Banca Simetica

BASEL 3 PILLAR III DISCLOSURE

according to Regulation (EU) No. 575/2013
as at 31st December 2015

INTRODUCTION

The reforms of the Basel Committee ("Basel 3") supplementing and improving the previous set of rules ("Basel 2") have been transposed into European law under the new banking supervision rules that came into effect on 1 January 2014.
Although these reforms introduce a number of important changes (especially in the area of capital adequacy, liquidity risk and leverage), the overall structure continues to be based on three pillars:

- Pillar 1 addressing the minimum capital requirements for the various types of risk as specifically defined by current regulatory provisions;
- Pillar 2 based on the discretion of the European System of Central Banks to evaluate the capital adequacy of supervised institutions and their empowerment to impose higher capital requirements by adopting a process that combines the ICAAP and SREP for each intermediary;
- Pillar 3 built on the disclosure requirement for intermediaries aimed at fostering "market discipline" by raising awareness of the risks inherent in the activities of each intermediary.

With the introduction of Pillar 3, the Basel Committee requires firms to make more public disclosures about their risk management and governance structure.

This "Disclosure" contains the information required under Part Eight 8 and Part Ten of Title I of Chapter 3 of Regulation (EU) No. 575/2013 (CRR - Capital Requirements Regulation).
These data are mainly based on the results of the ICAAP, for the purpose of providing clear information to the public about the risks to which the Bank is exposed, the procedures in place to control and manage these and its capital ratio.

The ICAAP is based on the principle of proportionality, which allows smaller banks (with assets of € 3.5 billion or less) to use simplified standardised approaches.

Pursuant to Art. 432 of the CRR, Banca Simetica has omitted information about any risks and any facts in general that are not material.

As regards the corporate governance disclosure requirement, reference should be made to the specific “Disclosure on corporate governance arrangements”. In addition to the information required pursuant to Art. 435(2) of Regulation (EU) No. 575/2013 of 26 June 2013 (CRR), this also contains the data envisaged by Part One, Title IV, Chapter 1, Section VII of the “Supervisory Regulations for Banks” issued by Banca d’Italia with Circular No. 285 of 17 December 2013 (requiring banks to provide clear, detailed information about their organisational structure and corporate governance).

Nonetheless, with regard to the disclosure requirements set forth in Art. 435 (2)of the CRR, the information required under point (e) (description of the information flow on risk to the management body) has been included in this document, specifically in Chapter 2.

1. SCOPE OF APPLICATION AND BRIEF OUTLINE OF THE ORGANISATION

In this “Disclosure as at 31/12/2015” all the risks and the respective measurement and management thereof refer to Banca Simetica S.p.A., an independent bank with its legal and operational headquarters in Via C. Crosa 3/C, Biella, Italy.
The bank is registered under number 5713 in the Banking Register. Its ABI code number is 3398.5.

The company is not part of any banking group nor does it have any ownership interests in other financial intermediaries.

The corporate structure is small and the organisation does not resort to the risk capital market.
The share capital, which is fully subscribed, amounts to € 7,600,000.
At 31/12/2015 shareholders' equity amounted to € 31,830,187.

The bank is a small entity (class 3) in terms of its size and operational complexity, in accordance with the classification established by the applicable prudential supervision requirements.

The Bank's business activities are almost exclusively concerned with proprietary trading operations (in financial markets using arbitrage and market making strategies) and the provision of investment services, for which it has been duly authorised by Banca d'Italia, specifically in the field of asset management.

Banca Simetica has always been inspired by the principles of ethical finance.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

The risks to which Banca Simetica is potentially exposed are set out in the "Risk Appetite Framework" (RAF), which has been approved by the Board of Directors.
As well as describing the types of risk to which the Bank is exposed, this document also indicates the levels of "risk appetite" in line with the business strategy laid down in the multi-year strategic plan.

The risks inherent in the specific activities of Banca Simetica are:
- market risk;
- pre-settlement and settlement risk;
- liquidity risk;
- concentration risk;
- operational risk;
- legal risk;
- reputational risk;
- strategic risk.

Banca Simetica is not exposed to credit risk (apart from the risk associated with surplus cash deposits with bank counterparties), or to the risk of maturity mismatching and excessive leverage.

