PILLAR 3

Disclosure by Institutions

Figures as at 30/06/2017

GRUPPO
BANCA CARIGE

INTRODUCTION

Since 1 January 2014, the reforms of the Basel Committee accords ("Basel 3") have been transposed into EU law to:

• improve the banking sector's ability of to absorb shocks arising from financial and economic stress;

• improve risk management and governance;

• strengthen banks' transparency and disclosures.

In this context, the Basel Committee maintained the three-pillar approach at the basis of the previous "Basel 2" capital accord, integrating and strengthening it to increase the quantity and quality of the capital endowment of intermediaries, as well as introducing counter-cyclical supervision instruments and rules on liquidity risk management and the containment of financial leverage.

The contents of "Basel 3" have been transposed into EU law, with the adoption of:

– Regulation (EU) No 575/2013 of 26 June 2013 ("CRR"), which regulates the prudential requirements for credit institutions and investment firms and public disclosure requirements (Third Pillar);

– Directive (EU) 2013/36 of 26 June 2013 ("CRD IV"), concerning, *inter alia*, the requirements for access to the activity of credit institutions, freedom of establishment and the freedom to provide services, the prudential supervision process, additional capital reserves.

The EU directive is complemented by the provisions set out by the Bank of Italy with circular No. 285 of 17 December 2013 and subsequent updates, which collect the prudential supervisory provisions applicable to Italian banks and banking groups – as revised and updated to adapt internal legislation to the innovations in the international regulatory framework, with particular regard to the new regulatory and institutional structure of EU banking supervision, and to take account of the needs that have emerged in the exercise of supervision of banks and intermediaries – and lists the provisions for the purpose of the CRR.

The matter, therefore, is directly regulated by:

• CRR, Part Eight "Disclosure by Institutions" (art. 431 – 455) and Part Ten, Title I, Chapter 3 "Transitional provisions for disclosure of own funds" (art. 492);

• Regulations of the European Commission drawn up by the EBA (European Banking Authority) laying down the regulatory or implementing technical standards required to obtain harmonised models for the disclosure of different types of information.

Banca Carige (hereinafter the "Parent Company", "Banca Carige", "Carige" or the "Bank") fulfils the obligation of disclosure to the public for the Banca Carige Group (hereinafter referred to as the "Carige Group" or the "Group") and draws up this document on the basis of the aforementioned regulatory provisions, on a consolidated basis, with reference to a "prudential" scope of consolidation which essentially coincides with the supervisory definition of banking group.

The document is therefore organised in accordance with the CRR to provide qualitative and quantitative information, where it is considered applicable to the Group, and is published in conjunction with the financial statements.

For completeness of information, it is specified that information on Own Funds and capital absorption is also published in the "Half-Year Report as at 30 June 2017". Please refer to the document as at 31 December 2016 for other information not included in this document, especially general, organisational and methodological information about the various risks which the Group is exposed to.

In view of its public relevance, this disclosure is submitted for approval to the Board of Directors of the Parent Company and, pursuant to art. 154-bis of Italian Legislative Decree no. 58/98 (hereinafter referred to as the "Consolidated Law on Finance" or "TUF"), for certification by the Director responsible for preparing the company's accounting documents.

The document is available on the Group website www.gruppocarige.it, in the section "Basel Report – Pillar 3" of the "Investor Relations" menu.

Unless otherwise indicated, figures are expressed in thousands of EUR.

1 RISK MANAGEMENT OBJECTIVES AND POLICIES

QUALITATIVE INFORMATION – art. 435 CRR

1.1 Introduction

Risk management is one of the fundamental objectives of the Carige Group and is structured in four specific phases:

(a) definition of risk management strategies, with particular reference to the organisation's risk tolerance and risk appetite , as set out by the Administrative Bodies of the Parent Company;

(b) standard procedures for the identification, measurement and control of the various risks which the Group's activities are exposed to;

(c) management of the identified risks;

(d) verification of the adequacy of the systems for measuring and managing these risks.

The following paragraphs provide details about the Group's activities aimed at achieving the described objectives.

A. <u>The definition of risk management strategies</u>

During the year 2017, the Risk Management department took steps to implement some interventions/activities in accordance with the provisions of the 15th update of the Bank of Italy Circular no. 263/2006. In particular, the following activities were carried out:

- implementation of the Risk Appetite Framework (hereinafter also "RAF"), defining the process and identifying measurement metrics;
- implementation of the process of identification and evaluation of Significant Transactions (in Italian "*Operazioni di Maggior Rilievo*", hereinafter "OMR"), which led to the definition of the relating policy (characteristics and structure of the OMR management process);
- activities related to the control areas foreseen by the 15th update of the Bank of Italy Circular no 263/2006, in relation to: 1) second level controls on the loan book concerning the correct classification of positions and the consistency of the impairment of non-performing loans; 2) verification of the effectiveness of recovery processes.

In accordance with Supervisory Rules, the Board of Directors of the Parent Company, by approval on 17/06/2014 of the Risk Appetite Framework and its subsequent updates, identified the target risk-return profile that the Banking Group intends to achieve, in coherence with the defined strategic policy, the chosen business model and the Group's competencies.

The types of risk to be monitored under the RAF, as well as the relevant indicators, mainly relate to six risk profiles: solvency, profitability, credit risk, market risk, interest rate risk and liquidity risk. In accordance with Supervisory rules, a system of quantitative thresholds including risk appetite, risk tolerance, risk capacity and risk profile has been defined for all selected indicators.

In relation to the major risk profiles included in the RAF, the Board of Directors defined both risk appetite thresholds consistent with the strategy outlined in the Business Plan and tolerance limits to ensure compliance with capacity even under stress conditions.

In conjunction with the definition of indicators, the Board of Directors also approved the mechanisms regulating the governance of the RAF process in terms of the process of updating and revising, monitoring and escalation.

As regards the information provided to the Board of Directors, the Risk Management department is expected to arrange for periodic monitoring of the RAF indicators to verify the evolution of the different risk profiles over time and measure their consistency with the defined risk/return targets. The Board of Directors is also involved in the escalation mechanisms when there is a breach of the risk tolerance levels set for the different indicators, by approving the implementation of the action plans prepared by the assigned functions.

