Basel III Pillar 3 Report

at 31 December

2016

BancoPosta RFC

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Introduction

Notes on the report

The prudential standards for banks include public disclosure obligations on capital adequacy, risk exposure and the general characteristics of the systems used to identify, measure and manage risk, in addition to requirements regarding the disclosure of information on governance systems, including remuneration policies and practices.
The new prudential Supervisory Standards applicable to banks and investment firms from 1 January 2014 are included in Bank of Italy Circular 285/2013, the purpose of which was to implement EU Regulation 575/2013 (the Capital Requirements Regulation, or "CRR") and Directive 2013/36/EU (the Capital Requirements Directive, or "CRD IV"), containing the reforms required in order to introduce the "Basel III" standards.
The public disclosure obligations are regulated by the CRR (Parts 8 and 10, Section I, Chapter 3) and European Commission regulations containing regulatory and implementing technical standards.
Banks are required to publish the disclosures at least annually, unless a bank itself decides that there is a need to disclose some or all of the required information on a more frequent basis, above all disclosures relating to own funds and capital requirements.
Application of the prudential standards for banks was extended to BancoPosta RFC by the third revision of Bank of Italy Circular 285/2013, dated 27 May 2014. Application was made possible by the establishment, in May 2011, of BancoPosta RFC.
In making the prudential standards for banks applicable to BancoPosta RFC, the Bank of Italy took into account the entity's peculiar nature, which has made it necessary to apply certain exemptions. These primarily regard the regulations governing "major exposures" and "related parties", the countercyclical capital buffer[1], the Leverage Ratio, and the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)[2].
In addition to Pillar 1 capital requirements (credit, counterparty, market and operational risks) and the self-assessment of capital adequacy with respect to all the identified risks (ICAAP – the Internal Capital Adequacy Assessment Process), requiring preparation of an annual report to be sent to the Bank of Italy for the purposes of the Bank's SREP (Supervisory Review and Evaluation Process), the prudential standards applied to BancoPosta RFC also require public disclosure of capital adequacy, risk exposure and the general characteristics of the related management and control systems.
The document is submitted to the Board of Directors for approval of the statements made by the Chief Executive Officer ("CEO"), contained in this document, regarding the adequacy of risk management processes and BancoPosta RFC's overall risk profile. In accordance with art. 154-*bis* of Legislative Decree 58/98, the document also includes the attestation by the Manager responsible for financial reporting, who declares that it is consistent with the underlying accounting books and records.
Unless otherwise stated, all amounts in this report are shown in millions of euros.
Poste Italiane publishes this Basel III Pillar 3 Report and subsequent revisions on its website at
http://www.posteitaliane.it/it/governance/documenti_bancoposta/informativa_pubblico_rischi.shtml

(1) The Bank of Italy decided not to set prudential limits for "major exposures", "related parties" or the countercyclical capital buffer, given that BancoPosta RFC is prohibited from making loans to members of the public. BancoPosta RFC is, however, required to disclose "major exposures" and "related parties".

(2) Banks are also not required to comply with Leverage and the NSFR requirements, but are required to disclose the related ratios.

01 Risk management objectives and policies

Existing statutory and regulatory requirements consider BancoPosta RFC to be comparable to a bank in respect of controls, establishing that the related operations must be carried out in compliance with the provisions of the Consolidated Law on Banking (*TUB*) and the Consolidated Law on Finance (*TUF*), which apply to the corresponding activities carried out by banks, brokers and other regulated intermediaries, with the exception of specific provisions adopted by the relevant authorities.
The prudential standards have imposed the same obligations on Bancoposta as those applicable to banks, requiring it to establish a system of internal controls in line with the provisions laid down in Part I – Section IV – Chapter 3 of Circular 285/2013, requiring also achievement of the following objectives:

- check of implementation of the Company's strategies and policies;
- the risks containment within the limits set by the entity's Risk Appetite Framework (RAF);
- protection of the value of assets and against losses;
- effective and efficient internal processes;
- reliable and secure corporate information and IT systems and procedures;
- prevention of the risk that the entity is involved, voluntarily or involuntarily, in illegal activities (with particular regard to money laundering, usury and the financing of terrorism);
- the compliance of transactions with the law and supervisory requirements, and with internal policies, regulations and procedures.

The Bank of Italy's prudential standards also require each intermediary to define a Strategic Plan and Budget, a Risk Appetite Framework, the ICAAP process and the system of internal controls through an integrated process that aims to ensure that the entity's operations are sustainable in terms of its adopted strategies and policies, and in relation to the pre-determined target risk profile.

1.1 Risk management strategies and processes

The risk management process, implemented before extension of the Supervisory Standards to include BancoPosta RFC, has been further strengthened following compliance with new prudential standards. BancoPosta RFC pays great attention to the risk management process, consisting of a body of rules, procedures, resources (human, technological and organisational) and controls designed to identify, measure or assess, monitor, prevent or mitigate and communicate to the appropriate organisational levels all the risks assumed or assumable[3].
Within the overall risk management system, the Internal Control and Risk Management System (or "SCIGR"), created in line with the corporate governance requirements for listed companies and the Supervisory Standards applicable to BancoPosta's operations. The SCIGR constitutes an effective way of managing corporate risk and their interrelations. It also ensures that the entity's operations are in line with the Company's strategies and policies and are conducted in a sound and prudent manner. For this reason, the SCIGR is of strategic importance and regards the entire organisation, beyond the various control functions.

(3) See the Part 1 – Section IV - Chapter 3 of Bank of Italy Circular 285/2013.

The purpose of the SCIGR adopted by BancoPosta RFC is:

- to oversee the sustainability of corporate strategies and policies;
- to ensure the completeness, adequacy, functionality and reliability of the risk management process and its consistency with the RAF;
- to contain risk in line with the risk appetite framework approved by the Board of Directors;
- to guarantee that any irregularities identified are rapidly brought to the attention of corporate bodies in order to adopt the necessary corrective measures and incorporate specific procedures to respond to any violation of operating limits;
- to oversee compliance with the law and supervisory standards, and with internal policies, regulations and procedures.

BancoPosta RFC carries out three different types of control in line with prudential standards:

- first-level controls: line controls designed to ensure that operations are conducted correctly.

These controls are conducted by operating units themselves (e.g., hierarchical, systematic and sample controls), in part using dedicated units whose sole role is to conduct controls and which report to the heads of the operating units, or in the form of controls conducted back office;

- second-level controls: risk and compliance controls with the aim of ensuring, among other things:
  a) correct implementation of the risk management process;
  b) respect for the operating limits assigned to the various functions;
  c) the compliance of operations with the related regulations, including self-regulatory guidelines.

These controls are conducted by BancoPosta's Risk Management, Compliance and Prevention of Money Laundering functions;

- third-level controls: controls that aim to identify violations of procedures and regulations and periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the system of internal controls and of the IT system (ICT audit), with a frequency predetermined on the basis of the nature and intensity of risks.

These controls are carried out by BancoPosta's Internal Auditing function.

Definition and approval of the guidelines for the SCIGR and of risk management policies is the responsibility of corporate bodies (the CEO, the Board of Directors and the Board of Statutory Auditors), as is implementation of strategic guidelines and objectives and, in particular, of the RAF and the ICAAP, and assessment of the adequacy of the system of internal controls and the organisational structure.
The Head of BancoPosta manages the BancoPosta function, which is organisationally separate from the functions that carry out Poste Italiane's other operations, and exercises the powers of ordinary administration delegated by the Board of Directors. He also makes recommendations, carries out and assesses the guidance given by the bodies responsible for strategic oversight and management and reports directly to these bodies.
In order to facilitate efficient decision-making and coordination between the different corporate functions involved, BancoPosta's Cross-functional Committee has been set up under the BancoPosta RFC Regulation to provide advice and make recommendations. The Committee is chaired by the CEO and General Manager. Other permanent members are the Head of BancoPosta and the heads of the functions within Poste Italiane SpA primarily involved with Bancoposta.
In December 2014, when approving the strategic plan and annual budget, the Board of Directors defined a risk appetite framework (the "RAF"), summarising the strategies to be followed by BancoPosta RFC when assuming risks in line with the Business Plan, the business model and the ICAAP. In particular:

- the Board of Directors has defined and approved risk appetite objectives, risk tolerance thresholds and risk capacity limits;
- a structured process is used to assess the direction in which operations are developing, as part of the wider strategic planning and budgeting process, resulting in definition of the risk appetite. This process enables an assessment of the financial sustainability of the strategic plan and to highlight circumstances in which the assumption of certain categories of risk must be avoided or contained;
- the scope of risk appetite monitoring and the related metrics have been defined;
- procedures and management actions (so-called escalation) have been provided for should it be necessary to reduce the degree of risk to within the pre-determined threshold or limits.

Oversight of the effective risk profile, with respect to the objectives set out in the RAF, involves monitoring the following:

- **capital adequacy**, with the aim of assessing whether or not capital is sufficient to cover pillar one and two capital requirements generated by the key risks to which BancoPosta RFC is exposed;
- **capital allocation**, to monitor the optimum composition, in terms of required capital, of the key risks to which BancoPosta RFC is exposed on the basis of its business model;
- **financial structure**, monitored in order to ensure a form of control that is both consistent with regulatory requirements regarding the leverage ratio and with the needs of the business, with the aim of overseeing the composition of funding (private customer or bank deposits) on the basis of the entity's operations;
- **liquidity**, with the aim of monitoring short- and medium/long-term liquidity;
- **economic performance**, with the aim of overseeing not just the overall risk profile, but also the earnings profile, taking into account the role carried out in terms of viability and balance sheet growth.

Risks that are difficult to quantify (reputational and strategic risk, etc.) are monitored through internal operational processes and the internal control and risk management system.

According with RAF framework , operating limits have been established for the main types of risk. Operating units must respect the limits. To ensure correct implementation of the RAF, BancoPosta RFC requires compliance with the risk appetite to be subject to:

- ex-post assessment by monitoring the risk profile of each above mentioned areas at least on a quarterly basis;
- ex-ante checks by evaluating transactions of greater significance, meaning transactions that, due their size, innovative nature or expected impact on the risk/return profile, may have a material impact on achievement of the risk appetite targets defined and approved by the Board of Directors.

1.2 Structure and organisation of the Risk Management unit

Within BancoPosta RFC, the role of the risk control function required by the Supervisory Standards is played by BancoPosta's Risk Management unit. In addition to Poste Italiane SpA's CEO and General Manager, this unit reports directly to the Head of BancoPosta, preparing the necessary reports on specific matters required by the above standards (e.g. the work plan, the annual report and the dashboard) for Poste Italiane SpA's corporate bodies (the CEO, the Board of Directors and the Board of Statutory Auditors), in their respective roles as functions with responsibility for strategic oversight and control of BancoPosta RFC.

Within its areas of responsibility, BancoPosta's Risk Management unit contributes to the integrated risk management process and is coordinated by the Group Risk Management function.

In particular, BancoPosta's Risk Management unit, in collaboration with the Group Risk Management function and with specific regard to BancoPosta RFC:

- ensures an integrated, retrospective and prospective view of the risk environment and of BancoPosta RFC's capital and organisational adequacy (the ICAAP process);
- develops, in compliance with the Supervisory Standards, systems and methods for managing and measuring BancoPosta RFC's significant risks, ensuring their identification and measurement and the related validation, in keeping with the relevant independence requirements;
- continuously monitors BancoPosta RFC's effective risk profile and its consistency with the determined risk appetite, working with the relevant functions in order to identify risk management and mitigation initiatives;
- contributes to definition and implementation of the Risk Appetite Framework and of BancoPosta RFC's risk management policies and guidelines, in addition to the related operating limits, overseeing compliance as part of its second-level controls;
- measures Poste Italiane SpA's financial risks;
- provides advice and support to operating and business units during the ex-ante assessment of their risk profiles in relation to new offerings and/or product design, as well as supporting planning and budgeting by also providing a prior opinion on consistency with the risk appetite for transactions of greater significance;
- defines, implements and revises the business continuity plan for financial services in support of the bodies tasked with coordination and in compliance with the related regulatory framework, acting as an interface for coordination and supervision of the roles played by the various functions involved;

- provides the necessary periodic reports to corporate bodies and the regulatory authorities, and inputs for inclusion in the information submitted to the Group Risk Management function within the Chief Financial Office and the other control functions.