The Bank pursues a prudent business approach aimed at maintaining risk exposure within acceptable parameters, in line with a number of guiding principles which are at the heart of its risk management policies, namely:
- working to achieve net returns of between 3 and 5%, maintaining a business mix with a low risk profile;
- adopting a prudent approach towards new activities and a logic of "knowledge-based business", which has always characterised its method of operation;
- fostering a culture of risk and the involvement of everyone at the company in matters concerning risks;
- a remuneration policy that does not encourage the taking of excessive risks;
- independence and authority of the System of Internal Controls;
- efficiency, integrity and stability of information systems;
- maintaining an extremely prudent approach as far as liquidity risk is concerned;
- maintaining a conservative approach towards operational risk management;
- maintaining a "zero risk" approach to legal risk.

The body responsible for strategic supervision also has the task of defining and approving the general guidelines of the ICAAP, ensuring its consistency with the Risk Appetite Framework and for making sure that it is immediately revised to reflect any significant changes to strategies, the organisational structure or business context.

The Chief Executive Officer is in charge of the Bank's risk management system. He may make the relevant decisions according to the strategies and guidelines approved by the Board of Directors within the scope of the qualitative and quantitative limits defined within the RAF.
The CEO implements the ICAAP and verifies its compliance with the strategic guidelines and RAF.

All the risks inherent in the specific activities of Banca Simetica are described in the "Risk Mapping Manual".
This manual also contains the map of the risks associated with each of the Bank’s processes, with an assessment of the “gross risk”, in terms of probability and severity, and “net risk”, based on the

standard of existing controls. It also contains a summary of the measurement techniques for the various types of risk, from both a regulatory and supervisory perspective.
For regulatory aspects, reference is made to the applicable legislation, specifically Banca d'Italia Circular No. 285/2013 implementing the provisions of Directive No. 2013/36/EU of 26 June 2013 (CRD - Capital Requirements Directive) and Regulation (EU) No. 575/2013 of 26 June 2013 (CRR - Capital Requirements Regulation).
For supervisory aspects, reference is made to the specific “Risk control manual” which defines the system of operational limits approved by the CEO and the respective control mechanisms, as well as the procedures for assessing compliance with the applicable laws and procedures for reporting to Senior Management and the Bank’s governing bodies.

The system of operating limits is structured on three levels of importance for each area of activity.
Level I limits represent an initial critical threshold for the various kinds of risk; these mainly involve the implementation of level one and level two controls.
Level II limits, if exceeded, could potentially give rise to a higher risk of loss; any cases in which such limits are exceeded are immediately reported to the CEO.
Level III limits are the maximum limits defined by the Board as acceptable and represent another threshold that, if exceeded, must be the subject of a specific and detailed report to the body responsible for strategic supervision.

The Bank has the following permanent and independent control functions, appointed by the Board to perform strategic supervision under the guidance of the control body:

- Risk Management;
- Compliance;
- Anti-Money Laundering;
- Internal Audit.

These functions operate within a system of internal controls structured on three levels:

- Level one controls, performed by the heads of each corporate function to which each specific risk indicator applies;
- Level two controls, performed by the Risk Management function (which oversees the operation of the risk management system and verifies compliance therewith) and by Compliance (which verifies compliance with the applicable laws) and Anti-Money Laundering.
- Level three controls, performed by the Internal Audit function, which evaluates the adequacy and efficacy of the control systems, processes, procedures and mechanisms.

The Risk Management function defines, manages and monitors the risks to which the Bank is exposed, in order to determine and control the risk level that can be tolerated.

The Risk Management function produces the following reports:

- Summary of the results of all the controls performed by Risk Management, drawn up on a monthly basis and made available to the System of Internal Controls and CEO.
- Periodical reports for the Compliance function to keep the latter up-to-date with information about any controls that have revealed a potential risk of non-conformity.
- Reports of all material breaches of level II risk limits, sent to the CEO. A copy is also sent to the Internal Auditor.
- Specific reports for the CEO containing any proposals for changes to the system of operational controls to better respond to risk monitoring requirements.

