains/losses	Impairment	Amount deducted from Own Funds
A. Companies recognised with the equity method						
A.1 Companies subject to joint control	702	-	167	-	-	
A.2 Associates	341,443	405,119	71,259	(1,422)		
Total	342,145	405,119	71,426	(1,422)	-	13,747

Fair value has been given for Anima Holding SpA, the only equity investment that consists of listed shares.

As indicated in the chapter dedicated to Own Funds, exposures relating to investments in financial companies are deductible from CET1 only if they exceed certain thresholds laid down by law. The Group exceeded the threshold related to significant investments and, accordingly, the amount of Euro 13,747 thousand was deducted from CET1.

“Financial assets available for sale” include financial assets whose book value is the same as their fair value and, for listed instruments, the fair value corresponds to their market value.

Unlisted "Equities" and "Collective investment undertakings" include Euro 1,768 million of securities valued at cost in accordance with IFRS 7 § 30: these securities have been kept at book value as it is impossible to determine a reliable fair value for them. Unlisted collective investment undertakings include shares/units for Euro 8,897 million recognised at cost as they were subscribed close to financial year-end and for which there is no reliable fair value measure.

With regard to investments in associates and companies subject to joint control, during 2015 there was no evidence to justify any impairment.

Regarding equity instruments and collective investment undertakings included in the “Financial assets available for sale”, total adjustments for 2015 amounted to Euro 17,551 million and were recognised in income statement line 130 b) “Net losses/recoveries on impairment of financial assets available for sale”.

12. **Exposure to interest rate risk on positions not included in the trading book (art. 448 CRR)**

Qualitative information

Art. 448,
a)

Interest rate risk is induced by the potential impact that unexpected changes in market interest rates have on current earnings (cash flow risk) and the Group's own funds (fair value risk). This risk typically occurs on positions in the *banking book*, namely:

- loans and deposits from customers;
- own debt securities;
- own debt securities issued for institutional investors;
- interbank operations;
- operations with the European Central Bank (OMO);
- hedging derivatives.

Interest rate risk is therefore measured from the point of view of both income statement and balance sheet.

From the point of view of the income statement, interest rate risk arises from the possibility that an unexpected change in interest rates generates a reduction in net interest income, and hence in Group profits. This risk therefore depends on:

- a mismatch in the maturities of loans and deposits in case of fixed-rate items;
- a mismatch of the interest reset dates in the case of floating-rate items.

From the point of view of the balance sheet, interest rate risk arises from the possibility that an unexpected change in interest rates generates a decrease in the values of all balance sheet items, destabilising the Group capital.

The main sources of interest rate risk can be outlined as follows:

- repricing risk: risk arising from maturities mismatches and repricing of assets and liabilities; the main features of this type of risk are:
 - yield curve risk: risk resulting from exposure of balance sheet items to changes in slope and shape of the yield curve;
 - basis risk: risk resulting from imperfect correlation in the variations of the rates earned and paid on different instruments, even with similar repricing structures;
- optionality risk: risk resulting from embedded options in the banking book items.

Bipiemme Group monitors - both at consolidated and subsidiary level - the banking book exposure to adverse changes in interest rates, in terms of both income statement and balance sheet.

Interest rate risk measurement on the banking book is done using integrated methods of Asset and Liability Management (ALM). In particular, the risk measurements used are:

- the change of the net interest income due to a parallel shock on the spot rate curve of +/-100 basis points (earnings perspective);
- the change of the economic value due to a parallel shock on the spot rate curve of +/-200 basis points (capital perspective), as defined in the Second Pillar of Basel II.

In addition to the impact of parallel shocks of the yield curve, the Group performs internally stress tests assuming non-parallel shocks of the yield curve on the basis of their past performance. Using a VaR (Value at Risk) approach, in fact, the shocks of extreme drops and extreme rises in interest rates are calculated at each node of the yield curve considering the following distribution percentiles (99%, 99.5%, 99.9% to the upside and 1%, 0.5%, 0.1% to the downside). The impact on expected net interest income and the economic value is assessed by applying those shocks to spot rates.

Regarding the internal Asset and Liability Management (ALM) methodologies, attention is called to the following:

- the application of parallel shocks to the yield curve is affected by the non-negativity restriction set for interest rates (floor equal to 0%). In a market landscape where short-term interest rates are close to zero and negative, in 2015 analyses were performed to develop further the internal interest-rate risk measurement model to remove the non-negativity restriction to interest rates;

- the internal ALM model of the banking book does not include Banca Akros's operations. Even in the presence of a limited impact derived from Banca Akros's operations, in terms of interest rate risk, a feasibility study is under way to extend the internal model also to Banca Akros.

The impact on the net interest income is due both to the reinvestment/refinancing at new market conditions of the principal amount (reinvestment/refinancing risk) and to the change in the coupon component (repricing risk, only for floating rate operations). The impact on the net interest income is obtained by mapping the items on the relevant risk dates, that is the payment date of principal amounts for fixed rate transactions and the first repricing date after the cut-off for floating rate transactions.

This approach, known as repricing gap, implies the adoption of a time horizon (known as "gapping period"), of one year according to the market best practice.

The impact on the economic value is measured according to a full evaluation approach, that is the fair value change of the items mapped in each time bucket due to a parallel shock of spot rates.

The methodologies used for the sensitivity analysis to interest rate risk also include behavioural modelling of sight deposits and prepayments of the mortgage portfolio.

As for the modelling of demand deposits, Bipiemme Group adopts statistical models in order to include both the persistence of volumes over time and the responsiveness of interest rates to market conditions; in particular:

- the volume analysis model allows to represent the element of the aggregate demand items considered stable as a portfolio of amortizing items;
- the rates analysis model allows to identify the portion of demand items reacting to a significant market parameter movement and to measure the time to carry out the adjustment (stickiness effect).

Lastly, the prepayment risk of the mortgage portfolio is measured through a CPR model (Constant Prepayment Rate), which estimates a prepayment rate for each product type.

A hedge accounting policy drawn up by the Parent Company has been in force since 2009. It defines the methodology and the organisational process for managing hedging of the financial risks on the banking book, with particular reference to the functions involved, the definition of roles and responsibilities and the description of planned activities and mapping processes.

This policy also gives the Parent Company the responsibility for managing the financial risks of the Bipiemme Group banking book, with reference to the monitoring of the interest rate exposure, the compliance with the operational limits and the management and hedging activities.

The responsibility for managing hedging activities is centralised at the Parent Company Finance Committee, for any legal entity included in the scope of the Policy.

The Finance Committee establishes guidelines for active management of the assets and liabilities of the financial statements and determines the hedging transactions regarding the Bipiemme Group's portfolio. Such hedging transactions, as approved by the Finance Committee, are carried out by the Finance Function of the Parent Company. This function is also delegated to implement operating hedging strategies, taking positions on the interest rate curve with a view in order to reduce the interest rate risk exposure generated by the funding and lending activity of the Bank.

Hedging of interest rate risk aims at protecting the banking book from fair value changes due to movements in the interest rate curve or to reduce the variability of cash flows related to a particular asset or liability.

The main types of derivatives used for hedging purposes are represented by Interest Rate Swaps (IRS), Overnight Indexed Swaps (OIS), Interest Rate Options (Caps) and Forwards on Government bonds.

The hedging activity of the Bipiemme Group is accounted for (hedge accounting) in two different manners:

- micro fair value hedge: hedging of the fair value of assets or liabilities specifically identified, mainly represented by bonds, issued (subordinated and covered bonds) or bought;
- macro fair value hedge: hedging of homogeneous pools of assets or liabilities not

individually identifiable, mainly represented by loans to ordinary customers and demand items.

The Parent Company has also a micro cash flow hedge in place. Among others, at 31 December 2015 there was a cash flow hedge used to stabilise, through a swap contract, the interest payments of a bond recognised under financial assets available for sale and different hedges related to price changes in government bonds.

Quantitative information

Art. 448,
b)

Within the Bipiemme Group, the ALM methodology makes it possible to measure on a monthly basis the exposure to the interest rate risk, both in terms of change in net interest income (income-based approach) and in terms of change in economic value (asset-based approach), due to shifts in the yield curve.

As specified in the section on qualitative information, the ALM methodology, which is the basis upon which the sensitivity analysis data calculated in this section is based, does not include Banca Akros's operations. Despite the limited impact of Banca Akros's operations in terms of interest rate risk, a feasibility study is under way to extent the internal model to this bank as well.

As described in the methodological section, from the earnings perspective, interest rate risk exposure is measured by the change in the net interest income over one year due to a parallel shock of the spot rate end of the curve of +/-100 basis points (with a floor of 0%).

The table below shows the results as of 31 December 2015.

(Euro/million)	
Variable	As of 31 December 2015
Net interest income sensitivity +100 bps	43
Net interest income sensitivity -100 bps+	1

* yield curve subject to 0% floor

From the asset perspective, interest rate risk exposure is measured by the change in the economic value (fair value) due to a parallel shock of the spot rate end of the yield curve of +/- 200 basis points (with a floor of 0%).

The table below shows the results of the estimated change as of 31 December 2015.

(Euro/million)	
Variable	As of 31 December 2015
Fair value sensitivity +200 bps	-109
Fair value sensitivity -200 bps	-69

* yield curve subject to 0% floor

The table below shows the capital requirements corresponding to a shock of +/- 200 bps, or the maximum negative change in fair value relatively to own funds.

Variable	As of 31 December 2015
Capital requirements +/- 200 bps	2.2%

13. Operational risk (art. 446 CRR)

Qualitative information

The Group has adopted the Standardised Approach (TSA) to calculate the capital requirements on operational risk. Art. 446

This method is adequate for the size and risk profile of the Group and helps to improve efficiency and effectiveness of processes as well as to reduce the impact and probability of great losses; furthermore, this is a preparatory step towards more advanced models of risk assessment.

From this point of view, the Parent Company at Group level has taken steps:

- to define and formalise a government model and guidelines for the entire system of operational risk management;
- to regulate duties and responsibilities of the involved functions, giving a detailed description of their activities;
- to prepare suitable periodic reports on operational risk and operating losses for the subsidiaries' top management and for the Parent Company's corporate bodies;
- to evaluate adequacy and effectiveness of the implemented system by defining operating criteria and methods.

For the Group's operational risk management, it was decided to adopt a Parent Company centralised model of governance which defines Group's principles and methodologies.

The governance model has granted to Banca Popolare di Milano coordination and supervision of all the activities carried out by the subsidiary Companies through:

- a strategic level performed by Management Board, Supervisory Board, Risk Committee, Internal Control and Audit Committee, with support from the Chief Risk Officer and the Risk Management & Capital Adequacy function;
- an operative level, performed by the Parent Company Operational Risk and by the Operational Risk Owners of each Group bank.

Banca Popolare di Milano has implemented a Group's operational risk management by means of:

- the organisation of loss data collection and insurance recoveries processes involving all the bank functions, to guarantee completeness, reliability and updating of data;
- the implementation of a Risk Self Assessment tool, an annual process for the periodic evaluation of the Group's exposure to potential operational risks in its main business processes. It has been carried out through questionnaires submitted to the Process Owners by Operational Risk Management;
- the definition of criteria and methods for the classification of the Group's activities into the regulatory business lines, in order to calculate the capital requirement for Operational Risks;
- the implementation of a periodic reporting system on main loss events and operational risks to top management and operating functions;
- preparing training tools for senior management and the operating functions to encourage their involvement and to provide guidelines to the staff concerned for identifying and reporting such risk;
- an annual review of the entire system of operational risk management through a process of internal self-assessment, which allows the Group to evaluate the effectiveness of its strategies and the adequacy of the implemented system according to the Group's risk profile.