B. How to identify, measure and control the various risks

As part of the preparatory activities for the ICAAP report, approved by the Board of Directors of the Parent Company on 29/04/2016, and in coherence with the rules of the RAF, the risks to which the Group is exposed, with regard to the types of its operations and reference markets, have also been identified: after the risk map and related methods of assessment were defined (quantitative where methods of measurement are available; qualitative if relating to the organisational units in place), a comprehensive framework of the operational management activities in place was outlined, according to a logic of overall integration of the risks to which the Group is exposed.

Such assessment activities on business operations and related risks are carried out at least annually, on the basis of procedures aimed at continuously monitoring the main risk factors and identifying any new types of risk.

The Board of Directors, in conjunction with the approval of the ICAAP report, defined the Group's risk map, which includes the following types:

- credit and counterparty risk;
- market risk;
- operational risk;
- concentration risk;
- interest rate risk (relating to the banking book);
- real-estate risk;
- liquidity risk;
- residual risk;
- risk arising from securitisation transactions;
- strategic risk;
- reputational risk;
- country risk;
- transfer risk;
- basis risk;
- sovereign risk;
- risk from defined benefit pension schemes;
- risk of excessive financial leverage.

The risk measurement methodologies were brought to the attention of the Board of Directors who verified their adequacy in order to measure the risks which the Group is -and will in the future be- exposed to.

Please refer to the Pillar 3 document as at 31 December 2016 for detailed information on the strategies and methods for measuring, managing and controlling the various risks to which the Group's business is exposed, as well as the organisational and procedural solutions adopted by the Group in order to ensure a sound and prudent management which reconciles the pursuit of profitability with consistent risk-taking and business operations complying with the principles of transparency and fairness.

2 SCOPE OF APPLICATION

QUALITATIVE INFORMATION – art. 436 CRR

The scope of application of this document is the scope of operation of the Banca Carige Banking Group. The Banking Group is made of the subsidiaries that carry out banking, financial and real estate activities. The concept of control applied is that outlined in IFRS 10 - Consolidated financial statements. No jointly controlled companies were identified, to which IFRS 11 - Joint Arrangements applies. As at the reporting date, the scope of consolidation of the Banking Group coincides with the scope of consolidation used for preparing the Half-Year Report.

As regards the scope of business, subsidiaries can be divided into banking institutions (Banca Carige S.p.A, Banca del Monte di Lucca S.p.A, Banca Cesare Ponti S.p.A.), consumer credit companies (Creditis Servizi Finanziari SpA), trust companies (Centro Fiduciario C.F. S.p.A.), special-purpose vehicles for securitisations (Argo Mortgage 2 S.r.l., Lanterna Finance S.r.l., Lanterna Lease S.r.l. and Lanterna Consumer S.r.l.) and special-purpose vehicles for the issuance of covered bonds (Carige Covered Bond Srl and Carige Covered Bond 2 Srl). On 20/07/2017 Carige REOCO S.p.A., fully controlled by Banca Carige S.p.A., was incorporated and is set to play the role of the Group's real estate management company.

It is noted that the special-purpose vehicles Argo Mortgage 2 Srl, Lanterna Finance Srl, Lanterna Lease S.r.l., Lanterna Consumer S.r.l., Carige Covered Bond Srl and Carige Covered Bond 2 Srl were all consolidated line by line. The assets were not derecognised from the financial statements of the respective transferors under either the securitisations or disposals for the issuance of covered bonds as all connected risks and rewards were substantially retained by the Group.

It should be noted that no legal impediment exists that could hinder the transfer of capital resources or funds within the Group.

There being no capital deficiencies at consolidated level, the individual capital requirement for the Group banks is reduced by 25%, in line with prevailing legal requirements.

QUANTITATIVE INFORMATION – art. 436 CRR

2.1 Consolidation area as at 30 June 2017

Company name	Operating office	Registered office	Shareholding relationship		Treatment	
			held by	Shareholding %	in the financial statements	in prudential reporting
A. Companies						
A.1 Consolidated line-by-line						
Banking Group						
1. Banca CARIGE SpA	Genoa	Genoa				
2. Banca del Monte Lucca SpA	Lucca	Lucca	A1.1	60.00	Consolidated line-by-line	Consolidated line-by-line
3. Banca Cesare Ponti SpA	Milan	Milan	A1.1	100.00	Consolidated line-by-line	Consolidated line-by-line
4. Creditis Servizi Finanziari SpA	Genoa	Genoa	A1.1	100.00	Consolidated line-by-line	Consolidated line-by-line
5. Centro Fiduciario C.F. SpA	Genoa	Genoa	A1.1	96.95	Consolidated line-by-line	Consolidated line-by-line
6. Argo Mortgage 2 Srl	Genoa	Genoa	A1.1	60.00	Consolidated line-by-line	Consolidated line-by-line
7. Carige Covered Bond Srl	Genoa	Genoa	A1.1	60.00	Consolidated line-by-line	Consolidated line-by-line
8. Carige Covered Bond 2 Srl	Genoa	Genoa	A1.1	60.00	Consolidated line-by-line	Consolidated line-by-line
9. Lanterna Finance Srl (1)	Genoa	Genoa	A1.1	5.00	Consolidated line-by-line	Consolidated line-by-line
10. Lanterna Consumer Srl (1)	Genoa	Genoa	A1.1	5.00	Consolidated line-by-line	Consolidated line-by-line
11. Lanterna Lease Srl (1)	Genoa	Genoa	A1.1	5.00	Consolidated line-by-line	Consolidated line-by-line

(1) Securitisation SPVs, controlled under the requirements of IFRS 10.

The scope of consolidation relevant for accounting purposes and for the purpose of preparing this document remained unchanged with respect to that used for preparation of the financial statements as at 31 December 2016.

3 OWN FUNDS

QUALITATIVE INFORMATION – art. 437 CRR

Own funds are determined on the basis of the new harmonised legislation for banks and investment firms set out in the CRR and CRD IV which transpose the standards established by the Basel Committee on Banking Supervision into the European Union. The provisions issued by the Bank of Italy with circulars Nos. 285/2013 and 286/2013 and their relative updates were also taken into account with specific reference to the right to exercise national discretion.

It should be noted that, as explained in BoI's circular letter of 26/01/2017, following the introduction of EU Regulation no. 2016/445 of the European Central Bank, the institutions deemed significant shall respectively include in -or deduct from- their CET 1 the unrealised profits and losses relative to amounts due from central administrations classified as Financial assets available for sale, by the following percentages: 60% for 2016; 80% for 2017.