1.3 Risk measurement systems and mitigation and monitoring policies

The scope of application of the risk measurement and capital adequacy assessment systems described below is limited to BancoPosta RFC.
The principal types of risk to which BancoPosta RFC is exposed in the course of its ordinary activities are briefly described below:

- credit and counterparty risk;
- market risk[(4)]
- operational risks;
- banking book interest rate risk;
- banking book spread and price risk;
- liquidity risk;
- risk of excessive financial leverage;
- concentration risk – large exposures and related parties;
- other risks.

In terms of capital adequacy, in line with the related Supervisory Standards, BancoPosta RFC has adopted simplified regulatory models to estimate its Pillar 1 capital requirements (credit, counterparty, market and operational risks). Instead, BancoPosta RFC uses internal methods in order to estimate its Pillar 2 capital requirements relating to interest rate and operational risks.
The above operational and interest rate risks are of greater relevance in terms of capital requirements, partly in relation to BancoPosta RFC's business model, given that it is not authorised to conduct the financing and lending activities typical of banks. The risks to which BancoPosta RFC is most exposed are analysed below, describing the nature of the related measurement systems and any risk mitigation policies.

1.3.1 Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This category of risk includes losses resulting from fraud, human error, business disruption, systems failures, breach of contracts and natural disasters. This form of risk also includes non-compliance risk, in its direct form, relating to the risk of legal or administrative fines and of material financial losses as a result of the violation of laws, regulations, or self-regulatory principles or codes of conduct.
Operational risk can result from any of the business processes falling within the scope of BancoPosta RFC's operations, including those carried out by Poste Italiane's functions in accordance with the related Operating Guidelines.
Operational risk also includes information technology risk, referring to the risk of incurring economic losses, reputational damage and loss of market share as a result of the use of information and communication technology (ICT).
The quantification of Pillar 1 capital requirements in respect of these risks is carried out applying the basic approach to calculation provided for in EU Regulation 575/2013.
Given the significance of operational risk and in order to enhance effective mitigation, BancoPosta RFC has adopted an Operational Risk Management system that uses guiding principles based on sound and prudent management and aligned with prudential standards[(5)].

(4) BancoPosta RFC is only exposed to market risk in relation to foreign exchange risk, deriving from foreign currency bank accounts, foreign currency cash and MasterCard and VISA shares.

(5) See EU Regulation 575/2013 (Basel 3). In this regard, in the absence of specific supervisory instructions (issued on 27 May 2014), BancoPosta was not authorised to use an internal model to calculate its regulatory capital requirements. It should be noted that an Internal Validation function has been created within the Risk Management unit, with the role of validating internal models and the related inputs and outputs.

The internal model enables calculation of a measure that is more sensitive to the effective risk identified within the scope of Bancoposta RFC's operations. The operational risk internal model used by BancoPosta RFC incorporates and sums up the four sources of risk indicated in the supervisory standards in force:

- **internal data**: information on operational risk events gathered internally with all the data needed to analyse such events, in accordance with the general criteria for recording and classifying the historical loss data fed into the operational loss database;
- **external data**: information on operational risk events gathered by the consortium database known as DIPO[6], classified and recorded in accordance with the rules established by the consortium and in line with the internal rules for gathering data, after appropriate standardisation and integration;
- **scenario analyses**: scenario analyses carried out by risk champions and specialist units within Poste Italiane on BancoPosta RFC processes, with the aim of identifying risks not adequately revealed by the historical loss data. The analyses focus on both the frequency and impact of operational risk events;
- **evaluation of the business environment and internal control system**: indicators that summarise the environment in which the risk arises and play a role in determining the related capital requirements, both indirectly, through inclusion in the process of estimating risk scenarios, and directly, in determining the weightings used in the qualitative-quantitative integration model for calculating VAR.

Mitigation initiatives are based on the output from the above internal measurement model, in accordance with a cost/benefit approach.
The activities of the specialist functions play a role in both measuring and manging risk, each according to their area of expertise (physical security, IT security, *Compliance*, Audit, Anti-money laundering, etc.). The management of BancoPosta RFC's operational risk is, therefore, conducted across the organisation by a range of different specifically appointed entities within BancoPosta RFC's and Poste Italiane's organisation.
In this regard, the Operational Risk Management unit is, among other things, responsible for:

- steering mitigation initiatives, in part by allocating the operational losses generated by the processes managed by the Poste Italiane functions that have entered into service agreements with BancoPosta RFC;
- monitoring exposure to this risk and consistency of the measures with the Risk Appetite Framework.

Finally, the validation process assesses the accuracy of estimates of all the relevant risk components and expresses an opinion on both the implementing rules and the robustness of the risk management system used.

1.3.2 Banking book interest rate risk

BancoPosta RFC defines banking book interest rate risk as the risk of incurring losses that have an impact on the economic value and interest margin, as a result of potential changes in risk-free interest rates[7].
Exposure to banking book interest rate risk reflects the peculiar nature of the investment of liquidity generated by postal current account forming part of BancoPosta RFC's operations.
In quantifying banking book interest rate risk, BancoPosta RFC uses an internal model that reflects the key aspects of the simplified method proposes by the Bank of Italy. The main difference with respect to the simplified method used for supervisory purposes lies in the use of more granular maturity structures, compared with standard structures, and in the component relating to the estimated duration of postal current account deposits and prepaid cards, contractually on demand. Further details are provided in section 13.
As part of second-level controls, the Risk Management unit conducts a weekly check of the established operating limits and a monthly check of compliance with the risk appetite framework. In the event of any divergence, appropriate risk containment and mitigation measures are taken.
Finally, in terms of reporting, the Risk Management unit is responsible for producing periodic reports on interest rate risk for corporate bodies and the relevant committees and functions.
As regards the mitigation of interest rate risk, BancoPosta RFC uses derivatives for hedging purposes. To hedge its exposure to government securities, BancoPosta RFC uses the following hedges:

- cash flow hedges;
- cash flow hedges of a forecast transaction;
- fair value hedges.

(6) The Italian Operational Loss Database managed by ABI, the Italian Banking Association.
(7) These rates don't include the component relating to the change in the credit risk premium embedded in securities in the banking book, represented by spread risk in the banking book.

Cash flow hedges aim to stabilise cash flows from securities through the use of swap contracts, under which BancoPosta RFC undertakes to pay third parties the coupon earned on inflation-linked or variable rate securities in return for collecting a fixed rate which, traditionally, is determined at the trade date and remains unchanged over the life of the swap.

Cash flow hedges of a forecast transaction take the form of Bond Forwards, which enable the purchaser to fix the purchase price of a security on the basis of market conditions at a specific moment in time prior to the date of the effective need to invest.
Fair value hedges are used to protect the fair value of financial instruments against adverse market risk factor variations. The hedge may be spot, and immediately effective from the trade date, or forward start.
Finally, the validation process assesses the accuracy of estimates of all the relevant risk components and expresses an opinion on both the implementing rules and the robustness of the risk management system used.

1.3.3 Banking book spread and price risk

Banking book spread risk

Given the nature of BancoPosta RFC's investment policy, banking book spread risk is linked to potential falls in the value of bonds held in the banking book following deterioration in the issuer creditworthiness.
At 31 December 2016, the banking book consists entirely of bonds issued or guaranteed by the Italian government. As a result, the principal source of risk is represented by the risk premium resulting from Italy's sovereign credit risk, which is inherently linked to BancoPosta RFC's investment policy.
The progressive deterioration in the market perception of Italy's sovereign credit rating in 2016, despite the Quantitative Easing carried out by the ECB, has had a negative influence on the price of Italian government bonds. Indeed, the spreads between ten-year Italian government bonds and German bunds is approximately 160.7 bps at 31 December 2016, compared with 97 bps at 31 December 2015. In 2016, the fall in Italian government bond prices, linked to movements in the spread and the reduction in risk-free interest rates to close to all-time lows, resulted in a net reduction in the fair value of BancoPosta RFC's available-for-sale portfolio.

Banking book price risk

Banking book price risk regards the risk of incurring losses following changes in the value of available-for-sale financial assets that are not exposed to interest rates movements.
The principal financial assets subject to banking book price risk held by BancoPosta RFC are the Class B Mastercard Incorporated shares, Series C Convertible Participating Preferred Stock and Class C Visa Incorporated shares allocated to BancoPosta RFC under commercial agreements with the above companies regarding the sale of payment instruments. The principal source of risk for these financial instruments is represented by potential movements in the related share prices.
BancoPosta RFC monitors price risk attributable to the shares by calculating VaR (Value at Risk), estimated over a 1-day time horizon and at a 99% confidence level, whilst from a prudential viewpoint the exposures give rise to a credit risk requirement.

1.3.4 Risk of excessive financial leverage

This risk occurs when Tier 1 capital is insufficient in proportion to total on-balance sheet assets (not risk-weighted) increased by off-balance sheet exposures. This is a condition of financial stability that must be complied with, for which the Basel Committee has fixed a threshold of 3%(8).
Whilst exempted from application of the related regulatory requirements(9), BancoPosta RFC controls this risk by monitoring the leverage ratio introduced by Basel III(10) on a quarterly basis and by including it in the Risk Appetite Framework.
Further details are provided in section 15.

(8) This figure is subject to final adjustment by the GHOS (Group of Central Bank Governors and Heads of Supervision) in the first half of 2017, with a view to establishing, from 1 January 2018, a binding Pillar 1 requirement.
(9) See Part Four – Chapter 1- Section III of Bank of Italy Circular 285/2013.
(10) See EU Regulation 575/2013 and EU Regulation 62/2015.

1.3.5 Credit and counterparty risk

Credit risk is defined as the possibility that a change in the creditworthiness of a counterparty, to which the entity is exposed, could result in a change in the value of the amount due. It thus represents the risk that the debtor is partially or entirely unable to repay the principal and interest due.
The method used to calculate the credit risk capital requirement is the standardised approach defined in EU Regulation 575/2013(11). Application of this method entails the use of Standard & Poor's, Moody's and Fitch for the computation of counterparty credit rating classes. Quantitative information regarding credit risk is provided in section 4.
The majority of BancoPosta RFC's assets, consisting of euro area government securities (or those guaranteed by the government) and deposits with the MEF, do not give rise to credit risk capital requirements, in accordance with the relevant prudential standards. The credit risk exposure , associated with exposures other than those linked to securities held in portfolio, relates to exposures deriving from BancoPosta RFC's conduct of the following transactions:

- items in process: cheque clearing, use of electronic cards, collections;
- trade receivables payable by partners in relation to financial/insurance product arrangement;
- cash collateral for outstanding transactions with banks and customers, in accordance with agreements intended to mitigate counterparty risk (CSA – Credit Support Annexes and GMRA – Global Master Repurchase Agreements);
- securities provided as collateral in accordance with agreements intended to mitigate counterparty risk (CSAs and GMRAs);
- shares (Mastercard and VISA) held in the banking book;
- temporarily overdrawn postal current accounts caused by debiting fees: limited to those which were not classified as impaired since the accounts were in funds in early 2017.

Credit risk is controlled through the following:

- minimum rating requirements for issuers/counterparties, based on the type of instrument;
- monitoring threshold per issuer/counterparty;
- monitoring of changes in the ratings of counterparties.

The limits for BancoPosta RFC's financial transactions contain rating limits that only permit dealings with investment grade counterparties.
Counterparty risk is the risk that a counterparty could default on obligations of a financial instrument during its life. This risk is inherent in certain types of transaction which, for BancoPosta RFC, would be derivatives and repurchase agreements.
The method used to calculate the counterparty risk capital requirement is the standardised approach defined in EU Regulation 575/2013. The following methods are used to estimate the exposure to counterparty risk inherent in each of the following types of transaction:

- OTC derivatives: the market value method;
- long settlement transactions: the market value method;
- Securities Financing Transactions (SFTs): the full method with the prudential adjustments for volatility required by credit risk mitigation techniques.