13.1 Loss data collection

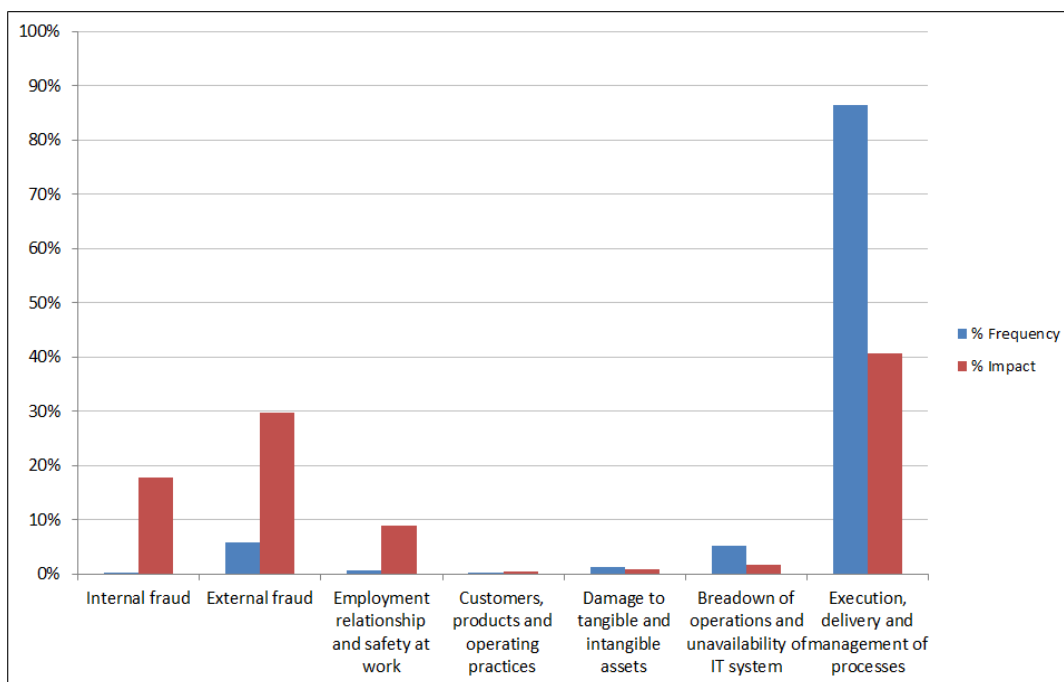
One of the key aspects of the operational risk management system is loss data collection (LDC). Its purpose is to provide a picture over time of the trend in the more significant losses; it also represents a statistical basis necessary for a better risk analysis, the adoption of advanced VaR models and the capital charge calculation for operational risk.

Detailed internal rules guarantee consistency in the classification of events within each Group

bank, while at an operational level Group banks have been equipped with suitable procedures for collecting loss data and efficient management of all steps of the process. Through a quarterly reporting system, operational loss data are brought to the attention of the corporate bodies of the Parent Company and of the other banks which adopt the TSA model.

During 2015, the main source of operating losses, in terms of impact and frequency, was the category “Execution, delivery and management of processes”. Following, again in terms of impact and frequency, was the category “External fraud”.

Percentage distribution of losses of the Bipiemme Group in 2015



13.2 Identification and measurement of operational risks

During 2015, the Risk Self Assessment (RSA) process was implemented as usual for the identification and analysis of operational risk. Assessments of operational risk represent the outcome of an assessment cycle performed in accordance with a methodological configuration and a common process agreed at Group level that enables the identification and measurement of the main operational risks to which the Group is exposed, as well as the adoption of suitable mitigating measures, where needed or appropriate.

The methodological approach to the *Risk Self Assessment* model was revised, making it easier to use the questionnaire, which is in an electronic format with prompts for the compilation of the various fields.

As was the case for previous assessments, particular attention was paid to the assessment of the design of the internal control system.

The assessment cycle also allowed for "testing" of the methods adopted for the selection of the elements to be used to fine tune the methodology and the process with a view to the performance of RSA in subsequent years.

The results of the assessment will be shared with the appropriate corporate functions and represent the basis for the definition and updating of measures to mitigate and prevent risk, as part of a wider process for the mitigation of operational risks. The results will be summarised and reported to the corporate bodies and senior management.

13.3 Business Continuity Plan

The Business Continuity Plan allows the Parent Company to verify its ability to restore vital and critical processes in the event of a disaster.

Through the Function which manages this plan:

- the effective procedure maintenance is controlled;
- the crisis simulation plan gets tested;
- the continuity of vital and critical processes is guaranteed;
- mitigation steps are evaluated, widening the business continuity plan to new scenarios and to new processes.

14. Unencumbered assets (art. 443 CRR)

Qualitative information

Bipiemme Group pledges a portion of its assets as collateral or credit support mainly for the following purposes:

Art. 443 e
EBA/GL/
2014/03

- secured financing transactions, including repurchase agreements, securities lending transactions and other forms of secured loans;
- access to *central banks facilities*;
- assets included in cover pools used for the issue of covered bonds;
- underlying assets in securitisations, where the entity has not derecognised the financial assets;
- collateral arrangements, such as collateral pledged to guarantee the market value of derivative transactions;
- collateral placed in clearing systems, with central counterparties (CCPs) and with other infrastructure institutions as a condition for access to service; this includes default funds and initial margins.

The provision of collateral makes it possible to obtain more favourable conditions for financing transactions and contributes to the diversification of financing sources. Better financing conditions allow the optimisation of funding costs and, by means of the internal transfer pricing system, more favourable conditions for lending to customers.

The main types of encumbered assets consist of debt securities and loans recorded in the books of the Parent Company. Debt securities, mainly Italian government bonds, are pledged as collateral for short and medium term funding by means of repurchase agreements. Loans are used as collateral or as underlying assets for longer term funding, such as the issue of covered bonds and securitisations, respectively. A residual part of the encumbered loans is used as collateral for central bank facilities.

Unencumbered assets mainly consist of loans and debt securities. Both types of assets may potentially be used as collateral for the main transactions listed above.

The use of collateral for funding transactions often requires the amount of the encumbered assets to be higher than the amount of the funding provided: this is known as over-collateralisation, which might be a market standard or explicitly requested for access to various forms of collateralised funding.

A certain level of over-collateralisation is necessary for issues of covered bonds and securitisations, especially with to the aim of the issue rating assignment. In particular, as regards securitisations, the extent of over-collateralisation is determined by the structure of the tranche (senior, mezzanine and junior). Moreover, over-collateralisation is also a feature of mortgage loans and other loans used as collateral for financing transactions with the central bank as a consequence of the haircuts applied by the latter to the loan amounts. Lastly, for debt securities and equities, over-collateralisation is due to the haircuts applied by counterparties and by the central bank to the value of securities pledged as collateral.

To monitor the extent to which the Group's assets are encumbered, starting from 2015 a specific indicator has been added within the scope of the Risk Appetite Framework.

The quantitative information provided below is based on figures as of 31 December 2015 and has been prepared in accordance with the formats and guidance provided by the European Banking Authority.

Quantitative information on Unencumbered assets (Euro/000)
(Art. 443 e EBA/GL/2014/03)

ASSETS	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
Assets of reporting institution	17,029,834		33,148,475	
Equity instruments	17,885	17,885	416,139	416,139
Debt securities	5,487,399	5,487,399	4,137,906	4,135,665
Other assets	11,524,550		28,594,430	

COLLATERAL RECEIVED	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by reporting institution	1,289,938	394,728
Equity instruments	514,338	145,518
Debt securities	775,600	249,210
Other assets	-	-
Own debt securities issued other than own covered bonds or ABS	-	248,993

ENCUMBERED ASSETS/COLLATERAL RECEIVED AND ASSOCIATED LIABILITIES	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered
Book value of selected financial liabilities	12,310,559	18,319,772

15. Remuneration policy (art. 450 CRR)

Qualitative information

Art. 450,
a)

The definition, approval and control process of the Remuneration Policy and the role of the various persons involved are shown below.

Adoption process

For the companies that have a two-tier governance system, such as Banca Popolare di Milano, remuneration policies are approved in part by the General Meeting of Members of the Parent Company and, in part, by the Supervisory Board.

Below, information is provided on the decision-making process followed to define remuneration policies, with details of the bodies and officers involved in their development and approval (with indication of the specific roles) as well as the bodies and officers responsible for their proper implementation.

General Meeting of Members of the Parent Company

The General Meeting of the Members of Banca Popolare di Milano is responsible for approving the remuneration and incentive policies of the members of the Supervisory Board and the Management Board, including the remuneration of for such members as serve in special roles.

In addition, the General Meeting (i) approves any share-based payments as well as the criteria to determine the remuneration payable in the event of early termination of employment or early termination of office, inclusive of limits established for this remuneration in terms of annual fixed remuneration and the maximum amount thereof; (ii) vote, for or against (with non-binding resolution) on this report pursuant to, and limited to, the provisions of art. 123-ter, paragraph 6 of the CFA.

Pursuant to Bank of Italy's Supervisory Provisions, the General Meeting receives also a report, at least once a year, on remuneration and incentive systems and practices as well as on the manner in which remuneration policies are implemented.

Supervisory Board

The Supervisory Board – in accordance with the remuneration policies approved by the General Meeting – determines, upon proposal of the Remuneration Committee established pursuant to the Articles of Association by the Board, the remuneration of the members of the Management Board, including compensation for the members of the Management Board who serve in a special capacity and/or are committee members.

In addition, the Supervisory Board *approves* (i) the remuneration and incentive policies related to employees and contract staff; this report pursuant to, and within the scope set by, article 123-ter, paragraph 2 of the CFA.

The Remuneration Committee of the Supervisory Board, established in accordance with the Bank's Articles of Association, is called upon to assist the Supervisory Board in connection with Remuneration Policies.

Management Board

The Management Board, which is the corporate body responsible for strategic supervision, prepares and submits for approval to the Supervisory Board and the General Meeting – each with respect to its purview – the remuneration and incentive policies. In addition, it is responsible for their proper implementation.

Moreover, the Management Board is responsible for the remuneration and incentive systems at least for the following (where available within the Bank): executive directors, senior management and similar figures, heads of the main business lines, corporate functions or geographical areas; executives who report directly to the strategic supervision, management and control bodies. In this context, the Management Board is responsible for setting compensation for senior management.

According to the Supervisory Provisions of Bank of Italy, the functions of the Remuneration Committee are carried out by the Management Board, with inputs from its independent members.

The management Board has established, in accordance with the Supervisory Provisions of Bank of Italy, the Risk Committee. In connection with the remuneration and incentive policies this Committee performs reviews to ascertain whether the incentives in the remuneration system take into account risks, capital and liquidity.

Managing Director

The Managing Director oversees the definition of remuneration and incentive policies, a process involving adequately the competent corporate functions (see paragraph hereinbelow on “Parent Company’s corporate functions involved in the process to define remuneration and incentive policies”).

The Managing Director oversees, with assistance from the Human Resources function, the implementation of remuneration policies and incentive schemes.

In addition, the Managing Director: *(i)* makes proposals to the Management Board regarding general policies for the development and management of the personnel, as well as the Group's incentive scheme; *(ii)* defines the economic standing of personnel at all levels, including managers (except for the members of senior management), in compliance with the remuneration and incentive schemes in force at the time; *(iii)* adopts the measures based on merit for personnel at all levels, including managers (except for the members of senior management).

Remuneration Committee

The Remuneration Committee, established in accordance with the Articles of Association, performed in 2015 the tasks assigned to it by applicable rules and regulations – as well as internal policy - and, with support from the competent corporate functions, gained access to the information necessary to carry out its activities.