- Risk dashboard, drawn up every six months and sent to the CEO, containing an assessment of current risk assumption trends over the last six months for each level III limit. The CEO brings this report to the attention of the Board of Directors.
- Report of material risks drawn up for the Board of Directors, to which it is sent when a level III risk limit is exceeded.
- Asset Management Committee Report, drawn up for each Asset Management Committee of which the head of the Risk Management function is a member, as envisaged by the Committee's regulations.

The Compliance function, which is outsourced, is responsible for the ongoing identification of the applicable regulations and appropriate risk prevention procedures. It also verifies the efficacy of planned organisational changes in order to prevent the risk of non-compliance.
Its tasks are graduated according to the presence of specialist areas concerning specific regulations (e.g. tax laws, occupational health and safety, privacy, etc.).

This function follows a risk-based approach, focusing on areas that are potential sources of greater risk for the Bank, either for regulatory reasons (new laws, amendments, complexity) or business reasons.
For the rules most relevant to the risk of non-compliance, this function is directly responsible for managing the risk of non-conformity.

The main tasks of the Anti-Money Laundering function, which is also outsourced, are to:
- identify the applicable laws and evaluate their impact on internal processes and procedures;
- collaborate to define the procedures and system of internal controls;
- verify the suitability of the procedures and system of internal controls;
- verify the reliability of the information system that sends data to the company's integrated computer database;
- transmit aggregate data about records in the integrated computer database to the Financial Information Unit of Banca d'Italia, on a monthly basis;
- prepare an adequate and continuous training programme for employees and co-workers;
- define the information flows to the corporate bodies and senior management;
- provide advisory services and assistance to the corporate bodies and senior management.

The Compliance and Anti-Money Laundering functions, managed by the same organisation, summarise their findings in reports to the Board, copies of which are also sent to the Statutory Auditors.

The Internal Audit function performs third level controls. These include inspections to verify the correctness of operational procedures and trends in risks and assessments to verify the completeness, adequacy, functionality and reliability of the organisational structure and other components of the system of internal controls. It informs the corporate bodies of any needs for improvement, with particular reference to the RAF, the risk management process and the methods used for measuring and controlling these.
It draws up reports for the company bodies in which it illustrates its findings and makes recommendations.

The managers of each function within the System of Internal Controls each prepare an annual report on their specific activities. These reports are sent to the company bodies and then also to the banking and trading market authorities.

The various control functions interact with one another by sending and receiving information.

In terms of the actual risk measurement and management system, information concerning exposure to Pillar 1 risks (market risk, settlement risk, credit and counterparty risk, operational risk) is sent at regular intervals to the Supervisory Authority. These reports are processed by the information system and then checked by means of an internal process involving the Middle Office and the Risk Management function.
The CEO is required to submit periodic reports to the Board of Directors with information about the Bank's exposure to Pillar 1 risks.

For market, settlement, credit and counterparty risks, as well as pre-settlement risk (Pillar 2) there are structured internal measurement and control systems, developed and maintained by the Risk Management function.

For all other Pillar 2 risks, in addition to operational risk, the Bank has set up internal monitoring systems (duly formalised as part of its operating procedures), which involve Risk Management and other control functions.

The ICAAP report also contains an analysis of the capital requirements for the various types of risk in relation to own funds (current and future), and includes the outcome of stress tests conducted by the Risk Management function taking into account the main risks to which the Bank could potentially be exposed.

The types of risks to which Banca Simetica is exposed, their main features and the techniques used to mitigate and hedge these are outlined below.

Market risk is defined as the risk of loss arising from changes in market prices of financial instruments traded by the Proprietary Trading department, which uses arbitrage and market making strategies.
Market risk can be broken down into general and specific components.
General market risk includes:

- price risk related to changes in the interest rate curve;
- the risk of fluctuations in exchange rates (only applicable to securities denominated in foreign currencies).

Specific market risk refers to events such as:

- changes in the credit rating of the issuers of the traded securities
- misalignment of securities to be hedged with the underlying futures.

This risk is monitored by using structured portfolio limits
As a general rule, each portfolio is linked to a specific arbitrage and market making activity that uses the same instruments and functional logic.
Stress tests for market risk are carried out at regular intervals.