The residual amounts after the application of these percentages (i.e. 40% in 2016; 20% in 2017) shall not be included in the calculation of own funds as they continue to be sterilised. Therefore, under the transitional arrangements provided for by the CRR, the national regime, effective as of 31 December 2013, shall apply.

It is recalled that the Group had exercised the right to sterilise unrealised profits and losses resulting from exposures to central administrations classified in the AFS portfolio within the terms provided by means of a communication to the Bank of Italy.

Diagram of capital instrument characteristics

The following prospectuses are structured on the basis of the diagrams contained in Implementing Regulation (EU) No. 1423 of 20 December 2013 laying down technical implementing rules as regards the information on the requirements of the institutions' Own Funds under Regulation No. 575/2013 of the European Parliament and of the Council.

In particular, Annex II to the aforementioned Regulation provides a specific model for the disclosure of the main characteristics of the equity instruments.

1. Common Equity Tier 1 – CET1

Common Equity Tier 1, prior to the application of prudential filters, consists of the following positive or negative elements:

- share capital
- share premium reserve
- reserves net of negative reserves
- treasury shares in the securities portfolio
- loss for the period
- other accumulated items in the Income Statement
- non-controlling interests

The prudential filters of CET 1 consist of the following elements:

- cash flow hedges
- gains on own liabilities evaluated at fair value due to credit rating
- fair value gains arising from its own credit risk correlated to derivative liabilities
- regulatory value adjustments

Deductions from CET 1 consist of:

- intangible assets
- deferred tax assets that are based on future income and that do not derive from temporary differences net of related tax liabilities
- other negative elements

The impacts on CET 1 resulting from the transitional arrangements must be added to the elements listed above.

2. Additional Tier 1 capital (AT1)

Additional Tier 1 capital consists of:

- Paid-in capital (savings shares)
- Share premium on savings shares
- AT1 instruments subject to transitional provisions (grandfathering)
- Impacts on AT1 due to the transitional arrangements

AT1 also includes the portion of interest belonging to third parties that can be calculated as a result of transitional provisions.

The main features of the Additional Tier 1 capital are shown below.

Capital instruments' main features template (1)		
1	Issuer	Banca Carige S.p.A.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements)	XS0400411681
3	Governing law(s) of the instrument	Italian and English
	Regulatory treatment	
4	Transitional CRR rules	Additional Tier 1 capital consists of: EUR 80 mln were reclassified in Tier 2 capital
5	Post-transitional CRR rules	Not eligible
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated level	Solo and consolidated level
	Instrument type (types must be specified for each jurisdiction)	Bond - Art. 51 and 484 CRR
8	Amount recognised in regulatory capital (EUR/mln, at the most recent reference reporting date)	160
9	Nominal amount of instrument	EUR 160,000,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liabilities - Amortised cost
11	Original date of issuance	04/12/2008
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	4/12/2018 at par; early repayment for tax and regulatory events is an option
16	Subsequent call dates, if applicable	Quarterly on 4/3, 4/6, 4/9 and 4/12 of each year as of 4/12/2018
	Coupon/dividend	
17	Fixed or floating dividend/coupon	Fixed to floating
18	Coupon rate and related index if any	8.338% until 4/12/2018; then 3-month Euribor + 550 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partly discretionary or mandatory (in terms of time)	Fully discretionary
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	Yes
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in the subordination hierarchy in case of liquidation (specify instrument type immediately senior to instrument)	Upper Tier II
36	Non-compliant transitioned features	YES
37	If yes, specify non-compliant features	Non-compliance with letter g) and n) of art. 52 CRR

(1) "N/A": the information does not apply to the instrument

3. Tier 2 capital (T2)

Tier 2 capital consists of:

- Own T2 instruments
- T2 instruments subject to transitional provisions (grandfathering)
- Impacts on T2 due to the transitional arrangements

It should be noted that T2 grandfathering includes EUR 80 mln from the AT1 instrument that does not qualify for inclusion in Additional Tier 1 capital.

AT2 also includes the portion of third-party interest eligible for inclusion as a result of transitional provisions.

The main features of Tier 2 capital instruments are shown below.

Capital instruments' main features template (1)		
1	Issuer	Banca Carige S.p.A.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements)	IT0004429137
3	Governing law(s) of the instrument	Italian
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Not eligible
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and consolidated level
	Instrument type (types must be specified for each jurisdiction)	Bond - Art. 62 and 484 CRR
8	Amount recognised in regulatory capital (EUR/mln, at the most recent reference reporting date)	40 repurchases and amortisation
9	Nominal amount of instrument	EUR 150,000,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liabilities - Amortised cost
11	Original date of issuance	29/12/2008
12	Perpetual or dated	Dated
13	Original maturity date	29/12/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupon/dividend	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and related index if any	3-month Euribor + 200 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partly discretionary or mandatory (in terms of time)	Mandatory
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in the subordination hierarchy in case of liquidation (specify instrument type immediately senior to instrument)	Lower Tier II
36	Non-compliant transitioned features	YES
37	If yes, specify non-compliant features	Non-compliance with letter j) of art. 63 CRR

(1) "N/A": the information does not apply to the instrument

Capital instruments' main features template (1)		
1	Issuer	BANCA CARIGE SpA
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements)	XS0542283097
3	Governing law(s) of the instrument	ENGLISH - ITALIAN
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and consolidated level
	Instrument type (types must be specified for each jurisdiction)	Bond - Art. 62 CRR
8	Amount recognised in regulatory capital (EUR/mln, at the most recent reference reporting date)	32 net of amortisation
9	Nominal amount of instrument	EUR 50,000,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liabilities - Amortised cost
11	Original date of issuance	17/09/2010
12	Perpetual or dated	DATED
13	Original maturity date	17/09/2020
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupon/dividend	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index (if any)	5.70%
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partly discretionary or mandatory (in terms of time)	MANDATORY
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	MANDATORY
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	N/A
23	Convertible or non-convertible	NON-CONVERTIBLE
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in the subordination hierarchy in case of liquidation (specify instrument type immediately senior to instrument)	SENIOR
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	-