In particular, in 2015 this committee assisted the Supervisory Board in reviewing the remuneration policies and incentive scheme of the Bipiemme Group, expressing also the relevant opinion, regarding the approval – for matters falling within the Supervisory Board's purview – of the 2015 Remuneration Report, prepared pursuant to the pertinent Supervisory Provisions issued by Bank of Italy, article 123-ter of Legislative Decree 58/1998 and article 84-quarter of the Issuer Regulation.

The functions attributed to the Remuneration Committee by the Supervisory Provisions of Bank of Italy are carried out by the Management Board, particularly with support from its independent members. Against this backdrop, the Management Board reviewed and debated issues falling within its purview related to the remuneration policy and incentive scheme for the Group's employees. Specifically, the Management Board: *(i)* assessed the 2014 performance and the opening of the gates, as well as the application of the adjustment rates to company “bonus pools”; *(ii)* assessed and adopted, with respect to its area of responsibility, the 2015 remuneration policies; *(iii)* assessed the findings of the 2014 Incentive Systems, approved the incentives vested in relation to the 2014 bonus pool and approved the guidelines for the 2015 Incentive Systems; *(iv)* approved the procedures for the application of article 60 of the Parent Company's Articles of Association to its “key employees”; *(v)* approved the criteria adopted and the outcome of the process to identify Group “key employees” for 2015 and the relevant list; *(vi)* approved the guidelines for the 2016 Incentive System for the Parent Company and the subsidiaries.

The Remuneration Committee, which is chaired by the Chairman of the Supervisory Board in accordance with the Articles of Association, met six times in 2015.

Parent Company’s functions involved in the process to define remuneration and incentive policies

As illustrated in the previous paragraphs, the remuneration policies for employees and contract staff – formulated by the Management Board – are approved by the Supervisory Board. The process to define them, which is supervised by the Managing Director, requires the participation of the competent corporate functions. In that respect, the Human Resources function provides technical support to the governance bodies and prepares support material necessary to design remuneration policies, in cooperation with, in relation to their respective areas of responsibility, the Chief Risk Officer, Compliance, Audit, Planning and Accounting and General Counsel.

In particular, the Chief Risk Officer, in cooperation with Planning and Accounting, identifies indicators and comparable amounts in relation to the strategic and performance targets to which the variable components of remuneration are linked, verifying their adequacy with respect to the Risk Appetite Framework, as approved by the Management Board, to the Group's long-term strategies and objectives, linked to risk-adjusted company earnings, and to the levels of capital and liquidity necessary to carry out the activities undertaken.

Subsidiaries

Pursuant to the Supervisory Provisions of Bank of Italy, the Parent Company sets out remuneration and incentive policies for the Group as a whole, ensuring their overall consistency, providing guidelines for their implementation and verifying their proper application. Therefore, considering the policy design and approval activities by the Parent Company, as described in the previous

paragraphs, for every subsidiary the Board of Directors adopts and the General Meeting of Shareholders approves, each with respect to its own area of responsibility, this Report.

The Remuneration of the members of the Corporate bodies

The following is an explanation of the policy adopted for the benefit of members of the corporate bodies of the Parent Company and the subsidiaries.

Art. 450,
b)

The Remuneration of the members of the Management Board

As specified in the previous paragraphs, the General Meeting approves the remuneration policies of the members of the Management Board and the Supervisory Board, upon proposal of the Remuneration Committee established within it in accordance with the Articles of Association, determines their compensation.

In Particular, at the Board meeting on 17 January 2014, as proposed by the Remuneration Committee, the Supervisory Board approved the gross annual remuneration of the members of the Management Board for the three years from 2014 to 2016.

For these persons, the approved emoluments are a base compensation as a member of the Management Board ("Base Compensation") and additional compensation on top of this for the Chairman of the Management Board, equal to twice the Base Compensation, and additional compensation on top of the Base Compensation for any member of the Management Board with executive status, equal to half of the Base Compensation.

These emoluments apply on a pro-rata basis up to the date of the Supervisory Board meeting convened to approve the financial statements for the last year of their term of office.

In addition to the fixed compensation, the members of the Management Board - except for the Managing Director as described below - are entitled to an attendance fee (which is not cumulative if several meetings are held on the same day) for taking part in meetings of the Management Board, as well as those of its sub-committees which the Board member is required to join, and reimbursement of out-of-pocket expenses incurred while performing their duties.

Management Board members will be covered by Directors and Officers (D&O) liability insurance and a cumulative insurance policy for occupational accidents.

No variable component of remuneration nor severance payments are payable to members of the Management Board without individual contracts.

Emoluments payable to the Chairman of the Management Board may not exceed the fixed remuneration payable to the Managing Director.

The remuneration of the Managing Director

During the meeting on 17 January 2014, the Supervisory Board decided the Managing Director's emoluments on the proposal of the Remuneration Committee. By virtue of this resolution, the Managing Director is entitled to a fixed annual gross compensation in proportion to the actual period of office, which absorbs all of the emoluments and attendance fees due to him/her as a member of the Management Board (Base Compensation).

The Base Compensation remunerates (i) all of the activities and responsibilities related to the position of Managing Director, as well as (ii) any other emoluments approved by subsidiary or associated /Companies in relation to positions held on their Corporate Bodies on behalf of the Group.

As envisaged by the related individual contract, the Managing Director is also eligible for a variable component of remuneration (bonus), determined by the Supervisory Board, which is awarded thereto in compliance with the "remuneration system" described hereinbelow and in proportion to the achievement of the assigned targets. The Managing Director is entitled to all of the other fringe benefits provided for in the remuneration policies applicable to the Bank's top managers.

The Management Board appointed the Managing Director and General Manager of the Bank; in this regard, the compensation for the position of General Manager (fixed and variable remuneration) are to be deducted from the total remuneration (Base Compensation and Annual Bonus⁴) identified for the position of Managing Director.

⁴ For the purposes of this Report, "bonus" in relation to the Managing Director means the full amount of variable pay, both for the position of Managing Director and for the position of General Manager.

The remuneration of the members of the Supervisory Board

The Bank's Articles of Association provides provides for the General Meeting to set the compensation for the members of the Supervisory Board, including compensation for such Supervisory Board members as serve in special capacities.

The General Meeting of Members on 21 December 2013 approved the emoluments of the members of the Supervisory Board elected at the same Meeting for the three years from 2013 to 2015.

The Supervisory Board members are entitled to a fixed remuneration that differs according to the positions that they hold on the Board (Chairman, Deputy Chairman or Board member) or on the Internal Control Committee (Chairman or Committee member).

In addition to reimbursement of out-of-pocket expenses, the members of the Supervisory Board are also entitled to an attendance fee, which is not cumulative if several meetings are held on the same day, for taking part in meetings of the Supervisory Board, of the Management Board and those of its sub-committees.

Supervisory Board members will be covered by Directors and Officers (D&O) liability insurance and a cumulative insurance policy for occupational accidents.

In accordance with Bank of Italy instructions, Supervisory Board members do not receive any variable component of remuneration.

The remuneration of the members of the corporate bodies of subsidiaries

The members of the corporate bodies of Subsidiary Companies are entitled to a fixed remuneration that differs according to the positions that they hold on the corporate body to which they belong, in addition to reimbursement of out-of-pocket expenses and attendance fees as decided by the respective General Meetings.

For the members of the Board of Directors and of the Board of Statutory Auditors of subsidiaries, this remuneration is decided by their respective General Meetings in accordance with their Articles of Association.

No variable component of remuneration is envisaged for the members of the Board of Directors without individual contracts.

In accordance with Bank of Italy Supervisory Provisions, members of the Board of Statutory Auditors do not receive any variable component of remuneration.

Emoluments payable to the Chairman of the Board of Directors of each subsidiary may not exceed the fixed remuneration payable to the Managing Director or the General Manager thereof.

The remuneration of Group employees

The system of remuneration of Group employees is explained below.

1. The employees of the Parent Company and of subsidiary /Companies receive a fixed component of remuneration based on their employment contract, which reflects the National Collective Labour Contract (CCNL) and any supplementary contracts.
Within this context, changes in the fixed component consist of promotions to a higher grade, involving an effective increase in responsibility, and personal bonuses for continued excellent performance over time. As regards function heads, changes in the fixed component also take account of the results of benchmarking.

The following is included in the fixed remuneration:

- payments in exchange for stability pacts, non-compete agreements and extension of notice arrangements. There is also provision for the implementation of stability pacts or non-compete agreements, or the extension of notice arrangements, mainly aimed at retaining resources that maintain primary relationships with customers or who occupy key positions within the organisation, consisting of the payment of a specific monthly allowance for the entire duration of the agreement, subject to the beneficiary continuing to work for Bipiemme Group;
- other personal or family benefits provided by the Parent Company and subsidiary Banks/Companies to their employees on the basis of national or supplementary labour agreements. The more important benefits involve the following: corporate welfare, supplementary pension, health care.

Group employees, according to specifics envisaged by the Company that they work for, also enjoy special conditions for banking services and insurance cover. To meet specific work related needs, benefits may be provided on an individual basis, such as accommodation and/or motor cars (the latter are assigned on the basis of internal policy or specific contractual arrangements).

2. A potential variable component of remuneration, composed of:
- a bonus which is awarded in compliance with the Bank's "remuneration system" as described below ;
 - for the Group companies that apply the CCNL for the Banking Sector, a variable component is envisaged linked to financial results and/or specific objectives (art. 48 of the National Labour Contract - "Company Bonus"). Payment is subject to the achievement, at year-end, of a consolidated Common Equity Tier1 (CET1) ratio and a Net Stable Funding Ratio (NSFR) higher than the Tolerance limit set in the Risk Appetite Framework and that consolidated income before tax from continuing operations (excluding non-recurring items)⁵ is positive. The criteria and the means of determination of the payment of this variable element is subject to information exchanged, discussions and/or negotiation with the unions;
 - for Group companies that apply the National Collective Labour Contract for Tourism and Public Concerns, a variable component is envisaged, linked to specific objectives (productivity bonus). The criteria and the means of determination of the payment of this variable element is subject to information exchanged, discussions and/or negotiation with the unions;
 - only for personnel of the Parent Company in accordance with art. 60 of its Articles of Association, to current employees, except for those in top management positions, is reserved each year - unless the General Meeting decides not to distribute a dividend out of earnings - an amount equal to 5% of the gross profit (defined as "income before tax from continuing operations" calculated before determining the amount concerned), payable in shares of the Parent Company subject to a three-year lock-up period for the beneficiary;
 - one-off bonuses may be awarded in exceptional circumstances to "other personnel" of the Group Banks/Companies for performances that merit recognition; this remuneration, which is intended to reward, based on professional assessment (or equivalent) and in accordance with the applicable rules, individual professionalism and commitment in connection with, in particular, significant and/or strategic projects, is subject to the condition that i) the capital adequacy ratio known as Common Equity Tier 1 (CET1) ratio, computed for each Group company⁶, as per the latest available quarterly report for the year in question, is higher than the relevant Tolerance limit set in the Risk Appetite Framework⁷; ii) the Net Stable Funding Ratio (NSFR) is higher than the relevant Tolerance limit set in the Risk Appetite Framework⁷; iii) income before tax from continuing operations (excluding non-recurring items) is positive. These bonuses are limited to 10% of the individual's gross annual remuneration. The total amount of resources that can be allocated to this component of remuneration may not exceed 2% of budgeted recurring personnel costs⁸ for the year in question of each company;
 - payments made on an exceptional basis to new employees, only for the first year of employment ("welcome bonus"); these payments are made in accordance with the description provided in the paragraph "Ratio between the variable and fixed components of remuneration" hereinbelow;
 - any payments linked to permanence of personnel, subject to presence on a certain date (retention bonus); these payments are made in accordance with the description provided in the paragraph "Ratio between the variable and fixed components of remuneration", "Bonus payment"⁹ and "The malus and claw-back mechanism, sub-paragraph 2";
 - any payments made in connection with non-compete agreements on termination of employment;
 - compensation for severance indemnities.