Pre-settlement and settlement risks are related to the cost of replacing transactions undertaken with defaulting counterparties.
A number of instruments are used to monitor these risks. Specifically, limits are in place for off-market trading, maximum exposure for each counterparty with which the Bank has engaged in transactions awaiting settlement (99% parametric VaR) and for the maximum replacement cost for failure to deliver by the counterparty and subsequent DVP. As for settlement risk, the back office and front office departments and the Risk Management function exchange information on a daily basis in order to manage any failures that could become problematic.
Like for market risk, a specific adverse scenario test is carried out for pre-settlement risk.

Liquidity risk regards the possibility of areas of business using more liquid funds than the Bank has at its disposal, resulting in a shortage of liquidity.
To minimise the likelihood of this, liquid funds used by the Proprietary Trading desks are monitored and controlled in real-time; furthermore the entity carries out other kinds of controls like filtering of short selling and of customers' orders that exceed the liquid funds at the disposal of the Bank and daily monitoring of clients' negative cash balances being negotiated and managed. The Bank has also defined the maximum limits for negative liquidity for each counterparty with which it has a sound business relationship.
Banca Simetica has also set up a system to enable monitoring of the available cash balance and variations with respect to different currencies, based on expected cash inflows and outflows (maturity ladder).
Cash balance projections are measured against calculated liquidity reserves (buffer) at 7 and 30 days. The liquidity buffer is measured against the risk tolerance thresholds approved by the Board.
As well as developing cash flow projections covering expected cash inflows and outflows and the liquidity buffer, the Bank has developed a computerised system of historical data and the latest indicators capable of signalling any external or internal vulnerabilities of the liquidity position.
It also has a specific Contingency Funding Plan of actions to be taken in an emergency. These measures, which the Bank can implement at any time, consist of:

- marginal refinancing operations with the ECB;
- overnight repo operations.

The Proprietary Trading unit can thus resort to the use of additional instruments to manage very short-term financing imbalances.
Procedures have also been defined to ensure that the Proprietary Trading department always invests excess cash balances in short and very short-term financial instruments to avert the risk of any change in the short-term maturities of liabilities, especially liquid funds held in customers' current accounts.
At the beginning of 2016, the Bank also introduced scenario analyses to estimate its resilience to potential losses in the event of generalised and specific deposit withdrawals by customers under extreme market conditions.

Concentration risk is the risk posed to the Bank by its excessive exposure to a single issuer, counterparty, customer or even sector. For Banca Simetica this type of risk is only associated with the trading activities of the Proprietary Trading department.
Banca Simetica controls this risk by adopting adequate limits for each counterparty, issuer and sector for all the markets and financial instruments traded.

Banca Simetica's exposure to credit and counterparty risks, which typically refer to Pillar I capital requirements for commercial banking entities, only regards cash deposits with bank counterparties held for the purposes of its core business. In accordance with the Risk Appetite Framework and in line with the strategic business plan for 2014-2016, the Bank does not intend to assume credit or counterparty risks (apart from those inherent in the management of liquid fund deposits) or maturity transformation or interest rate risks.

Operational risks arise as a result of failed internal processes, human error, inadequate operating systems, or external events, including legal risk.
The Bank controls this type of risk by:

- defining three levels of control for managing the most critical and potentially most likely errors that could harm the Bank;
- implementing, as part of its level one controls, "subsequent controls" within the same area designed to detect possible errors in all highly complex activities that could have a significant economic impact.

Reputational risk is associated with the way third parties perceive the Bank.
It is related to the other types of risk, especially operational, legal and strategic risks.
Professional competence, credibility, reputation, transparency, correctness and compliance with generally recognised moral and ethical principles by company representatives and employees alike are all factors that affect this type of risk.
Exposure to this type of risk is kept under control by implementing the provisions of the Organisational, Management and Control Model pursuant to Legislative Decree No. 231/2001, the Code of Conduct and the Code of Ethics (setting out a series of rules of conduct, in addition to statutory, regulatory and contractual requirements and internal procedures, with which all those operating on behalf of the Bank are expected to comply).
As a means of limiting its exposure to reputational risk, Banca Simetica prepares a Social Report each year, in addition to its statutory accounts. This is accompanied by a report by the Board of Statutory Auditors and by the Ethics Committee.