(1) "N/A": The information does not apply to the instrument

Capital instruments' main features template (1)		
1	Issuer	BANCA CARIGE SpA
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements)	XS0570270370
3	Governing law(s) of the instrument	ENGLISH - ITALIAN
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and consolidated level
	Instrument type (types must be specified for each jurisdiction)	Bond - Art. 62 CRR
8	Amount recognised in regulatory capital (EUR/mln, at the most recent reference reporting date)	139 net of amortisation
9	Nominal amount of instrument	EUR 200,000,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liabilities - Amortised cost
11	Original date of issuance	20/12/2010
12	Perpetual or dated	DATED
13	Original maturity date	20/12/2020
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupon/dividend	N/A
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and related index if any	7.321%
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partly discretionary or mandatory (in terms of time)	MANDATORY
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	MANDATORY
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	N/A
23	Convertible or non-convertible	NON-CONVERTIBLE
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in the subordination hierarchy in case of liquidation (specify instrument type immediately senior to instrument)	SENIOR
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	-

(1) "N/A": The information does not apply to the instrument

QUANTITATIVE INFORMATION – art. art. 437 / 492 CRR

3.1 Composition of Own Funds as at 30/06/2017

	Total 30/06/2017
A. Common Equity Tier 1 (CET1) prior to the application of prudential filters	1,971,043
o.w. CET1 instruments subject to grandfathering/transitional adjustments	13,939
B. CET1 prudential filters (+/-)	87,523
C. CET1 gross of deductions and effects from transitional adjustments (A+/-B)	2,058,566
D. Items to be deducted from CET1	-469,233
E. Transitional adjustments – Effect on CET1 (+/-), including non-controlling interests subject to transitional adjustments	120,329
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	1,709,662
G. Additional Tier 1 Capital (AT1) gross of deductions and effects from transitional adjustments	80,365
o.w. AT1 instruments subject to grandfathering/transitional adjustments	80,274
H. Items to be deducted from AT1	-
I. Transitional adjustments – Effect on AT1 (+/-), including qualifying instruments issued by subsidiaries and computable in AT1 due to transitional adjustments	-29,155
L. Additional Tier 1 Capital (AT1) (G-H+/-I)	51,210
M. Tier 2 Capital (T2) gross of deductions and effects from transitional adjustments	291,514
o.w. T2 instruments subject to grandfathering/transitional adjustments	120,441
N. Items to be deducted from T2	-
O. Transitional adjustments – Effect on T2 (+/-), including qualifying instruments issued by subsidiaries and computable in T2 due to transitional adjustments	1,369
P. Total Tier 2Capital (T2) (M-N+/-O)	292,883
Q. Total own funds (F+L+P)	2,053,755

Sterilised capital losses on debt securities issued by central governments of member countries of the European Union, included in the "Available-for-sale assets" portfolio, amounted to EUR 29,738 mln. Had this option not been adopted, the CET1 and T2 would have remained unchanged, whereas the AT1 and Overall Own Funds would have been lower than EUR 5,947 mln.

3.2 Reconciliation table of the items of the prudential balance sheet used to calculate own funds and own regulatory funds as at 30/06/2017

Assets	30/06/2017	Impact on CET1	Impact on AT1	Impact on T2	Total impact Own Funds
130. Intangible assets	48,684	(48,684)			(48,684)
of which:					-
goodwill	-	-			-
140. Tax assets	1,996,479	(339,160)			(339,160)
a) current	938,931				-
b) deferred	1,057,548	(339,160)			(339,160)
o.w. under Law no. 214/2011	531,309				-
Total Assets	25,909,401	(387,844)	-	-	(387,844)

Liabilities and Shareholders' Equity	30/06/2017	Impact on CET1	Impact on AT1	Impact on T2	Total impact Own Funds
30. Securities in issue	4,577,242		80,000	291,514	371,514
140. Valuation reserves:	(155,233)	(40,497)		170	(40,327)
financial assets available for sale	(28,038)	(22,431)		170	(22,261)
cash-flow hedges	(109,129)	-			-
net actuarial losses	(19,311)	(19,311)			(19,311)
equity investments valued at equity	1,245	1,245			1,245
170. Reserves	(684,469)	(684,469)			(684,469)
180. Share premium reserve	175,954	175,949	5		175,954
190. Share capital	2,791,422	2,791,336	86		2,791,422
200. Treasury shares (-)	(15,572)	(15,572)			(15,572)
210. Non-controlling interests (+/-)	25,587	16,291	2,101	1,199	19,591
220. Profit (Loss) for the year (+/-)	(154,908)	(123,926)	(30,982)		(154,908)
Total Liabilities and Shareholders' Equity	25,909,401	2,119,112	51,210	292,883	2,463,205

Other accounting elements related to Own Funds	Impact on CET1	Impact on AT1	Impact on T2	Total impact Own Funds
Changes in own credit standing	(18,808)			(18,808)
Regulatory value adjustments	(2,798)			(2,798)
Total other accounting elements related to Own Funds	(21,606)	-	-	(21,606)
TOTAL OWN FUNDS	1,709,662	51,210	292,883	2,053,755

TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE

	Common Equity Tier 1 (CET1): instruments and reserves	(A) AMOUNT AS AT DISCLOSURE DATE	(B) REFERENCE ARTICLE OF REGULATION (EU) NO. 575/2013	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO. 575/2013 TREATMENT OR RESIDUAL AMOUNT REQUIRED BY REGULATION (EU) NO. 575/2013
1	Capital instruments and related share premium reserves	2,967,285	28, 29, EBA List 26 (3)	
	o.w.: tier 1 instruments	2,967,285	EBA List 26 (3)	
2	Retained earnings	(735,741)	26 (1) (c)	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(103,960)	26 (1)	
5	Non-controlling interests (amount allowed in consolidated CET1)	16,291	84, 479, 480	2,351
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,143,875		2,351
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(2,797)	34, 105	
8	Intangible assets (net of related tax liabilities) (negative amount)	(48,684)	36 (1) (b), 37, 472 (4)	
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of tax liabilities, where the conditions set forth by art. 38(3) are met) (negative amount)	(325,554)	36 (1) (c), 38, 472 (5)	81,389
11	Fair value reserves, related to gains and losses (generated by cash flow hedges)	109,129	33 (a)	
14	Gains or losses on liabilities valued at fair value, resulting from changes in own credit standing	(18,807)	33 (b)	
16	Common Equity Tier 1 Own Instruments, directly or indirectly held by the institution (negative amount)	(15,572)	36 (1) (f), 42, 472 (8)	
25a	Losses for the current financial year (negative amount)	(123,926)	36 (1) (a), 472 (3)	
26	Regulatory adjustments applied to Common Equity Tier 1, in respect of amounts subject to pre-CRR treatment	(13,606)		
26a	Regulatory adjustments relating to unrealised gains or losses pursuant to Articles 467 and 468	5,608		5,608
	o.w.: unrealised net gains on equities	(340)	467	(340)
	o.w.: unrealised net losses on debt securities issued by Central Administrations belonging to EU	5,948		5,948
28	Total regulatory adjustments on Common Equity Tier 1 (CET1)	(434,209)		86,997
29	Common Equity Tier 1 capital (CET1)	1,709,666		89,348

Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and related share premium reserves	92	51, 52	
31	o.w.: classified as equity under applicable accounting standards	92		
33	Amount of qualifying items referred to in Art. 484(4) and related share premium reserves, subject to phase out from AT1	80,000	486 (3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including non-controlling interests not included in row 5) issued by subsidiaries and held by third parties	2,100	85, 86, 480	1,826
35	o.w.: instruments issued by subsidiaries subject to phase out	1,794	486 (3)	1,794
36	Additional Tier 1 (AT1) capital before regulatory adjustments	82,192		1,826
Additional Tier 1 (AT1) capital: regulatory adjustments				
41c	Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	(30,982)	467, 468, 481	
	o.w.: any filter for losses not realised	(30,982)	467	
43	Total regulatory adjustments on Additional Tier 1 (AT1) capital	(30,982)		
44	Additional Tier 1 (AT1) capital	51,210		1,826
45	Tier 1 capital (T1=CET1+AT1)	1,760,876		91,174
Tier 2 (T2) capital: instruments				
46	Capital instruments and related share premium reserves	171,073	62, 63	
47	Amount of qualifying items referred to in Article 484(5) and related share premium reserves, subject to phase out from T2	120,441	486 (4)	
48	Qualifying own funds instruments included in consolidated T2 (including non-controlling interest and Additional Tier 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	1,200	87, 88, 480	1,200
51	Tier 2 (T2) capital, before the regulatory adjustments	292,714		1,200
Tier 2 (T2) capital: regulatory adjustments				
52	T2 capital own instruments, directly or indirectly held by the institution, and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67, 477 (2)	
56a	Residual amounts deducted from T2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period, pursuant to article 472 of EU Regulation no. 575/2013	171	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	171
56c	Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	171	467, 468, 481	171
	o.w.: unrealised gains on AFS securities subject to additional national filter	171	467	171
57	Total regulatory adjustments on Tier 2 (T2) capital	171		171
58	Tier 2 (T2) capital	292,885		1,371
59	Total Capital (TC=T1+T2)	2,053,761		92,545
60	Total of risk-weighted assets	16,362,390		

Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	10.45%	92 (2) (a), 465	
62	Tier 1 (as a percentage of risk exposure amount)	10.76%	92 (2) (b), 465	
63	Total Capital (as a percentage of risk exposure amount)	12.55%	92 (2) (c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with art. 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	7.00%	CRD 128, 129, 130	
65	o.w.: capital conservation buffer requirement	2.50%		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	2.26%	CRD 128	
Capital ratios and buffers				
72	Equity of financial sector entities, in which the the institution does not have a significant investment (amount below 10% threshold and net of eligible short positions)	13,254	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liabilities, where the condition in art. 38(3) are met) (negative amount)	72,506	36 (1) (c), 38, 48, 470, 472 (5)	
Applicable caps on the inclusion of provisions in Tier 2				
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)				
82	Current cap on AT1 instruments subject to phase out arrangements	80,000	484 (4), 486 (3) & (5)	
83	Amount excluded from AT1 due to cap (excess over cap after maturities and redemptions)	80,000	485 (4), 486 (3) & (5)	
84	Current cap on T2 instruments subject to phase out arrangements	234,665	484 (5), 486 (4) & (5)	

4 CAPITAL REQUIREMENTS

QUALITATIVE INFORMATION – art. 438 CRR

One of the main strategic objectives of the Group is to strengthen its capital position and mitigate risk profiles by identifying a gradual return to profit in conditions of capital balance, with capitalisation objectives consistent with Banca Carige's consolidated prudential requirements as notified by the European Central Bank ("ECB").

In its SREP Decision of December 2016, the ECB required the Bank, to maintain on a consolidated basis, as of 1st January 2017, a minimum CET1 Ratio of 9% (composed of a minimum Common Equity Tier 1 ratio of 4.5%, an additional own funds requirement of 3.25% and a combined buffer requirement of 1.25%). The ECB additionally required the Bank to maintain, on a consolidated basis, a minimum total SREP capital requirement (TSCR) of 11.25%, and specified that it might be reviewed once the amount of non-performing exposures is reduced; the Bank is also subject to a minimum Overall Capital Requirement (OCR) of 12.50%.

QUANTITATIVE INFORMATION – art. 438/445 CRR

Capital ratios as at 30 June 2017 were significantly higher than the minimum capital requirements set out by prevailing regulations as at the reporting date:

- Common Equity Tier 1 ratio ("CET1 ratio"): the ratio was 10.4% with respect to a minimum level of 5.75% (4.5% + Capital Conservation Buffer, CCB, of 1.25%);
- Tier 1 ratio: the ratio was 10.8% with respect to a minimum level of 7.25% (6% + 1.25% of CCB);
- Total Capital Ratio: the ratio was 12.6% with respect to a minimum level of 9.25% (8% + 1.25% of CCB).

The CET1 Ratio is higher than both the regulatory limits and the 9% minimum threshold required by the ECB under the SREP process for 2017, but lower than the recommended Pillar 2 Guidance threshold of 11.25%; moreover, the TCR is above the OCR (Overall Capital Requirement) limit required by the ECB in the same SREP letter.
However, the measures set out in the 2016-2020 Strategic Plan Update approved on 28 February 2017 and the capital strengthening actions designed to complement the Group's de-risking and de-leveraging processes adopted by the Board of Directors' meeting of 3 July 2017, are adequate to restore a CET1 Ratio well in excess of the above thresholds.

