



**MONTE  
DEI PASCHI  
DI SIENA**  
BANCA DAL 1472

## **Programma ARGO 2**

Draft for discussion with JST

Siena, 18 ottobre 2018

# Timeline

- ✓ Argo 2 Program was set up on 14 January 2016 to address the n. 31 Recommendations formalized by ECB in the letter dated 30 November 2015 («Follow up Letter On-Site Inspection OSI- 2015-ITMPS-34-35»).
- ✓ On 6 October 2017 the Bank submitted to ECB the last quarterly update report with the status of the Recommendations as at 30 June 2017. As of that date Recommendation #31 was ongoing, in accordance with the related road-map, and all the other n. 30 Recommendations due on 31 December 2016 were completed except for Recommendation #12 and Recommendation #21.
- ✓ In the document prepared for the Board of Directors' meeting that will held on 18 October 2018 we state that all the Recommendations have been addressed and completed except for Recommendation #31 (due on 31 December 2018), for which the related activities are going ahead, with some deliverable being rescheduled.
- ✓ On 12 October 2018 we received from JST a draft document «OSI 34-35 follow-up and link with OSI 1238» that contains JST assessment of the status of the OSI 34-35 recommendations and the link to the new ones from the onsite 1238.
- ✓ JST's preliminary assessment is:
  - Recommendations #30, #31 are still open,
  - Recommendations #2, #6, #7, #8, #9, #10, #11, #12, #14, #16, #17, #20, #21, #23, #24 and #29 were partially addressed;
  - Recommendations #1, #3, #4, #5, #13, #15, #18, #19, #22, #25, #26, #27 and #28 are closed.
- ✓ It should be noted that some recommendations arising from the OSI 1238 reinforce and reiterate recommendations arising from OSI 34-35. The release as per the established deadlines of the deliverables scheduled in Argo 3 project, represents, therefore, a further element supporting the conclusion of the Argo 2 recommendations.
- ✓ In the following slides we presents tables showing the content of the JST communication and the related Bank comments (make reference to the last columns of the subsequent tables) taking into account, as explained above, the results achieved within Argo 3 project.

# Executive Summary (1/2)

- ✓ Recommendations #1, #3, #4, #5, #13, #15, #18, #19, #22, #25, #26, #27 and #28 are closed
- ✓ Out of the 2 recommendations stated as «open»:
  - Recommendation #30 is deemed completed with regards to the IT solutions put in place to address the recommendation identified by the OSI team. The implementations to be completed are part of the Recommendation #31;
  - Recommendation #31 are still open.
- ✓ Out of the 16 recommendations stated as «partially addressed»:
  - **7 recommendations** (#8, #9, #10, #11, #17, #24 and #29) are deemed completed taking into account the actions put in place to address and resolve Finding #6, #7 and #8 within Argo 3 project. The due date of these three findings was 30.06.2018 and the related quarterly update report will be sent to JST following the BoD approval. Finding #6 is still open only with regards to the IT implementations, which due date is 31.12.2018.
  - **3 recommendations** (#2, #6 and #16) are linked to Finding #1 and #7 from OSI 1238. With regards to Finding #7 please refer to the previous paragraph. With regards to Finding #1, the due date is 31.12.2018 and the activities are going ahead according to the planning.
  - **1 recommendation** (#7) is linked to Finding #3 from OSI 1238, which due date is 31.12.2018. Some issues are also linked to Finding #7 from OSI 1238 addressed and resolved within the due date of 30.06.2018.
  - **1 recommendation** (#21) for which an update of the issues arising from OSI 34-35 will be sent to JST following the BoD approvals. Moreover, JST linked this recommendation to Finding #4 of Argo 3 project, which due date is 31.12.2018 with regards to the subsidiaries.
  - **4 recommendations** with no link to Argo 3 project:
    - #12: the recommendation has been completed after the date of the last quarterly update report. We will send to JST an updated status of the results achieved following the BoD approval;
    - #14, #20 and #23 for which we confirm that the recommendations are deemed completed.