Further details of the categories of instrument linked to this risk and of the methods used to calculate capital requirements are provided in section 5 of the document.
ISDA (International Swaps and Derivatives Association) agreements, Credit Support Annexes and GMRAs (Global Master Repurchase Agreements) are used to mitigate counterparty risk on derivatives and SFTs. These agreements provide for the netting of asset and liability positions and the posting of cash and/or government securities as collateral. The full method is used with prudential adjustments.
According with indications introduced by Basel 3, BancoPosta RFC has included **Credit Valuation Adjustment (CVA)** in counterparty risk. This represents the risk of potential losses as a result of movements in market prices due to counterparties creditworthiness deterioration and it is quantified using the standardised approach. The CVA capital requirement is calculated for derivatives exposures and not for repurchase agreements exposure as required by the supervisory standards in force.

(11) The supervisory instructions for BancoPosta RFC, issued on 27 May 2014, require sole use of the standardised approach to calculate credit risk.

As part of second-level controls relating to credit and counterparty risk, the Risk Management unit conducts a weekly check of the established operating limits. In the event of any divergence, appropriate risk mitigation measures are taken. In order to enable senior management to appropriately assess the need for action to manage and/or mitigate risks, the Risk Management unit produces quarterly risk reports, including credit and counterparty risk, for corporate bodies and the relevant committees and functions. These reports are sent to the Bank of Italy, together with those produced by the other control functions.

1.3.6 Market risk

In the light of the definition provided in the related regulations, BancoPosta RFC doesn't have trading book exposures. As a result, the only component of market risk relevant to BancoPosta RFC regards foreign exchange risk, being the risk of incurring losses due to adverse movements in the value of foreign currencies across all the positions held, regardless of the book to which they are allocated. In BancoPosta RFC's case, this risk primarily derives from foreign currency bank accounts, foreign currency cash and MasterCard and VISA shares.
Foreign exchange risk is controlled by the Risk Management unit using the measurement of exposure to the risk in accordance with financial operations guidelines which restrict currency trading to the foreign exchange service and international bank transfers.
Foreign exchange risk is measured using the Bank of Italy's prudential methodology provided for in EU Regulation 575/2013.

1.3.7 Liquidity risk

In accordance with the definition provided in the related regulations, liquidity risk may be defined as the risk that a financial institution is unable to meet its payment obligations due to its inability to raise sufficient funds in the market (funding liquidity risk) or to sell financial assets quickly and not on excessively onerous terms (market liquidity risk).
The specific financial policy adopted by BancoPosta RFC aims to minimise liquidity risk through:

- diversification of the various forms of short-term and long-term borrowings and counterparties;
- gradual and consistent distribution of the maturities of medium/long-term borrowings and the related investments in securities;
- use of dedicated analytical models to monitor the maturities of assets and liabilities;
- the availability of the interbank markets as a source of funding through repos, with collateral in the form of securities held in portfolio, due to the fact that such assets consist of financial instruments deemed to be highly liquid assets by current standards.

BancoPosta RFC's exposure to this risk reflects the specific nature of its business model and regards the investment of the liquidity resulting from current account deposits. BancoPosta RFC's liquidity risk is managed in the following manner:

- Liquidity risk deriving from private customer postal current account deposits is managed by monitoring of the related cash flows, enabling "dynamic" treasury management based on the efficient management of short-term cash shortfalls and excesses. In this regard, BancoPosta RFC makes use of specific instruments to meet its liquidity requirements, as described below:
  a) a liquidity buffer in the form of a demand current account held at the MEF, aimed at managing BancoPosta RFC's liquidity requirements in keeping with the current account dynamics;
  b) a portfolio of "euro area government securities", with the following characteristics:
     - it consists of financial instruments that, in accordance with the relevant regulations, may be used as collateral in interbank repurchase agreements and may, therefore, be assimilated with primarily liquidity reserves, given that they are highly liquid assets, suitable to cope with short-term stress scenarios;
     - it is the result of application of the funding model defined as part of the process of managing interest rate risk, identifying a medium- to long-term maturity and repricing profile for private customer current account deposits and prepaid cards, resulting in the vector of hypothetical "virtual runoff rates". Construction of the securities portfolio based on the funding maturity model aims to minimise liquidity risk;
     - it consists primarily of government securities which, given the breadth and depth of the markets in which they are generally traded, may be considered among the securities most readily and rapidly convertible into cash under normal market conditions;

   c) the option of meeting its temporary liquidity requirements, relating to both current account deposits and margin deposits for cash collateral agreements resulting from CSAs and GMRAs, by entering into repurchase agreements in which the underlyings are the securities held in portfolio.

- The fact that there is a substantial match between the contractual maturities of liabilities and assets helps to minimise liquidity risk deriving from the current account of Public Administration entities.
- In terms of intraday liquidity risk, BancoPosta RFC's exposure regards the following:
  a) the ordinary daily operations of post offices and settlement systems (the transfer of customers' funds), for which BancoPosta makes use of the following instruments:
     – short-term advances from the MEF generally with maturities of 2 days via an account with the Bank of Italy, requested and obtained at the beginning of the day without any limits on amount with the aim of meeting estimated daily liquidity requirements;
     – intraday credit from the Bank of Italy, in order to ensure flexibility in settling intraday interbank transactions. It should be noted, however, that the funds obtained from the Bank of Italy under the intraday credit facility must be repaid by the end of the business day.
  b) trading in securities in which intraday liquidity risk particularly regards switch transactions: in cases where the amount of purchases temporarily exceeds liquidity in the buffer account or generated by sales, the depositary bank's Self Collateralization service allows the securities owned by BancoPosta RFC and held by the depositary bank to be used as collateral in order to ensure satisfactory completion of the settlement process. Also in this case, it is necessary that the amount is repaid by the end of the business day. In this case, the risk is mitigated via an uncommitted, non-specific line of credit provided by the depositary bank, which, when necessary, enables BancoPosta RFC to obtain funding of up to €50 million;
  c) the settlement of repurchase agreements, entered into to finance day-to-day operations and margin deposits for CSAs and GMRAs.

BancoPosta monitors its exposure to liquidity risk by using:

- a maturity ladder to analyse the mismatch between cash in and outflows for each time band. These mismatches indicate the volume of liquidity that BancoPosta RFC may potentially need to have in each time band if all the outflows occur at the earliest possible date;
- indicators required by the prudential standards contained in EU Regulation 575/2013 and in Delegated EU Regulation 61/2015, such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR);
- Early Warning Indicators defined internally, consisting of specific indicators and market indicators, in order to promptly identify any stress situations impacting liquidity.

According to RAF framework, the entity also monitors the funding gap, which is an indicator of the level of BancoPosta RFC's funding obtained through the different forms of current account deposit.
As part of second-level controls, the Risk Management unit conducts a weekly audit of the established operating limits. Following this process, in the event of any divergence, the relevant Poste Italiane and BancoPosta RFC functions take appropriate risk containment and mitigation measures. The Risk Management unit also produces periodic reports for corporate bodies and the relevant committees and functions on the outcome of its audits and the performance of the Early Warning Indicators.
In order to mitigate liquidity risk, a Contingency Funding and Recovery Plan has also been drawn up, with the aim of preparing senior management to respond to a sudden liquidity crisis (whether systemic or specific) and to ensure that BancoPosta RFC conserves an adequate level of liquidity, by predefining the roles, responsibilities, procedures, timings and methods of communication to be used in implementing and executing the planned contingency measures.

1.3.8 Concentration risk – large exposures

In compliance with the supervisory standards in force, "large exposures" means exposures to customers or groups of connected customers that exceed 10% of total own funds.

Given the nature of BancoPosta RFC's operations, concentration risk results from positions deriving from:

- trade receivables due from partners in relation to the distribution of financial products;
- OTC derivatives;
- forward trading in government securities;
- collateral pledged for contracts entered into to hedge counterparty risk (CSAs/GMRAs);
- repurchase agreements.

The largest proportion of BancoPosta RFC transactions involve exposure to the Italian State, to which the prudential standards assign a risk weighting of 0%, making the resulting concentration risk equal to zero.

Even if the specific Supervisory Standards do not impose quantitative limits, BancoPosta's Risk Management unit conducts weekly audits of the level of the risk-weighted exposures assumed, applying the method described in EU Regulation 575/2013. The check results are, if necessary, brought to the attention of senior management.

The full method with prudential adjustments is used to mitigate credit risk and regards netting agreements and securities and cash received as collateral for ISDAs, CSAs and GMRAs.

1.3.9 Related parties

The specific Supervisory Standards do not impose quantitative limits on BancoPosta RFC with regard to the risk exposure to related parties. However, in order to comply with regulatory requirements regarding authorisations and reporting, BancoPosta RFC conducts quarterly audits of outstanding positions applying the method described in Bank of Italy Circular 263/2006.

1.3.10 Other risks

Residual risk

Residual risk is defined as the risk that the recognised credit and counterparty risk mitigation techniques in place are less effective than expected. This risk has been considered high for BancoPosta RFC since 2014, following completion of the internal process that enabled the entity to take into account mitigation techniques for prudential purposes with regard to derivatives and repurchase agreements.
BancoPosta RFC monitors residual risk applying a conservative approach that involves assessing compliance with minimum capital requirements for counterparty risk assuming the absence of collateral.

Strategic risk

Strategic risk consists of two components described below:

- business risk, regarding potential unexpected declines in profit/margins, not linked to other risk factors, but to the volatility of volumes or to changes in customer behaviour;
- "pure" strategic risk, associated with significant business discontinuity linked to key strategic decisions.

The RAF metrics monitoring , designed to identify and assess any discrepancies over time with respect to the plans drawn up according to the Strategic Plan, is used to manage strategic risk. It involves both the Risk Management unit, which conducts the monitoring process, and senior management, who receive appropriate information.
If periodic monitoring reveals the failure to meet one or more objectives, thresholds or limits defined in the Risk Appetite Framework, or if it identifies a deterioration in the risk profile not covered by the framework, an escalation process is started in order to inform corporate bodies and, if necessary, take the appropriate corrective action to reduce the risk assumed within the desired level.

Reputational risk

Reputational risk is defined as the current or future risk of a loss or decline in profits or capital as a result of a negative perception of the entity's image among customers, counterparties, shareholders, investors or regulators. Given its importance in relation to achievement of the objectives set out in the business plan, BancoPosta RFC monitors this form of risk in order to manage its exposure.
BancoPosta recognises that this category of risk may have more than one origin and its dependence on a variety of specific risk factors from which it may derive.
In identifying BancoPosta's reputational risk exposure,, importance has been given to interconnections between its reputational profile and the Poste Italiane Group's overall reputational profile.

In this regard, whilst awaiting definition of an overall framework for the Group's management and monitoring of this risk, BancoPosta's Risk Management unit has developed a processfor monitoring the key elements that make up BancoPosta's reputation for its customers.

Regulatory risk

BancoPosta RFC's regulatory risk primarily regards its exposure to potential changes in the regulations governing the weightings assigned to government securities for the purposes of credit risk, operational risk, interest rate risk and the leverage ratio.

1.4 Adequacy of risk management procedures and consistency with the overall risk profile and the business strategy

With regard the requirements of article 435 – paragraph 1, letters e) and f) of the CRR, the following section:

- presents the concluding summary on the adequacy of risk management procedures and consistency between risk management systems and BancoPosta RFC's profile and strategy;
- briefly describes BancoPosta RFC's overall risk profile and the related business strategy.