CAPITAL REQUIREMENTS RELATING TO THE INDIVIDUAL TYPE OF RISK
CAPITAL ADEQUACY

TYPE OF RISK	UNWEIGHTED AMOUNTS	WEIGHTED AMOUNTS	REQUIREMENT
REGULATORY CAPITAL REQUIREMENTS	**26,918,020**	**15,156,622**	**1,212,530**
1. Credit and counterparty risk			
Central administrations and central banks	5,273,735	702,273	56,182
Institutions	1,940,292	371,856	29,748
Regional administration and local authorities	661,889	132,373	10,590
Multilateral development banks	-	-	-
International organisations	149	30	2
Public sector bodies	272,084	271,888	21,751
Businesses	4,394,259	3,751,167	300,093
Retail exposures	2,865,791	1,845,744	147,660
Real-estate backed exposures	6,008,906	2,228,553	178,284
Defaulted exposures	3,767,751	4,392,333	351,387
High-risk exposures	11,155	16,732	1,339
Short-term exposures/businesses	-	-	-
Exposures towards UCI	9,401	9,401	752
Equity instruments	404,570	404,570	32,366
Other positions	1,262,347	961,162	76,893
Elements representing positions vs securitisation	45,693	68,539	5,483
2. CVA risk (standard method)			361
3. Market risks (standard method)			102
generic risk - debt securities			91
generic risk - equity securities			0
specific risk - debt securities			0
specific risk - equity securities			-
specific risk - securitisations			-
position risk on units in UCITS			-
generic risk on gamma and vega factors			0
exchange risk			11
4. Operating risk (base method)			95,998
5. Other prudential requirements			-
6. Total regulatory requirements			**1,308,991**
REGULATORY RATIOS			
Risk-weighted assets			16,362,390
Common Equity Tier 1/Risk-weighted assets (Common Equity Tier 1 capital ratio)			10.45%
Tier 1 capital/Risk-Weighted Assets (Tier 1 capital ratio)			10.76%
Own Funds/Risk-Weighted Assets (Total capital ratio)			12.55%

Figures in EUR/000

5 CREDIT RISK

QUALITATIVE INFORMATION – art. 444 CRR

The Carige Group determines the requirement according to the standardised approach, which, in brief, weighs credit exposures based on their inclusion in one of the regulatory portfolios, defined in relation to the characteristics of the borrower or the transaction entered into with the customer, which the Basel Committee recognises as having uniform risk profiles. The Standardised approach also uses different risk-weightings based on the external rating of specialised agencies (External Credit Assessment Institutions, ECAIs), specifically approved by the Supervisory Authority.

Against this background, provided below is an update on the mix of risk assets as at 30 June 2017, detailing the creditworthiness class associated with rating scores issued by Moody's or Cerved Group.

For the purpose of prudential regulation, should two distinct ECAI assessments exist, the worst creditworthiness class is selected.

QUANTITATIVE INFORMATION – art. 444 CRR

STANDARDISED APPROACH - ON AND OFF BALANCE SHEET RISK ACTIVITIES

PORTFOLIOS	EAD	Secured exposures			deducted from Regulatory Capital
		collateral	personal guarantee	credit derivatives	
Central administrations and central banks	**5,273,735**	**-**	**-**	**-**	**288,965**
credit quality class 1	-				
credit quality class 2	370,043				
credit quality class 3	3,634,914				
credit quality class 4	144				
credit quality class 5	-				
credit quality class 6	409				
unrated	1,268,225				
Institutions	**1,940,292**	**1,227,839**	**-**	**-**	**-**
credit quality class 1	386				
credit quality class 2	505,767				
credit quality class 3	686,616				
credit quality class 4	1,115				
credit quality class 5	245				
credit quality class 6	-				
unrated	746,162				
Regional administration and local authorities	**661,889**	**22**	**-**	**-**	**-**
credit quality class 1	-				
credit quality class 2	-				
credit quality class 3	-				
credit quality class 4	-				
credit quality class 5	-				
credit quality class 6	-				
unrated	661,889				
Multilateral development banks	**-**	**-**	**-**	**-**	**-**
credit quality class 1	-				
credit quality class 2	-				
credit quality class 3	-				
credit quality class 4	-				
credit quality class 5	-				
credit quality class 6	-				
unrated	-				
Multilateral development banks	**149**	**-**	**-**	**-**	**-**
credit quality class 1	0				
credit quality class 2	-				
credit quality class 3	-				
credit quality class 4	-				
credit quality class 5	-				
credit quality class 6	-				
unrated	149				
Public sector bodies	**272,084**	**5**	**-**	**-**	**-**
credit quality class 1	-				
credit quality class 2	-				
credit quality class 3	-				
credit quality class 4	-				
credit quality class 5	-				
credit quality class 6	-				
unrated	272,084				
Businesses	**4,394,259**	**20,781**	**72,609**	**-**	**-**
credit quality class 1	26,070				
credit quality class 2	926,254				
credit quality class 3	735,844				
credit quality class 4	559,484				
credit quality class 5	109,294				
credit quality class 6	28,114				
unrated	2,009,199				
Retail exposures	**2,865,791**	**25,318**	**10,123**	**-**	**-**
credit quality class 1	-				
credit quality class 2	28,810				
credit quality class 3	187,905				
credit quality class 4	174,331				
credit quality class 5	12,253				
credit quality class 6	3,275				
unrated	2,459,217				
Real estate backed exposures	**6,008,906**	**-**	**-**	**-**	**-**
credit quality class 1	-				
credit quality class 2	1,164				
credit quality class 3	127,471				
credit quality class 4	123,554				
credit quality class 5	6,230				
credit quality class 6	2,367				
unrated	5,748,121				

Defaulted exposures	**3,767,751**	**3,547**	**25,895**	**-**	**-**
credit quality class 1	-				
credit quality class 2	68,672				
credit quality class 3	1,520				
credit quality class 4	76,710				
credit quality class 5	58,998				
credit quality class 6	47,924				
unrated	3,513,926				
High-risk exposures	**11,155**	-	-	-	-
credit quality class 1	-				
credit quality class 2	-				
credit quality class 3	-				
credit quality class 4	-				
credit quality class 5	-				
credit quality class 6	-				
unrated	11,155				
Other positions	**1,262,347**	-	-	-	-
credit quality class 1	-				
credit quality class 2	531,479				
credit quality class 3	6,062				
credit quality class 4	5,498				
credit quality class 5	1,015				
credit quality class 6	100				
unrated	718,193.06				
Exposures towards UCI	**9,401**	-	-	-	-
credit quality class 1	-				
credit quality class 2	-				
credit quality class 3	1,262				
credit quality class 4	-				
credit quality class 5	276				
credit quality class 6	-				
unrated	7,862				
Elements representing securitised positions	**45,693**	-	-	-	-
credit quality class 1	-				
credit quality class 2	-				
credit quality class 3	-				
credit quality class 4	-				
credit quality class 5	-				
credit quality class 6	-				
unrated	45,693				
Equity instruments	**404,570**	-	-	-	-
credit quality class 1	-				
credit quality class 2	1,846				
credit quality class 3	-				
credit quality class 4	2,295				
credit quality class 5	-				
credit quality class 6	-				
unrated	400,429				
Short-term exposures/businesses	**-**	-	-	-	-
credit quality class 1	-				
credit quality class 2	-				
credit quality class 3	-				
credit quality class 4	-				
credit quality class 5	-				
credit quality class 6	-				
unrated	-				
TOTAL	26,918,020	1,277,511	108,627	-	288,965

With regard to exposures to central administrations and central banks, it should be noted that credit quality step 3 includes investments in Italian government bonds, to which supervisory rules assign a 0% risk weight irrespective of the weight associated with the rating of the issuing country.
Please refer to the Half-Year financial report as at 30 June 2017 for further information concerning the trend in risks associated with the Group’s funding and lending activities.

