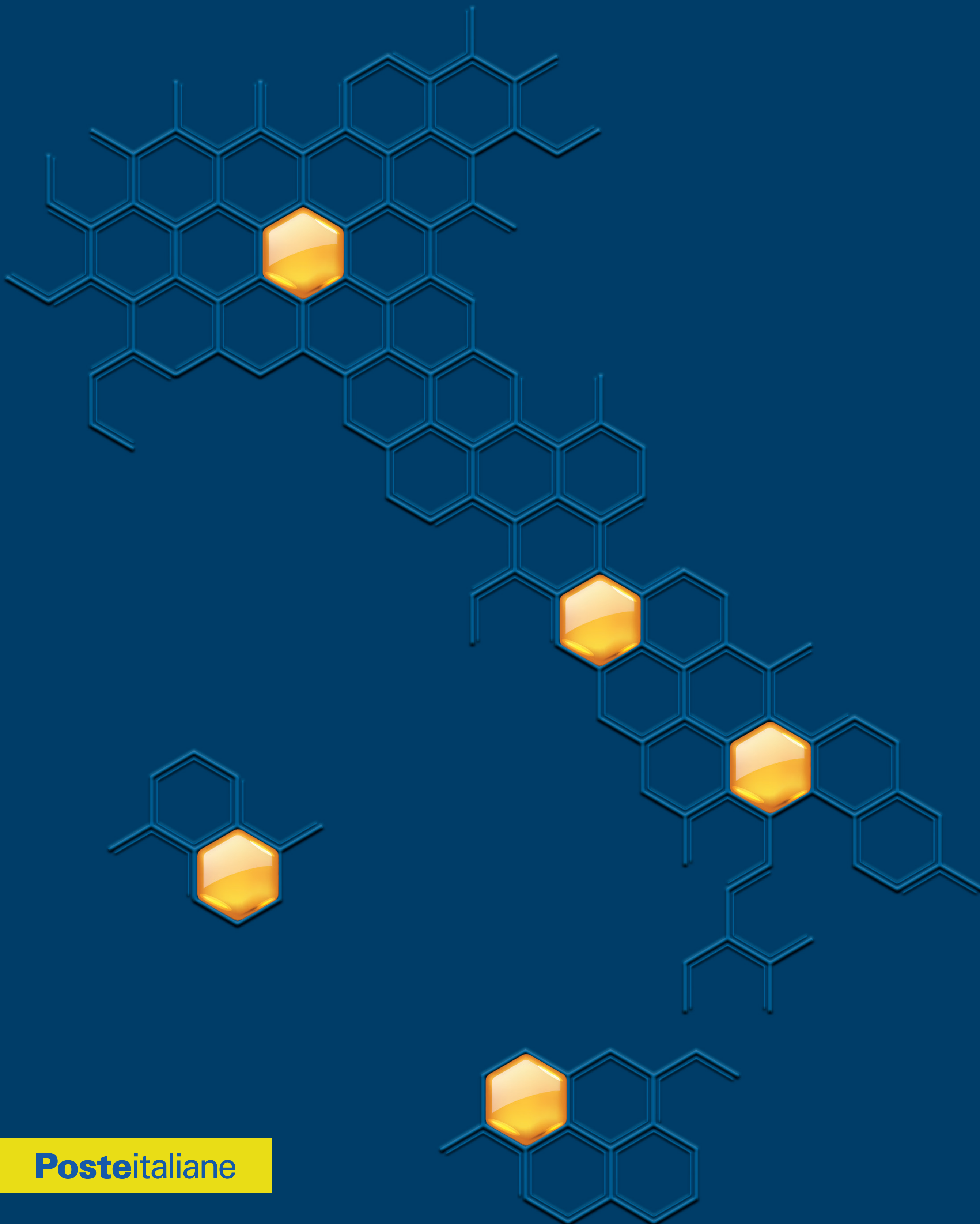
DELIVERING RESPONSIBLE GROWTH TOGETHER

BASEL III PILLAR 3 – REPORT AT 31 DECEMBER 2019

BANCOPOSTA RFC



Posteitaliane

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Summary

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 prudential Supervisory Provisions applicable to banks and investment firms from 1 January 2014 are contained in Bank of Italy Circular 285/2013, the purpose of which was to implement Regulation (EU) 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), European Commission regulations containing regulatory and implementing technical standards and the Guidelines set out by the EBA.

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 regulation for banks was extended to BancoPosta RFC by the third update 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 regulation for banks applicable to BancoPosta RFC, the Supervisory Authority took into account the entity’s peculiar nature, which has made it necessary to apply certain exemptions. These primarily regard the regulations governing “large exposures” and “related parties”, the countercyclical capital buffer[1], the Leverage Ratio, and the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

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/ILAAP – Internal Capital Adequacy Assessment Process/Internal Liquidity 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 regulation applied to BancoPosta RFC also require public disclosure of capital adequacy, risk exposure and the general characteristics of the related management and control systems.

In January 2018, the EBA issued the “Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds” (EBA/GL/2018/01), which define the disclosure templates relating to the impact on own funds of Regulation (EU) 2017/2395 containing “Transitional arrangements or mitigating the impact of the introduction of IFRS 9 on own funds”. BancoPosta RFC opted for the transitional arrangement in accordance with the “dynamic” approach to mitigate such impact. For more details, reference is made to chapter 3.

In addition, as it opted for the “dynamic” approach, BancoPosta RFC is required to disclose also information on own funds, Common Equity Tier 1, Tier 1 capital, CET 1 Capital Ratio, Tier 1 Capital Ratio and, in case it does not apply such transitional arrangement, fully loaded Total Capital Ratio.

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.

1. The Supervisory Authority decided not to set prudential limits for “large exposures”, “related parties” or the countercyclical capital buffer, given that BancoPosta RFC is prohibited from making loans to members of the public. BancoPosta is, however, required to disclose “large exposures” and “related parties”.

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

The "Report on corporate governance and ownership structure" (available in the "Governance" section on the website: **https://www.posteitaliane.it/it/governance.html**) provides all the information on the governance of Poste Italiane SpA required by paragraph 2 of article 435 of the CRR.

1. Risk management policies and objectives

Existing statutory and regulatory provisions 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 provisions 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, among other things, achievement of the following objectives:

- oversight of implementation of the Company's strategies and policies;
- the containment of risks 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 provisions 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 Provisions to include BancoPosta RFC, has been further strengthened following compliance with 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[2].

Within the overall risk management system, particularly important is the Internal Control and Risk Management System (or "SCIGR"), created in line with the corporate governance requirements for listed companies and the Supervisory Provisions applicable to BancoPosta's operations. 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.

Poste Italiane's SCIGR is a combination of tools, organisational structures, corporate rules and policies designed to ensure that the business is managed in a way that is sound, fair and consistent with the corporate objectives, through an adequate definitions of players, duties and responsibilities of the various corporate bodies and control functions as well as through the identification, measurement, management and monitoring of the main risks, and through the structuring of adequate reporting lines to expedite the flow of information.

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

An effective SCIGR fosters informed decision-making and helps to protect corporate assets and BancoPosta RFC, the efficiency and effectiveness of corporate processes, the reliability of the information provided to management and the market, compliance with laws and regulations, the Articles of Association and internal rules and policies.

The document aims to disseminate the SCIGR guidelines issued by Poste Italiane's Board of Directors, which include:

- reference principles and framework;
- SCIGR architecture;
- duties and responsibilities of Poste Italiane's SCIGR players;
- implementation of SCIGR in the subsidiaries;
- manners of coordination and collaboration among control functions;
- reporting lines between the different functions/corporate bodies and between these and management.