⁵ Calculated taking into account the following variable components: bonus, bonus pool (after applying the adjustment rates) and one-off bonuses.

⁶ Where available, vice versa the figure is that stated at consolidated level.

⁷ Budgeted target amount envisaged on 31/12 of the same year.

⁸ Personnel expenses budgeted for the year in question, excluding the following variable components of remuneration: bonus pool, article 60 Articles of Association, company bonus and one-off bonus.

All interventions on remuneration, even if not expressly indicated in points 1) and 2), are subject to prior approval, with regard to merit and the financial terms thereof, by the Managing Director or persons empowered to do so⁹, and in implementation of the guidelines of the Parent Company, which verifies compliance with applicable regulations.

Normally, unless otherwise indicated by the individual labour contract, employees of the Group do not receive any remuneration for positions held on behalf of the Group as members of the corporate bodies of subsidiaries and/or investees; such fees are paid over in full to the Bank/Company to which the person belongs by the Bank/Company in which the position is held. For these persons, the bonus is not linked to such positions held.

The remuneration for the employees of the Parent Company and the subsidiary Companies who are members of the Supervisory Board (under Decree Law 231) are laid down in their respective individual contracts.

The remuneration of contract staff

The following paragraphs provide details of remuneration for contract staff of Group companies. Any payment of variable components of remuneration or of "non-recurring" components of remuneration is subject to compliance with the conditions laid down in the "remuneration system"; it is also subject to the implementation of an incentive scheme linked to indicators of a qualitative nature expressed in terms of criteria that are quantitatively measurable (for example: risk in its various connotations, compliance with the law and regulations, customer care and loyalty, the quality of the product, the quality of the service provided, the containment of complaints and legal/reputational risks, etc.) as well as indicators of a quantitative nature (for example: net increases in assets under management/assets under administration). These parameters must be verified by the Parent Company's corporate control functions.

Remuneration of contract staff working for the Parent Company

Banca Popolare di Milano operates with a network of financial advisors, which is currently undergoing reorganisation, comprising advisors with an Agency Mandate in force from 2015 (hereinafter "financial advisors with a new Agency Mandate"), the financial advisors with legacy Mandate (hereinafter "financial advisors with legacy Mandate") and advisors that form part of the network of the merged entity WeBank.

In accordance with the Letter of Engagement and/or the Terms and Condition Annex to the Mandate, the remuneration of "financial promoters with a new Agency Mandate" features a "recurring" component, represented by entry fees, management fees and any goodwill, recognised at the time of recruitment, recognising a maximum of 3%, on net increases in assets under management up to a maximum of 24 months from the start of operations. The regional Manager and the Group Manager receive fees for their management roles ("Over") in accordance with the Letter of Accessory Engagement. Financial advisors with a new Agency Mandate can receive incentives in the form of "non-recurring" fees.

Financial promoters with the legacy Mandate and financial promoters coming from Banca Webank will be offered, in 2016, a number of changes in the terms and conditions of the current Mandate, whose acceptance will entail an alignment to the new Mandate, also in terms of remuneration.

For any other contract staff that may be used by the Parent Company (other than financial agents, credit brokers, insurance agents and financial advisors), remuneration, which is regulated by respective individual contracts, does not comprise any bonus.

Remuneration of Banca Akros contract staff

To support its operations, Banca Akros also uses contract staff pertaining to the following categories:

- financial advisors and agents, engaged in the promotion of products and services offered by the Bank, mainly in the areas of private banking and trading on financial markets. Their contracts provide for the recognition of commissions ("recurring" portion of remuneration) linked to the contribution made by the specific activities to the Bank's revenues. Some

⁹ Powers granted by the Management Board or by the Managing Director to handle all formalities, deeds and obligations envisaged by the remuneration policies.

contracts may also provide for minimum guaranteed commissions (the "non-recurring" component of remuneration), limited to the first year of employment. The commissions are normally paid monthly or quarterly, based on the activities performed and the revenues recorded in the period in question. There is no provision for additional "non-recurring" components of remuneration for such contract staff;

- other staff who are not employees for whom there is a "non-recurring" component of remuneration linked to performance, according to all the provisions in this document.

Remuneration of contract staff working for ProFamily

In addition to the direct distribution channel consisting of branches manned by its employees, for the distribution of its products, ProFamily can also count on:

1. banking and non banking financial intermediaries and insurance intermediaries;
2. credit intermediaries authorised to conduct financial activities, inclusive of agents, intermediaries and suppliers of authorised goods and services.

Contract staff working under a mandate from ProFamily, i.e. financial agents, receive fees (a "recurring" component of remuneration) calculated on the basis of volumes handled and the quality of the loan portfolio that they have developed, as well as on the basis of the placement of related services.

ProFamily may also offer emoluments of an incentive nature ("non-recurring" component of remuneration).

Moreover, welcome bonuses can be paid to new agents active in the financial sector upon recruitment and only for the first year of employment, in keeping with the expenditure limits set in the business plan.

Remuneration of contract staff working for Banca Popolare di Mantova

Banca Popolare di Mantova does not have any contract staff at this time.

The following are the main features of the remuneration and incentive scheme for Group personnel, which take account of the principle, whereby, the higher the management position, the more challenging access to the bonus becomes.

Art. 450, c), d), e) and f)

Ratio between the variable and fixed components of remuneration

For the purpose of determining the relationship between the fixed and variable components of remuneration, the variable component is understood to comprise all the elements included in point 2) of the above paragraph on "The remuneration of Group employees"¹⁰, as well as the "non-recurring" component of remuneration as per the paragraph on "The remuneration of contract staff".

For Group personnel, the upper limit of the variable component of remuneration as a percentage of the fixed component¹¹ is 100%, with the exception of "key personnel" and "other personnel" employed in internal control functions, for whom the limit is 33%; this is in compliance with Bank of Italy Instructions, which state that, for these roles, the variable component of remuneration should be modest, whereas fixed remuneration should be adequate for the significant level of responsibility and commitment associated with the position.

Determination of the "bonus pool"

The bonus pool for Group¹² employees is determined by the Managing Director and, together with the Managing Director's individual bonus target, forms part of consolidated personnel expenses, which are approved by the Management Board at the end of the budget process.

In keeping with the approved bonus pool, the individual target bonuses for the employees of each Group company are determined on the basis of the role and/or position and/or responsibilities and/or remuneration benchmarks. They are approved by the Managing Director for the Parent Company or by the Board of Directors for the subsidiaries (in this case, following approval of the Managing Director in relation to the following figures: Managing Director, General Manager, "key personnel", frontline management and executives).

¹⁰ Except any golden parachute and severance indemnities.

¹¹ In the case of external collaborators, this is the ratio between the recurring and non-recurring components of remuneration.

¹² Except for the bonus to the Managing Director (See section "The remuneration of the Managing Director").

Determination criteria of "bonus pool"

During the budgeting process for the Group companies, and only in case the budget shows a profit¹³, the annual amount of the bonus pool for all employees¹⁴ is established according to the criteria outlined below.

For each financial year, the total amount of the bonus pool for each company may not exceed a limit of 20% of "income before tax from continuing operations (excluding non-recurring items)"¹⁵ as budgeted therefor. This is without prejudice to different assessments that may be made by the Managing Director in relation to the bonus pool, which, as a result of the application of the foregoing criterion, comes to less than Euro 500 thousand, but it may be increased up to the aforementioned amount.

The total amount of each bonus pool is calculated taking into account, among other things, the capitalisation and liquidity objectives of the companies in question; this amount and the percentage defined by each subsidiary are subject to prior approval by the Parent Company, which ensures the overall consistency at Group level, checking that the gap in the ratio between the bonus pool and the income from continuing operations¹⁶, expressed as a percentage, lies within a range of 15 percentage points¹⁷ between each company.

Adjustment rate

The bonus pool for each Group company is adjusted ex post¹⁸ by a correction factor in proportion to the risk-adjusted results achieved.

In particular, the entire staff bonus pool, with the exception of the Managing Director and the "bonus pool" of "key employees" belonging to the control functions is adjusted by a correction factor in proportion to the *Risk Adjusted Return on Risk Adjusted Capital* (RORAC) as measured at financial year-end in relation to the relevant Risk Trigger indicated in the Risk Appetite framework for the same year¹⁹. The comparison is carried out on a consolidated basis for the Parent Company and on an individual base for subsidiaries.

The application of this factor may lead to a reduction (even to zero) or an increase in the budgeted bonus pool for each Group company, subject to the prior approval of any increase by the Management Board for each Group company.

The correction factors to be applied are shown in the following table.

RORAC achieved (<i>R</i>)	Adjustment rate applicable to the "bonus pool"
<i>R</i> < 50% Risk Trigger	0%
50% Risk Trigger ≤ <i>R</i> ≤ 100% Risk Trigger	Same % as the ratio of RORAC achieved/RORAC Risk Trigger
<i>R</i> > 100% Risk Trigger	Maximum % corresponding to the ratio RORAC achieved/RORAC Risk Trigger ratio with a cap set at 110%, based on the considerations of the Management Board and its prior approval.

For Group companies involved in investment banking, the cap is set at 115% instead of 110%.

¹³ Income before tax from continuing operations (excluding non-recurring items).

¹⁴ With the exclusion of financial agents, insurance agents and financial advisors, for which it is envisaged that there will be a dedicated bonus pool, approved by the Managing Director.

¹⁵ Budgeted income before tax from continuing operations (excluding non-recurring items), without considering the amount of the "bonus pool".

¹⁶ Income before tax from continuing operations (excluding non-recurring items), without considering the amount of the "bonus pool".

¹⁷ between the minimum and maximum value. This is without prejudice to any exceptions applied by the Managing Director to bonus pools lower than or equal to thousand Euro 500 thousand.

¹⁸ After the conditions outlined in the paragraph on "Link between bonus and results".

¹⁹ Both the actual amount and the budgeted amount, calculated without considering the amount of the bonus pool, are determined as the ratio of income before tax (after non-recurring items) to equity calculated as 8% x risk-weighted assets determined with the standardised approach. Any recognition of internal rating models based on advanced methods to determine capital requirements for credit risk will be sterilised.

In relation to frontline management of the Parent Company not employed in internal control functions, the correction factor indicated in point 1) above is reduced by 10 percentage points, where the actual ratio of gains/losses on disposal of financial assets available for sale - debt securities (as resulting from the explanatory notes to the consolidated financial statements - Part C - Section 6) to operating income resulting from the reclassified income statement is higher than 15%.

Restrictions on distributions - combined capital buffer requirement

In accordance with Bank of Italy's Provisions²⁰, in the event that the combined capital buffer requirement is complied with²¹, no distributions may be made of Common Equity Tier 1^{22 23} that would lead to the latter being reduced below the required level.

In the event of the failure to comply with the combined capital buffer requirement, the variable component of remuneration may be awarded and/or paid within the limits and in accordance with the conditions indicated in the Bank of Italy's Provisions.

Link between bonus and results

Recognition of the bonus for Group personnel is subject to full compliance with the access conditions (or so-called "access gates") as well as to any correction factors, as previously described, and is implemented in line with the latest guidelines issued by the Supervisory Authority.