## Executive Summary (2/2)

- ✓ With regards to the OSI 34-35 recommendations linked to Finding #1 and #8, it should also be noted that, as indicated by JST in its Final Follow-up Letter, the quantitative impacts arising from Finding #1 and #8 would be monitored as part of the communication related to the SREP Decision of 19 June 2017 and, as a consequence, they are not part of Argo 3 project.
- ✓ The Bank's answer to the SREP Letter was sent to JST on 2<sup>nd</sup> March 2018.
- ✓ In the answer the Bank stated that:

*[...] Both on CFR portfolio and on the portfolio subject to Projection, the Bank accounted for, as of December 31, 2017, provisions higher than the ones requested by the Osi 1238. These interventions, as requested, has been verified by our external auditors.*

*[...]*

*After the review of the credit classification and assessment policies carried out in 2016 and 2017 and the adjustment to the sale price of the bad loans subject to securitization (Valentine transaction), the Bank increased the provisions from January 2016 to December 2017 (i.e. cost (d)) on the CFR portfolio by about 1.237 €/mln (+284 €/mln vs OSI request) and on the Projection portfolio by about 6.966 €/mln (+ 274 €/mln vs OSI request)."*

# OSI 34-35 recommendations – JST assessment and BMPS comments

| Recommendation | Remedial action required   | Deadline                                     | Statement of MPS  | JST Assessment   | Link to OSI 1238 | BMPS comments  |
|----------------|--|--|---|--|------------------|--|
| 1              | Complete the update and implementation of all the policies, operative guidelines and standards related to the new “loan accounting” and “loan management” policies.  | 31.03.16                                     | Full-scale rationalization of the internal regulatory system completed. Major policies were aligned among the group companies.  | The bank reported during the Sep 2017 meeting that the action is completed. In detail, all policies related to the Loan accounting and loan mgmt policies have been updated  | Closed           |  |
| 2              | Ensure for all credit portfolios that all facilities/debtors are properly classified and provisioned according to the new policies   | 31.03.16                                     | According to the bank, since June 2015, the new classification process has been gradually implemented in accordance with the loan management policy aimed at detecting and reclassifying positions presenting binding parameters and analyzing all positions with non-binding parameters alerted.   | The OSI 1238 report highlights that the use of the new parameters and the review of the portfolio by the bank based on new policies has been slow and incomplete. However, the bank has recently increased its coverage. This recommendation will be linked to OSI 1238.                     | (1)<br>(7)       | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #7 is deemed completed (ref to “OSI 1238-Argo 3- findings due on 30.06.2018”)</li> <li>Finding #1 is due within 31.12.2018<br/>As indicated by you, the impacts arising from Finding #1 would be monitored as part of the communication related to the SREP Decision and, as a consequence, are not part of Argo 3 project.</li> </ul> |
| 3              | Establish a clear definition of the mandates of the different units of the Credit Division and the Risk Management Division and how they should be interlinked, avoiding inefficiencies and promoting a smooth functioning of the two levels of control. | 31.03.16                                     | The bank has reviewed 2 main policies:<br>- 1114 Risk management policy introducing a framework for 1st and 2nd level of control<br>- 2106 Group credit exposure monitoring management specifying the responsibilities of 1st and 2nd level of control  | The policies D02002 and D02128 define the respectively the first and second level of controls performed by Credit and Risk management functions on credit portfolio. The JST has a positive assessment of the new policies as the roles of 1st and 2nd level control are now better defined. | Closed           |  |
| 4              | Reinforce the second level monitoring of credit (Risk Management), providing it with effective control/intervention tools and an adequate staffing.  | 31.03.16, 30.06.16 for subs, 31.12.16 for IT | The bank increased the headcount of the second control unit from 4 to 12 people. In addition, internal controls documentation and manuals were prepared. A risk catalogue for the selection of relevant controls was upgraded to identify 25 new controls to be run by second level monitoring. The Risk management policy was upgraded to introduce the general framework for 1st and 2nd level of controls. | According to the policy 2126, documents and the discussion during the JST meetings, the bank has addressed the recommendation.   | Closed           |  |
| 5              | Finalise the full implementation of the AQR remedial actions   | n.a.   | n.a.  | n.a.   | Closed           |  |