Strategic risk regards the risk of a decrease in returns on equity associated with changes in medium and long-term business activities.
Particular attention is paid to strategic planning, programming and control (through the adoption of multiple-year strategic planning and annual budget forecasts and subsequent monthly gap analysis of actual results).
Moreover, in order to enable closer monitoring of this type of risk, Risk Management receives documentation at regular intervals from the Accounting function.

3. OWN FUNDS

Banca Simetica's own funds amounted to € 26,888,635 at 31/12/2015. The breakdown is shown in the table below:

Item	**Value as at 31/12/2015**
A. Common Equity Tier 1 (CET1) prior to the application of prudential filters	**26,888,635**
B. CET1 prudential filters	0
C. CET1 gross of items to be deducted (A-B)	**26,888,635**
D. Items to be deducted from CET1	0
E. Grandfathering provisions - Impact on CET1	0
F. Total Common Equity Tier 1 (CET1) (C–D +E)	**26,888,635**
G. Additional Tier 1 (AT1) capital gross of items to be deducted and effects of grandfathering	0
H. Items to be deducted from AT1	0
I. Grandfathering provisions - Impact on AT1	0
L. Total Additional Tier 1 Capital (AT1) (G-H+I)	**0**
M. Tier 2 (T2) capital gross of items to be deducted and effects of grandfathering	**0**
N. Items to be deducted from T2	0
O. Grandfathering provisions - Impact on T2	0
P. Total Tier 2 (T2) capital (M-N+O)	**0**
Q. Total own funds (F+L+P)	**26,888,635**

Reconciliation of net equity and common equity tier 1 capital is shown below:

Item	**Value as at 31/12/2015**
A. Shareholders' equity at 31/12/2015	**31,830,187**
B. Statutory reserve (unavailable)	(1,324,651)
C. Profit for 2015 not computable[1]	(3,611,868)
D. Intangible assets	(5,033)
E. Total Common Equity Tier 1 (CET1) (A+B+C+D)	**26,888,635**

As shown above, the Bank's regulatory capital consists entirely of CET1 items and, specifically, share capital, issue premium reserve and previous years' income (with the exception of the statutory reserve which is unavailable and the profit for the previous year) as positive aggregates and total intangible assets as the only negative aggregate.

[1] Profit not computable in that not approved or certified within the deadline for submitting the relevant supervisory reports (base Y submitted by 11/02/2015).

4. CAPITAL REQUIREMENTS

As part of the ICAAP, Banca Simetica measures its overall internal capital requirements for each pillar 1 risk, quantifying them as established by Banca d'Italia, in accordance with Regulation (EU) No. 575/2013 of 26 June 2013 (CRR) (implementing the guidelines of Basel III), and estimating its pillar 2 requirements (pre-settlement risk) based on the 3-day parametric VaR approach developed internally.

The total internal capital requirement is calculated using a building-block approach by adding together the capital for each risk factor that is measured.

Banca Simetica measures its capital requirements for Pillar 1 risks based on the principle of proportionality and according to the following approaches:
- market risk (which can be broken down into position risk and exchange rate risk): standardised approach;
- settlement risk: standardised approach;
- credit risk: standardised approach;
- operational risk: basic indicator approach;

The capital requirements thus calculated are summarised in the table below:

Type of risk	Pillar 1 at 31/12/2015	Pillar 2 at 31/12/2015
Position risk	131,482	
Exchange rate risk	89,415	
Settlement risk	17,064	
Pre-settlement risk		18,912
Counterparty risk	0	
Concentration risk	0	
Credit risk	842,746	
Operational risk	1,160,300	

Total internal capital	2,241,007	18,912
Own funds at 31/12/2015	26,888,635	26,888,635
Own funds at 31/12/2016[2]	29,707,013	29,707,013

[2] Forecast, estimation based on the 2014-2016 strategic plan

<u>RWA and capital ratios</u>	<u>Pillar 1 at 31/12/2015</u>
Risk-weighted assets	28,012,588
Common Equity Tier 1/risk-weighted assets (CET1 ratio)	95.99%
Own funds/Risk-weighted assets (Total capital ratio)	95.99%

The breakdown of the requirement for position risk is as follows:

<u>Type of risk</u>	<u>Pillar 1 at 31/12/2015</u>
General risk on debt securities	91,795
Specific risk on debt securities	39,687
Total capital requirement	131,482