BancoPosta RFC's risk management process, consisting of a frame of systems, processes and methods, is primarily assessed and audited by the various corporate functions involved in control procedures, according to their areas of responsibility.
The following table shows key aspects of BancoPosta RFC's risk profile:

(€m)	At 31 December 2016	At 31 December 2015
OWN FUNDS		
Common Equity Tier 1 (CET1)	1,949	1,949
Additional Tier 1 capital (AT1)	–	–
Tier 1 capital	**1,949**	**1,949**
Tier 2 capital (T2)	–	–
Total own funds	**1,949**	**1,949**
RISK-WEIGHTED ASSETS		
Credit and counterparty risk	1,588	2,255
Risk of changes in credit ratings	178	147
Market risk	116	81
Operational risk	10,280	10,124
Total risk-weighted assets	**12,162**	**12,613**
CAPITAL RATIOS		
CET1 capital ratio	16.0%	15.5%
Tier 1 capital ratio	16.0%	15.5%
Total capital ratio	16.0%	15.5%

Own funds, risk weighted assets (RWAs) and capital ratios at 31 December 2016 have been calculated on the basis of the "Basel III" standards contained in Directive 2013/36/EU (the Capital Requirements Directive, or "CRD IV") and EU Regulation 575/2013 (the Capital Requirements Regulation, or "CRR") and on the basis of Bank of Italy Circular 285/2013.
At 31 December 2016, own funds amount to €1,949 million and consist solely of Common Equity Tier 1 (CET1).
Total risk-weighted assets amount to €12,162 million and primarily consist of operational and credit risks and to a lesser extent counterparty risk, with market risk accounting for a marginal proportion (relating solely to foreign exchange risk).
Given the composition of own funds, the Total Capital Ratio, the ratio of Tier 1 Capital to all RWAs (the Tier 1 ratio) and the ratio of CET1 to RWAs (the Common Equity ratio) are the same at 16.0%, well above the thresholds imposed by Bank of Italy Circular 285/2013, after also taking into account the capital conservation buffer. **This value is satisfactory, in relation to the BancoPosta RFC's risk management objectives, taking into account the limits imposed by the Risk Appetite Framework.**
In order to ensure consistency between the risk appetite strategy and policy and the Planning and Budgeting process, a prior analysis of the risks performance in the operating and market scenarios envisaged in the strategic plan has been conducted, and the target levels, risk tolerance thresholds and risk limits for 2016 set out in the Risk Appetite Framework (approved in January 2016).
Art. 26, paragraph 2 of the CRR, as applied in Italy by Bank of Italy Circular 285/2013, envisages the option of including profit for the period or at the end of the period (after payment of the corresponding dividends) in own funds, before a formal decision confirming the inclusion is taken by the relevant corporate body, only if such profit has been audited by the independent auditors.

Considering that, at the time the prudential supervisory reports were submitted to the Bank of Italy, the financial statements had not yet been audited, CET1 and, as a result, the capital ratios shown in the above table do not take into account the profit for 2016, nor the corresponding dividends, payment of which has been submitted for approval by the Annual General Meeting to be held on 27 April 2017.
The following table shows BancoPosta RFC's risk profile on the assumption that a portion of the 2016 entity's profit amounting to €110 million, will be taken to retained earnings, as approved by the Board of Directors on 15 March 2017 in order to bring the leverage ratio into line with levels compatible with the risk appetite set out in the RAF.

(€m)	At 31 December 2016	At 31 December 2015
OWN FUNDS		
Common Equity Tier 1 (CET1)	2,059	1,949
Additional Tier 1 (AT1)	–	–
Tier 1 capital	**2,059**	**1,949**
Tier 2 capital (T2)	–	–
Total own funds	**2,059**	**1,949**
WEIGHTED RISK ASSETS		
Credit and counterparty risk	1,588	2,255
Risk of changes in credit ratings	178	147
Market risk	116	81
Operational risk	10,280	10,124
Total weighted risk assets	**12,162**	**12,613**
CAPITAL RATIOS		
CET1 capital ratio	16.9%	15.5%
Tier 1 capital ratio	16.9%	15.5%
Total capital ratio	16.9%	15.5%

Based on the assumption that a portion of profit for the year will be retained, the Total Capital Ratio, the ratio of Tier 1 Capital to all RWAs (the Tier 1 ratio) and the ratio of CET1 to RWAs (the Common Equity ratio) are the same at 16.9%, well above the thresholds imposed by Bank of Italy Circular 285/2013, after also taking into account the capital conservation buffer.

02 Scope of application

The information provided in the following report regards “Poste Italiane SpA – **BancoPosta RFC**”.
As it is not part of a banking group, BancoPosta RFC does not prepare consolidated accounts, nor does it engage in transfers of own funds or the repayment of liabilities to subsidiaries, nor does it make use of deductions permitted by supervisory standards with regard to capital requirements.

03 Own funds

3.1 Qualitative information

The prudential standards, known as Basel III, contained in Directive 2013/36/EU (CRD IV) and EU Regulation 575/2013 (CRR) were applicable to banks and investment firms from 1 January 2014. These regulations were implemented within the European Union through the Regulatory Technical Standards and Implementing Technical Standards issued by the EBA. In Italy, application of the new regulatory framework was introduced through the issue and/or revision of the following Bank of Italy Circulars:

- Circular 285/2013: "Supervisory Standards for Banks";
- Circular 286/2013: "Instructions for Preparing Prudential Reports for Banks and Investment Firms";
- Circular 154/1991: "Supervisory Reporting by Credit and Financial Institutions: Preparation and Transmission".

Under the new regulatory framework, own funds (previously referred to as "Regulatory Capital") represent the algebraic sum of the following elements:

- Tier 1 Capital, in turn consisting of:
  a) Common Equity Tier 1 – CET1;
  b) Additional Tier 1 – AT1;
- Tier 2 Capital – T2.

CET1 consists of elements that enable the entity to absorb any losses and continue operating as a going concern, thanks to its particular nature, such as the level of subordination, unredeemability and the absence of any obligation to pay dividends.

The AT1 category includes equity instruments with a lower level of subordination with respect to CET1.

Tier 2 Capital is capital that enables the entity to absorb losses in the event of a crisis situation (gone concern capital) and generally consists of subordinated liabilities. Tier 2 has a lower level of subordination with respect to the above categories of own funds (CET1 and AT1).

The supervisory authority's application of the prudential standards for banks to BancoPosta RFC, which dates from 27 May 2014 with the third revision of Bank of Italy Circular 285/2013, also took into account the specific nature of BancoPosta RFC in relation to own funds. Based on the regulations contained in the above Circular, BancoPosta RFC's own funds, used to make up its regulatory capital, consist of:

- earnings reserve originating from the creation of the ring-fence;
- undistributed earnings, being Bancoposta RFC's profits appropriated on approval of Poste Italiane SpA's financial statements;
- further amounts attributed by Poste Italiane SpA[12] that meet the requirements for inclusion in own funds.

The transitional provisions, governing the gradual application of Basel III standards, the deductions and prudential filters provided for in the CRR are thus not applicable to BancoPosta RFC.

At 31 December 2016, own funds amount to €1,949 million and consist solely of Common Equity Tier 1 (CET1).

(12) Contributions from non-controlling shareholders to BancoPosta RFC are excluded, as they are not provided for in the special regulations governing the ring-fence. Poste Italiane's overall capital, which has to meet different requirements with respect to those to which BancoPosta TFC is subject, is not included in the computation of BancoPosta RFC's own funds.

BancoPosta's CET1 consists of:

- other reserves, being revenue reserves, amounting to €1,000 million originating from the creation of the ring-fence;
- retained earnings, being Bancoposta RFC's profits appropriated on approval of Poste Italiane SpA's financial statements, totalling €949 million.

Art. 26, paragraph 2 of the CRR, as applied in Italy by Circular 285, envisages the option of including profit for the period or at the end of the period (after payment of the corresponding dividends) in own funds, before a formal decision confirming the inclusion is taken by the relevant corporate body, only if such profit has been audited by the independent auditors.

In view of the fact that, at the time the prudential supervisory reports were submitted to the Bank of Italy, the financial statements had not yet been audited, CET1 does not take into account the profit for 2016, nor the corresponding dividends, payment of which has been submitted for approval by the Annual General Meeting to be held on 27 April 2017.

The table in section 3.2 shows the own funds composition and the reconciliation with net book value, both on the above basis and on the assumption that a portion of 2016 Bancoposta RFC's profit amounting to €110 million, will be taken to retained earnings, as approved by the Board of Directors on 15 March 2017 in order to achieve the leverage ratio level compatible with the risk appetite set out in the RAF.

3.2 Quantitative information

Composition of own funds

The composition of BancoPosta RFC's own funds at 31 December 2016 is summarised in the following table.

Annex 1 shows the composition using the "transitional model for publishing information on own funds" contained in annex VI to Implementing Regulation 1423/2013 issued by the European Commission on 20 December 2013, in compliance with the provisions of article 492, paragraph 3 of the CRR.

Summary composition of own funds without the retention of earnings

B. QUANTITATIVE INFORMATION

Items/Amounts *(€m)*	Amount at 31 December 2016	Amount at 31 December 2015
Common Equity Tier 1 – CET1, before application of prudential filters	1,949	1,949
of which CET1 instruments subject to transitional requirements	–	–
Prudential CET1 filters (+/-)	**–**	**–**
CET1 before investments to be deducted and adjustments for the transitional regime (A+/– B)	**1,949**	**1,949**
Elements to be deducted from CET1	**–**	**–**
Transitional regime - Impact on CET1 (+/-)	**–**	**–**
Total Common Equity Tier 1 – CET1 (C - D +/- E)	**1,949**	**1,949**
Additional Tier 1 – AT1 before elements to be deducted and adjustments for the transitional regime	–	–
of which AT1 instruments subject to transitional requirements	–	–
Elements to be deducted from AT1	**–**	**–**
Transitional regime – Impact on AT1 (+/-)	**–**	**–**
Total Additional Tier 1 – AT1 (G - H +/- I)	–	–
Tier 2 – T2 before investments to be deducted and adjustments for the transitional regime	–	–
of which T2 instruments subject to transitional requirements	–	–
Elements to be deducted from T2	**–**	**–**
Transitional regime – Impact on T2 (+/-)	**–**	**–**
Total Tier2 – T2 (M - N +/- O)	**–**	**–**
Total own funds (F + L + P)	**1,949**	**1,949**

Summary composition of own funds after retention of a portion of earnings

B. QUANTITATIVE INFORMATION

Items/Amounts *(€m)*	Amount at 31 December 2016	Amount at 31 December 2015
Common Equity Tier 1 – CET1, before application of prudential filters	2,059	1,949
of which CET1 instruments subject to transitional requirements	–	–
Prudential CET1 filters (+/-)	**–**	**–**
CET1 before investments to be deducted and adjustments for the transitional regime (A+/- B)	**2,059**	**1,949**
Elements to be deducted from CET1	**–**	**–**
Transitional regime – Impact on CET1 (+/-)	**–**	**–**
Total Common Equity Tier 1 – CET1 (C - D +/- E)	**2,059**	**1,949**
Additional Tier 1 - AT1 before elements to be deducted and adjustments for the transitional regime	–	–
of which AT1 instruments subject to transitional requirements	–	–
Elements to be deducted from AT1	**–**	**–**
Transitional regime – Impact on AT1 (+/-)	**–**	**–**
Total Additional Tier 1 – AT1 (G - H +/- I)	–	–
Tier 2 - T2 before investments to be deducted and adjustments for the transitional regime	–	–
of which T2 instruments subject to transitional requirements	–	–
Elements to be deducted from T2	**–**	**–**
Transitional regime – Impact on T2 (+/-)	**–**	**–**
Total Tier2 – T2 (M - N +/- O)	**–**	**–**
Total own funds (F + L + P)	**2,059**	**1,949**

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Reconciliation of net book value and CET1

The following table shows the reconciliation of elements of BancoPosta RFC's own funds and the statement of financial position.

RECONCILIATION OF THE NET BOOK VALUE AND REGULATORY CAPITAL WITHOUT THE RETENTION OF EARNINGS

Liabilities *(€m)*	Carrying amount	Amounts recognised for purpose of own funds	Ref. "Transitional model for own funds disclosure"
130. Valuation reserves	**869**	**–**	
160. Reserves, of which:	**1,949**	**1,949**	
– Undistributed earnings	949	949	2
– Other reserves	1,000	1,000	3
270 Profit/(Loss) for the year	**568**	**-**	
Total own funds	**3,386**	**1,949**	

RECONCILIATION OF THE NET BOOK VALUE AND REGULATORY CAPITAL AFTER RETENTION OF A PORTION OF EARNINGS

Liabilities *(€m)*	Carrying amount	Amounts recognised for purpose of own funds	Ref. "Transitional model for own funds disclosure"
130. Valuation reserves	**869**	**-**	
160. Reserves, of which:	**1,949**	**1,949**	
– Undistributed earnings	949	949	2
– Other reserves	1,000	1,000	3
270 Profit/(Loss) for the year	**568**	**110**	
Total own funds	**3,386**	**2,059**	

At the current date, total own funds is less than net book value, primarily due to exclusion of the valuation reserve for securities issued or guaranteed by the Italian government accounted for in the AFS portfolio, as required by the related regulations. The elements included in BancoPosta RFC's regulatory capital are, therefore, of high quality given that they consist exclusively of revenue reserves.