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

- 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 within the 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, which includes BancoPosta's Anti-Money-Laundering and Compliance unit;

- 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 exercises the powers of ordinary administration delegated by the CEO of Poste Italiane and is the party, within BancoPosta RFC, responsible for proposing, implementing and controlling the guidance provided by the Board of Directors and the CEO, reporting directly to them.

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. Specifically:

- 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.

Following introduction of the RAF and to ensure compliance with it, operating limits have been established for the main types of risk. Operating units must respect these 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 of the above 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 objectives 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 Provisions is played by BancoPosta's Risk Management unit. This unit reports, in coordination with the Group Risk Management function, to Poste Italiane SpA's Board of Directors, the CEO and 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 (Board of Directors and Board of Statutory Auditors), in their respective roles of strategic oversight and control of BancoPosta RFC.

BancoPosta's Risk Management unit contributes to the integrated risk management process, operating in keeping with the standards defined by the Group Risk Management ("GRG") function and ensuring that information is shared at the consolidated level. In particular, BancoPosta's Risk Management, in collaboration with the GRG function:

- ensures, with specific regard to BancoPosta RFC, an integrated, retrospective and prospective view of BancoPosta RFC's risk, capital and organisational adequacy (ICAAP);
- develops, in compliance with the supervisory provisions, systems and methods for managing and measuring BancoPosta RFC's significant risks, identifying, classifying and updating continuously risk events;
- measures Poste Italiane's financial risks.

Furthermore, BancoPosta's Risk Management unit, with specific reference to the Ring-Fenced Capital:

- is involved in the definition and implementation of the Risk Appetite Framework and risk management policies, through an adequate risk management process, as well as in setting operating limits to the various types of risk;
- determines the risk appetite in keeping with the objectives and the business plan assumptions, developing awareness in the corporate bodies during the analysis and approval or strategic and operational guidelines;
- checks the adequacy of the RAF, the risk management process and the operating limits;
- constantly monitors the effective risk profile and its consistency with the risk appetite, working with the relevant functions in order to identify risk management and mitigation initiatives;

- is responsible for the development, validation (in accordance with the established independence requirements) and maintenance of risk measurement and control systems;
- determines common metrics to assess operational risks consistent with the RAF, in cooperation with the competent corporate functions;
- determines the manners in which reputational risk is assessed and controlled, working with the competent corporate functions and the corporate functions that are mostly exposed to such risk;
- is involved in the assessment of strategic risk, by participating in the process to prepare the Strategic Plan and the Budget, the identification of the relevant inherent risks and the review of the sustainability of the strategic assumptions in terms of capital adequacy and consistency with the risk appetite approved by the Board of Directors;
- ensures consistency between the risk measurement and control systems and the processes and methodologies to assess corporate activities, cooperating with the corporate departments concerned, with specific reference to the manner in which the value of financial instruments is determined;
- 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, by also providing a prior opinion on consistency with the risk appetite for larger transactions;
- checks the adequacy and effectiveness of the measures adopted to remedy any flaws in the risk management process;
- defines, on an ex-ante basis, the customer and counterparty risk of BancoPosta RFC in view of the business and measurement of expected loss as set forth in IFRS 9.

1.3 Risk measurement systems and monitoring and mitigation policies

The scope 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:

- operational risks;
- banking book interest rate risk;
- banking book spread and price risk;
- risk of excessive leverage;
- credit and counterparty risk;
- market risks[3];
- liquidity risk;
- concentration risk – large exposures and related parties;
- other risks.

In terms of capital adequacy, in line with the related Supervisory Provisions, 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.

3. BancoPosta RFC is only exposed to market risk in relation to foreign exchange risk, deriving from foreign currency current accounts, foreign currency cash and dollar-denominated VISA shares.

1.3.1 Operational risks

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 risks also include 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 Regulation (EU) 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 supervisory regulation[4].

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 internal model used by BancoPosta RFC to measure its exposure to operational risk incorporates and sums up the four sources of risk indicated in the regulations 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[5], 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 managing risk, each according to their area of expertise (physical security, information 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 signed operating guidelines 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.

4. See Regulation (EU) 575/2013 (Basel 3). In this regard, in the absence of specific supervisory instructions (issued on 27 May 2014), BancoPosta RFC 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.
5. The Italian Operational Loss Database managed by ABI, the Italian Banking Association.

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 net interest income, as a result of potential changes in "risk free" interest rates[6].

Exposure to banking book interest rate risk reflects the peculiar nature of the investment of liquidity generated by postal current account deposits forming part of BancoPosta RFC's operations.

In quantifying banking book interest rate risk, BancoPosta RFC adopted, until the end of 2019, an internal model to measure economic value that followed the key aspects of the simplified approach proposed by the Bank of Italy. The main difference with respect to the simplified approach 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. From 31.12.2019, in line with the evolution of the relevant prudential regulations, a new internal model on interest rate risk was adopted based on the EBA Guidelines of July 2018.

As part of second-level controls, the Risk Management unit conducts a weekly audit of the established operating limits[7] and a monthly audit of compliance with the risk appetite. In case of transactions that – in terms of size, innovative characteristics or expected impact on the risk/return profile – might affect the achievement of objectives set and approved by the Board of Directors, it checks compliance with the risk appetite limits ex ante.

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 to hedge this form of risk. 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.

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 interest earned on inflation-linked or variable rate securities in return for collecting a fixed rate which, in traditionally structured transactions, is determined at the execution date and remains unchanged over the life of the swap.

Cash flow hedges of a forecast transaction take the form of Bond Forwards, that is forward purchases and sales. Forward purchases enable the purchaser to both reinvest liquidity with reasonable certainty that it will be available in the short term, and to fix the purchase price - and the matching return – 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. Forward sales enable the seller to lock in capital gains under favourable market conditions, so as to stabilise revenue and limit interest rate and spread risk.

Fair value hedges are used to specifically hedge recognised assets. The hedge may be spot, and immediately effective from the date of execution, 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.

6. These rates do not 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.
7. These include duration limits and time thresholds by maturity.

1.3.3 Banking book spread and price risk

Banking book spread risk

Given the nature of BancoPosta RFC's operations, banking book spread risk is linked to potential falls in the value of bonds held in the banking book following deterioration in the creditworthiness of the issuer.

At 31 December 2019, 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 rating, which is inherently linked to BancoPosta RFC's operations.

In 2019, average Italian government bond yields fell, bringing the spreads between ten-year Italian government bonds and German bunds to 160 bps, compared to approximately 250 bps of the previous year.

Over the period under review, the above situation resulted in an overall positive change in the fair value of BancoPosta RFC's financial assets measured at fair value through other comprehensive income by approximately €3.7 billion (a nominal value of approximately €32 billion).

Banking book price risk

Banking book price risk regards the risk of incurring losses following changes in the value of financial assets that are not due to movements in interest rates.

The financial assets subject to banking book price risk held by BancoPosta RFC are the Visa Incorporated Series C Convertible Participating Preferred Stock, which are recognised among Financial assets measured at fair value through profit or loss and allocated to BancoPosta RFC under commercial agreements 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[8].

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 attract capital charges due to credit and foreign exchange risks.

8. The price risk relating to VISA shares was mitigated through a forward sale transaction carried out during 2019.

1.3.4 Risk of excessive 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%[9].

Whilst exempted from application of the related regulatory requirements[10], BancoPosta RFC controls this risk by monitoring the leverage ratio introduced by Basel III[11] on a quarterly basis and by including it in the Risk Appetite Framework.