In line with the Risk Appetite Framework approved by the Management Board, payment of the bonus is subject to:

- 1) for "key personnel", to the achievement of indicators and related comparable values:
 - consolidated capital adequacy: Common Equity Tier1 (CET1) ratio higher than the risk tolerance threshold set in the Risk Appetite Framework²⁴;
 - indicator of liquidity at consolidated level: Net Stable Funding Ratio (NSFR) higher than the risk tolerance threshold set in the Risk Appetite Framework²⁴;
 - profitability indicator: income before tax from continuing operations (excluding non-recurring items) greater than zero;
 - proper performance of duties and responsibilities²⁵, partially adequate or adequate;
- 2) for "other personnel", to the achievement of indicators and related comparable values:
 - consolidated capital adequacy: Common Equity Tier1 (CET1) ratio higher than the risk tolerance threshold set in the Risk Appetite Framework²⁴;
 - indicator of liquidity at consolidated level: Net Stable Funding Ratio (NSFR) higher than the risk tolerance threshold set in the Risk Appetite Framework²⁴;
 - profitability indicator: income before tax from continuing operations (excluding non-recurring items) greater than zero.

²⁰ See Circular 285 of 17 December 2013 (and subsequent updates) "Supervisory Provisions for Banks" (Part 1, Title II, Chapter 1, Section V, paragraph 1 "Restrictions on distributions").

²¹ For definition see art. 128.6, of Directive 2013/36/EU.

²² For the definition see art. 25 of (EU) Regulation 575/2013.

²³ Restrictions on distributions envisaged by the present paragraph are applied to payments that lead to a reduction in Common Equity Tier 1 or a reduction in income, if the failure to pay or the suspension of payments does not consist of an event of default or a condition that would trigger an insolvency procedure as per regulations governing banking crises.

²⁴ Levels as of 31 December of each year.

²⁵ The evaluation is made: (i) by the Supervisory Board in relation to the Management Board, the Parent Company's senior management, the Board of Directors and senior management of the subsidiaries, as well as "key personnel" of the Group's control functions;; (ii) by the Managing Director in relation to "key personnel" not included in (i). For "key personnel" not belonging to the management frontline, the evaluation may be that of the function's Head.

The table summarises the conditions for access to the “annual bonus” for the various Personnel categories.

Indicator	Key personnel	Other personnel
Common Equity Tier1 Ratio (CET 1) - consolidated level -	> Tolerance threshold defined in the Risk Appetite Framework	
Net Stable Funding Ratio (NSFR) - consolidated level -	> Tolerance threshold defined in the Risk Appetite Framework	
Income before tax from continuing operations - consolidated level -	> 0	
Proper performance of duties - individual -	Partially adequate or adequate	-

Each Group company may define additional "access gates" which are then valid for all personnel²⁶.

In addition to the above conditions, the Managing Director's is paid a bonus if the consolidated Risk Adjusted Return on Risk Adjusted Capital (RORAC) at year-end is at least equal to 50% of the risk trigger threshold set within the Risk Appetite Framework consolidated²⁴.

Recognition of the individual "annual bonus" also depends on the implementation of an incentive scheme by the Bank or Company for which the person works, which provides for the assignment of goals (at the level of Bank/Company, individual or team) to be compared at year-end with the actual performance achieved, not only in terms of quantitative results, but also of the person's conduct. In particular, the incentive scheme also has to be guided by criteria of fairness in customer relations and containment of legal and reputational risk through the use of indicators of a qualitative nature expressed in terms of criteria that are quantitatively measurable (e.g. customer satisfaction surveys, performance assessment and managerial skills, etc.).

Payment of the annual bonus

The following paragraphs describe the way in which the annual bonus is paid to Group employees.

Payment of the “annual bonus” to “other personnel”

The annual bonus of "other personnel" is paid in cash and in a lump sum by the end of July of the year after that of accrual.

The annual bonus that has been accrued is not paid in cases of termination of employment (unless there are specific provisions to the contrary in individual contracts or collective agreements, or on the unilateral initiative of the company, though the situation would still need to be assessed on a case by case basis, depending on when the termination takes place).

Payment of the "annual bonus" to “key personnel”

The "annual bonus" of "key personnel" is divided into:

- an up-front portion of 60% of the annual bonus, payable by the end of July of the year after the one that the bonus relates to;
- three annual instalments, amounting in total to 40% of the annual bonus, each of an equal amount, deferred over the three-year period subsequent to the year in which the up-front portion is paid, with each instalment payable by the end of July of each year.

Where the bonus target represents 100% of gross annual remuneration ("GAR")²⁷ and, at the same time, is equal to or greater than Euro 150 thousand, the deferred portion shall equate to 60% of the annual bonus, payable in five equal annual instalments, deferred over the five-year period subsequent to the year in which the up-front portion is awarded, with each instalment payable by the end of July of each year.

²⁶ Where the selected indicators are linked to the company's financial results, these are applied solely to personnel not employed in corporate control functions.

²⁷ Including payments under arrangements related to continuing employment.

For "key personnel", both the 50% up-front portion and the 50% deferred portion of the "annual bonus" are paid in Banca Popolare di Milano shares.

For these shares there is a retention period (restriction as to sale) of two years for the portion awarded up-front and one year for the deferred portion; for the latter, the retention period starts on the date when the deferred remuneration is awarded.

Both the up-front portion and the deferred portions are subject to "malus" and "claw-back" mechanisms as explained below and shall not be paid in cases of termination of the contract or of the employment relationship (save for specific provisions in individual or collective agreements, in company agreements or unilateral actions taken by the company, it being understood that every situation should be considered on a case by case basis, depending on the time of termination).

In line with national banking system practices and with the spirit of current regulations, the rules, as previously stated in the present paragraph, concerning bonus payments are applied based on a scale of materiality thresholds, as specified below:

- for bonus target amounts lower than or equal to a threshold of Euro 20,000, payment is made in cash upfront;
- for bonus target amounts lower than or equal to a threshold of Euro 50,000, payment is made in cash, without prejudice to the application of the deferral mechanisms.

The scale is not applied to bonus payments to members of corporate bodies²⁸, senior managers of the Group companies and frontline management of the Parent Company.

The "malus" and "claw-back" mechanisms

The bonus is subjected to an ex post (so-called "malus") correction mechanism as described below:

1. The allocation of each deferred portion of the bonus is subject to compliance with the "access gates" and the related amounts of thresholds set for the year preceding the year of allocation of the deferred portion for each category of personnel; this *ex post* correction system is therefore a mechanism that operates during the period of deferral before actual disbursement of the bonus arrears;
2. the staff's bonus, including both the up-front portion and the deferred portions of "key personnel", is not paid in cases where, also following disciplinary proceedings, it was found that the persons concerned caused or helped cause the following conditions:
 - conduct that led to a loss being incurred that was deemed to be significant for Group Companies based on assessments made by the competent corporate bodies thereof and of the Parent Company;
 - violations²⁹ of the obligations imposed under art. 26 or, when the person is an interested party, art. 53 of the CBA;
 - fraudulent conduct or gross negligence to the detriment of the Group companies, based on assessments made by the competent corporate bodies thereof and of the Parent Company.

The Company also has the right to consider restitution of the bonus or any portions of it that have already been paid (claw-back clause).

Annually, and, in any case, prior to the payment of the bonus, the Parent Company's Human Resources function, with the help of the competent functions of the Parent Company and of the subsidiaries, verifies the existence of conditions that would trigger the non payment or the restitution of bonuses already awarded and assesses cases that may have to be submitted to the competent corporate bodies for a final decision.

²⁸ This category does not include Group employees that serve as directors on the boards of directors of subsidiaries to represent the Group and for which they do not receive any fixed or variable remuneration.

²⁹ For example, in the event of violation of the requirements of experience, integrity and independence.

Quantitative information

Statement under art. 450 CRR (Regulation 2013/575 EU), paragraph 1, sub-paragraph “g” Aggregate quantitative information on remuneration, broken down by business area (euro/000)

Areas of activity	Number of beneficiaries	Fixed remuneration (8)	Variable remuneration for 2015		
			Incentives (9)	Other types of variable remuneration (10)	Sign-on and severance payments
Members of the management board (1)	4	1,821	1,271	2	-
Members of board of directors (1)	18	1,081	-	-	-
Investment banking (2)	547	35,761	2,827	1,367	764
Retail banking (3)	5,919	290,677	11,101	18,655	4,559
Asset management (4)	40	3,677	284	-	-
Company functions (5)	913	50,881	2,818	2,495	565
Control functions (6)	381	22,649	1,389	1,029	1,212
Other (7)	249	7,254	371	483	549
Total	8,071	413,801	20,061	24,031	7,648

Notes

(1) Members of bodies with strategic supervision and management responsibilities defined pursuant to Bank of Italy's Supervisory Provisions on corporate governance (Circular no. 285/2013, Part One, Title IV, Chapter 1). Their remuneration includes also fees and other compensation for participating in Committees. Does not include Group employees that serve as directors on the boards of directors of subsidiaries to represent the Group and for which they do not receive any fixed or variable remuneration.

(2) Includes securities trading and underwriting, corporate and structured finance activities, private equity, the relevant advisory activity, non-retail banking activities, etc., as well as all ancillary services and activities.

(3) Includes traditional ordinary banking activities with retail customers (households and businesses), such as lending, deposit taking, provision of guarantees and financial commitments, consumer credit for retail customers, leasing and factoring activities, etc., as well as all ancillary activities and services.

(4) Includes portfolio management and other forms of asset management, as well as all ancillary activities and services.

(5) This refers to company functions that operate transversally and have responsibilities for the entire company or the entire Group (or central functions not included under corporate control functions).

(6) As defined in the Supervisory Provisions of Bank of Italy on remuneration and incentive policies and practices (Circular no. 285/2013, Part One, Title IV, Chapter 2).

(7) Functions not included in the previous categories. Include also members of control bodies and senior management.

(8) Includes any fringe benefits and non-termination, longer resignation notice and non-compete clauses, provided monthly while continuing employment.

(9) Bonuses accrued by “key personnel”. For “other staff” bonuses reflect estimates. The amounts do not include any incentives for previous years accrued during the period.

(10) Includes remuneration, other than incentives, for the year of reference (one-time payments, company bonuses, productivity bonuses, article 60 of BPM's articles, contest).

**Statement under art. 450 CRR (Regulation 2013/575 EU), paragraph 1, sub-paragraph “h”, i) and ii)
Fixed and variable components of remuneration (euro/000)**

“Key personnel” identified for the year	Fixed remuneration (9)		Incentive scheme for 2015								Other types of remuneration for the year (11)
	Number of beneficiaries	Amount	Number of beneficiaries	Total amount	of which upfront amount			of which deferred amount			
					Cash	BPM shares (10)	Other instruments (10)	Cash	BPM shares (10)	Other instruments (10)	
Members of the management board (1)	4	1,821	3	1,271	264	264	-	372	372	-	2
Members of board of directors (1)	14	1,070	-	-	-	-	-	-	-	-	-
Investment banking (2)	19	3,870	16	908	461	182	-	144	121	-	41
Retail banking (3)	25	3,643	23	602	479	44	-	50	29	-	180
Asset management (4)	3	951	-	-	-	-	-	-	-	-	-
Company functions (5)	9	1,895	8	340	162	76	-	51	51	-	8
Control functions (6)	16	2,704	14	517	294	69	-	107	46	-	777
Other (7)	2	422	2	82	24	24	-	16	16	-	7
Total	92	16,375	66	3,720	1,685	660	-	739	636	-	1,015
<i>of which senior management (8)</i>	31	7,444	27	2,819	901	636	-	662	620	-	780

Notes

(1) Members of bodies with strategic supervision and management responsibilities defined pursuant to Bank of Italy’s Supervisory Provisions on corporate governance (Circular no. 285/2013, Part One, Title IV, Chapter 1). Their remuneration includes also fees and other compensation for participating in Committees. Does not include Group employees that serve as directors on the boards of directors of subsidiaries to represent the Group and for which they do not receive any fixed or variable remuneration.