04 Capital requirements

4.1 Qualitative information

The BancoPosta's capital adequacy assessment is conducted taking into account the following requirements of an internal (the Risk Appetite Framework – RAF) and external (prudential standards) nature:

- pillar 1 requirements. Capital must be sufficient to cover regulatory capital requirements for operational risk, credit and counterparty risk and, to a lesser extent, foreign exchange risk. In relation to pillar 1 regulatory capital requirements, based on the prudential supervisory standards applicable from 31 December 2014, BancoPosta RFC is required to comply with the following minimum capital ratios:
  - Common Equity Tier 1 ratio (the ratio of CET1 to total RWAs[13]): equal to 7.0% (4.5% being the minimum requirement and 2.5% being the capital conservation buffer[14]);
  - Tier 1 ratio (the ratio of T1 and total RWAs): equal to 8.5% (6.0% being the minimum requirement and 2.5% being the capital conservation buffer);
  - Total capital ratio (the ratio of total own funds to total risk weighted assets – RWAs), equal to 10.5% (8% being the minimum requirement and 2.5% being the capital conservation buffer).

Given that BancoPosta RFC's own funds consist solely of CET1 capital, the applicable limits can be summed up as a minimum Common Equity Tier 1 ratio of 10.5%;

- pillar 2 requirements. In addition to pillar 1 risks, capital must be sufficient to also cover banking book interest rate risk. Additional capital is also held to cover capital requirements resulting from model risk, risks that are difficult to quantify and stress scenarios;
- leverage ratio[15]. This is the ratio of CET1 to Total Assets (including adjustments for derivatives and off-balance sheet items) and must be above the minimum requirement, currently 3% based on the regulatory guidance applicable to banks, and in line with the targets set by the internal RAF.

As previously noted, BancoPosta RFC gives great importance to risk management and control, aiming to achieve sustainable current and prospective levels of earnings within a controlled risk environment. The capital adequacy measures combined with the remaining RAF metrics, have been determined in order to monitor and preserve, over time, the earnings and financial stability incorporated in the strategic plan and that the entity intends to guarantee for the following financial year and over the medium to long term. In line with BancoPosta RFC's Risk Appetite Framework, compliance with the capital adequacy targets set by the Board of Directors is thus monitored on at least a quarterly basis.

BancoPosta RFC has prepared its ICAAP Report (Pillar 2 requirements) on the basis of the figures for 31 December 2016 and on a prospective basis at 31 December 2017. This will be to be submitted to the Bank of Italy, following prior approval by the Board of Directors, by 30 April 2017. The conducted assessments show that BancoPosta RFC has sufficient levels of capital for the risks assumed, as measured on a current and prospective basis and under stress scenarios in accordance with a prudential building block approach[16]. The capital level is guaranteed, on a current and prospective basis, by the entity's ability to self-finance its capital growth, linked to the highly profitable nature of its operations and the prudent approach to earnings retention.

The methods used to determine capital requirements are described in section 1.3.

(13) Risk weighted assets, or RWAs, are calculated by multiplying the capital requirements for credit, counterparty, market and operational risks by 12.5.

(14) The capital conservation buffer is designed to ensure a minimum level of regulatory capital under adverse market conditions by enabling the build-up of high-quality capital outside periods of market stress.

(15) Financial leverage is only monitored for internal purposes (the RAF), given that BancoPosta RFC is exempted from the related regulatory requirements contained in Bank of Italy Circular 285/2013.

(16) In accordance with Part One, Title III, Chapter 1, Section II of Bank of Italy Circular 285/2013, BancoPosta RFC, as class 2 intermediary, computes its total internal capital requirements using a simplified building block approach, based on the sum of prudential capital requirements for Pillar 1 risks (or internal capital requirements for such risks computed using internal methods) and any internal capital requirements for other identified risks.

4.2 Quantitative information

As noted in the qualitative information, based on the prudential standards applied, BancoPosta RFC's Common Equity Tier 1 capital must represent at least 10.5% of its total risk-weighted assets (the Common Equity Tier 1 ratio).

The following tables show BancoPosta RFC's position with regard to Pillar 1 capital requirements. They show capital requirements and capital ratios, both without the retention of earnings for the year and on the assumption that a portion of Bancoposta RFC's profit for 2016, amounting to €110 million, will be taken to retained earnings, as approved by the Board of Directors on 15 March 2017 in order to bring the leverage ratio into line with levels compatible with the risk appetite set out in the RAF.

Capital requirements and capital ratios without the retention of earnings

C. QUANTITATIVE INFORMATION

Categories / Amounts (€m)		Unweighted amounts		Weighted amounts/ Requirements	
		at 31 December 2016	at 31 December 2015	at 31 December 2016	at 31 December 2015
A.	**RISK ASSETS**				
A.1	Credit and counterparty risk	65,532	61,128	1,588	2,255
	1. Standardised approach	65,532	61,128	1,588	2,255
	2. Internal ratings based approach	–	–	–	–
	2.1 Basic	–	–	–	–
	2.2 Advanced	–	–	–	–
	3. Securitisations	–	–	–	–
B.	**SUPERVISORY CAPITAL REQUIREMENTS**				
B.1	Credit and counterparty risk			127	180
B.2	Risk of changes in credit ratings			14	12
B.3	Regulatory risk			–	–
B.4	Market risk			9	7
	1. Standard approach			9	7
	2. Internal models			–	–
	3. Concentration risk			–	–
B.5	Operational risk			823	810
	1. Basic approach			823	810
	2. Standardised approach			–	–
	3. Advanced approach			–	–
B.6	Other elements in the calculation			–	–
B.7	Total prudential requirements			973	1,009
C.	**RISK ASSETS AND CAPITAL RATIOS**				
C.1	Risk-weighted assets			12,162	12,613
C.2	CET1 capital ratio			16.0%	15.5%
C.3	Tier 1 capital ratio			16.0%	15.5%
C.4	Total capital ratio			16.0%	15.5%

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Capital requirements and capital ratios after retention of a portion of earnings

C. QUANTITATIVE INFORMATION

Categories / Amounts *(€m)*		Unweighted amounts		Weighted amounts/ Requirements	
		at 31 December 2016	at 31 December 2015	**at 31 December 2016**	at 31 December 2015
A.	**RISK ASSETS**				
A.1	Credit and counterparty risk	65,532	61,128	1,588	2,255
	1. Standardised approach	65,532	61,128	1,588	2,255
	2. Internal ratings based approach	–	–	–	–
	2.1 Basic	–	–	–	–
	2.2 Advanced	–	–	–	–
	3. Securitisations	–	–	–	–
B.	**SUPERVISORY CAPITAL REQUIREMENTS**				
B.1	Credit and counterparty risk			127	180
B.2	Risk of changes in credit ratings			14	12
B.3	Regulatory risk			–	–
B.4	Market risk			9	7
	1. Standard approach			9	7
	2. Internal models			–	–
	3. Concentration risk			–	–
B.5	Operational risk			823	810
	1. Basic approach			823	810
	2. Standardised approach			–	–
	3. Advanced approach			–	–
B.6	Other elements in the calculation			–	–
B.7	Total prudential requirements			973	1,009
C.	**RISK ASSETS AND CAPITAL RATIOS**				
C.1	Risk-weighted assets			12,162	12,613
C.2	CET1 capital ratio			16.9%	15.5%
C.3	Tier 1 capital ratio			16.9%	15.5%
C.4	Total capital ratio			16.9%	15.5%

Unweighted risk exposures don't take into account risk mitigation techniques[17] and the credit conversion factors used for off-balance sheet exposures.

The BancoPosta RFC principal risk is the operational one, which absorbs approximately 85% of total prudential requirements.

Market risk solely regards foreign exchange risk, which absorbs less than 1% of total capital requirements.

Credit risk amounts to €118 million[18] (approximately 12% of total capital requirements), whilst the remaining amount absorbed regards counterparty risk (€9 million) and the CVA component (€14 million).

(17) Counterparty risk exposures in the form of derivatives and repurchase agreements take into account netting and master netting agreements. Exposures resulting from repurchase agreements are shown net of the corresponding funding.

(18) The reduction recorded with respect to 2015 is linked to a change in the treatment of accrued stamp duty on Interest-bearing Postal Certificates outstanding at that date for the purposes of measuring credit risk.

Capital requirements for credit and counterparty risk

Risk *(€m)*	Capital requirement	
	at 31 December 2016	at 31 December 2015
Credit risk	118	166
Counterparty risk	9	14
Total capital requirement for credit and counterparty risk	**127**	**180**

Details of capital requirements for credit and counterparty risk by regulatory portfolio are shown below.

Capital requirements for credit and counterparty risk: by regulatory portfolio

Regulatory portfolio *(€m)*	Capital requirement	
	at 31 December 2016	at 31 December 2015
Exposures to or secured by central governments and central banks	23	20
Exposures to or secured by regional governments or local authorities	0	0
Exposures to or secured by public sector organisations	5	5
Exposures to or secured by corporates and other entities	15	18
Exposures to or secured by supervised institutions	54	42
Retail exposures	0	0
Equity exposures	8	15
Other exposures	22	80
Total capital requirement for credit and counterparty risk	**127**	**180**

The component linked to "Central governments and central banks" refers to net deferred tax assets that, given that they are not deducted from own funds, are given a risk weighting of 250%, in accordance with the CRR.

The component relating to "Supervised institutions" primarily consists of cash and securities provided as collateral in accordance with agreements intended to mitigate counterparty risk (CSAs and GMRAs), and trade receivables due from partners in relation to the distribution of financial products (above all Cassa Depositi e Prestiti).

05 Exposure to counterparty risk

5.1 Qualitative information

Counterparty risk is the risk that a counterparty could default on obligations of a financial instrument during its term. This is a particular type of credit risk, generating a loss if the transactions entered into with a certain counterparty have a positive value at the time of default.
The financial instruments that, in line with the prudential standards, are exposed to this risk in respect of BancoPosta RFC are described below:

- **OTC derivatives**, which include over-the-counter (OTC) derivatives entered into for hedging and/or trading purposes, primarily relating to interest rate swaps;
- **long settlement transactions**, regarding bond forwards on government securities used as cash flow hedges in order to stabilise returns;
- **SFTs (Securities Financing Transactions)**, a category that includes the financial instruments used in managing the liquidity buffer, such as repurchase agreements and Buy and Sell Back agreements for the temporary investment of liquidity.

In calculating its counterparty risk exposure, BancoPosta RFC applies the simplified method defined in accordance with prudential standards. More specifically, for each category of transaction giving rise to counterparty risk, the following methods of calculation are used to determine the internal capital requirement:

- OTC derivatives: the market value method[(19)];
- long settlement transactions: the market value method;
- SFTs: the full method with the prudential adjustments for volatility required by credit risk mitigation techniques[(20)].

The counterparty risk capital requirement method used by BancoPosta RFC is the standardised approach defined in the CRR, which involves the exposures weighting with factors that take into account the type of exposure and the counterparties nature, partly in relation to the risk associated with external credit rating classes.
To control and manage this risk, BancoPosta RFC has defined a system of objectives, thresholds or limits included in the Risk Appetite Framework, enabling it to continuously monitor its risk profile. Considering the particular nature of its operations, BancoPosta RFC is only minimally exposed to counterparty risk, as is the case with credit and foreign exchange risk. Checks are conducted to ensure that the capital requirements for these risks doesn't erode the capital allocated to cover the main risks to which BancoPosta RFC is exposed (operational risk and interest rate risk).
In addition, BancoPosta RFC has adopted rating limits that only permit dealings with investment grade counterparties, with the exception of exemptions granted by the Board of Directors.
In order to limit the counterparty risk exposure, BancoPosta RFC concludes standard ISDA master agreements and special agreements for the mitigation of risk for repo transactions (GMRAs) and OTC derivatives (CSAs). These agreements provide for the netting of asset and liability positions and the posting of cash or government securities as collateral.
In compliance with the disclosure obligations provided for in article 453 of the CRR, it should be noted that the techniques used to mitigate credit and counterparty risk (collateral underlying ISDAs, CSAs and GMRAs) have been recognised for prudential supervisory purposes. For this purpose, the procedures required by the CRR have been adopted, including the legal validity monitoring and enforceability of the mitigation agreements and of the collateral fair value received on a daily basis.