Further details are provided in section 15.

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 matching change in the value of the credit position. 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 requirements is the standardised approach defined in Regulation (EU) 575/2013[12]. Application of this method entails the use of Standard & Poor's, Moody's, Fitch and DBRS 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 regulation[13]. The exposure to credit risk, associated with exposures other than those linked to securities held in portfolio and deposited with the MEF, relates to exposures deriving from BancoPosta RFC's conduct of the following transactions:

- items in progress: cheque clearing, use of electronic cards, collections;
- trade receivables due from partners in relation to financial/insurance product placement activities;
- 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);
- cash deposits made as a pre-funded contribution to the guarantee fund of the Central Counterparty "Cassa Compensazione e Garanzia" for repo transactions;
- shares (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 2020;
- any credit position with the Italian Treasury due to deposit transfers minus any advance received.

Credit risk is controlled through the following:

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

The limits referred to above have been established by the "Guidelines on Poste Italiane SpA's financial management"[14] for BancoPosta RFC. Specifically, as regards rating limits, transactions are allowed solely with investment grade counterparties and euro area government issuers with a rating at least equal to that of the Italian Republic.

9. The final calibration and any new adjustments to the leverage ratio are being analysed by the European Parliament, with the objective to change this to a minimum capital requirement under pillar 1.
10. See Part Four – Chapter 1- Section III of Bank of Italy Circular 285/2013.
11. See Regulation (EU) 575/2013 and Regulation (EU) 62/2015.
12. The supervisory instructions for BancoPosta RFC, issued on 27 May 2014, require sole use of the standardised approach to calculate credit risk.
13. See article 114 paragraph 4 of Regulation (EU) 575/2013.
14. On 18 October 2018, Poste Italiane SpA's Board of Directors approved the updated version of the Guidelines on Poste Italiane SpA's financial management, upon proposal of the CEO and with the consent of the Control, Risk and Sustainability Committee.

With reference to the monitoring thresholds of concentration risk, the limits set by prudential regulation are applied[15].

Counterparty risk is the risk that a counterparty could default on obligations of a financial instrument during its term. This risk is inherent in certain types of transaction which, for BancoPosta RFC, would be financial derivatives and repurchase agreements.

The method used to calculate the counterparty risk capital requirements is the standardised approach defined in Regulation (EU) 575/2013. The exposure to risk is determined according to the methods shown below for each of the categories of transactions which give rise to counterparty risk:

- OTC financial derivatives: market value method;
- long settlement transactions: market value method;
- Securities Financing Transactions (SFT): 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 this document.

ISDA (International Swaps and Derivatives Association) agreements, CSAs (Credit Support Annexes) and GMRAs (Global Master Repurchase Agreements) are used to mitigate counterparty risk on financial derivatives and SFTs. These agreements provide for the netting of asset and liability positions and the posting of cash or government securities as collateral.

Lastly, it is noted that the fourth quarter of 2018 saw the start of the process of voluntary participation in the centralised clearing of OTC derivatives. Moreover, to mitigate counterparty risk and to have easier market access, starting from December 2017, BancoPosta enters into repurchase agreements with "Cassa Compensazione e Garanzia", the central counterparty". In this context, capital requirements are calculated in accordance with article 308 of Regulation (EU) 575/2013 on own funds requirements for pre-funded contributions to the guarantee fund of a Qualified Central Counterparty.

In line with the indications introduced by Basel 3, BancoPosta RFC has included **Credit Valuation Adjustment (CVA) risk** in counterparty risk. This represents the risk of potential losses as a result of movements in market prices due to deterioration in the creditworthiness of counterparties and is quantified using the standardised approach. The capital requirement for CVA risk is calculated in relation to exposures to derivatives.

As part of second-level controls relating to credit and counterparty risk, the Risk Management unit conducts a weekly audit of the established operating limits. In the event of any divergence, appropriate risk containment and mitigation measures are taken. In order to enable the Top 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 then sent on to the Bank of Italy, together with those produced by the other control functions.

15. According to prudential regulation, with reference to the rules on Large Exposures, risk-weighted assets must remain below 25% of own funds. As a rule, exposures are recognised at nominal value, taking into consideration any credit risk mitigation techniques. To take into account the lower risk related to the nature of the borrower, more favourable weighting factors are applied.

1.3.6 Market risks

As defined by the relevant standards, BancoPosta RFC does not have a trading book. 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 current accounts, foreign currency cash and VISA shares[16].

Foreign exchange risk is controlled by the Risk Management unit using the measurement of exposure to the risk in accordance with the Guidelines on financial management which restrict currency trading to the foreign exchange service and international bank transfers.

Foreign exchange risk is measured using the prudential methodology provided for in Regulation (EU) 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 loans and counterparties;
- gradual and consistent distribution of the maturities of medium/long-term borrowings;
- use of dedicated analytical models to monitor the maturities of assets and liabilities;
- the availability of the interbank markets as a source of repurchase agreement finance, 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.

In addition, from 7 May 2019, BancoPosta RFC may access a short-term committed facility granted by Cassa Depositi e Prestiti for repurchase agreements up to a maximum of €5 billion and with a duration of 12 months that may be extended.

BancoPosta RFC's exposure to liquidity risk reflects the specific nature of its business model and regards the investment of the liquidity resulting from current account deposits and the margins related to derivative and repo transactions. 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 and other securities guaranteed by the Italian Republic, which presents 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 (PLR[17]), 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 in 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;

16. The foreign exchange risk relating to VISA shares was mitigated through a forward sale transaction carried out during 2019.
17. The fair value of PLR at 31 December 2019 was approximately €45 billion.

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[18];

- The fact that there is a substantial match between the contractual maturities of liabilities and assets helps to minimise liquidity risk deriving from the postal current account deposits of Public Administration entities.
- In terms of its 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 regards switch transactions in particular: 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, for more efficient portfolio management, and margin deposits for CSAs, GMRAs and with "Cassa Compensazione e Garanzia" for Repo-MTS activities. In this case, the risk is mitigated by a buffer established to manage "intraday" liquidity risk, to manage any intraday margin calls after-market cut-offs. This buffer is monitored through sensitivity analyses.

BancoPosta monitors its exposure to liquidity risk by using:

- a maturity ladder to analyse the mismatch between cash in and outflows for specific 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 Regulation (EU) 575/2013 and in Delegated Regulation (EU) 61/2015, such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR);
- Early Warning Indicators (EWI) defined internally, consisting of specific indicators and market indicators, in order to promptly identify any stress situations impacting liquidity.

Under the RAF, 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 medium/long-term deposits other than current accounts.

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, referred to in the ICAAP/ILAAP, has also been drawn up, with the aim of preparing the Top 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.

18. To mitigate liquidity risk, starting from December 2017, BancoPosta enters into repurchase agreements though "Cassa Compensazione e Garanzia", the Central Counterparty. This allows easy access to a transparent, orderly and regulated market, with a large number of participants, and makes it possible to conserve liquidity thanks to the netting of opening and closing positions and the lending and borrowing transactions.

1.3.8 Risk concentration – large exposures

In compliance with the supervisory provisions 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, risk concentration 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 transactions entered into by BancoPosta RFC involve exposure to the Italian Republic, to which the prudential regulation assigns a risk weighting of 0%, thereby rendering the concentration risk resulting from such transactions equal to zero.