(2) Includes securities trading and underwriting, corporate and structured finance activities, private equity, the relevant advisory activity, non-retail banking activities, etc., as well as all ancillary services and activities.

(3) Includes traditional ordinary banking activities with retail customers (households and businesses), such as lending, deposit taking, provision of guarantees and financial commitments, consumer credit for retail customers, leasing and factoring activities, etc., as well as all ancillary activities and services.

(4) Includes portfolio management and other forms of asset management, as well as all ancillary activities and services.

(5) This refers to company functions that operate transversally and have responsibilities for the entire company or the entire Group (or central functions not included under corporate control functions).

(6) As defined in the Supervisory Provisions of Bank of Italy on remuneration and incentive policies and practices (Circular no. 285/2013, Part One, Title IV, Chapter 2).

(7) Functions not included in the previous categories. Include also members of control bodies and senior management.

(8) Senior management of the Parent Company and the subsidiaries, as well as the heads of the corporate functions reporting directly to the Managing Director of the Managing Director of subsidiaries.

(9) Includes any fringe benefits and non-termination, longer resignation notice and non-compete clauses, provided monthly while continuing employment.

(10) Equivalent amount in euros.

(11) Includes remuneration, other than incentives, for the year of reference (one-time payments, company bonuses, productivity bonuses, article 60 of BPM’s articles, contest).

**Statement under art. 450 CRR (Regulation 2013/575 EU), paragraph 1, sub-paragraph “h”, iii) and iv)
Deferred portion of the variable components of remuneration (euro/000)**

“Key personnel” identified for the year	Deferred variable pay attributable to previous years				
	(9)				
	Disbursed in 2015	Not disbursed in 2015 (malus)	To be disbursed in 2016	Not to be disbursed in 2016 (malus)	Payable in 2017 and subsequent years
Members of the management board (1)	40	-	179	-	531
Members of board of directors (1)	-	-	-	-	-
Investment banking (2)	133	-	91	-	123
Retail banking (3)	-	-	25	-	51
Asset management (4)	13	-	-	13	-
Company functions (5)	15	-	36	-	72
Control functions (6)	79	-	100	24	110
Other (7)	-	-	10	-	21
Total	280	-	442	38	908
<i>of whom senior management (8)</i>	<i>280</i>	<i>-</i>	<i>414</i>	<i>38</i>	<i>852</i>

Notes

(1) Members of bodies with strategic supervision and management responsibilities defined pursuant to Bank of Italy’s Supervisory Provisions on corporate governance (Circular no. 285/2013, Part One, Title IV, Chapter 1). Their remuneration includes also fees and other compensation for participating in Committees. Does not include Group employees that serve as directors on the boards of directors of subsidiaries to represent the Group and for which they do not receive any fixed or variable remuneration.

(2) Includes securities trading and underwriting, corporate and structured finance activities, private equity, the relevant advisory activity, non-retail banking activities, etc., as well as all ancillary services and activities.

(3) Includes traditional ordinary banking activities with retail customers (households and businesses), such as lending, deposit taking, provision of guarantees and financial commitments, consumer credit for retail customers, leasing and factoring activities, etc., as well as all ancillary activities and services.

(4) Includes portfolio management and other forms of asset management, as well as all ancillary activities and services.

(5) This refers to company functions that operate transversally and have responsibilities for the entire company or the entire Group (or central functions not included under corporate control functions).

(6) As defined in the Supervisory Provisions of Bank of Italy on remuneration and incentive policies and practices (Circular no. 285/2013, Part One, Title IV, Chapter 2).

(7) Functions not included in the previous categories. Include also members of control bodies and senior management.

(8) Senior management of the Parent Company and the subsidiaries, as well as the heads of the corporate functions reporting directly to the Managing Director of the Managing Director of subsidiaries.

(9) Includes deferred amounts of one-off payments approved by Banca Akros in 2013.

**Statement under art. 450 CRR (Regulation 2013/575 EI), paragraph 1, sub-paragraph “h”, items v) and vi)
New sign-on and severance payments (euro/000)**

“Key personnel” identified for the year	New sign-on payments disbursed during the year		Severance payments					
	Number of beneficiaries	Total amount	Recognised during the year			Disbursed during the year (9)		
			Number of beneficiaries	Total amount	Highest amount (10)	Number of beneficiaries	Total amount	
Members of the management board (1)	-	-	-	-	-	-	-	-
Members of board of directors (1)	-	-	-	-	-	-	-	-
Investment banking (2)	-	-	-	-	-	-	-	-
Retail banking (3)	-	-	2	115	63	2	115	
Asset management (4)	-	-	-	-	-	-	-	
Company functions (5)	-	-	-	-	-	-	-	
Control functions (6)	-	-	1	660	660	1	462	
Other (7)	-	-	-	-	-	-	-	
Total	-	-	3	775	723	3	577	
<i>of whom senior management (8)</i>	-	-	<i>1</i>	<i>660</i>	<i>660</i>	<i>1</i>	<i>462</i>	

Notes

(1) Members of bodies with strategic supervision and management responsibilities defined pursuant to Bank of Italy’s Supervisory Provisions on corporate governance (Circular no. 285/2013, Part One, Title IV, Chapter 1). Their remuneration includes also fees and other compensation for participating in Committees. Does not include Group employees that serve as directors on the boards of directors of subsidiaries to represent the Group and for which they do not receive any fixed or variable remuneration.

(2) Includes securities trading and underwriting, corporate and structured finance activities, private equity, the relevant advisory activity, non-retail banking activities, etc., as well as all ancillary services and activities.

(3) Includes traditional ordinary banking activities with retail customers (households and businesses), such as lending, deposit taking, provision of guarantees and financial commitments, consumer credit for retail customers, leasing and factoring activities, etc., as well as all ancillary activities and services.

(4) Includes portfolio management and other forms of asset management, as well as all ancillary activities and services.

(5) This refers to company functions that operate transversally and have responsibilities for the entire company or the entire Group (or central functions not included under corporate control functions).

(6) As defined in the Supervisory Provisions of Bank of Italy on remuneration and incentive policies and practices (Circular no. 285/2013, Part One, Title IV, Chapter 2).

(7) Functions not included in the previous categories. Include also members of control bodies and senior management.

(8) Senior management of the Parent Company and the subsidiaries, as well as the heads of the corporate functions reporting directly to the Managing Director of the Managing Director of subsidiaries.

(9) These amounts are part of the severance payments recognised during the year.

(10) Recognised to each individual.

Statement under art. 450 CRR (Regulation 2013/575 EI), paragraph 1, sub-paragraph “j”

Total remuneration payable to the Chairman of the body responsible for strategic supervision and each member of the body with management functions, to the General Manager, to Co-General Managers and to Deputy General Managers (euro) ⁽¹⁾

Surname and name	Position	Company	Period in which position was held	Total remuneration for the year		
				Fixed (2)	Other special responsibilities (3)	Variable (4)
Anolli Mario	Chairman Management Board	Banca Popolare di Milano	01/01/2015 – 31/12/2015	377,100	-	-
Castagna Giuseppe	Managing Director – General Manager	Banca Popolare di Milano	01/01/2015 – 31/12/2015	842,801	-10,640	800,900
Croff Davide	Executive Director	Banca Popolare di Milano	01/01/2015 – 31/12/2015	211,050	-	-
Tarantini Graziano	Chairman of the Board of Directors	Banca Akros	01/01/2015 – 31/12/2015	127,627	-	-
Turrina Marco Federico	Managing Director	Banca Akros	01/01/2015 – 31/12/2015	451,177	26,930	375,000
Girelli Giorgio Angelo	Co-General Manager	Profamily Spa	13/03/2015 – 31/12/2015	58,182 ⁽⁵⁾	-	-
Bescheroni Massimiliano	Chairman of the Board of Directors	Profamily Spa	01/01/2015 – 31/12/2015	300,209	-	96,900
Molteni Paolo	General Manager	Profamily Spa	01/01/2015 – 31/12/2015	190,753	-1,460	45,467
Zanetti Carlo	Chairman of the Board of Directors	Banca Popolare di Mantova	01/01/2015 – 31/12/2015	43,250	-	-
Ottolina Annibale	General Manager	Banca Popolare di Mantova	01/01/2015 – 31/12/2015	228,525	3,689	43,110

Note

(1) Does not include Group employees that serve as directors on the boards of directors of subsidiaries to represent the Group and for which they do not receive any fixed or variable remuneration.

(2) Includes any fringe benefits, fees and any remuneration for sitting on committees.

(3) Includes any back pay, solidarity days etc.

(4) Includes all variable components of the remuneration for the period of reference, whether paid or deferred. Does not include deferred variable remuneration related to previous years.

(5) The amount shown does not include the remuneration for the position held in the Management Board.

16. Leverage (art. 451 CRR)

Qualitative information

A leverage ratio ("LR") was introduced into the regulatory framework designed by the Basel Committee on Banking Supervision (BCBS) as an addition to the other risk-based indicators, capable of measuring the extent to which CET 1 covers total exposure. This ratio is monitored quarterly both at the separate and at the consolidated level.

The leverage ratio is intended to:

- keep in check leverage in the banking industry;
- strengthen capital requirements with a measure that is simple and not risk-based.

The leverage ratio is calculated by applying the regulations in force and in keeping with the Risk Appetite Framework (RAF) defined within the Bipiemme Group. In fact, the leverage ratio is one of the metrics that the Group indicated in its RAF, setting out for it specific targets and risk limits.

The obligation to disclose this ratio took effect on 1 January 2015 in accordance with article 451 CRR. Moreover, it is worthy of note that Delegated Regulation EU 2015/62 has partially amended the CRR providing indication on how to determine the denominator of the ratio.

The leverage ratio is calculated, in accordance with article 429 of the CRR, as the ratio between the Common Equity Tier 1 (numerator) and total exposure (denominator) and is expressed in percentage terms.

Total exposure includes cash exposures, less any components deducted from CET 1, and off-balance-sheet exposures such as off-balance-sheet guarantees, derivatives, securities financing transactions (SFT) and long settlement transactions.

The Basel Committee will continue to test a minimum requirement of 3% for the leverage ratio during the transition period between 1 January 2014 and 1 January 2017. In addition, as indicated in article 429 paragraph 2 of the CRR as amended by Delegated Regulation (EU) 2015/62 of the Commission, banks calculate their leverage ratio as at quarter-end. The Basel Committee's objective is to upgrade the ratio to first-pillar requirement, starting from 1 January 2018, after the transition and calibration period.

Excessive leverage ratio management unfolds along the following phases:

1. Identification and measurement, which breaks down further into:
 - data gathering to calculate the indicator;
 - processing of the data gathered and any adjustments provided for by the regulation of reference;
 - comparison with the RAF thresholds and assessment of the leverage ratio.
2. Management, involving the review of the indicator's trends, also in prospective terms based on internal forecasts of business performance;
3. Monitoring and reporting of information.

Risk Management & Capital Adequacy monitors the risk of excessive leverage ratio:

- checks any deviation from risk targets and limits, as established by Company policy within the RAF;
- performs benchmarking analyses based on the data available in the financial stability report published by Bank of Italy or other sources;
- emphasises, together with the other departments involved, any unusual and/or critical phenomena, evaluating and proposing to the competent functions/bodies possible actions, in keeping with their authority and the Company policy applicable from time to time with respect to the specific type of risk.

After it completes the monitoring activity, Risk Management and Capital Adequacy prepares a report within the context of the Risk Appetite Framework.

Quantitative information

Art. 451

The quantitative information is provided in accordance with the Commission Implementing Regulation (EU) of 15 February 2016, which lays down the implementing technical standards with regard to disclosure of the leverage ratio.