(19) The "Market Value" method to measure the risk inherent in derivatives entails summing two components: the current replacement cost, represented by fair value, if positive, and an add-on equal to the product of the nominal value and the probability that the fair value, if positive, increases the value or, if negative, turns positive.

(20) The full Credit Risk Mitigation (CRM) method entails reducing risk exposure by the value of the guarantee. Specific rules are applied to take into account market price volatility of the guaranteed asset as well as the collateral received.

Given the type of collateral received (cash and/or government securities), the absence of any material link between the debtor's creditworthiness and the collateral is guaranteed.
The amount of any additional collateral to be provided by BancoPosta RFC in the event of a downgrade of Poste Italiane SpA is negligible. Such contracts include those for margin lending of derivatives, which require the threshold amount to be reduced to zero in the event that Poste Italiane SpA's rating is downgraded to below "BBB-". The threshold amounts relating to margin lending contracts included in repurchase agreements are equal to zero, meaning that these transactions are not related to liquidity risk.

5.2 Quantitative information

The following tables show the quantitative information required by the CRR.
The following table summarises the exposure to counterparty risk for each type of transaction, applying the methods described in the qualitative information.

COUNTERPARTY RISK: TOTAL EXPOSURES

Category of transaction *(€m)*	**Total exposure**	
	at 31 December 2016	**at 31 December 2015**
Derivatives	106	87
SFTs (Securities Financing Transactions) and long settlement transactions	122	280
Total exposures	**228**	**367**

The following table provides, for derivative contracts alone, details of the positive fair value of derivatives, netting benefits, the netted current credit exposure, any collateral held and the resulting net credit exposure.

OTC DERIVATIVES: EXPOSURE TO COUNTERPARTY RISK AND BENEFITS OF NETTING

(Milioni di Euro)	**Governments and Central Banks**	**Other public entities**	**Banks**	**Finance companies**	**Insurance companies**	**Non-finance companies**	**Other entities**	**Total**
Nominal amount	–	–	15,055	2,885	–	–	–	17,940
Positive fair value	–	–	150	41	–	–	–	191
Negative fair value	–	–	(2,048)	(256)	–	–	–	(2,305)
Benefits of netting	–	–	122	41	–	–	–	163
Netted current credit exposure	–	–	28	–	–	–	–	28
Potential future credit exposure	–	–	92	16	–	–	–	108
Total gross counterparty credit risk exposure	–	–	119	16	–	–	–	135
Collateral	–	–	29	–	–	–	–	29
Total counterparty credit risk exposure	**–**	**–**	**90**	**16**	**–**	**–**	**–**	**106**

06 Capital reserves

Given that BancoPosta RFC is not authorised to engage in lending, Bank of Italy Circular 285/2013 exempts it from the requirement to institute a countercyclical capital buffer with the aim of protecting the banking sector in the event of excessive credit growth.

07 Impairment losses on receivables

7.1 Qualitative information

"Non-performing" financial assets include on- and off-balance sheet assets, as classified in accordance with EU Implementing Regulation 680/2014 issued by the European Commission, as amended. Financial instruments classified as "Financial assets held for trading" and derivatives are excluded.
In classifying non-performing assets in the various risk categories (doubtful, unlikely to pay, past-due and/or non-performing overdue), BancoPosta RFC makes reference to the regulations issued by the Bank of Italy[21].
Assets in the "Doubtful" category are on- and off-balance sheet exposures (loans and debt securities) to borrowers in a state of insolvency (even when not recognised in a court of law) or borrowers in a similar situation, regardless of any loss forecasts made by the entity. Exposures where the doubtful nature is attributable to country risk are excluded from this category.
The "Unlikely to pay" category regards on- and off-balance sheet exposures (loans and debt securities) where, in the view of the entity, full repayment (in terms of principal and/or interest) is unlikely, without recourse to actions such as enforcement of collateral arrangements.
"Past-due and/or non-performing overdue" exposures are on-balance sheet exposures, other than those classified as "Doubtful" or "Unlikely to pay", that are past-due or where repayment is over 90 days overdue.
BancoPosta RFC is prohibited by Presidential Decree 144 of 14 March 2001 from making loans to customers. Impairments and recoveries of loans and receivables, consequently, relate exclusively to unpaid trade receivables deriving primarily from contractually agreed fees to be collected from customers. Impairments and recoveries are made with reference to credit risk assessments based on historical experience of similar receivables, an analysis of past due items (current and historical), losses and collections and the monitoring of the current and future economic conditions in the related markets.

(21) See Bank of Italy Circular 272/2008.

7.2 Quantitative information

The quantitative information required by article 442 of the CRR, relating to impairment losses on receivables, is provided below.

DISTRIBUTION OF CREDIT EXPOSURE BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET AMOUNTS)

Portfolio/Credit quality (€m)	Non-performing			Performing			Total (net exposure)
	Gross exposure	Specific provisions	Net exposure	Gross exposure	Collective provisions	Net exposure	
Available-for-sale financial assets	-	-	-	37,159	-	37,159	37,159
Held-to-maturity financial assets	-	-	-	12,683	-	12,683	12,683
Due from banks	-	-	-	1,314	-	1,314	1,314
Due from customers	-	-	-	9,166	162	9,004	9,004
Financial assets designated at fair value	-	-	-	X	X	-	-
Financial assets held for sale	-	-	-	-	-	-	-
Total at 31 December 2016	**–**	**–**	**–**	**60,322**	**162**	**60,160**	**60,160**
Total at 31 December 2015	**–**	**–**	**–**	**55,692**	**157**	**55,535**	**55,535**

Portfolio/Credit quality (€m)	Assets of evidently low credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
Financial assets held for trading	-	-	-
Hedging derivatives	-	-	191
Total at 31 December 2016	**–**	**–**	**191**
Total at 31 December 2015	**–**	**–**	**328**

DISTRIBUTION OF ON AND OFF-BALANCE SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHIC AREA AND CARRYING AMOUNT

Exposures/Geographic area (€m)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Collective provisions	Net exposure	Collective provisions	Net exposure	Collective provisions	Net exposure	Collective provisions	Net exposure	Collective provisions
On-balance sheet exposures										
Doubtful loans	-	-	-	-	-	-	-	-	-	-
Unlikely to pay	-	-	-	-	-	-	-	-	-	-
Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
Performing exposures	58,628	162	210	-	8	-	-	-	-	-
TOTAL A	**58,628**	**162**	**210**	**–**	**8**	**–**	**–**	**–**	**–**	**–**
Off-balance sheet exposures										
Doubtful loans	-	-	-	-	-	-	-	-	-	-
Unlikely to pay	-	-	-	-	-	-	-	-	-	-
Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
Performing exposures	416	-	-	-	-	-	-	-	-	-
TOTAL B	**416**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL (A+B) at 31 December 2016	**59,044**	**162**	**210**	**–**	**8**	**–**	**–**	**–**	**–**	**–**
TOTAL (A+B) at 31 December 2015	**54,176**	**157**	**148**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

DISTRIBUTION OF ON AND OFF-BALANCE SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHIC AREA AND CARRYING AMOUNT

Exposures/Geographic area (€m)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Collective provisions	Net exposure	Collective provisions	Net exposure	Collective provisions	Net exposure	Collective provisions	Net exposure	Collective provisions
On-balance sheet exposures										
Doubtful loans	-	-	-	-	-	-	-	-	-	-
Unlikely to pay	-	-	-	-	-	-	-	-	-	-
Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
Performing exposures	248	-	1,066	-	-	-	-	-	-	-
TOTAL A	**248**	**–**	**1,066**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Off-balance sheet exposures										
Doubtful loans	-	-	-	-	-	-	-	-	-	-
Unlikely to pay	-	-	-	-	-	-	-	-	-	-
Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
Performing exposures	316	-	566	-	-	-	-	-	-	-
TOTAL B	**316**	**–**	**566**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL (A+B) at 31 December 2016	**564**	**–**	**1,632**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL (A+B) at 31 December 2015	**666**	**–**	**1,065**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

DISTRIBUTION OF ON AND OFF-BALANCE SHEET CREDIT EXPOSURES TO CUSTOMERS BY ECONOMIC SECTOR AND CARRYING AMOUNT

Exposures/Counterparty (€m)	Governments			Other public entities			Finance companies			Insurance companies			Non-finance companies			Other entities		
	Net exposure	Specific provisions	Collective provisions	Net exposure	Specific provisions	Collective provisions	Net exposure	Specific provisions	Collective provisions	Net exposure	Specific provisions	Collective provisions	Net exposure	Specific provisions	Collective provisions	Net exposure	Specific provisions	Collective provisions
On-balance sheet exposures																		
Doubtful loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
– of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
– of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
Non-performing past-due exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
– of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
Performing exposures	55,877	X	7	57	X	5	2,118	X	-	134	X	-	652	X	19	8	X	131
– of which: forborne exposures	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-
TOTAL A	**55,877**	**–**	**7**	**57**	**–**	**5**	**2,118**	**–**	**–**	**134**	**–**	**–**	**652**	**–**	**19**	**8**	**–**	**131**
Off-balance sheet exposures																		
Doubtful loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
Non-performing past-due exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
Performing exposures	416	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-
TOTAL B	**416**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL (A+B) at 31 December 2016	**56,293**	**–**	**7**	**57**	**–**	**5**	**2,118**	**–**	**–**	**134**	**–**	**–**	**652**	**–**	**19**	**8**	**–**	**131**
TOTAL (A+B) at 31 December 2015	**51,439**	**–**	**10**	**60**	**–**	**3**	**2,069**	**–**	**–**	**140**	**–**	**–**	**606**	**–**	**20**	**10**	**–**	**124**

DISTRIBUTION OF FINANCIAL ASSETS AND OFF-BALANCE SHEET TRANSACTIONS BY RESIDUAL CONTRACTUAL TERM TO MATURITY

Asset – Liability / Residual term to maturity *(€m)*	On demand	1 – 7 days	7 – 15 days	15 days – 1 month	1 – 3 months	3 – 6 months	6 months – 1 year	1 – 5 years	> 5 years	Unspecified maturity
On-balance sheet transactions	**9,037**	**1,435**	**-**	**-**	**2,065**	**116**	**1,695**	**10,400**	**31,888**	**-**
Government securities	-	-	-	-	2,065	111	1,695	8,892	31,888	-
Other debt securities	-	-	-	-	-	5	-	1,500	-	-
UCIs	-	-	-	-	-	-	-	-	-	-
Loans	9,037	1,435	-	-	-	-	-	8	-	-
– Banks	88	1,226	-	-	-	-	-	-	-	-
– Customers	8,949	209	-	-	-	-	-	8	-	-
Off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
– Long positions	-	-	-	-	-	-	-	-	400	-
– Short positions	-	-	-	-	416	-	-	-	-	-
Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
– Long positions	-	-	-	3	43	-	51	-	-	-
– Short positions	-	-	-	-	62	-	99	-	-	-
Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
– Long positions	-	-	-	-	-	-	-	-	-	-
– Short positions	-	-	-	-	-	-	-	-	-	-
Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
– Long positions	-	-	-	-	-	-	-	-	-	-
– Short positions	-	-	-	-	-	-	-	-	-	-
Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
Financial guarantees received	-	-	-	-	-	-	-	-	-	-
Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
– Long positions	-	-	-	-	-	-	-	-	-	-
– Short positions	-	-	-	-	-	-	-	-	-	-
Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
– Long positions	-	-	-	-	-	-	-	-	-	-
– Short positions	-	-	-	-	-	-	-	-	-	-

08 Unencumbered assets

8.1 Qualitative information

Disclosure of encumbered and unencumbered assets is provided in accordance with the guidelines issued by the EBA on 27 June 2014 in the document "Disclosure of encumbered and unencumbered assets" (EBA/CP/2014/03), as provided for in article 443 of the CRR. Under the guidelines, an asset should be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered.
Otherwise, all assets not falling within the scope of the above definition are considered unencumbered.
In BancoPosta RFC's case, the most important component of encumbered assets is represented by securities pledged as collateral in a repurchase agreements, which are used as:

- an alternative to current account deposits for funding purposes, as part of clearly-defined operating strategies, or a response to temporary liquidity gaps;
- collateral for derivatives/repos required under CSAs/GMRAs.