Even if the specific Supervisory Provisions 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 Regulation (EU) 575/2013. The results of the audits are, if necessary, brought to the attention of the Top 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 Provisions 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 techniques used to mitigate credit and counterparty risk are less effective than expected. This risk has been considered relevant 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 monitoring of RAF metrics, designed to identify and assess any discrepancies over time with respect to the plans drawn up when preparing the Strategic Plan, is used to manage strategic risk. It involves both the Risk Management unit, which conducts the monitoring process, and the Top 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, a process of escalation is initiated in order to inform corporate bodies and, if necessary, take the appropriate corrective action to reduce the risk assumed to 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 exposure to reputational risk, importance has been given to interconnections between its reputational profile and the Poste Italiane Group's overall reputational profile.

In 2019, activities were strengthened aimed at defining the system for measuring and monitoring BancoPosta's reputational risk based on a BancoPosta reputational index, which represents a synthetic and quantitative overview of the assets that influence BancoPosta's reputation as perceived by the different stakeholders. This index is based on the behavioural study of one or more indicators for each of the four reputational assets identified. The reputational dashboard also includes a section for the monitoring of the trend in complaints, which represent an early warning with respect to the development of said index. Starting with the information reported on the BancoPosta reputational index, a reputational KRI for RAF monitoring was defined, calculated as the difference of the value registered for BancoPosta with respect to the market benchmark value, in order to best monitor BancoPosta's reputational performances.

Regulatory risk

In BancoPosta RFC's case, 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, counterparty risk, operational risk, interest rate risk and the leverage ratio.

Of particular importance for BancoPosta was the update of the prudential regulation following the publication in the Official Journal of the European Union on 7 June 2019 of Regulation (EU) 2019/876 - also known as CRR II (Capital Requirements Regulation) - falling within the broader package of regulatory reforms which also include the CRD V (Capital Requirements Directive).

The new regulation, *inter alia*, with particular reference to the operations of BancoPosta RFC, introduces notable changes to the methods for calculating the exposure to counterparty risk; changes were also introduced with reference to the calculation of Leverage Ratio, which moreover does not represent a binding regulatory obligation for BancoPosta.

BancoPosta RFC monitored the regulatory developments from the outset, and has, over time, carried out the necessary simulations in order to verify their capital sustainability.

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 body of systems, processes and methods, is periodically 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)	31.12.2019	31.12.2018	Delta	Delta (%)
OWN FUNDS				
Common Equity Tier 1 (CET1)				4%
Additional Tier 1 capital (AT1)				
Tier 1 capital				4%
Tier 2 capital (T2)	-	-	-	
Total own funds	2,388	2,286	102	4%
RISK-WEIGHTED ASSETS				
Credit and counterparty risk	2,283	1,546	737	48%
Risk of changes in credit ratings	248	250	-2	-1%
Market risk	87	64	22	35%
Operational risk	10,412	10,555	-142	-1%
Total risk-weighted assets	13,030	12,415	615	5%
CAPITAL RATIOS				
CET1 capital ratio	18.3%	18.4%	-0.1%	
Tier 1 capital ratio	18.3%	18.4%	-0.1%	
Total capital ratio	**18.3%**	**18.4%**	**-0.1%**	

Own funds, risk weighted assets (RWAs) and capital ratios at 31 December 2019 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 Regulation (EU) 575/2013 (the Capital Requirements Regulation, or "CRR") and on the basis of Bank of Italy Circular 285/2013.

At 31 December 2019, own funds, taking into account the transitional arrangements, amount to €2,388 million and consist solely of Common Equity Tier 1 (CET1).

Total risk-weighted assets amount to €13,030 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 18.3%, 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 Strategic Planning process, a prior analysis of the performance of risks in the operating and market scenarios envisaged in the Budget/Plan has been conducted, and the target levels, risk tolerance thresholds and risk limits for 2020 set out in the Risk Appetite Framework (approved in March 2020).

2. 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 regulation with regard to capital requirements.

3. Own funds

3.1 Qualitative information

The prudential regulation, known as Basel III, contained in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) were applicable to banks and investment firms from 1 January 2014. These rules and 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 Provisions 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 regulation for banks to BancoPosta RFC, which dates from 27 May 2014 with the third update 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:

- revenue 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 capital contributions by Poste Italiane[19] that meet the requirements for inclusion in own funds.

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

19. Contributions from non-controlling shareholders to BancoPosta RFC are excluded, as they are not provided for in the special regulations governing the Ring-Fenced Capital. Poste Italiane’s overall capital, which has to meet different requirements with respect to those to which BancoPosta RFC is subject, is not included in the computation of BancoPosta RFC’s own funds.

The transitional period (2018-2022) intended to mitigate the impacts related to the introduction of IFRS 9 took effect on 1 January 2018. BancoPosta RFC has availed itself of the possibility, recognised by Regulation (EU) 2395/2017, to adopt a transitional arrangement to phase in the impact deriving from the application of the new impairment method under IFRS 9 over a 5-year period, by offsetting the effect on CET 1 with the application of decreasing percentages over time (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and, lastly, 25% in 2022).

At 31 December 2019, own funds amount to €2,388 million and consist solely of Common Equity Tier 1 (CET1).

Specifically, BancoPosta's CET1 consists of:

- other reserves, being revenue reserves, amounting to €1 billion originating from the creation of the Ring-Fenced Capital, and any further amounts attributed by Poste Italiane SpA that meet the requirements for inclusion in own funds;
- undistributed earnings, being BancoPosta RFC's profits appropriated on approval of Poste Italiane SpA's financial statements.

At 31 December 2019, CET 1 amounted to €2,388 million, €85 million of which was calculated from the profit for 2019 (in compliance with the provisions of art. 26 of Regulation (EU) no. 575/2013) and €36 million deriving for €28 million from the application of the transitional arrangements to mitigate the effects of IFRS 9 and for the remainder from the application to BancoPosta RFC of prudential supervisory institutions.

3.2 Quantitative information

Composition of own funds

The composition of BancoPosta RFC's own funds at 31 December 2019 is summarised in the following table.

Annex 1 shows the composition using the "own funds disclosure template" contained in annex IV to Implementing Regulation (EU) 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

Items/Amounts (€m)	31.12.2019	31.12.2018
Common Equity Tier 1 - CET1, before application of prudential filters	2,388	2,286
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)	2,388	2,286
Elements to be deducted from CET1	-	-
Transitional regime - Impact on CET1 (+/-)	-	-
Total Common Equity Tier 1 - CET1 (C - D +/- E)	2,388	2,286
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)	**2,388**	**2,286**

Reconciliation of net book value and CET1

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

Reconciliation of the net book value and regulatory capital

Liabilities (€m)	Carrying amount	Amounts recognised for purpose of own funds	Ref. "Transitional model for own funds disclosure"
110. Valuation reserves	**1,083**	**-**	
140. Reserves, of which:	**2,267**	**2,303**	
- Undistributed earnings	1,057	1,065	2
- Other reserves	1,210	1,210	3
- Reg. UE 2395/2017	-	28	
180 Profit/(Loss) for the year	**611**	**85**	
Total own funds	**3,961**	**2,388**	

As at the relevant date, total own funds were lower than the net book value, mainly due to the effects of the application to BancoPosta RFC of prudential supervisory institutions of a transitional nature only for €28 million. The elements included in BancoPosta RFC's regulatory capital are, therefore, of high quality given that they consist exclusively of revenue reserves.

4. Capital requirements

4.1 Qualitative information

Assessment of BancoPosta's capital adequacy 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 provisions 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 risk weighted assets - RWAs[20]): equal to 7.0% (4.5% being the minimum requirement and 2.5% being the capital conservation buffer[21]);
  - Tier 1 ratio (the ratio of Tier 1 to total risk weighted assets - 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[22]. The Leverage Ratio, i.e. the ratio between Tier1 capital and Total Assets (including the provisions for derivatives and off-balance sheet items) must be higher than 3%, the limit set by the RAF in force in 2019.