The breakdown of the requirement for credit risk is as follows:

<u>Type of risk</u>	<u>Exposure at 31/12/2015</u>	<u>Capital requirement at 31/12/2015</u>
Exposures to central governments or central banks	1,584,403	0
Exposures to regional governments or local authorities	0	0
Exposures to public sector entities	0	0
Exposures to multilateral development banks	0	0
Exposures to international organisations	0	0
Exposures to entities	38,686,622	617,392
Exposures to corporations	0	0
Retail exposures	0	0
Exposures secured by mortgages on real estate	0	0
Exposures in default	0	0
Exposures associated with particularly high risk	0	0
Exposures in the form of covered bonds	0	0
Exposures presenting securitisation positions	0	0
Exposures to institutions and corporations with a short-term credit assessment	0	0
Exposures in the form of units or shares in collective investment undertakings	0	0
Equity exposures	0	0
Other items	2,817,735	225,354
Total exposures and capital requirement	43,088,760	842,746

5. EXPOSURE TO MARKET RISK

Banca Simetica uses the standardised procedure as established by articles 325-361 of Regulation (EU) No. 575/2013 (CRR) to measure its exposure to market risk.

At 31/12/2015 the capital requirement for this type of risk stood at € 237,961, as already stated in paragraph 5 of this disclosure. The Bank's market risk was entirely determined by risks on debt securities and exposures in foreign currency.

The activities of the Proprietary Trading department, the Bank's core business, mainly consist of arbitrage and market making strategies and investment of cash surpluses.

Market risk is monitored and managed by using structured portfolio limits.
As a general rule, each portfolio is linked to a specific trading or investment activity that uses the same instruments and functional logic.
Operating limits can be classified as follows:

- maximum liquidity limits allocated to each portfolio;
- overall net portfolio position limits (expressed in euros or using other clear, easy-to-read parameters such as the Greek "Delta" referring to a future or a relevant indicator for the activity to which the portfolio refers);
- maximum limits in terms of duration brackets (for all debt security portfolios);
- maximum limits for exposure by issuer;
- maximum limits for exposures in foreign currency.

There is also an extremely stringent maximum loss limit for all portfolios. If this limit is reached, all the contributing positions are closed.

Within the ICAAP, stress tests are of fundamental importance for estimating the Bank's overall internal capital.

Specifically, the Risk Management function carries out scenario analyses to measure possible losses linked to:

- flattening/steepening of or other non-parallel changes to the interest rate curve and impact on the bond portfolio;
- widening/tightening of the spread between the Bund and high risk securities;
- default of counterparties towards which the Bank is most exposed;
- default and/or deterioration of the credit rating of issuers towards which the Bank is most exposed;
- unfavourable changes in exchange rates;
- failure to deliver instruments for which the regulations of the markets on which they are traded envisage the use of a "buy-in" with the subsequent risk of loss deriving from the "replacement" of transactions that have already taken place with others at different prices.

6. EXPOSURE TO OPERATIONAL RISKS

Banca Simetica uses the basic indicator approach as established by articles 315-316 of Regulation (EU) No. 575/2013 (CRR) to measure its exposure to operational risk.

At 31/12/2015 the capital requirement for this type of risk stood at € 1,160,300, as already stated in paragraph 5 of this disclosure.

The Bank monitors this type of risk by:

- defining three levels of control for managing the most critical and potentially most likely errors that could harm the Bank;
- implementing, as part of its level one controls, "subsequent controls" within the same area designed to detect possible errors in all highly complex activities that could have a significant economic impact.

The procedures used are continually revised, under the coordination of the Organisation Manager. Organisational procedures are verified by the Compliance and Internal Audit functions before being approved by the Board of Directors or CEO.

The Bank adopts a specific set of procedures to control its exposure to legal risks.

As set out in the Risk Appetite Framework, the Bank is committed to maintaining a "zero risk" approach to this type of risk.
In pursuing this objective, activities are mainly focused on prevention and include, by way of example but not limited to:

- fostering a culture of risk and the involvement of everyone at the company in matters concerning risks;
- adopting a prudent approach towards new activities and a logic of "knowledge-based business", which has always characterised its method of operation;
- constantly reviewing procedures to ensure compliance with new legal or regulatory requirements, performed by all the functions concerned (including and above all the Compliance, Anti-Money Laundering and Internal Audit functions);
- drafting complete internal procedures so that these can be used as "guidance" for those responsible for functions that could be associated with a legal risk.