5.1 ENCUMBERED AND UNENCUMBERED ASSETS

QUALITATIVE INFORMATION – art. 443 CRR

The transactions for which the Bank earmarks part of its financial assets, i.e. transactions in which the Bank uses assets received as collateral, include the following types:

- collateralisation agreements for quoted and unquoted derivative contracts in which collateral is used to guarantee independent amounts and fair value;
- collateralisation agreements through assets pledged as security for funding from the European Investment Bank (EIB) and *Cassa Depositi e Prestiti* (CDP);
- repurchase agreement (liabilities) on securities;
- transactions completed through the Clearing House (*Cassa di Compensazione e Garanzia*), which requires collateral (securities and cash) to be pledged to access its services based on amounts agreed upon;
- refinancing operations with the European Central Bank;
- securitisation transactions with underlying assets transferred and not derecognised from the assets;
- issuing of covered bonds for which underlying assets transferred and not derecognised from the assets are required to be segregated into a cover pool;
- deposits for Banker's drafts issued through securities pledged as collateral with the Bank of Italy.

In total, encumbered assets account for 36.21 % of the Group's assets.

Liabilities, obtained against encumbered assets, are mainly composed of:

- refinancing operations with the European Central Bank (TLTRO-II) (*50.88%* of total);
- financing operations entered into with the European Investment Bank (4.54% of total);
- funding from repurchase agreements (liabilities) (*6.32%* of total);
- issuance of covered bonds placed with third party investors (*26.76% of total*);

- funding transactions via ABS issued securities placed with third parties with underlying assets underlying assets transferred and not derecognised from the assets (*7.23 % of total*);
- circulating banker's drafts (1.03% of total);
- derivatives (*3.24 % of total*);

QUANTITATIVE INFORMATION – art. 443 CRR

The information below refers to the situation as at 30 June 2017 in accordance with EBA's tables and guidelines concerning encumbered assets.

Template A-assets below highlights collateral (loans/receivables and securities) pledged as collateral for these transactions.

Template A-Assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets	9,592,685,394		16,901,375,234	
030	Equity instruments	-	-	348,190,879	348,190,879
040	Debt securities	1,519,055,987	1,519,055,987	289,044,571	288,929,480
120	Other assets	8,073,629,407		16,264,139,784	

Figures in units of Euro

The assets pledged as collateral are as follows:

- allocated loans and receivables account for about 84.16% of the Group’s encumbered assets;
- allocated securities account for about 15.84% of the Group’s encumbered assets.

Under the heading “Other unencumbered assets” (see Template A-assets), amounting to approximately EUR 17 bn, assets which cannot be immediately encumbered (related to deferred tax assets, tangible and intangible assets, assets for derivative contracts) amount to approximately EUR 2.2 bn, equal to approximately 13.71% of the Group’s total unencumbered assets.

Encumbered collateral received by the Group (see Template B-Collateral Received) relates to securities received to guarantee repo transactions that are subsequently pledged again.

Template B-Collateral received

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	Collateral received	434,508,038	39,865,052
150	Equity instruments	-	-
160	Debt securities	434,508,038	39,865,052
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	3,687,458,355

Figures in units of Euro

Template C-Encumbered assets/collateral received and associated liabilities provides information on the volumes of the different sources of encumbrance for the Group and its collateral (with reference to both assets recognised and assets not recognised in the financial statements).
At the end of June 2017, the liabilities include approximately EUR 3.5 bn referring to the TLTRO II refinancing operations and approximately EUR 1.8 bn worth of Covered Bonds placed with third parties.
Approximately EUR 5.7 bn worth of collateral is encumbered in connection with TLTRO II refinancing operations, and includes government bonds and loans (receivables are pledged as collateral through the ABACO (collateralised bank assets) procedure, retained covered bonds and senior tranches of ABSs wholly owned by Banca Carige).

Template C-Encumbered assets/collateral received and associated liabilities

		Matching liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	6,838,395,718	9,764,557,123

Figures in units of Euro

Over-collateralisation

Concerning the commitments for TLTRO II Refinancing Operations, as at June 2017, the pool account was "over-collateralised" by approximately EUR 400 mln (haircut net amount).
Under the Covered Bond programmes, rating agencies envisage that an additional tranche of the portfolio should be held as collateral for the covered bonds (over-collateralisation). Over-collateralisation is also functional to maintaining a specific rating level. As at 30 June 2017 the following "available over-collateralisation" ratios were registered:

- 35.49% for OBG1;
- 94.65% for OBG2;
- 31.76% for OBG3.

As part of securitisation transactions, rating agencies require a "credit enhancement" mechanism determined by the ratio between the Senior Tranche and the Junior/Mezzanine Tranche and by the cash reserves agreed upon when securitisations are structured.

Securitisation name	Credit enhancement on issue
Argo Mortgage 2 S.r.l.	approx. 8.4%
Lanterna Finance	approx. 47.6%
Lanterna Consumer	approx. 33%
Lanterna Lease	approx. 59.00%

6 FINANCIAL LEVERAGE

QUALITATIVE INFORMATION – art. 451 CRR

One of the underlying features of the crisis was the accumulation of an excessive degree of financial leverage, on- and off-balance-sheet, in the banking system. In many cases, banks have accumulated excessive leverage while highlighting robust risk-based capital ratios. In the most acute phase of the crisis, the banking sector was forced by the market to reduce its leverage, which amplified the downward pressure on the prices of assets, further accentuating the spiral of losses, erosion of the capital of banks and contraction of lending.
The financial leverage ratio therefore aims to contain the accumulation of financial leverage in the banking sector, thereby contributing to avoiding the occurrence of destabilising deleveraging processes which could harm the financial system as a whole and the economy.

