2.2 Capital adequacy

A. Qualitative information

Capital ratios, represented by the ratio between Common Equity Tier 1 (CET1) and risk-weighted assets (CET 1 capital ratio), between Tier 1 assets and risk-weighted assets (Tier 1 capital ratio) and between all own funds and risk-weighted assets (Total capital ratio) were recognised as 17.49% for all three indicators, since the own funds item is solely represented by primary elements. These ratios indicate a high level of capitalisation, with figures much higher than the regulatory supervisory established limits (specifically 4.5% for CET 1, 6% for Tier 1 and 8% for the total capital ratio), which is also confirmed with regard to the total requirement of 9.875%, and considering also the non-binding requirement for the capital conservation reserve (1.875%).
At 31 December 2018, existing risk assets showed the following capital absorption, determined using the methods dictated by the supervisory authorities:

- the weighted value at risk associated with credit risk amounted to € 110.7 million, absorbing 40.29% of total own funds;
- the weighted value at risk associated with market risk, generated by the portfolio of securities for trading, and for the currency exchange risk amounted to € 1.7 million, absorbing 0.60% of total own funds;
- the operating risk came to € 13.6 million, absorbing 4.85% of the same aggregate.

As a consequence, total capital absorption due to lending and financial intermediation amounts to € 128 million, or 45.74% of total own funds, with excess capital of € 151.8 million with respect to the standard binding requirements, while also considering the capital conservation reserve, excess capital comes to € 138.3 million.

Excess capital must also be considered after applying the additional Pillar 2 requirements determined after the supervisory review and evaluation (SREP) carried out by the Bank of Italy, which ended with an addition of 1.85% to the total minimum capital ratio requirement (with intermediate additions of +1.036% to the CET 1 ratio and +1.388% to the Tier 1 ratio). This recalculation shows a capital excess of € 92.2 million referring to the binding ratios.
The values shown place the Bank in very comfortable situation, considering that the Total Capital Ratio is over seven percent higher than that held binding (9.85%), thus including the effects of the SREP; the excess amount stands at almost six percent in respect of the total requirement (11.725%).

In order to ensure that binding requirements are complied with even in the case of the economic context deteriorating (stress assumptions), the Bank of Italy further stipulates that Total capital ratio must be maintained at 12.461%. So by also taking this additional requirement into consideration, the Bank is still at a level that is well above five percent.
Capital ratios, recalculated net of the transitory provisions introduced by Regulation (EU) 2017/2395, aimed at diminishing the impact of IFRS 9 on own funds, came in at 16.22% for the three indicators (*CET 1*, *Tier 1*, *Total capital ratio*), once again highlighting the high capitalisation levels.

In conclusion, we note that the amount of free capital is able to guarantee a wide basis for developing the company’s core business, whilst keeping adequate room to respect capital ratio requirements.

B. Quantitative information

Categories/Amounts	Non-weighted amounts		Weighted amounts/requirements	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
A. RISK ASSETS				
A.1 Credit and counterparty risk	2,431,668	2,481,952	1,409,250	1,383,699
1. Standardised methodology	2,431,668	2,481,952	1,409,250	1,383,699
2. Internal rating-based methodology				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			112,740	110,696
B.2 Credit measurement adjustment risk				
B.3 Adjustment risk				
B.4 Market risk			1,663	3,453
1. Standard methodology			1,663	3,453
2. Internal models				
3. Concentration risk				
B.5 Operating risk			13,570	13,828
1. Basic method			13,570	13,828
2. Standardised method				
3. Advanced method				
B.6 Other calculation elements				
B.7 Total prudential requirements			127,973	127,977
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			1,599,663	1,599,713
C.2 CET 1 / Risk-weighted assets (CET1 capital ratio)			17.49%	17.59%
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			17.49%	17.59%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			17.49%	17.67%