Reference date	31 December 2015
Entity name	Banca popolare di Milano
Level of application	Consolidated
LRSum Summary reconciliation of accounting assets and leverage ratio exposures	
	Applicable amounts
1 Total assets as per published financial statements	50,203,300
2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(24,991)
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013	0
4 Adjustments for derivative financial instruments	(606,223)
5 Adjustment for securities financing transactions (SFTs)	148,040
6 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	5,446,609
UE-6a (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
UE-6b (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7 Other adjustments	144,263
8 Leverage ratio total exposure measure	55,310,998

LRCom Leverage ratio common disclosure		Leverage ratio exposure (CRR)
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	48,752,771
2	(Asset amounts deducted in determining Tier 1 capital)	(473,690)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	48,279,081
Derivative exposures		
4	Replacement cost associated with <i>all</i> derivatives transactions (ie net of eligible cash variation margin)	405,593
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	252,901
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivatives exposures (sum of lines 4 to 10)	658,494
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	5,939,894
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(5,526,896)
14	Counterparty credit risk exposure for SFT assets	273,137
UE-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
UE-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	686,135
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	21,006,386
18	(Adjustments for conversion to credit equivalent amounts)	(15,559,777)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	5,446,609
UE-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
UE-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0

Capital and total exposure measure		
20	Tier 1 capital	4,224,714
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	55,070,319
Leverage ratio		
22	Leverage ratio	7.67%
Choice on transitional arrangements and amount of derecognised		
EU 23	Choice on transitional arrangements for the definition of the capital measure	-
EU 24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

LRSpl Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
		Leverage ratio exposure
UE 1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	48,752,771
UE 2	Trading book exposures	702,759
EU 3	Banking book exposures, of which:	48,050,012
EU 4	Covered bonds	-
EU 5	Exposures treated as sovereigns	10,458,250
EU 6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	120,928
EU 7	Institutions	3,184,435
EU 8	Secured by mortgages of immovable properties	8,672,237
EU 9	Retail exposures	6,648,098
EU 10	Corporate	12,565,522
EU 11	Exposures in default	3,626,312
EU 12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2,774,230

Own Funds Annexes

The section in questions shows:

- the templates for the description of CET 1, Additional Tier 1, and Tier 2 instruments;
- the transitional template for the public disclosures on Own Funds.

Template of the main characteristics of capital instruments		
Shares Banca Popolare di Milano		
1	Issuer	Banca Popolare di Milano S.C. a r.l.
2	Unique identifier	IT0000064482
3	Law applicable to the instrument	Italian law
Regulatory treatment		
4	CRR transitional provisions	Common Equity Tier 1
5	Post-transitional provisions of the CRR	Common Equity Tier 1
6	Eligible at the level of individual entity/(sub-) consolidation/individual entity and (sub-) consolidation	Individual entity and consolidation
7	Type of instrument	Class 1 instrument issued by cooperative company under article 29
8	Amount recognised in regulatory capital	Euro 3,365.4 million
9	Nominal amount of the instrument	N/A
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original issue date	N/A
12	Irredeemable or at maturity	Irredeemable
13	Original date of maturity	N/A
14	Early redemption at the Issuer's discretion subject to the prior approval of the Supervisory Authority	NO
15	Date of optional early repayment, date of early repayment and eventual repayment amount	N/A
16	Subsequent dates of early repayment, if any	N/A
Coupons/dividends		
17	Fixed or variable dividends/coupons	Variables
18	Rate of the coupon and any associated index	N/A
19	Presence of a "dividend stopper" mechanism	NO
20a	Fully discretionary, partly discretionary or mandatory (in terms of time)	Fully discretionary
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Fully discretionary
21	Presence of a "step up" or other incentive to repay	NO
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, event(s) that lead to conversion	N/A
25	If convertible, in whole or in part	N/A
26	If convertible, conversion rate	N/A
27	If convertible, compulsory or optional conversion	N/A
28	If convertible, specify the type of instrument into which conversion is possible	N/A
29	If convertible, specify the issuer of the instrument into which it is converted	N/A
30	Write down mechanisms	NO
31	In the event of write down mechanism event which determine it	N/A
32	In the event of write down mechanism, total or partial write down	N/A
33	In event of write down mechanism, permanent or temporary write down	N/A
34	In the event of temporary write down mechanism, description of the revaluation mechanism	N/A
35	Position in the hierarchy of subordination in the event of liquidation (specify the type of instrument to the next higher rank (senior))	Tier 2
36	Non-compliant features of tools that benefit from the transitional provisions	NO
37	If so, specify the characteristics that do not comply	N/A

Template of the main characteristics of capital instruments

Perpetual Subordinated Fixed/Floating Rate Notes 9%

1	Issuer	Banca Popolare di Milano S.C. a r.l.
2	Unique identifier	XS0372300227
3	Law applicable to the instrument	English Law
Regulatory treatment		
4	CRR transitional provisions	Additional Tier 1 - AT1
5	Post-transitional provisions of the CRR	Ineligible
6	Eligible at the level of individual entity/(sub-) consolidation/individual entity and (sub-) consolidation	Individual entity and consolidation
7	Type of instrument	Class 1 additional instruments - art. 51 and art 484
8	Amount recognised in regulatory capital	Euro 184.6 million
9	Nominal amount of the instrument	Euro 300 million
9a	Issue price	98.955% nominal value
9b	Redemption price	100% nominal value
10	Accounting classification	Securities issued (amortised cost)
11	Original issue date	25 June 2008
12	Irredeemable or at maturity	Irredeemable
13	Original date of maturity	N/A
14	Early redemption at the Issuer's discretion subject to the prior approval of the Supervisory Authority	YES
15	Date of optional early repayment, date of early repayment and eventual repayment amount	These securities may be redeemed early starting from 25 June 2018, subject to authorisation from the Bank of Italy
16	Subsequent dates of early repayment, if any	N/A
Coupons/dividends		
17	Fixed or variable dividends/coupons	Fixed and then variable
18	Rate of the coupon and any associated index	Fixed rate of 9% until 25 June 2018; floating rate (3-month Euribor + spread of 6.18%) from 25 June 2018
19	Presence of a "dividend stopper" mechanism	NO
20a	Fully discretionary, partly discretionary or mandatory (in terms of time)	Partly discretionary There is also provision for: - optional suspension of interest payments if the Bank does not have distributable earnings and/or has not paid dividends for the last year ended prior to the payment date of the interest; - obligatory suspension of interest payments in the case of a "capital deficiency event", (which takes place when the total capital ratio falls below the minimum level required by the Supervisory Authority); - a "loss absorption" clause, whereby reimbursement of the notes is suspended if a Capital Deficiency Event takes place.
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Partially discretionary
21	Presence of a "step up" or other incentive to repay	YES
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, event(s) that lead to conversion	N/A
25	If convertible, in whole or in part	N/A
26	If convertible, conversion rate	N/A
27	If convertible, compulsory or optional conversion	N/A
28	If convertible, specify the type of instrument into which conversion is possible	N/A
29	If convertible, specify the issuer of the instrument into which it is converted	N/A
30	Write down mechanisms	NO
31	In the event of write down mechanism event which determine it	N/A
32	In the event of write down mechanism, total or partial write down	N/A
33	In event of write down mechanism, permanent or temporary write down	N/A
34	In the event of temporary write down mechanism, description of the revaluation mechanism	N/A
35	Position in the hierarchy of subordination in the event of liquidation (specify the type of instrument to the next higher rank (senior))	Tier 2
36	Non-compliant features of tools that benefit from the transitional provisions	YES
37	If so, specify the characteristics that do not comply	Incentive to redeem, callable subsequent to the first call date, payment not fully discretionary, dividend pusher clauses "

Template of the main characteristics of capital instruments
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Fixed rate 18 April 2008/2018

1	Issuer	Banca Popolare di Milano S.C. a r.l.
2	Unique identifier	IT0004347107
3	Law applicable to the instrument	Italian Law
	Regulatory treatment	
4	CRR transitional provisions	Tier 2 equity instrument
5	Post-transitional provisions of the CRR	Tier 2 equity instrument
6	Eligible at the level of individual entity/(sub-) consolidation/individual entity and (sub-) consolidation	Individual entity and consolidation
7	Type of instrument	Tier 2 additional instruments - art. 62 and art 484
8	Amount recognised in regulatory capital	Euro 115.4 million
9	Nominal amount of the instrument	Euro 252.8 million
9a	Issue price	100% nominal value
9b	Redemption price	100% nominal value
10	Accounting classification	Securities issued (amortised cost)
11	Original issue date	18 April 2008
12	Irredeemable or at maturity	At maturity
13	Original date of maturity	18 April 2018
14	Early redemption at the Issuer's discretion subject to the prior approval of the Supervisory Authority	NO
15	Date of optional early repayment, date of early repayment and eventual repayment amount	N/A
16	Subsequent dates of early repayment, if any	N/A
	Coupons/dividends	
17	Fixed or variable dividends/coupons	Fixed rate coupon
18	Rate of the coupon and any associated index	4.50%
19	Presence of a "dividend stopper" mechanism	NO
20a	Fully discretionary, partly discretionary or mandatory (in terms of time)	Mandatory
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Mandatory. The subordinated bonds consist of BPM "tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
21	Presence of a "step up" or other incentive to repay	YES
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, event(s) that lead to conversion	N/A
25	If convertible, in whole or in part	N/A
26	If convertible, conversion rate	N/A
27	If convertible, compulsory or optional conversion	N/A
28	If convertible, specify the type of instrument into which conversion is possible	N/A
29	If convertible, specify the issuer of the instrument into which it is converted	N/A
30	Write down mechanisms	NO
31	In the event of write down mechanism event which determine it	N/A
32	In the event of write down mechanism, total or partial write down	N/A
33	In event of write down mechanism, permanent or temporary write down	N/A
34	In the event of temporary write down mechanism, description of the revaluation mechanism	N/A
35	Position in the hierarchy of subordination in the event of liquidation (specify the type of instrument to the next higher rank (senior))	Senior
36	Non-compliant features of tools that benefit from the transitional provisions	NO
37	If so, specify the characteristics that do not comply	N/A

Template of the main characteristics of capital instruments		
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Floating rate 20 October 2008/2018		
1	Issuer	Banca Popolare di Milano S.C. a r.l.
2	Unique identifier	IT0004396492
3	Law applicable to the instrument	Italian Law
Regulatory treatment		
4	CRR transitional provisions	Tier 2 capital
5	Post-transitional provisions of the CRR	Ineligible
6	Eligible at the level of individual entity/(sub-) consolidation/individual entity and (sub-) consolidation	Individual entity and consolidation
7	Type of instrument	Tier 2 additional instruments - art. 62 and art 484
8	Amount recognised in regulatory capital	Euro 254 million
9	Nominal amount of the instrument	Euro 502,1 million
9a	Issue price	100% nominal value
9b	Redemption price	100% nominal value
10	Accounting classification	Securities issued (amortised cost)
11	Original issue date	20 October 2008
12	Irredeemable or at maturity	At maturity
13	Original date of maturity	20 October 2018
14	Early redemption at the Issuer's discretion subject to the prior approval of the Supervisory Authority	YES
15	Date of optional early repayment, date of early repayment and eventual repayment amount	The Issuer did not exercise the early repayment option that expired on 20 October 2013.
16	Subsequent dates of early repayment, if any	N/A
Coupons/dividends		
17	Fixed or variable dividends/coupons	Floating
18	Rate of the coupon and any associated index	3-month Euribor 365 + 0.60% until 20 October 2013, 3-month Euribor + 1.50% after that date
19	Presence of a "dividend stopper" mechanism"	NO
20a	Fully discretionary, partly discretionary or mandatory (in terms of time)	Compulsory
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Compulsory. The subordinated bonds consist of BPM "tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
21	Presence of a "step up" or other incentive to repay	NO
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, event(s) that lead to conversion	N/A
25	If convertible, in whole or in part	N/A
26	If convertible, conversion rate	N/A
27	If convertible, compulsory or optional conversion	N/A
28	If convertible, specify the type of instrument into which conversion is possible	N/A
29	If convertible, specify the issuer of the instrument into which it is converted	N/A
30	Write down mechanisms	NO
31	In the event of write down mechanism event which determine it	N/A
32	In the event of write down mechanism, total or partial write down	N/A
33	In event of write down mechanism, permanent or temporary write down	N/A
34	In the event of temporary write down mechanism, description of the revaluation mechanism	N/A
35	Position in the hierarchy of subordination in the event of liquidation (specify the type of instrument to the next higher rank (senior))	Senior
36	Non-compliant features of tools that benefit from the transitional provisions	YES
37	If so, specify the characteristics that do not comply	Incentive to redeem and payment not fully discretionary.