8.2 Quantitative information

The tables required by document EBA/CP/2014/03, showing detailed quantitative information for BancoPosta RFC, are provided below.

ENCUMBERED AND UNENCUMBERED ASSETS

Transaction type *(€m)*	Encumbered		Unencumbered	
	Carrying amount	Fair value	Carrying amount	Fair value
Equity instruments	–	–	104	104
Debt securities	5,610	6,337	44,232	45,269
Other assets	1,435	x	13,672	x
Total at 31 December 2016	**7,045**	**x**	**58,008**	**x**
Total at 31 December 2015	**5,883**	**x**	**55,087**	**x**

COLLATERAL RECEIVED

Transaction type (€m)	Fair value at 31 December 2016		Fair value at 31 December 2015	
	Collateral received or own debt securities encumbered	Collateral received or own debt securities potentially encumbered	Collateral received or own debt securities encumbered	Collateral received or own debt securities potentially encumbered
Equity instruments	–	–	–	–
Debt securities	–	–	–	428
Other assets	–	32	–	81
Total collateral received	**–**	**32**	**–**	**509**
Debt securities issued other than covered bonds and ABSs	**–**	**–**	**–**	**–**

In order to comply with article 453 of the CRR regarding credit risk mitigation techniques, it should be noted that the collateral shown in the table refers entirely to exposures to supervised institutions in relation to repurchase agreements (€3 million) and derivatives (€29 million). This collateral consists solely of cash deposits.

ENCUMBERED ASSETS/COLLATERAL RECEIVED AND THE ASSOCIATED LIABILITIES

(€m)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	7,686	7,772
Total at 31 December 2016	**7,686**	**7,772**
Total at 31 December 2015	**6,442**	**6,476**

Liabilities in the above table include funding in the form of repurchase agreements and, as required by the EBA guidelines, liabilities without any associated funding, such as derivatives. The latter have been included gross of any netting.
Assets include collateral (securities, shown at fair value, and cash) pledged in relation to the above liabilities.

09 Use of ecais

9.1 Qualitative information

To identify a counterparty's creditworthiness, necessary in order to measure credit and counterparty risks using the standardised approach, BancoPosta RFC uses the ratings issued by Standard & Poor's, Moody's and Fitch.
BancoPosta RFC applies the standardised approach for calculating the credit and counterparty risk capital requirements to all the regulatory portfolios, given that the Bank of Italy has not provided the option of using advanced approaches based on internal ratings.
The external ratings published by each ECAI (External Credit Assessment Institution)[22] are associated with the credit rating classes in accordance with the standard model defined by the EBA in the consultation paper entitled "Draft implementing technical standard on the mapping of ECAIs' credit assessment under Article 136(1) and (3) of EU Regulation No 575/2013 (Capital Requirement Regulation – CRR)".

9.2 Quantitative information

The following tables show the quantitative information required by the CRR, detailing the value of exposures, with or without credit risk mitigation, associated with each credit rating class and the value of exposures deducted from own funds.

DISTRIBUTION OF EXPOSURES BY REGULATORY ASSET CLASS WITH OR WITHOUT CREDIT RISK MITIGATION

Regulatory portfolio *(€m)*	At 31 December 2016			At 31 December 2015		
	Exposure without credit risk mitigation	Exposure with credit risk mitigation	Exposures deducted from regulatory capital	Exposure without credit risk mitigation	Exposure with credit risk mitigation	Exposures deducted from regulatory capital
Exposures to or secured by central governments and central banks	57,224	58,724	x	52,110	53,611	x
Exposures to or secured by regional governments or local authorities	1	1	x	–	–	x
Exposures to or secured by public sector organisations	57	57	x	60	60	x
Exposures to or secured by corporates and other entities	823	823	x	825	825	x
Exposures to or secured by supervised institutions	4,521	2,989	x	3,692	2,101	x
Retail exposures	6	6	x	8	8	x
Equity exposures	104	104	x	182	182	x
Other exposures	2,796	2,796	x	4,251	4,251	x
Total	**65,532**	**65,500**		**61,128**	**61,038**	

(22) External rating agencies.

DISTRIBUTION OF EXPOSURES BY CREDIT RATING CLASS AND REGULATORY ASSET CLASS: EXPOSURES WITHOUT CREDIT RISK MITIGATION

Regulatory portfolio *(€m)*	**At 31 December 2016**							
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Total**
Exposures to or secured by central governments and central banks	57,109						114	57,224
Exposures to or secured by regional governments or local authorities		1						1
Exposures to or secured by public sector organisations					57			57
Exposures to or secured by corporates and other entities	632		8		183	1		823
Exposures to or secured by supervised institutions	1,532	2,756	224		10			4,521
Retail exposures				6				6
Equity exposures					104			104
Other exposures	2,278	303			216			2,796
Total	**61,551**	**3,059**	**231**	**6**	**569**	**1**	**114**	**65,532**

The previous table the counterparty risk exposures in derivatives and repurchase agreements take into account the impact of netting and master netting agreements. Exposures resulting from repurchase agreements are shown net of the corresponding funding.
Exposures with a weighting of 250% regard net deferred tax assets which, not being deducted from own funds, are assigned this risk weighting in accordance with the CRR.
Exposures secured by collateral, which under the full method results in a reduction in the exposure, are usually assigned a zero weighting.

DISTRIBUTION OF EXPOSURES BY CREDIT RATING CLASS AND REGULATORY ASSET CLASS: EXPOSURES WITH CREDIT RISK MITIGATION

Regulatory portfolio *(€m)*	**At 31 December 2016**							
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Total**
Exposures to or secured by central governments and central banks	58,609						114	58,724
Exposures to or secured by regional governments or local authorities		1						1
Exposures to or secured by public sector organisations					57			57
Exposures to or secured by corporates and other entities	632		8		183	1		823
Exposures to or secured by supervised institutions		2,756	224		10			2,989
Retail exposures				6				6
Equity exposures					104			104
Other exposures	2,278	303			216			2,796
Total	**61,519**	**3,059**	**231**	**6**	**569**	**1**	**114**	**65,500**

10 Exposure to market risk

As defined by the relevant standards, BancoPosta RFC doesn't have a trading book. As a result, the sole component of market risk relevant to BancoPosta RFC is foreign exchange risk, defined as the risk of incurring losses due to adverse movements in the value of foreign currencies across all the positions held, regardless of the book to which they are allocated. In BancoPosta RFC's case, this risk primarily derives from foreign currency bank accounts, foreign currency cash and MasterCard and VISA shares.

At 31 December 2016, the standardised approach application required by the CRR for calculating the exchange risk capital requirement results in €9.3 million for BancoPosta RFC.

11 Operational risk

In computing the operational risk capital requirement , BancoPosta RFC applies the simplified approach (BIA – Basic Indicator Approach) provided by EU Regulation 575/2013. This consists of applying a percentage of 15% to the average of the relevant indicator for the last three years[23] at the end of the reporting period[24].

The operational risk capital requirement obtained by applying this method amounts to €823 million at 31 December 2016.

(23) BancoPosta RFC calculates the relevant indicator as the sum of the following income statement items (in accordance with IAS): net interest income (items 10-20); net fee and commission income (items 40-50); the portion of "other operating income" not generated by extraordinary or non-recurring items (a portion of the positive component of item 190); net profits on the trading book (items 80, 90, 100b, 100c, 110); dividends (item 70).

(24) This method is only used for Pillar 1 risks, as BancoPosta RFC uses an advanced internal approach for computing operational risk capital requirements (details are provided in section 1.3.1).

12 Exposures to equity instruments not included in the trading book

12.1 Qualitative information

Investments in equity instruments included in BancoPosta RFC's banking book consist of Class B Mastercard Incorporated shares, Series C Convertible Participating Preferred Stock and Class C Visa Incorporated shares.

BancoPosta RFC classifies this type of financial instrument in "Available-for-sale financial assets" (AFS). Information on the relevant accounting treatment and the measurement criteria used is provided in Parts A.2 and A.4 of the "Notes" in BancoPosta RFC's Separate Report.

12.2 Quantitative information

The following table provides the information required by article 447 of the CRR.

EXPOSURE TO EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING BOOK[25]

Type *(Milioni di Euro)*	Carrying amount	Fair Value			Market value	Realised gains/losses		Unrealised gains/ losses		Unrealised gains/ losses included in CET1	
		Level 1	Level 2	Level 3	Level 1	Gains	Losses	Gains	Losses	Plus (+)	Minus (-)
AFS	104	–	77	27	–	121	–	74	–	–	–
Investments	–	–	–	–	–	–	–	–	–	–	–
Total at 31 December 2016	104	–	77	27	–	121	–	74	–	–	–
Total at 31 December 2015	182	–	71	111	–	–	–	179	–	–	–

(25) "Unrealised gains/losses" are shown after tax.

13 Esposures to interest rate risk on positions not included in the trading book

13.1 Qualitative information

Exposure to banking book interest rate risk reflects the peculiar nature of investment generated by postal current account and prepaid cards forming part of BancoPosta RFC's operations, as detailed below:

- funds deriving from private customer current account deposits and prepaid cards, which represent a form of funding without a contractual term to maturity, in keeping with the finance act of 27 December 2006, as amended[26], is invested in euro area government securities and/or securities guaranteed by the Italian government. The investment profile is based, among other things, on the constant monitoring of current account holders behaviour and a use of a leading market operator's statistical/econometric model of typical postal current account interest rates and maturities, based on a prudent projection of the deposit future volume . The above mentioned model is thus the general reference for the investments (the limits of which are determined by specific guidelines approved by the Board of Directors) in order to limit exposure to interest rate and liquidity risks;
- funds deriving from deposits by Public Administration entities represents a form of funding without a contractual term to maturity. The only permitted form of investment of these deposits, which are periodically monitored by BancoPosta's Risk Management unit with the aim of determining the expected maturity profile, is currently their deposit with the MEF in return for payment of a variable rate of interest.

Exposure to interest rate risk primarily reflects the potential impact on BancoPosta RFC's economic value generated by mismatches between assets and liabilities.maturities and method of determining profit and loss components,
In quantifying banking book interest rate risk, BancoPosta RFC uses an internal sensitivity analysis that reflects the key aspects of the simplified method proposes by the Bank of Italy[27]. The main difference with respect to the simplified method used for supervisory purposes consists in the use of more granular maturity structures, compared with standard structures, and in the component relating to the estimated duration of postal current account deposits, defined contractually as on demand.
In particular:

- in terms of funding types, funds deriving from postal current account deposits and prepaid cards are allocated across the maturity ladder on the basis of percentages derived from a specific model for analysing forms of funding defined contractually as on demand, and which produces a maturity profile over a time horizon that differs from the simplified method provided for in the relevant standards. The duration is estimated for each segment (retail customers, business customers, prepaid cards and Public Administration current account holders[28]) by maturity analysis. Based on historical trends and the volatility of average postal current account deposits, this process results in the computation of the minimum deposit base that, with a confidence level of 99%, may be available in future periods (the Profile of Likely Minimum Volumes) and, to complete the process, portions of deposits maturing in each time horizon are taken into account. The maturity profile for liabilities produced by the internal model tends towards the infinite and, therefore, in order to apply the model, a cut-off point is established, based on reasonable assumptions regarding the duration of deposits. Based on the different characteristics of customers, the cut-off point is 20 years for retail customer deposits, as these are more stable on average, 10 years for business customer deposits and prepaid cards and 5 years for Public Administration deposits, as these are assumed to be more volatile. As a result, all the estimated volumes still present beyond these time horizons are allocated on a time proportionate basis[29] to the deposits estimated to mature in all the periods prior to the maximum maturity date;

(26) The 2015 Stability Law (of 23 December 2014) made it possible for BancoPosta RFC to invest up to 50% of its deposits in securities guaranteed by the Italian government.
(27) See Bank of Italy Circular 285/2013, Title III, Annex C.
(28) The components of deposits by Public Administration entities relating to INPS and INPDAP are not relevant to the quantification of banking book interest rate risk. Deposits by treasuries are prudently considered on demand.
(29) The allocation of remaining deposits beyond the cut-off point in proportion to the distance between the date of production of the model and each time horizon makes the process of estimating the duration of the most remote time horizons more prudent.