# OSI 34-35 recommendations – JST assessment and BMPS comments

| Recommendation | Remedial action required  | Deadline  | Statement of MPS  | JST Assessment  | Link to OSI 1238 | BMPS comments  |
|----------------|---|---|---|---|------------------|--|
| 6              | Ensure that the exposures in the portfolios SME and Other Retail are correctly classified and provisioned according to the new policies   | 31.03.16  | The Argo project team reported in Jan.17 to have successfully addressed the issues.   | The OSI 1238 team reported the non well functioning monitoring processes as one of the root causes for misclassification and late default detection.  | (1)<br>(7)       | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #7 is deemed completed (ref to "OSI 1238-Argo 3- findings due on 30.06.2018")</li> <li>Finding #1 is due within 31.12.2018 As indicated by you, the impacts arising from Finding #1 would be monitored as part of the communication related to the SREP Decision and, as a consequence, are not part of Argo 3 project.</li> </ul> |
| 7              | Implement more clear guidelines for classification and provisioning in SME and Other retail, assuring its homogeneous application. Provisioning should be based on guaranties only in the case that their value can be reliably obtained and their link to the facility/debtor ascertained. | 30.06.16 + IT solution related to guaranties 31.12.16 | The bank confirmed that from an accounting perspective that the distribution of the collateral value among the many facilities is effective since Feb 16. The IT solution was implemented by YE16.  | From the documents of the bank there is partially contrasting evidence with the outcome of OSI 1238. While OSI 1238 points to still not appropriate use of the reclassification parameters and to much dependencies on the manual workflows, the bank reported in 2Q16 meeting that new processes are delivering good results.  | (3)              | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #7 is deemed completed (ref to "OSI 1238-Argo 3- findings due on 30.06.2018")</li> <li>Finding #3 is due within 31.12.2018</li> </ul>  |
| 8              | Reassess whether the long indicative times (parametri non vincolanti) of permanence in past due (18 months) and incagli (36 months) ensure the timely recognition of deteriorating situations and provisioning needs and take the necessary actions as a result of this assessment.         | 31.03.16  | MPS drew up an ad-hoc report and shared it with the external auditor setting out the reasons why the times of permanence used as non binding parameters can be considered suitable for a timely recognition of deteriorating situations.  | Despite data provided by the bank, long permanence in default status together with the provisioning criteria have led to severe findings in the OSI 1238.   | (7)              | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #7 is deemed completed (ref to "OSI 1238-Argo 3- findings due on 30.06.2018")</li> </ul>   |
| 9              | Reduce the degrees of discretion of the organizational units (gestori) and avoid misalignments in classification and impairment   | 30.06.16 + subs 31.12.16                              | To reduce the discretion of the organizational units and to ensure the homogeneous application of loan classification and assessment guidelines formal discussion and information-sharing procedures have been established at network level (so-called "Operating Tables"). The Bank does not deem necessary to add further binding criteria for loan classification or assessment management, which is considered appropriate. | OSI 1238 found that the process of default detection is still not functioning properly (Finding 7). Particularly OSI 1238 found that the discretion of relationship managers is still relevant in reclassification of performing exposures. Early warning system has been implemented. After OSI 1238 the bank changed the processes and further reduced the degree of discretion of the relationship managers. However, the JST is still concerned of the discretionality in classification. | (7)              | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #7 is deemed completed (ref to "OSI 1238-Argo 3- findings due on 30.06.2018")</li> </ul>   |