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 measures of capital adequacy, 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 prepares the ICAAP Report annually (Second Pillar requirements) based on the final data of 31 December and future figures for the next two-year period for transmission to the Bank of Italy - based on prior approval by the Board of Directors. The analyses conducted show that BancoPosta RFC presents adequate levels of capital resources with respect to the risks assumed, measured in current and future terms and under stress conditions and aggregated according to a prudential building block approach[23]. The level of capital 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.

20. Risk weighted assets, or RWAs, are calculated by multiplying the capital requirements for credit, counterparty, market and operational risks by 12.5.
21. 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.
22. Leverage Ratio 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.
23. 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 regulation 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.

Capital requirements and capital ratios

Categories / Amounts (€m)		Unweighted amounts		Weighted amounts/Requirements	
		31.12.2019	31.12.2018	31.12.2019	31.12.2018
A.	**RISK ASSETS**				
A.1	Credit and counterparty risk	84,337	73,625	2,283	1,546
	1. Standardised approach	84,337	73,625	2,283	1,546
	2. Internal ratings based approach	-	-	-	-
	2.1 Basic	-	-	-	-
	2.2 Advanced	-	-	-	-
	3. Securitisations	-	-	-	-
B.	**SUPERVISORY CAPITAL REQUIREMENTS**				
B.1	Credit and counterparty risk			183	124
B.2	Risk of changes in credit ratings			20	20
B.3	Regulatory risk			-	-
B.4	Market risk			7	5
	1. Standard approach			7	5
	2. Internal models			-	-
	3. Concentration risk			-	-
B.5	Operational risk			833	844
	1. Basic approach			833	844
	2. Standardised approach			-	-
	3. Advanced approach			-	-
B.6	Other elements in the calculation			-	-
B.7	Total prudential requirements			1,042	993
C.	**RISK ASSETS AND CAPITAL RATIOS**				
C.1	Risk-weighted assets			13,029	12,415
C.2	CET1 capital ratio			18.3%	18.4%
C.3	Tier 1 capital ratio			18.3%	18.4%
C.4	Total capital ratio			18.3%	18.4%

Unweighted risk exposures do not take into account risk mitigation techniques[24] and the credit conversion factors used for off-balance sheet exposures.

The principal risk for BancoPosta RFC is operational, which absorbs approximately 80% of total prudential requirements.

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

24. 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.

Credit risk amounts to €171 million (approximately 16% of total capital requirements), whilst the remaining amount absorbed regards counterparty risk (€12 million)[25] and the CVA component (€20 million).

Capital requirements for credit and counterparty risk

Risk (€m)	Capital requirement 31.12.2019	Capital requirement 31.12.2018
Credit risk	171	117
Counterparty risk	12	7
Total capital requirement for credit and counterparty risk	**183**	**124**

Details of capital requirements for credit and counterparty risk by regulatory portfolio are shown below[26].

Capital requirements for credit and counterparty risk: details by regulatory portfolio

Regulatory portfolio (€m)	Capital requirement 31.12.2019	Capital requirement 31.12.2018
Exposures to or secured by central governments and central banks	16	27
Exposures to or secured by regional governments or local authorities	0	0
Exposures to or secured by public sector organisations	1	5
Exposures to or secured by supervised institutions	121	43
Exposures to or secured by corporates and other entities	17	17
Retail exposures	0	0
Equity exposures	6	4
Other exposures	22	26
Total capital requirement for credit and counterparty risk	**183**	**124**

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 intermediaries" is composed primarily of deposits of cash and securities delivered as guarantee (collateralisations set forth in counterparty risk mitigation agreements: CSA and GMRA), and by trade receivables due from partners deriving from financial product placement activities (in particular Cassa Depositi e Prestiti).

25. Counterparty risk includes capital charges related to the transactions with "Cassa Compensazione e Garanzia", the Central Counterparty, for a negligible amount.
26. The details do not reflect the capital charges for transactions with "Cassa Compensazione e Garanzia", the Central Counterparty, as these depend on the more specific CVA risk.

Comparison of own funds, capital and financial ratios with and without the application of the transitional arrangements for IFRS 9.

(€m)		31.12.2019
Available Capital		
1	Common Equity Tier 1 capital (CET1)	2,388
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,360
3	Tier 1 capital	2,388
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,360
5	Total capital	2,388
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,360
Risk Weighted Assets		
7	Total risk-weighted assets	13,030
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13,030
Capital Ratios		
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	18.3%
10	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.1%
11	Tier 1 capital (as a percentage of the risk exposure amount)	18.3%
12	Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.1%
13	Total capital (as a percentage of the risk exposure amount)	18.3%
14	Total capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.1%
Leverage Ratio		
15	Leverage ratio total exposure measure	79,618
16	Leverage Ratio	3.0%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3.0%

As described in the section on “Own funds”, the adoption of the “dynamic” approach under Regulation (EU) 2017/2395 entailed effects on the available capital and on capital ratios at 31 December 2019, as shown in the above table, due to the following:

- increase of CET 1 following the partial reversal of expected losses, to mitigate the impact of FTA;
- slight increase of risk-weighted assets due to the reversal of expected losses, which are no longer deducted from RWA as they are included in Own Funds[27].

27. Not significant in the unit of measurement expressed in the table.

5. 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 rules and regulations, are exposed to this risk in respect of BancoPosta RFC are described below:

- **OTC financial derivatives**, which include over-the-counter (OTC) derivatives entered into for hedging 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.

In calculating its exposure to counterparty risk, BancoPosta RFC applies the simplified approach defined in accordance with the prudential regulation. 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 financial derivatives: market value method[28];
- long settlement transactions: market value method;
- SFT: the full method with the prudential adjustments for volatility required by credit risk mitigation techniques[29].

The method used by BancoPosta RFC to calculate the counterparty risk capital requirement is the standardised approach defined in the CRR, which involves the weighting of exposures with factors that take into account the type of exposure and the nature of counterparties, partly in relation to the risk associated with external credit rating classes.

Capital requirements for transactions with the Qualified Central Counterparty "Cassa Compensazione e Garanzia" are calculated in accordance with article 308 of Regulation (EU) 575/2013 and applicable to pre-funded contributions to the guarantee fund.

Lastly, regarding the credit valuation adjustment (CVA) component of financial derivatives, capital requirements are calculated with the standardised approach under the CRR.

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. In view of 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 requirement for these risks does not 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.

28. According to the "market value" method, the exposure to the risk of derivatives is calculated through the sum of the 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 [see article 274 of Regulation (EU) 575/2013].
29. 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.

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 monitoring of the legal validity and enforceability of the mitigation agreements and of the fair value of the collateral received on a daily basis.

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 subject 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[30].

Counterparty risk: Total exposures

Category of transaction (€m)	Capital requirement 31.12.2019	Capital requirement 31.12.2018
Derivatives	162	150
SFTs (Securities Financing Transactions) and long settlement transactions	157	36
Total exposures	**319**	**186**

The following table provides, for derivatives 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.

30. The table does not show the amount of pre-funded contributions to the guarantee fund of qualified central counterparties.