- the use of more granular maturity structures compared with the related standards primarily aims to mitigate the effect of weighting gaps (implicit in the simplified approach defined in Bank of Italy Circular 285/2013) on the exposure to interest rate risk.

Net mismatches for each residual maturity category are determined on the basis of the time distribution of assets and liabilities. Weightings that take into account the average duration by maturity category and a hypothetical interest rate shock are then applied to the mismatches.
The entity of any downward shock[30] is determined on the basis of the net mismatch resulting in an exposure to a decline in interest rates, and in view of current market trends (interest rates at all-time lows) and regulatory indications[31], applying a shock below the standard 200 bps[32]. In particular, at 31 December 2016, the exposure to interest rate risk was assessed applying a parallel shift in rates of 50 bps.
This model is subject to internal validation with the aim of providing assurance on the method, the sources and the supporting IT systems used.
Measurement of the sensitivity of the interest margin is based on an analysis of movements in income over a twelve-month period, generated by a sudden parallel shock on the interest rate curve of +/- 100 bps. This measure shows the impact of movements in rates on the banking book at the measurement date, without taking into account any future changes in the asset and liability mix. As a result, it cannot be considered an indicator of the projected future level of the interest margin.
BancoPosta's Risk Appetite Framework (RAF) defines a metric that quantifies the capital requirement for banking book interest rate risk. This was then used as the basis for determining the risk appetite, risk tolerance and risk capacity.

13.2 Quantitative information

The interest rate risk generated by BancoPosta RFC's banking book, measured using the internal sensitivity analysis model, amounted to an average of approximately €129 million in 2016, standing at €2 million at the end of the year[33]. The change in economic value is equal to 1% of Common Equity Tier 1.

BANKING BOOK INTEREST RATE RISK – SENSITIVITY OF THE ECONOMIC VALUE

(€m)	Economic value at 31 December 2016
Shift of -50 bps	2

The *sensitivity* of the interest margin amounts to +/-€119 million at the end of 2016 based on a hypothetical parallel movement in rates of 100 bps.
The following table summarises the quantification of banking book interest rate risk. The only significant currency for BancoPosta RFC in terms of interest rate risk impact on economic value is the euro.

BANKING BOOK INTEREST RATE RISK – SENSITIVITY OF THE INTEREST MARGIN

	Interest margin at 31 December 2016
Shift of +100 bps	119
Shift of -100 bps	-119

(30) The entity of the upward shock is equal to the standard 200 bps.
(31) See "Basel Committee on Banking Supervision – Interest Rate risk in the banking book", April 2016.
(32) The entity of the downward shock will become more significant (as it tends towards the standard 200 bps) as rates return to more normal levels.
(33) Based on a hypothetical parallel movement in rates of 50 bps.

14 Remuneration policy

In pursuing the objectives of profitability and financial stability over the medium to long term, BancoPosta RFC is committed to adopting remuneration policies based on the principles of transparency and the sound and prudent management of risk, effectively managing any potential conflicts of interest and its capital and liquidity positions.

In this regard, on 15 March 2017, the Board of Directors proposed revised "Guidelines for BancoPosta RFC's remuneration and incentive policies" to be submitted for approval by the Annual General Meeting of Poste Italiane's shareholders to be held on 27 April 2017.

This document has been prepared with the aim of aligning BancoPosta's specific remuneration and incentive policies with the Supervisory Standards for banks and for "remuneration and incentive policies and practices" for banks and banking groups" contained in Bank of Italy Circular 285 (Part I, Title IV, Chapter 2) of 17 December 2013.

BancoPosta's remuneration and incentive policies, in line with those adopted by the Company as a whole, play a key role in pursuit of strategic objectives and are designed:

(I) to form a part of the rewards for merit and performance;

(II) to create value and direct personnel towards achievement of short-, medium- and long-term objectives within a set of rules established to ensure appropriate related risks management;

(III) to align the conduct of Material Risk Takers and of other BancoPosta RFC personnel with the interests of stakeholders, medium- to long-term strategies and the entity's objectives, within a set of rules established to ensure appropriate management of current and future risks and adequate levels of liquidity and capital;

(IV) to attract, motivate and retain high calibre professionals;

(V) to ensure internal equity, linking remuneration with responsibilities and rewarding everyone's contribution to the targets set achievement;

(VI) to ensure external competitiveness through a continuous process of market benchmarking, conducted with the support of specialist consulting firms who provide the related benchmarks;

(VII) to ensure that the remuneration and incentive policies are sustainable in terms of BancoPosta RFC's operating performance and financial position.

In view of the BancoPosta RFC's particular nature and its relations with Poste Italiane functions, the above "Guidelines" apply to the following entities, insofar as their activities relate to BancoPosta RFC:

- Poste Italiane's Board of Directors (the Chairwoman, the Chief Executive Officer and General Manager and Directors);
- Poste Italiane's Board of Statutory Auditors;
- Poste Italiane's Manager Responsible for Financial Reporting;
- the Head of the BancoPosta function;
- personnel in BancoPosta's internal control functions;
- other Material Risk Takers;
- other BancoPosta personnel not identified as Material Risk Takers.

Further details are provided in Poste Italiane's "Remuneration Report 2017" and the annexed "Guidelines for BancoPosta RFC's remuneration and incentive policies for 2017".

15 Financial leverage

15.1 Qualitative information

Monitoring the Leverage Ratio is a way of controlling BancoPosta RFC's exposure to the risk of excessive financial leverage. The indicator is the ratio of Common Equity Tier 1 to total assets, including exposures to off-balance sheet risks. In addition to total assets in the financial statements, in application of EU Regulation 575/2013 (as amended by EU Regulation 62/2015), the denominator thus includes the following:

- the derivatives add-on that takes into account the effects of netting agreements;
- exposure to counterparty risk deriving from repo agreements without applying, as required by the Regulation, prudent additional haircuts (applicable to securities pledged as collateral) and without considering collateral received under GMRAs;
- other off-balance sheet exposures represented by securities pledged as collateral for CSAs and GMRAs and securities underlying forward contracts;
- deductions from assets in the statement of financial position for receivables (cash collaterals and derivative assets) resulting from derivatives guaranteed by cash collateral with daily variation margins.

15.2 Quantitative information

A summary of the data used in computing Bancoposta RFC's Leverage Ratio, assuming no retention of earnings for the year, is shown below.

LEVERAGE RATIO WITHOUT THE RETENTION OF EARNINGS

(€m)	At 31 December 2016	At 31 December 2015
Tier 1 capital	1,949	1,949
Total exposure	65,133	61,785
Leverage ratio	**3.0%**	**3.2%**

During 2016, BancoPosta RFC's leverage ratio declined as a result of the significant increase in activity, linked to the positive performance of deposits and the related investments.
At 31 December 2016, the ratio is close to the limit of 3% fixed by Poste Italiane SpA's Board of Directors.
In order to restore the ratio to the target level set in the RAF (3.15%) requires the retention of €110 million in earnings, which the Board of Directors will propose to shareholders at the Annual General Meeting to be held to approve the appropriation of profit for 2016.
A summary of the data used in computing Bancoposta RFC's Leverage Ratio, after retention of a portion of earnings for the year, is shown below.

LEVERAGE RATIO AFTER RETENTION OF A PORTION OF EARNINGS

(€m)	At 31 December 2016	At 31 December 2015
Tier 1 capital	2,059	1,949
Total exposure	65,133	61,785
Leverage ratio	**3.2%**	**3.2%**

STATEMENTS OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO ART. 435, LETTERS e) AND f) of REGULATION (EU) No. 575/2013 OF 26-6-2013

Francesco Caio, Chief Executive Officer, as mandated by the Board of Directors of Poste Italiane, hereby declares pursuant to letters e) and f) of article 435 of Regulation (EU) No 575/2013 of 26-06-2013, that:

a) the risk management systems implemented by Patrimonio BancoPosta and described in the document "Basel 3 Pillar III Disclosure as at 31 December 2016 – Patrimonio BancoPosta" are adequate with regard to the institution's profile and strategy;

b) in particular the paragraph "Adequacy of the risk management measures and consistency between the overall risk profile and the business strategy" of the aforesaid document concisely states the overall risk profile of Patrimonio BancoPosta associated with the business strategy adopted.

13 April 2017

Francesco Caio
Chief Executive Officer

Declaration by the manager responsible for financial reporting

The manager responsible for financial reporting, Luciano Loiodice, declares, pursuant to paragraph 2 of article 154-*bis* of the Consolidated Law on Finance, that the accounting information contained in this document is consistent with the underlying accounting records.

Annex 1

Transitional model for own funds disclosure

The following table shows the composition of own funds, assuming no retention of earnings for the year, in accordance with the model defined in annexes VI and VII of EU Regulation 1423/2013.

Categories / Amounts *(€m)*		(A) Amount at the reporting date	(C) Amounts pre-EU Regulation 575/2013 or residual amounts required by EU Regulation 575/2013
1	**Equity instruments and the related share premium reserves**		
	of which: ordinary shares		
2	Undistributed earnings	949	
3	Other accumulated components of profit or loss (and other reserves, including unrealised gains and losses under the applicable accounting standards)	1,000	
3a	Provisions for general banking risk		
4	Amount of eligible items under article 484 (3) and the related share premium reserves, subject to phase-out from Tier 1 capital		
4a	Public sector capital injections grandfathered until 1 January 2018		
5	Non-controlling interests (amount allowed in consolidated CET1)		
5a	Independently audited profit for the period after any foreseeable charges or dividends		
6	Common Equity Tier 1 (CET1) before regulatory adjustments	1,949	
	Common Equity Tier 1 (CET1): regulatory adjustments		
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**		
29	**Common Equity Tier 1 (CET1)**		
	Additional Tier 1 capital (AT1): instruments		
36	**Additional Tier 1 capital (AT1) before regulatory adjustments**		
	Additional Tier 1 capital (AT1): regulatory adjustments		
43	**Total regulatory adjustments to additional Tier 1 capital (AT1)**		
44	**Additional Tier 1 capital (AT1)**		
45	**Tier 1 capital (T1 = CET1 + AT1)**		
	Tier 2 capital (T2): instruments and provisions		
51	**Tier 2 capital (T2) before regulatory adjustments**		
	Tier 2 capital (T2): regulatory adjustments		
57	**Total regulatory adjustments to additional Tier 2 capital (T2)**		
58	**Tier 2 capital (T2)**		
59	**Total capital (TC = T1 + T2)**	**1,949**	
60	**Total risk-weighted assets**	**12,162**	
	Capital ratios and buffers		
61	**Common Equity Tier 1 capital (as percentage of amount of risk exposure)**	**16.0%**	
62	Tier 1 capital (as percentage of amount of risk exposure)		

Categories / Amounts *(€m)*		(A) Amount at the reporting date	(C) Amounts pre-EU Regulation 575/2013 or residual amounts required by EU Regulation 575/2013
63	Total capital (as percentage of amount of risk exposure)	16.0%	
64	Institution’s specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institutions buffer, expressed as percentage of amount of risk exposure)	7.0%	
	65 *of which: capital conservation buffer*	2.5%	
	66 *of which: countercyclical capital buffer*		
	67 *of which: systemic risk buffer*		
	67a *of which: Global Systemically Important Institutions buffer (G-SII) or Other Systemically Important Istitutions buffer (O-SII)*		
68	Common Equity Tier 1 available to meet buffers (as percentage of amount of risk exposure)	8.0%	

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