# OSI 34-35 recommendations – JST assessment and BMPS comments

| Recommendation | Remedial action required  | Deadline | Statement of MPS  | JST Assessment   | Link to OSI 1238 | BMPS comments   |
|----------------|---|----------|---|--|------------------|---|
| 10             | Establish and implement more conservative guidelines to calculate impairment of unlikely to pay category, in addition to the haircut for outdated appraisals, reducing discretion in provisioning.  | 31.03.16 | The Bank implemented a specific tools to help the resources involved in determining provisioning of positions subject to individual assessment. IA found that the tool is not used in 25% of the cases and the bank should improve its monitoring of the use of the tool in provisioning.                                   | The introduction in the policies of a clear definition of going and gone concern and the roll out of a tool for the gone concern assessment is a positive step towards the resolution of the issue. However, the IA found that the application of such tools is not still at acceptable percentages in the bank. In addition, OSI 1238 found room for further improvements in provisioning of UtP (finding 8). | (8)              | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #8 is deemed completed (ref to "OSI 1238-Argo 3- findings due on 30.06.2018")</li> <li>As indicated by you, the impacts arising from Finding #8 would be monitored as part of the communication related to the SREP Decision and, as a consequence, are not part of Argo 3 project.</li> </ul>  |
| 11             | Establish and implement more conservative provisioning rates for sofferenze unsecured (no collateral or ineffective collateral) than the ones used in the "manoeuvre", especially for old vintages, and include them in the policies, so that they are applied consistently throughout the Group. | 31.03.16 | The Bank updated its Group policy on loan classification and assessment also on the basis of information reported in the response to Recommendation # 19 (increasing threshold below which statistical assessments can be applied). The current provisioning level for unsecured sofferenze with vintage of 5 years is 90%. | While there are improvements versus the situation pre OSI 34-35, the evidences of OSI 1238 prove that the provisioning guidelines were not conservative enough.  | (8)              | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #8 is deemed completed (ref to "OSI 1238-Argo 3- findings due on 30.06.2018")</li> <li>As indicated by you, the impacts arising from Finding #8 would be monitored as part of the communication related to the SREP Decision and, as a consequence, are not part of Argo 3 project.</li> </ul>  |
| 12             | Upgrade and update data bases to include all relevant information about collaterals.  | 31.12.16 | At the expire date, the bank informed the JST that the activities are still ongoing due to issues in recovering the information for a set of existing mortgages (30% not available yet, 20% to be still digitalised). The complex plan is ongoing and the Collegio Sindacale also reported that there is a delay            | Delayed as reported by the bank  | No link          | <ul style="list-style-type: none"> <li>The Recommendation was completed after the date of the last quarterly update report. As of today: <ul style="list-style-type: none"> <li>✓ The centralization of the stock of mortgage loans in scope has been completed</li> <li>✓ All documents archived in the branches have been centralized within the outsourcer for the scanning, data quality and storage.</li> <li>✓ The Bank completed the digitalisation of documents for 368.000 mortgages out of a total of 380.000 mortgages in scope (97% of mortgages in scope) and the integration of the set of information in the Bank IT System is being completed.</li> </ul> </li> </ul> |