Measurement techniques

In its document "A global regulatory framework for more resilient banks and banking systems" (June 2011), the Basel Committee introduced a new leverage metric called "leverage ratio" which was subsequently adopted in the new Supervisory Regulation (CRR).
Article 429 of the CRR defines the financial leverage ratio as an institution's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage between:

- Tier 1 capital; and
- the total exposure of the bank, calculated as the sum of the exposure values of all assets and off-balance sheet items not deducted from Tier 1 capital.

In the period from 1 January 2015 to 31 December 2021, the financial leverage ratio is calculated and reported using both of the following elements as a measure of capital:

- the "transitional" Tier 1 capital, which is the sum an institution's common equity Tier 1 capital (CET1) and additional Tier 1 capital (AT1);
- the "fully loaded" Tier 1 capital, i.e. excluding the derogations laid down in the transitional arrangements and the grandfathering clauses for capital instruments.

Total exposure includes (cited articles are drawn from the CRR):

- Derivatives - measured in accordance with the Current Exposure Method referred to in article 274 or alternatively with the Original Exposure Method referred to in article 295; derivatives on receivables sold are measured at the gross notional amount in addition to the fair value, but with the possibility of deducting the loss of income recognised in fair value from the notional amount. In compliance with strict criteria, it is also possible to offset the notional amounts of credit derivatives where credit protection is sold against credit derivatives where protection is bought;

- Security Financing Transactions – the exposure of which is measured by two components, i.e. counter-party risk, equal to the exposure net of the collateral (and without considering the volatility effect), and the accounting value of the transaction;
- Off-balance-sheet Exposures - measured, as provided by art. 111, at their face value, but gross of value adjustments on specific receivables and subject to the application of the credit conversion factors provided for by the standard methodology for calculating RWAs;
- Other Assets – valued, according to the provisions of art. 111, at the remaining accounting value after the application of value adjustments on specific receivables, additional value adjustments and other reductions in own funds relating to the asset item.

The Basel Committee proposal provides for a minimum threshold of 3%; however, the prudential regulation contained in the CRR does not set any minimum level, deferring the introduction of the leverage ratio as a First Pillar requirement to 2018.

QUANTITATIVE INFORMATION – art. 451 CRR

The quantitative information at 30 June 2017 is set out below according to the tables provided for in the final version of the Implementing Technical Standard on Disclosure of the Financial Leverage indicator.

LRSum table: Reconciliation between the accounting assets and exposure for calculating the Financial Leverage ratio

	Reference period	30/06/2017
	Denomination of the Bank/Banking Group	Banca Carige Group
	Level of application	Consolidated
	LR Sum Model - Summary reconciliation of accounting assets and leverage ratio exposures	
		Applicable amounts
1	Total assets as per published financial statements	25,909,401
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulat	636,748
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, the "CRR")	
4	Adjustments for derivative financial instruments	
5	Adjustments for securities financing transactions "SFTs"	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	
UE-6a	(Adjustment for intra group exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No. 575/2013)	
UE-6B	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	
7	Other adjustments	
8	**Total leverage ratio exposure**	**26,546,149**

LRCom table: Information on the Financial Leverage index

	Reference period	30/06/2017
	LR Com Model - Leverage ratio common disclosure	
		Leverage ratio exposure (CRR)
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	24,592,790
2	(Asset amounts deducted in determining Tier 1 capital)	-386,982
3	**Total on-balance sheet exposure (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	24,205,808
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	55,198
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	6,946
UE-5a	Exposure determined under Original Exposure Method	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	62,144
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	818,405
UE-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No. 575/2013	107,701
15	Agent transaction exposures	
UE-15a	(Exempted CCP leg of client-cleared trade exposures)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	926,106
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	1,352,090
18	(Adjustments for conversion to credit equivalent amounts)	
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	1,352,090
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)		
UE-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No. 575/2013 (on and off balance sheet))	
UE-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No. 575/2013 (on and off balance sheet))	
	Capital and total exposures	
20	Tier 1 capital	1,760,872
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	26,546,149
	Leverage ratio	
22	**Leverage ratio**	**6.633%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
UE-23	Choice on transitional arrangements for the definition of the capital measure	“Transitional”
UE-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	

LRSpl table: Exposure breakdown

	Reference period		30/06/2017
	LRSpl Model - Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
			Leverage ratio exposure (CRR)
UE-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:		24,592,790
UE-2	- trading book exposures		0
UE-3	- banking book exposures, of which:		24,592,790
UE-4	- covered bonds		0
UE-5	- exposures treated as sovereigns		4,740,733
UE-6	- exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns		638,810
UE-7	- institutions		1,157,028
UE-8	- secured by mortgages of immovable properties		6,000,861
UE-9	- retail exposures		2,785,767
UE-10	- corporate		3,856,820
UE-11	- exposures in default		3,679,605
UE-12	- other exposures (e.g. equity, securitisations, and other non-credit obligation assets)		1,733,165

LRQua model: Information on qualitative elements

LRQua Model - Free format text boxes for disclosure on qualitative items		
1	Description of the processes used to manage the risk of excessive leverage	Based on the fact that no regulatory threshold on the leverage ratio exists to date, risk tolerance under the RAF - set at 6.50% - was determined in relation to the minimum level foreseen for the 2016-2020 five-year period on the basis of the assumptions of the Business Plan scenario. The 9.74% risk appetite was instead determined in relation to the Business Plan's last year target (7.92% as at the end of 2017).
2	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	The main factors which had an impact were the higher write-downs on non-performing loans and the deleveraging of loans.

DECLARATION OF THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS PURSUANT TO ART. 154-BIS, PARA. 2 OF LEGISLATIVE DECREE NO. 58/1998 (CONSOLIDATED LAW ON FINANCE)

I the undersigned Mauro Mangani, in my capacity as the Manager responsible for preparing Banca CARIGE S.p.A.'s financial reports,

declare

that the accounting information contained in the document "Pillar 3 - Disclosure by institutions – Figures as at 30/06/2017" corresponds to the document results, books and accounting records.

Genoa, 3 August 2017

The Manager responsible for preparing
Banca Carige S.p.A.'s financial reports
Mauro Mangani

This document, signed in the original, was translated into English solely for the convenience of international readers.