OTC derivatives: exposure to counterparty risk and benefits of netting

(€m)	Governments and Central Banks	Other public entities	Banks	Finance companies	Insurance companies	Non-finance companies	Other entities	Total
Nominal amount	-	-	24,661	4,030	-	-	-	28,691
Positive fair value	-	-	67	6	-	-	-	73
Negative fair value	-	-	(4,990)	(577)	-	-	-	(5,567)
Benefits of netting	-	-	67	6	-	-	-	73
Netted current credit exposure	-	-	-	-	-	-	-	-
Potential future credit exposure	-	-	139	23	-	-	-	162
Total gross counterparty credit risk exposure	-	-	139	23	-	-	-	162
Collateral	-	-	-	-	-	-	-	-
Total counterparty credit risk exposure	**-**	**-**	**139**	**23**	**-**	**-**	**-**	**162**

6. 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.

7. Impairment losses on receivables

7.1 Qualitative information

“Non-performing” financial assets include on- and off-balance sheet assets, as classified in accordance with Implementing Regulation (EU) 680/2014 issued by the European Commission, as amended and supplemented. 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[31].

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 holds a single non-performing financial asset, which relates to items illegally taken away but that are now being recovered; such financial asset, which amounts to €13 million, has been written off.

IFRS 9 introduced new methods to determine impairment (via expected credit loss – ECL). Specifically, for loans and debt securities classified as “Financial assets measured at amortised cost” and “Financial assets measured at fair value through other comprehensive income”, impairment is calculated by applying the “General deterioration model”, based on risk parameters estimation models associated with the type of counterparty:

- internal risk parameter estimation models for debt securities and deposits with Sovereign, Banking and Corporate counterparties;
- risk ratings provided by an external provider and average default rates for the sector for Public Administration and Central Counterparties.

Expected losses are determined: (i) over a 12-month time horizon, if the credit risk related to the financial instrument at the reporting date has not increased significantly since initial recognition; or (ii) over the lifetime of the financial instrument if at the reporting date the credit risk has increased significantly since initial recognition or the instrument has deteriorated.

As to trade receivables, a simplified approach is used to calculate the loss allowance based on a provision matrix of observed historical losses. No significant increase in credit risk is determined but the loss allowance is based on lifetime expected losses.

31. 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	Total value adjustments	Net exposure	Total partial writeoffs	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	13	13	-	-	41,017	67	40,950	40,950
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	36,810	11	36,799	36,799
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total at 31.12.2019	**13**	**13**	**-**	**-**	**77,827**	**78**	**77,749**	**77,749**
Total at 31.12.2018		**13**	**-**	**-**	**65,974**	**191**	**65,791**	**65,791**

Portfolio/Credit Quality (€m)	Assets of evidently low credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	-
2. Hedging derivatives	-	-	73
Total at 31.12.2019	**-**	**-**	**73**
Total at 31.12.2018		**-**	**368**

Distribution of on and off-balance sheet credit exposures to customers by geographic area

Exposures/geographic area (€m)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	13	-	-	-	-	-	-	-	-
A.4 Performing exposures	72,455	78	600	-	-	-	-	-	-	-
TOTAL A	**72,455**	**91**	**600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	6	-	-	-	-	-	-	-
TOTAL B	**-**	**-**	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31.12.2019	**72,455**	**91**	**606**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31.12.2018	**65,817**	**203**	**105**	**1**	**8**	**-**	**-**	**-**	**-**	**-**

Distribution of on and off-balance sheet credit exposures to banks by geographic area

Exposures/geographic area (€m)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	664	-	4,030	-	-	-	-	-	-	-
TOTAL A	**664**	**-**	**4,030**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	413	-	208	-	-	-	-	-	-	-
TOTAL B	**413**	**-**	**208**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31.12.2019	**1,077**	**-**	**4,238**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31.12.2018	**464**	**-**	**1,490**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Distribution of on and off-balance sheet credit exposures to customers by economic sector

Exposures/counterparties (€m)	Public Administration entities		Finance companies		Insurance companies		Non-finance companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
- of which forborne exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
- of which forborne exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	13	-	-
- of which forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	65,542	26	6,827	2	-	-	680	26	6	24
- of which forborne exposures	-	-	-	-	-	-	-	-	-	-
TOTAL A	**65,542**	**26**	**6,827**	**2**	**-**	**-**	**680**	**39**	**6**	**24**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	6	-	-	-	-	-	-	-
TOTAL B	**-**	**-**	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31.12.2019	**65,542**	**26**	**6,833**	**2**	**-**	**-**	**680**	**39**	**6**	**24**
TOTAL (A+B) at 31.12.2018	**59,238**	**31**	**5,812**	**3**	**-**	**-**	**872**	**41**	**8**	**129**

Distribution of financial assets and liabilities and off-balance sheet items by residual contractual term to maturity

Currency: Euro

Assets - Liabilities / 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
A.	**Assets**	**9,124**	**6,818**	**3**	**-**	**2,028**	**562**	**2,219**	**6,975**	**42,135**	**13**
A.1	Government securities	-	-	3	-	2,006	549	1,434	6,975	39,135	-
A.2	Other debt securities	-	-	-	-	22	13	785	-	3,000	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Loans	9,124	6,818	-	-	-	-	-	-	-	13
	- Banks	71	4,620	-	-	-	-	-	-	-	-
	- Customers	9,053	2,198	-	-	-	-	-	-	-	13
B.	**Liabilities**	**59,231**	**119**	**151**	**1,526**	**1,581**	**585**	**1,601**	**6,734**	**-**	**-**
B.1	Deposits and current accounts	53,938	-	-	-	-	-	-	-	-	-
	- Banks	383	-	-	-	-	-	-	-	-	-
	- Customers	53,555	-	-	-	-	-	-	-	-	-
B.2	Debts securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	5,293	119	151	1,526	1,581	585	1,601	6,734	-	-
C.	**Off-balance sheet transactions**										
C.1	Financial derivatives with exchange of principal										
	- Long positions	-	-	-	-	1,504	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	730	550	-
C.2	Financial derivatives without exchange of principal										
	- Long positions	-	-	-	2	37	6	58	-	-	-
	- Short positions	-	-	-	-	45	2	82	-	-	-
C.3	Deposits and loans to be received										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Irrevocable commitments to disburse funds										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.5	Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6	Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7	Credit derivatives with exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.8	Credit derivatives without exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-

Currency: US dollar

Assets - Liabilities / 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
A. Assets	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	1	-	-	-	-	-	-	-	-	-
- Banks	1	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B.2 Debts securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency: Swiss franc

Assets - Liabilities / 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
A. Assets	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	2	-	-	-	-	-	-	-	-	-
- Banks	2	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B.2 Debts securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

8. 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 for 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	-	-	71	71
Debt securities	13,036	13,222	48,828	48,258
Other assets	5,660	x	17,415	x
Total at 31.12.2019	**18,696**	**x**	**66,313**	**x**
Total at 31.12.2018	**10,604**	**x**	**61,884**	**x**

Collateral received

Transaction type (€m)	Fair value at 31.12.2019 Collateral received or own debt securities encumbered	Fair value at 31.12.2019 Collateral received or own debt securities potentially encumbered	Fair value at 31.12.2018 Collateral received or own debt securities encumbered	Fair value at 31.12.2018 Collateral received or own debt securities potentially encumbered
Equity instruments	-	-	-	-
Debt securities	-	1,158	-	252
Other assets	-	112	-	70
Total collateral received	**-**	**1,270**	**-**	**322**
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 received in the form of debt securities relate to repurchase agreements. The item “Other assets” reflects the collateral received to cover exposures to supervised intermediaries for repurchase agreements for €112 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	17,695	19,155
Total at 31.12.2019	**17,695**	**19,155**
Total at 31.12.2018	9,952	10,271

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 after any netting.