# OSI 34-35 recommendations – JST assessment and BMPS comments

| Recommendation | Remedial action required   | Deadline | Statement of MPS   | JST Assessment  | Link to OSI 1238 | BMPS comments  |
|----------------|--|----------|--|---|------------------|--|
| 13             | Optimize the management of existing appraisals in a way that they can be easily accessible when needed for credit monitoring work-out or classification/provisioning review.   | 31.12.16 | The Bank improved the availability of appraisal documents, managers now have access to supporting documentation in digital format.   | The JST is satisfied with the evidence provided in the 3Q17 meeting. However, we highlight that the added value of this improvement is affected by the delays on RMP 12.  | Closed           |  |
| 14             | Ensure that collateral values are updated on a periodic basis as laid down in article 208 CRR, by generalising the use of third parties appraisals. In addition, the Bank must ensure the use of yearly updated third parties appraisals for all Non Performing Exposures and High Risk exposures.             | 30.06.16 | A new process has been set up and is defined in the document D1656, updated on February 2017.<br>The subsidiaries have transposed the process above in the following two policies: documents D155 for Leasing and Factoring and D339 for Capital Services. | The solution presented by the bank seems to work only for high exposure positions. The process described in chapter 7 of policy 1991 does not fully ensure the timely recognition of impairments. A specific JST meeting is needed to clarify how the statistical or online appraisals are used for such positions below threshold. | No link          | <ul style="list-style-type: none"> <li>We confirm that RA 14 arising from OSI 34-35 is deemed completed.</li> <li>We are at your disposal for the specific meeting requested by you, during which we will also explain the CRM policy adopted by the Bank in addition to policy 1991.</li> </ul>   |
| 15             | Amend the policies in order to clarify and ensure the need for appraisals in loans collateralised by goods/works subject to degree of progress (real estate, shipping...). Disbursements of new advances should be supported by updated appraisals according to the certified degree of progress of the works. | 31.03.16 | The bank has updated the relevant policies (3210D00122, 3210D00134, 1004D0055, 1004D0292). In addition a new IT tool was implemented for the management of loans collateralised by works in progress. IA confirmed that the action is closed.              | The bank updated the policies and improved the IT tools. The specific item for which the finding was raised can be remediated   | Closed           |  |
| 16             | Upgrade and update data bases to ensure that all relevant information is taken into account in the monitoring of credit and allow a prompt identification of impairment.   | 30.09.16 | The bank informed the JST that all the new parameters for default detection have been included in the IT system (either directly or indirectly providing the information needed to calculate the manual ones)  | OSI 1238 found that some parameters, like DSCR, did not work in the IT system, contrary to the information provided by the Bank.  | (1)<br>(7)       | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #7 is deemed completed (ref to "OSI 1238-Argo 3- findings due on 30.06.2018")</li> <li>Finding #1 is due within 31.12.2018<br/>As indicated by you, the impacts arising from Finding #1 would be monitored as part of the communication related to the SREP Decision and, as a consequence, are not part of Argo 3 project.</li> </ul> |



# OSI 34-35 recommendations – JST assessment and BMPS comments

| Recommendation | Remedial action required  | Deadline | Statement of MPS   | JST Assessment   | Link to OSI 1238 | BMPS comments   |
|----------------|---|----------|--|--|------------------|---|
| 17             | Complete the organizational and procedural changes within the first level monitoring of credit and effectively enforce deadlines for the intervention of the relationship managers. | 31.03.16 | The Bank has implemented changes to the policies 1991 and 2002 in order to improve the first line of controls and set stricter deadlines for the actions of the relationship managers. Such actions also impacted on the IT systems of the Bank  | In previous meetings it was reported that there were delays in the timely reaction of the relationship manager following the hit of impairment triggers. The understanding of the JST was confirmed by OSI 1238, para 72 and 73. | (7)              | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #7 is deemed completed (ref to "OSI 1238-Argo 3- findings due on 30.06.2018")</li> </ul>                            |
| 18             | Refine the early warning system (IRA) to assure a prompt identification of impaired loans, so that its timely management and reclassification is assured.                           | 30.06.16 | The Bank reviewed the IRA predictive capability and the algorithm in order to reinforce the capability to detect risky positions, creating coherence with the classification process provided for in the Group policy on loan classification and assessment (automated interception criteria). The regulations about Credit Monitoring have been updated with introduction of the new IRA and the new SRA. The SRA is an early warning system based on three drivers (IRA, parameters, overdrafts) which ensures the prompt detection of critical clients. The new IRA is also available in the IT systems | The new IRA criteria improve predicting power, in addition a new SRA indicator was introduced to broaden early detection of worsening. New watchlist is based on IRA, parameters and 20 days past due.                           | Closed           |   |
| 19             | Complete the review of the local recovery units and the rationalization of external legal counsels.   | 31.03.16 | <ul style="list-style-type: none"> <li>-Introduction and regulation of the new "legal network coordinator" within the "Direzione Crediti e Asset Problematici";</li> <li>-Establishment of a new legal agreement;</li> <li>-New IT features released to manage the new agreement;</li> <li>-Go-live of new agreement as at 31.03.2016.</li> </ul>  | The network of legal counsels was updated and it is properly running since 2016. The new organisational model was rolled out to the bank.  | Closed           |   |
| 20             | Avoid inefficiencies in the work out process by introducing and implementing the necessary policies which avoid delays in recovery.   | 30.06.16 | The bank is delayed due to the implementation of the strategic decisions related to the NPL portfolio, including the outsourcing of the NPL management to the Sirio platform. The process was completed in 1H18.   | The JST is awaiting more detailed information on the performances of Sirio before assessing the closure of this recommendation.  | No link          | <ul style="list-style-type: none"> <li>We confirm that RA 20 arising from OSI 34-35 is deemed completed especially considering the Juliet Platform starting on May 2018.</li> </ul> |