7. REMUNERATION POLICY

The Bank's staff remuneration policies[3] are defined in accordance with regulatory and supervisory provisions applicable to the sector, i.e.:

- Chapter 2 of Title IV, Part One of BKIT Circular No. 285 "Supervisory Regulations for Banks" of 17 December 2013 introduced by the 7th update published on 18 November 2014 implementing Directive No. 2013/36/EU of 26 June 2013 (CRD IV) relating to the remuneration policies and incentive schemes and practices of banks and banking groups;
- Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council, containing regulatory technical standards for identifying categories of staff whose professional activities have a material impact on the Bank's risk profile ("identified staff").

All of the Bank's corporate bodies take part, each within the scope of their powers and responsibilities, in the formulation, application and verification of monitoring of the measures adopted with regard to the remuneration and incentive systems.

The Shareholders' Meeting is responsible for:
- establishing the remuneration of the members of the bodies appointed thereby;
- approving the remuneration policy defined by the body entrusted with strategic supervision.

The Bank's Board of Directors is responsible for:
- defining the remuneration and incentive policy and submitting it to the Meeting;
- revising this policy on a regular basis (and in any case at least once a year);
- guaranteeing its correct implementation;
- ensuring that the remuneration policy is fully documented and available for consultation within the company.

The Board of Statutory Auditors, responsible for ensuring that the Bank complies with its legal obligations and with the bylaws as well as with the principles of correct administration, is also charged with evaluating the remuneration policy adopted by the Board of Directors, verifying its conformity with the regulatory framework and correct implementation.

The control functions work, each within their own sphere of competence, to guarantee the adequacy and legal compliance of the remuneration and incentive policy and its correct functioning.
More specifically, the Compliance function verifies the conformity of corporate incentive schemes with the applicable laws, the bylaws and the Bank's self-regulatory rules, in order to reduce exposure to legal and reputational risks to a minimum, especially those inherent in its relations with customers.
It also verifies the compliance of the remuneration policies with those approved by the Bank and with the applicable legal framework. These checks are performed at least once a year and the findings and any discrepancies are reported to the competent bodies.

Importantly, the Bank has conducted a self-assessment of its "identified staff", i.e. the categories of people whose professional activities have or could have a significant impact on its risk profile.

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[3] Pursuant to Banca d'Italia Circular No. 285 staff are members of boards with responsibility for strategic supervision, management and control, employees and co-workers of the Bank

In that respect, as established by paragraph 6, Section I, Chapter 2 of Title IV of Banca d'Italia Circular No. 285, the Bank has applied the provisions of Delegated Regulation (EU) No. 604 of 4 March 2014.
By carrying out this self-assessment, the Bank has been able to graduate its application of the entire set of rules according to the actual ability of each role to affect its risk profile.

The remuneration of the Board of Directors (including the CEO) and Statutory Auditors comprises a fixed component only.
The remuneration of the Chairman of the Board is consistent with his central role. It is determined by the Meeting and can never exceed the fixed component paid to the head of the management body (CEO).

Under the remuneration and incentives system, the remuneration of heads of the Bank's control functions is composed of a fixed remuneration and possibly also of a variable component. The variable component is assessed annually on the basis of qualitative and behavioural criteria, and is subject to the Bank as a whole attaining positive results.
The ratio between the variable and fixed components of the aforesaid remuneration may never exceed the limit established under paragraph 3, Section III, Chapter 2, Title IV of Part One of Banca d'Italia Circular No. 285.

The remuneration of managers and employees is composed of a fixed component and possibly also a variable component. The fixed component is appropriate to the technical and managerial skills attributed to each person in respect of their position in the Bank, and is defined in order to guarantee the continuity of business and pursue policies that promote fairness of pay within the company and competitiveness in the market.
The variable component is determined by the Board of Directors, which must satisfy itself that the incentive system:

1. takes due account of risk containment policies;
2. is sustainable and consistent with the Bank's long-term objectives and the overall system of governance and internal controls

and that the ratio between the overall salary and the variable component is carefully assessed.