Assets include collateral (securities, shown at fair value, and cash) pledged in relation to the above liabilities.

9. 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, Fitch and DBRS.

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 association of the external rating of each ECAI (External Credit Assessment Institution)[32] to the classes of credit rating is done according to the standard scheme set forth in Implementing Regulation (EU) 2019/2028 of the Commission.

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

	31.12.2019			31.12.2018		
Regulatory portfolio (€m)	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	68,437	72,187	x	61,573	66,073	x
Exposures to or secured by regional governments or local authorities	2	2	x	0	0	x
Exposures to or secured by public sector organisations	11	11	x	65	65	x
Exposures to or secured by supervised institutions	10,732	6,871	x	6,976	2,406	x
Exposures to or secured by corporates and other entities	858	858	x	1,055	1,055	x
Retail exposures	6	6	x	8	8	x
Equity exposures	71	71	x	50	50	x
Other exposures	4,220	4,220	x	3,896	3,896	x
Total	**84,337**	**84,226**		**73,625**	**73,555**	

32. External rating agencies.

Distribution of exposures by credit rating class and regulatory asset class: exposures without credit risk mitigation

Regulatory portfolio (€m)	31.12.2019							
	0%	20%	50%	75%	100%	150%	250%	Total
Exposures to or secured by central governments and central banks	68,359		0		0		78	68,437
Exposures to or secured by regional governments or local authorities		2						2
Exposures to or secured by public sector organisations					11			11
Exposures to or secured by supervised institutions		6,414	4,313		5			10,732
Exposures to or secured by corporates and other entities	651		0		207			858
Retail exposures				6				6
Equity exposures					71			71
Other exposures	3,499	561			160			4,220
Total	**72,509**	**6,977**	**4,313**	**6**	**454**	**-**	**78**	**84,337**

In 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.

Distribution of exposures by credit rating class and regulatory asset class: exposures with credit risk mitigation

Regulatory portfolio (€m)	31.12.2019							
	0%	20%	50%	75%	100%	150%	250%	Total
Exposures to or secured by central governments and central banks	72,109		0		0		78	72,187
Exposures to or secured by regional governments or local authorities		2						2
Exposures to or secured by public sector organisations					11			11
Exposures to or secured by supervised institutions		6,411	455		5			6,871
Exposures to or secured by corporates and other entities	651		0		207			858
Retail exposures				6				6
Equity exposures					71			71
Other exposures	3,499	561			160			4,220
Totale	**76,259**	**6,974**	**455**	**6**	**454**	**-**	**78**	**84,226**

The €3.75 billion increase in “Exposures to or secured by central governments and central banks” in the 0% post-credit-risk-mitigation weighting derives from the application of the guarantees of the Italian Republic on securities issued by Cassa Depositi e Prestiti SpA. From this it follows that “Exposures to or secured by supervised intermediaries” decreased by the corresponding amount in the 50% weighting column.

10. Exposure to market risk

As defined by the relevant standards, BancoPosta RFC does not 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 current accounts, foreign currency cash and VISA shares.

At 31 December 2019, application of the standardised approach required by the CRR for calculating the capital requirement for exchange risk results in a capital requirement of €6.9 million for BancoPosta RFC.

11. Operational risks

In calculating the capital requirement for operational risks, BancoPosta RFC applies the simplified approach (BIA – Basic Indicator Approach) provided for by Regulation (EU) 575/2013. This consists of applying a percentage of 15% to the average of the relevant indicator for the last three years[33] as at the end of the reporting period[34].

The capital requirement for operational risks obtained by applying this method amounts to €833 million at 31 December 2019.

33. BancoPosta RFC calculates the relevant indicator as the sum of the following income statement items (in accordance with applicable financial accounting standards): 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 200); net profits on the trading book (items 80, 90, 100, 110); dividends and similar income (item 70).
34. 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 Series C Visa Incorporated Convertible Participating Preferred Stock.

BancoPosta RFC classifies this type of financial instrument in “Financial assets measured at fair value through profit or loss”, particularly in “Other financial assets mandatorily measured at fair value”. Information on 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

Type (€m)	Carrying amount	Fair Value			Market Value	Realised gains/ losses		Unrealised gains/ losses		Unrealised gains/losses included in CET1	
		Livello 1	Livello 2	Livello 3	Livello 1	Profitti	Perdite	Profitti	Perdite	Plus (+)	Minus (-)
Financial assets measured at fair value through other comprehensive income	71	-		71	-	1	-	26	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-
Total at 31.12.2019	**71**	**-**	**-**	**71**	**-**	**1**	**-**	**26**	**-**	**-**	**-**
Total at 31.12.2018	50	-	5	45	-	-	-	9	-	-	-

13. Exposures 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 the investment of liquidity generated by postal current account deposits and prepaid cards forming part of BancoPosta RFC's operations, as detailed below:

- the liquidity deriving from private customer current account deposits (including inflows into prepaid cards issued by the PostePay SpA Group) which represent a form of funding without a contractual term to maturity, in keeping with the finance act of 27 December 2006, as amended[35], is invested in euro area government securities or other securities guaranteed by the Italian government. The investment profile is based on the constant monitoring of habits in deposits and the updating of the statistical/econometric model that forecasts the interest rates and maturities typical of the volume of deposits. 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;
- liquidity deriving from current account 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 of mismatches between the maturities and the method of determining the profit and loss components of assets and liabilities.

In quantifying, on a monthly basis, the Internal Capital with respect to the banking book interest rate risk, BancoPosta RFC used, until the end of 2019, an internal sensitivity analysis model that reflects the key aspects of the simplified approach proposed by the Bank of Italy[36]. The main difference with respect to the simplified approach 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, defined contractually as on demand.

Specifically:

- in terms of the forms of funding, funds deriving from postal current account deposits and prepaid cards are allocated across maturity buckets 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 approach 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[37]) 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 infinity 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 for PostePay[38] 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[39] to the deposits estimated to mature in all the periods prior to the maximum maturity date;

35. The 2015 Stability Law (of 23 December 2014) made it possible to invest up to 50% of its deposits in securities guaranteed by the Italian government.
36. See Bank of Italy Circular 285/2013, Title III, Annex C.
37. 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.
38. Following the transfer of the monetics and payment services unit to PostePay SpA on 1 October 2018, prepaid cards are now managed by PostePay SpA, a separate company which operates as a "hybrid" electronic money institution. The liquidity raised through these cards is transferred to BancoPosta, which invests it in euro area government securities or securities guaranteed by the Italian government. As such, for the purposes of specific risk analyses, the rationales related to each model underlying the different types of deposit inflow continue to apply.
39. The allocation of the 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 buckets 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 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 guidance[40], applying a shock[41] below the standard 200 bps[42]. In particular, at 31 December 2019, 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 net interest income 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 net interest income.

BancoPosta's Risk Appetite Framework (RAF) defines a metric that quantifies the capital requirement for banking book interest rate risk in terms of economic value. This was then used as the basis for determining the risk appetite, risk tolerance and risk capacity.

Lastly, it should be noted that, from 31.12.2019, BancoPosta applies a new internal model for measuring interest rate risk in line with the relevant EBA Guidelines of July 2018.

40. See "Basel Committee on Banking Supervision - Interest Rate risk in the banking book", April 2016.
41. The entity of the upward shock is equal to the standard 200 bps.
42. 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.

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 €93 million in 2019, standing at €182 million at the end of the year[43]. The change in economic value is equal to 8% of Common Equity Tier 1.