# OSI 34-35 recommendations – JST assessment and BMPS comments

| Recommendation | Remedial action required   | Deadline               | Statement of MPS   | JST Assessment  | Link to OSI 1238    | BMPS comments  |
|----------------|--|------------------------|--|---|---------------------|--|
| 21             | Integrate MPSCS and MPST&F in the processes of BMPS (granting, monitoring and work-out) including IT tools, assuring the correct application of the policies throughout the group. | 31.12.16               | The bank does not currently plan a full integration of MPSCS and MPST&F systems with those of the parent, some workflows that will remain specific to the subsidiaries.<br>The bank reported that the most important policies have been aligned at Group and Sub level (1991, 2002, 2133).<br>A manual process was implemented to check the classification of loans at sub level but monitoring process is still just manually integrated for MPS CS.  | The Bank is delayed, also due to strategic decisions on the incorporation of subsidiaries into the parent company or disposal.  | Partial link to (4) | <ul style="list-style-type: none"> <li>Finding #4 is deemed completed with regards to the Parent Company only (ref to "OSI 1238-Argo 3 - completed findings sent on 24 July 2018).</li> <li>The deadline for the subsidiaries' integration is 31.12.2018.</li> </ul> |
| 22             | Ensure group-wide risk management including the subsidiaries in the bank's risk management and control frameworks.   | 30.06.16 + IT 31.12.16 | The bank has updated the relevant policies and tasked the Servizio Controllo Esposizioni Creditizie of carrying out controls for the entire Group. In addition, IT tools were extended to the subsidiaries   | The JST is happy with the actions implemented.  | Closed              |  |
| 23             | Update policies to ensure a sound use of moratorium as a tool for credit management with the objective of optimizing recovery.   | 31.03.16               | The bank introduced a new policy, 2094, to formalise criteria for the use of moratorium on top of the general rules already presented in the policy 1991. While policy 1991 explains the criteria for classification of forborne exposures, the policy 2094 details the criteria for granting moratorium. In this policy the bank lists the most important cases for the client being eligible for moratorium. In any case, the criteria for the assessment are linked to other policies (e.g. rata reddito assessment) or to manual calculation of the relationship manager (for corporates). | The JST is not fully convinced that this policy improves the use of moratorium. A specific follow-up meeting will be set concerning the topic of forbearance also to discuss the current framework of the Bank. For the moment, the Recommendation remains open with no link. | No link             | <ul style="list-style-type: none"> <li>We confirm that RA 23 arising from OSI 34-35 is deemed completed.</li> <li>We are at your disposal for the specific meeting requested by you</li> </ul>   |