For each member of staff, the Board of Directors has defined a limit for the variable component (payable over the year) with respect to the fixed component, any amount above which must be set aside and paid over the following three years, subject to certain conditions being met:

- correct conduct by the member of staff,
- the member of staff must remain with the company,
- the company must maintain sustainable capital levels.

The deferred variable component is thus subject to *ex post* adjustments (*malus* and claw back). As a result of these adjustments, the amount due may be reduced, even significantly, and even fall to zero under the following circumstances:

- conduct resulting in a significant loss for the Bank;
- fraudulent conduct or gross negligence that could damage the Bank;
- failure to comply with the Code of Ethics, the Code of Conduct or the Organisational, Management and Control Model (pursuant to Legislative Decree No. 231/01) approved by the Bank's Board of Directors.

The incentive system described above takes the risk weightings into account.
The activities undertaken by the various business areas are all performed within strict limits approved by the CEO and set forth in the "Risk Control Manual". This system of limits refers to the

risk tolerance levels defined in the Risk Appetite Framework approved by the Board of Directors with its resolution of 26 June 2014.

In the event of early termination of the employment contract, the only amounts due are those envisaged under the staff severance indemnity scheme.

The remuneration and incentives system adopted by the Bank has numerous functions, including those of (i) fostering compliance with the law and discouraging illegal behaviour; (ii) being consistent with the Bank's objectives, the corporate culture, overall governance and the system of internal controls; (iii) taking into due account risk control policies; (iv) not creating internal conflicts of interest; and (v) not discouraging compliance activities within the bodies and departments responsible for such activities.

***Ex post* disclosure on the implementation of remuneration policies for 2015** *(values in thousands of euros)*

information provided pursuant to sub-paragraphs d) and g) of article 450(1) of the CRR

Breakdown of remuneration in 2015 by business area			
	Area gross total *	Variable	Fixed
Business areas	790	366	424
Internal control functions **	209	20	189
Organisation and ICT	479	119	360

* the sum of the fixed and variable components of remuneration paid during the year to which the disclosure refers, not inclusive of the deferred variable portion not yet vested

** this area includes Administration and Accounting

information provided pursuant to sub-paragraph h) of article 450(1) of the CRR

Remuneration in 2015 broken down by categories of "identified staff"							
	Category gross total **	Variable	Fixed	Deferred	Vested	Unvested	No. Beneficiaries
Board of Directors	286	0	286	0	0	0	4
Members of staff whose professional activities have a material impact on the organisation's risk profile	250	80	168	66	2	64	3
Heads of internal control functions	139	18	121	0	0	0	3

* the sum of fixed and variable components of remuneration paid during the year to which the disclosure refers.

information provided pursuant to paragraph 1, Section VI, Chapter 2, Title IV, Part One of Banca d'Italia Circular No. 285 of 17 December 2013

Remuneration of the Chairman of the Board and of the Managing Director in 2015			
	Gross total	Variable	Fixed
Chairman and CEO	250	0	250

The above remuneration data refer to gross amounts.
All remunerations (including the variable component) were paid in cash.

8. LEVERAGE

Banca Simetica reported a leverage ratio of 48% at 31/12/2015, calculated in accordance with Regulation (EU) No. 575/2013 (CRR).

This exposure is determined by the ratio of capital to assets, the most important of which being cash exposures to counterparties and financial instruments, as shown in the table below:

Item	Value as at 31/12/2015
A. Own funds	**26,888,635**
B. Exposures to central governments or central banks	1,584,403
C. Exposures to entities	38,686,622
D. Exposures in financial instruments	12,597,591
E. Other items	2,822,767
F. Leverage (A / (B+C+D+E)	**48%**

Since Banca Simetica does not yet engage in financing activities and its trading operations do not envisage the use of borrowed capital, it is not substantially exposed to the risk of excessive leverage. Nonetheless, and in line with the Risk Appetite Framework, the Bank monitors this indicator to make sure that it remains at levels of absolute prudence. Monitoring consists of tests, performed every six months by the Risk Management function, to verify the levels of leverage deriving from the Bank's financial situation. The CEO is informed of the level of leverage through the risk dashboard (which is also drawn up every six months).