Banking book interest rate risk – Sensitivity of the economic value

(€m)	31.12.2019	31.12.2018
Economic value	**182**	**185**

The sensitivity of the net interest income amounts to +/-€207 million at the end of 2019 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 currency of significance for BancoPosta RFC in terms of the impact of interest rate risk on economic value is the euro.

Banking book interest rate risk – Sensitivity of the net interest income

	Interest margin	Interest margin
(€m)	31.12.2019	31.12.2018
Shift +100 bps	**207**	**119**
Shift -100 bps	**(207)**	**(119)**

The risk in question is due mainly to:

- deposit of funds in postal current accounts with the MEF;
- fixed rates on bonds issued by the Italian government swapped into variable rates through fair value hedge derivatives;
- receivables resulting from collateral posted for derivative liabilities.

43. Given the exposure to a decline in rates, the internal model provides for the application of a dynamic floor based on the level of market rates that determined a shock of -75 bps for 2018 and -50 bps for 2019.

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.

Pursuant to Bank of Italy Circular 285 (Part I, Title IV, Chapter 2) of 17 December 2013 and subsequent amendments and additions, 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 to:

i. (Iform a part of the rewards for merit and performance;

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

iii. 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. attract, motivate and retain high calibre staff;

v. ensure internal equity, linking remuneration with responsibilities and rewarding everyone's contribution to the achievement of the targets set;

vi. ensure external competitiveness through a continuous process of market benchmarking, conducted with the support of analysis tools also devised by specialist international consulting firms who provide the related benchmarks;

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

In view of the particular nature of BancoPosta RFC and its relations with Poste Italiane functions, the remuneration and incentive policies outlined in the "Guidelines for BancoPosta RFC's remuneration and incentive policy for 2020" apply to the following parties, insofar as their activities relate to BancoPosta RFC:

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

Further details are provided in Poste Italiane SpA's "Report on Remuneration 2020 and compensation paid 2019" and the annexed "Guidelines for BancoPosta RFC's remuneration and incentive policy for 2020".

15. Leverage Ratio

15.1 Qualitative information

Monitoring the Leverage Ratio is a way of controlling BancoPosta RFC's exposure to the risk of excessive leverage, despite not being binding from a regulatory point of view.

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 Regulation (EU) 575/2013 (as amended by Regulation (EU) 62/2015), the denominator thus includes the following:

- the add-on for derivatives 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

The summary of the data relating to the calculation of the Leverage ratio of BancoPosta RFC is provided below, rendered according to the CRR regulatory principles and reported in accordance with the provisions of the Implementing Regulation (EU) 2016/200. The tables below reported the leverage ratio as at 31 December 2019 and the opening of the total exposure in the main categories, according to the provisions of articles 451(1)(a), 451(1)(b) and 451(1)(c).

Table LRSum – Summary reconciliation of accounting assets and leverage ratio exposure

(€m)		31.12.2019
1	Total assets as per published financial statements	85,010
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	89
5	Adjustments for securities financing transactions "SFTs"	303
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	554
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-6,339
8	**Total leverage ratio exposure**	**79,618**

Table LRCom – Leverage ratio common disclosure

(€m)		31.12.2019
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	84,937
2	(Asset amounts deducted in determining Tier 1 capital)	0
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**84,937**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	162
UE 5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-5,181
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivative exposures**	**-5,019**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-1,158
14	Counterparty credit risk exposure for SFT assets	303
UE 14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
UE 15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	**Total securities financing transaction exposures**	**-855**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	554
18	(Adjustments for conversion to credit equivalent amounts)	0
19	**Other off-balance sheet exposures**	**554**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU 19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU 19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposures		
20	Tier 1 capital	2,388
21	**Total leverage ratio exposures**	**79,618**
Leverage ratio		
22	**Leverage ratio**	**3.00%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
UE 23	Choice on transitional arrangements for the definition of the capital measure	fully loaded
UE 24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0

Table LRSpl – Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

(€m)		31.12.2019
UE 1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**85,010**
UE 2	Trading book exposures	
UE 3	Banking book exposures, of which:	85,010
UE 4	Covered bonds	
UE 5	Exposures treated as sovereigns	68,424
UE 6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	13
UE 7	Institutions	9,819
UE 8	Secured by mortgages of immovable properties	
UE 9	Retail exposures	6
UE 10	Corporate	2,457
UE 11	Exposures in default	
UE 12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	4,291

In 2019, the trends in deposits and market rates determined significant growth in assets and a subsequent decrease in the ratio during the year. The leverage ratio as at 31 December 2019 stood at 3.00%, taking into account the increase in capital deriving from the calculation of the part of result for 2019.

Declarations of the Chief Executive Officer pursuant to art. 435, letters e) and f) Regulation (EU) 575/2013 of 26-06-2013

The Chief Executive Officer, Matteo Del Fante, under the authority granted to him by Poste Italiane SpA's Board of Directors, declares, pursuant to letters e) and f) of Art. 435 of Regulation (EU) 575/2013 of 26 June 2013, that:

a. the risk management systems implemented by BancoPosta RFC and described in the "Basel III Pillar 3 Report at 31 December 2019 – BancoPosta RFC", are adequate in respect of the entity's profile and strategy;

b. the particular section "Adequacy of risk management procedures and consistency with the overall risk profile and the business strategy", in the above document, briefly describes BancoPosta RFC's overall risk profile in relation to the business strategy implemented.

12 May 2020

Matteo Del Fante

Chief Executive Officer

Declaration by the Manager Responsible for financial reporting

The manager responsible for financial reporting, Alessandro Del Gobbo, 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

Own funds disclosure template

The following table shows the composition of own funds, assuming no retention of earnings for the year, in accordance with the template defined in annex IV of Regulation (EU) 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**
	Common Equity Tier 1 (CET1): instruments and reserves		
1	Equity instruments and the related share premium reserves		
	of which: type of instrument 1		
	of which: type of instrument 2		
	of which: type of instrument 3		
2	Undistributed earnings	1,065	
3	Other accumulated components of profit or loss (and other reserves, including unrealised gains and losses under the applicable accounting standards)	1,210	
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		
5	Non-controlling interests (amount allowed in consolidated CET1)		
5a	Independently audited profit for the period after any foreseeable charges or dividends	85	
6	**Common Equity Tier 1 (CET1) before regulatory adjustments**	**2,360**	
	Common Equity Tier 1 (CET1): regulatory adjustments		
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**28**	
29	**Common Equity Tier 1 (CET1) capital**	**2,388**	
	Additional Tier 1 (AT1) capital: regulatory adjustments		
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**		
	Capitale aggiuntivo di classe 1 (AT1): rettifiche regolamentari		
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**		
44	**Additional Tier 1 (AT1) capital**		
45	**Tier 1 capital (T1 = CET1 + AT1)**		
	Tier 2 capital (T2): regulatory adjustments		
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)**	**2,388**	
60	**Total risk-weighted assets**	**13,030**	
	Capital ratios and buffers		
61	Common Equity Tier 1 capital (as percentage of amount of risk exposure)	18.3%	
62	Tier 1 capital (as percentage of amount of risk exposure)	18.3%	
63	Total capital (as percentage of amount of risk exposure)	18.3%	
64	Institution specific buffer requirement	7.00%	
	65 *of which capital requirement of capital conservation buffer*	2.50%	
	66 *of which capital requirement of anticyclical buffer*		
	67 *of which systemic risk buffer*		
	67a of which Global Systemically Important Institutions (G-SII) and Other Systemically Important Istitutions (O-SII) buffers		
68	Common Equity Tier 1 available to meet buffers (as percentage of amount of risk exposure)	11.33%	

Poste Italiane SpA

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