# OSI 34-35 recommendations – JST assessment and BMPS comments

| Recommendation | Remedial action required   | Deadline | Statement of MPS   | JST Assessment   | Link to OSI 1238 |  |
|----------------|--|----------|--|--|------------------|--|
| 24             | Establish reinforced monitoring tools with respect to moratorium exposures and forbore exposures in general (also during probation period), in order to ensure a level of provisioning which is consistent with the actual credit quality of the affected exposures avoiding delays in the accounting recognition of non-performing exposures. The reinforced tools should address workout, early identification of impaired exposures, classification, provisioning, rating and collective provision. | 31.03.16 | The bank presented the new policies and IT tools implemented for the detection of forbearance. Particularly, also in relation to the NPL TF, the bank presented a new IT workflow that, according to them, makes the detection of forbearance quasi-automatic (e.g. it is not possible to grant forbearance measure without using a specific product that classifies the exposures as such). | Despite introducing a new policy, the IT workflow does not introduce as much control as it is needed. Particularly for corporates, most of the assessment is still done on paper and the relationship manager is responsible for the final decision. In addition, OSI 1238 and IA pointed out that, based on sampled files, forbearance is not always correctly detected | (6)              | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #6 is deemed completed with regards to controls and Policy (ref to "OSI 1238-Argo 3 - completed findings sent on 24 July 2018 for controls and ref to "OSI 1238-Argo 3- findings due on 30.06.2018" for the Policy).</li> <li>The deadline for the IT solution is 31.12.2018.</li> </ul> |
| 25             | Include the Credit File Review results in the Financial Accounts.  | 31.12.15 | The results of the Credit File Review were included in the Consolidated interim report.  | Provisions recorded as per JST request.  | Closed           |  |
| 26             | Assess, together with the external auditors, the inclusion of the projected additional provisions in the reviewed portfolios..   | 31.12.15 | As at 31 December 2015, additional provisions had been recorded in the projected portfolios.   | Provisions assessed as per JST request.  | Closed           |  |
| 27             | Improve the links between managerial systems and financial accounting applications in order to ensure consistency and to avoid potential divergences among them.   | 30.06.16 | The misalignments in classification detected in the regulatory system were solved at the end of 2015. The periodical monitoring of misalignments aims at intercepting, analysing and solving any divergences of classification in the regulatory system.   | The OSI 1238 report confirms that the issue is solved, but the bank has still to fully account on EaD the On-balance remaining exposure from interest deferred payments.   | Closed           |  |

# OSI 34-35 recommendations – JST assessment and BMPS comments

| Recommendation | Remedial action required  | Deadline | Statement of MPS   | JST Assessment   | Link to OSI 1238 |  |
|----------------|---|----------|--|--|------------------|--|
| 28             | Recalibrate the risk parameters of the internal model for collective provisioning for all portfolios considering AQR findings. Once recalibrated, recalculate the overall collective provision to be accounted for.   | 31.12.15 | All PD and LGD models were updated using available data as at 31 January 2015. This activity ended with the Basel and Risks Committee's approval as of May 2015, with subsequent adoption of the new risk parameters from the June 2015 data.  | Actions were confirmed by IMI 40 report.   | Closed           |  |
| 29             | Update the policies to ensure the consistent application of time to recovery in all impaired exposures (especially for those with business plan drafted by gestori), based on the effective timeframes of the Bank, adapted to the Bank's historic experience in work-out within the Italian legal proceedings (e.g. relevance of both the incomplete workout and the old vintages in the NPL portfolio). | 31.03.16 | The Bank updated the Group policy on loan classification and assessment so that the average collection times - calculated on the basis of the Bank's past experiences with legal procedures in Italy - will become binding for the managers, and allowing waivers only when more precise information is available (check allegato 2 to policy 1991). The application of the new parameters was carried out according to a roll-out plan. | The JST was skeptical on the possibility of the time to recovery contained in Allegato 2 to be enforceable. Indeed IA analysis found a large share of positions with shorter time to recovery compared to what is foreseen by the policy 1991. The subsequent findings of OSI 1238 led the JST to conclude that more was to be done in this respect. | (8)              | <ul style="list-style-type: none"> <li>As at 30.06.2018 finding #8 is deemed completed (ref to "OSI 1238-Argo 3- findings due on 30.06.2018")</li> </ul> |
| 30             | Put in place IT solutions to address the list of issues identified by the Inspection along the credit cycle implementing, when necessary, binding workflows for the operational units and ensuring that all the relevant information is available to managers.  | 31.12.16 | According to the latest updated on ARGO IT, many projects were to be completed by YE 2018.   | Pending further information on the status of the project.  | No link          | <ul style="list-style-type: none"> <li>Make reference to recommendation #31</li> </ul>   |
| 31             | Review the ability of the IT system within the bank to support credit processes and risk management and define and implement a structural solution accordingly.   | 30.06.17 | Due to the strategic projects of the Bank, this activity has been postponed to YE2018  | Pending further information on the status of the project..   | No link          |  |