Template of the main characteristics of capital instruments
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Fixed rate 7.125% 1 March 2011/2021 (E.M.T.N.)

1	Issuer	Banca Popolare di Milano S.C. a r.l.
2	Unique identifier	XS0597182665
3	Law applicable to the instrument	Italian Law
Regulatory treatment		
4	CRR transitional provisions	Tier 2 capital
5	Post-transitional provisions of the CRR	Tier 2 capital
6	Eligible at the level of individual entity/(sub-) consolidation/individual entity and (sub-) consolidation	Individual entity and consolidation
7	Type of instrument	Tier 2 additional instruments - art. 62 and art 484
8	Amount recognised in regulatory capital	Euro 444 million
9	Nominal amount of the instrument	Euro 475 million
9a	Issue price	99.603% nominal value
9b	Redemption price	100% nominal value
10	Accounting classification	Securities issued (amortised cost)
11	Original issue date	1 March 2011
12	Irredeemable or at maturity	At maturity
13	Original date of maturity	1 March 2021
14	Early redemption at the Issuer's discretion subject to the prior approval of the Supervisory Authority	NO
15	Date of optional early repayment, date of early repayment and eventual repayment amount	N/A
16	Subsequent dates of early repayment, if any	N/A
Coupons/dividends		
17	Fixed or variable dividends/coupons	Fixed
18	Rate of the coupon and any associated index	7.125%
19	Presence of a "dividend stopper" mechanism"	NO
20a	Fully discretionary, partly discretionary or mandatory (in terms of time)	Compulsory
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Compulsory. The subordinated bonds consist of BPM "tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
21	Presence of a "step up" or other incentive to repay	NO
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, event(s) that lead to conversion	N/A
25	If convertible, in whole or in part	N/A
26	If convertible, conversion rate	N/A
27	If convertible, compulsory or optional conversion	N/A
28	If convertible, specify the type of instrument into which conversion is possible	N/A
29	If convertible, specify the issuer of the instrument into which it is converted	N/A
30	Write down mechanisms	NO
31	In the event of write down mechanism event which determine it	N/A
32	In the event of write down mechanism, total or partial write down	N/A
33	In event of write down mechanism, permanent or temporary write down	N/A
34	In the event of temporary write down mechanism, description of the revaluation mechanism	N/A
35	Position in the hierarchy of subordination in the event of liquidation (specify the type of instrument to the next higher rank (senior))	Senior
36	Non-compliant features of tools that benefit from the transitional provisions	NO
37	If so, specify the characteristics that do not comply	Payment not fully discretionary.

Template of the main characteristics of capital instruments
Subordinated bond of Banca Popolare di Milano (Upper Tier 2) – Floating rate – 18 June 2008/2018

1	Issuer	Banca Popolare di Milano S.C. a r.l.
2	Unique identifier	IT0004370992
3	Law applicable to the instrument	Italian Law
Regulatory treatment		
4	CRR transitional provisions	Tier 2 Capital
5	Post-transitional provisions of the CRR	Ineligible
6	Eligible at the level of individual entity/(sub-) consolidation/individual entity and (sub-) consolidation	Individual entity and consolidation
7	Type of instrument	Tier 2 additional instruments - art. 62 and art 484
8	Amount recognised in regulatory capital	Euro 0 million
9	Nominal amount of the instrument	Euro 17.9 million
9a	Issue price	100% nominal value
9b	Redemption price	100% nominal value
10	Accounting classification	Securities issued (amortised cost)
11	Original issue date	18 June 2008
12	Irredeemable or at maturity	At maturity
13	Original date of maturity	18 June 2018
14	Early redemption at the Issuer's discretion subject to the prior approval of the Supervisory Authority	NO
15	Date of optional early repayment, date of early repayment and eventual repayment amount	N/A
16	Subsequent dates of early repayment, if any	N/A
Coupons/dividends		
17	Fixed or variable dividends/coupons	Floating
18	Rate of the coupon and any associated index	EONIA + <i>spread</i> 0.75%
19	Presence of a "dividend stopper" mechanism	NO
20a	Fully discretionary, partly discretionary or mandatory (in terms of time)	Compulsory
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Compulsory. The subordinated bonds consist of BPM "tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
21	Presence of a "step up" or other incentive to repay	NO
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, event(s) that lead to conversion	N/A
25	If convertible, in whole or in part	N/A
26	If convertible, conversion rate	N/A
27	If convertible, compulsory or optional conversion	N/A
28	If convertible, specify the type of instrument into which conversion is possible	N/A
29	If convertible, specify the issuer of the instrument into which it is converted	N/A
30	Write down mechanisms	NO
31	In the event of write down mechanism event which determine it	N/A
32	In the event of write down mechanism, total or partial write down	N/A
33	In event of write down mechanism, permanent or temporary write down	N/A
34	In the event of temporary write down mechanism, description of the revaluation mechanism	N/A
35	Position in the hierarchy of subordination in the event of liquidation (specify the type of instrument to the next higher rank (senior))	Senior
36	Non-compliant features of tools that benefit from the transitional provisions	YES
37	If so, specify the characteristics that do not comply	Payment not fully discretionary.

Transitional own funds disclosure template		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO TREATMENT IN FORCE PRIOR TO (EU) REGULATION 575/2013 TREATMENT OR RESIDUAL AMOUNT PRESCRIBED BY (EU) REGULATION 575/2013
Common Equity Tier 1 - CET1 : instrument and reserves			
1	Equity instruments and related share premium accounts	3,365,884	
	of which: cooperative shares issued by "banche popolari"	3,365,439	
2	Retained earnings	737,065	
3	Other accumulated comprehensive income (and other reserves, to include unrealised gains and losses under applicable accounting standards)	211,710	
5	Minority interests (amount allowed in the consolidated Common Equity Tier 1)	12,848	
5a	Independently reviewed interim profits, net of any foreseeable charge or dividend	170,329	
6	Common Equity Tier 1 prior to regulatory adjustments	4,497,836	
Common Equity Tier 1 - CET1: regulatory adjustments			
7	Additional value adjustments (negative amount)	-3,900	
8	Intangible assets (net of relative tax liabilities) (negative amount)	-176,617	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-505	
16	Own Common Equity Tier 1 capital instruments held directly or indirectly by the entity (negative amount)	-25,000	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-13,747	
26	Regulatory adjustments applied to Common Equity Tier 1 capital in relation to the amounts subject to the pre-CRR treatment	-240,679	
26a	Regulatory adjustments relating to unrealised gains and losses in accordance with articles 467 and 468	-240,679	
	of which: unrealised gains on debt securities pertaining to issuers other than European Union central administrations	-5,725	
	of which: unrealised gains on debt securities issued by European Union central administrations	-202,733	
	of which: unrealised gains on equity securities	-32,221	
28	Total regulatory adjustments to Common Equity Tier 1 capital (CET1)	-460,448	
29	Common Equity Tier 1 (CET1)	4,037,388	
Additional Tier 1 - AT1: instruments			
33	Amount of qualifying items referred to in Article 484, para. 4, and related share premium accounts subject to phase out from Additional Tier 1 capital	184,572	
34	Qualifying Tier 1 capital included in Additional Consolidated Tier 1 (including minority interests not included in row 5) issued by subsidiaries and held by third parties	2,754	
36	Common Equity Tier 1 prior to regulatory adjustments	187,326	
Additional Tier 1 - AT1: regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 (AT1)	0	-
44	Additional Tier 1 - AT1	187,326	-
45	Tier 1 capital (T1= CET1 + AT1)	4,224,714	-

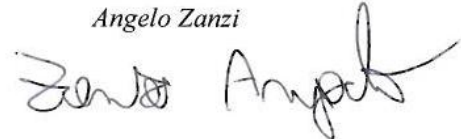
Transitional own funds disclosure template		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO TREATMENT IN FORCE PRIOR TO (EU) REGULATION 575/2013 TREATMENT OR RESIDUAL AMOUNT PRESCRIBED BY (EU) REGULATION 575/2013
Tier 2 capital (T2): instruments and provisions			
46	Equity instruments and related share premium accounts	559,341	
47	Amount of qualifying items referred to in Article 484, para. 4, and related share premium accounts subject to phase out from Tier 2 capital	253,988	
48	Qualifying Tier 1 capital included in Consolidated Tier 2 (including minority interests and AT 1 instruments not included in row 5 or 34) issued by subsidiaries and held by third parties.	1,997	
51	Tier 2 capital (T2) prior to regulatory adjustments	815,326	
Tier 2 capital (T2): regulatory adjustments			
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the the institution has a significant investment in those entities (net of eligible short positions) (negative amount).	-38,492	
56c	Amount to be deducted from or added to Tier 2 capital in relation to the filters and additional deductions required for the pre-CRR treatment	18,973	
	of which: filter for unrealised gains	18,973	
57	Total regulatory adjustments to tier 2 capital (T2)	-19,519	
58	Tier 2 capital (T2)	795,807	
59	Total capital (TC= T1+T2)	5,020,521	
60	Total risk-weighted assets	35,029,754	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of the amount of the risk exposure)	11.53%	
62	Tier 1 capital (as a percentage of the amount of the risk exposure)	12.06%	
63	Total capital (as a percentage of the amount of the risk exposure)	14.33%	
64	Institution specific buffer requirement (CET 1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systematically important institution buffer (G-Sil or O-Sil buffer), expressed as a percentage of risk exposure amount).	875,744	
65	Of which: capital conservation buffer requirement	875,744	
68	Common Equity Tier 1 available to meet buffers (as a percentage of the amount of the risk exposure)	11.53%	
Capital ratios and buffers			
72	Direct and indirect holdings of the capital of financial sector entities where the the institution does not have a significant investment in those entities (amount below 10% threshold net of eligible short positions).	177,872	
73	Direct and indirect holdings of the CET 1 instruments of financial sector entities where the the institution has a significant investment in those entities (amount below 10% threshold net of eligible short positions).	405,113	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liabilities where the conditions of article 38, paragraph 3 are met).	22,971	
Capital instruments subject to phase-out (only applicable between 1 January 2013 and 1 January 2022)			
82	Current cap on AT1 instruments subject to phase out arrangements	184,572	
84	Current cap on T2 instruments subject to phase out arrangements	253,988	

Statement of the Financial Reporting Manager

The Financial Reporting Manager, Angelo Zanzi, declares, pursuant to para. 2 of art. 154-bis of the CFA, that the accounting information contained in this document agrees with the supporting documentation, balances on the books of account and accounting entries.

Financial Reporting Manager

Angelo Zanzi

A handwritten signature in black ink, appearing to read "Zanzi Angelo", written in a cursive style.

Milan, 22 March 2016