Pillar 3 Disclosure

Update as at
31 March 2014

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Pillar 3 Disclosure

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G R U P P O M O N T E P A S C H I

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Company Head Offices in Siena, Piazza Salimbeni 3, www.mps.it
Recorded in the Siena Company Register – Registration no. and tax code 00884060526
Member of the Italian Interbank Deposit Protection Fund. Bank Register no. 5274
Monte dei Paschi di Siena Banking Group, registered with the Banking Groups register

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Introduction

The New Regulations for the Prudential Supervision of banks and banking groups entered into force as of 1 January 2014. The regulations aim to align national requirements with the changes introduced to the International regulatory framework, particularly the European Union's New Regulatory and Institutional Framework for Banking Supervision.

The new regulatory package, commonly known as the "Basel 3 framework" is governed by the:

- ✓ CRR – Capital Requirements Regulation (EU) 575/2013 of the European Parliament and Council of 26 June 2013 regarding prudential requirements for credit institutions and investment firms, which amends Regulation (EU) 648/2012;
- ✓ CRD IV – Capital Requirements of the European Parliament and Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

The regulatory package includes application criteria, set out in the Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) adopted by the European Commission, upon the proposal of the European Supervisory Authorities.

At national level, the new harmonised framework has been implemented by Bank of Italy with:

- ✓ Circular 285 of 17 December 2013 – Supervisory Provisions for Banks;
- ✓ Circular 286 of 17 December 2013 – Instructions for Prudential reporting for banks and securities' firm;
- ✓ Circular 154 of 22 November 1991 – 53rd Update, 1 April 2014 – Supervisory reports of banks and financial institutions. Reporting templates and instructions for transmission of information flows.

The new regulatory framework aims to improve the ability of banks to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen the bank's transparency and disclosures, while taking into account developments from the financial crisis.

The Basel Committee has maintained a three Pillars-based approach which was at the basis of the previous capital accord known as "Basel 2", but has integrated and strengthened it to increase the quantity and quality of banks' capital base and introduce countercyclical supervisory tools as well as new standards for liquidity risk management and financial deleveraging.

More specifically, Pillar 3 was designed on the notion that Market Discipline can be harnessed to reinforce capital regulation to promote stability and soundness in banks and financial systems.

Pillar 3, therefore, aims to complement the minimum capital requirements (Pillar 1) and supervisory review process (Pillar 2) by developing a set of transparent disclosure requirements which will allow market participants to have access to key, fully comprehensive and reliable information on capital adequacy, risk exposures and risk identification, measurement and management processes.

Public Disclosure (Pillar3) is now governed directly by European Regulation no. 575/2013 of 26 June 2013 of the European Parliament and Council, Part 8 and Part 10, Title I, Chapter 3 (hereinafter referred to as "The Regulations" or "CRR").

The previous Regulations (Bank of Italy Circular 263/06, Paragraph IV) along with the reporting templates and rules provided therein are to be considered no longer applicable.

Under the new regulations, the CRR requires banks to publish information at least on an annual basis along with their financial statements and to evaluate the need to publish some or all disclosures more frequently than once a year depending on their specific activities.

Pending the EBA's release (as required by the CRR) of general guidelines by 31-12-2014 as well as the evaluation by institutions of the need for more frequent disclosure, the Montepaschi Group shall continue to publish its Pillar 3 Disclosure on a quarterly basis, providing information on Capital and Capital Adequacy (in continuity with former tables 3 and 4 required by previous regulations).

The current document, therefore, provides an update as at 31 March 2014 of quantitative data contained in the tables regarding the Breakdown of Regulatory Capital and Capital Adequacy, respectively.

For additional information not contained in this document, particularly regarding the general, organisational and methodological aspects relating to the different types of risk, please refer to the Annual Report as at 31 December 2013.

The current update introduces the new information templates required by the Basel 3 framework and reports pro-forma values as at 31-12-2013, restated solely for comparative purposes.

Finally, it should be noted that the timing of this quarterly publication of Pillar 3 Disclosure is aligned with that of the Financial Statements and is thus in advance of the corresponding Consolidated Supervisory Report which, for this first-time application, has been delayed to 30-06-2014. Considering the timing mismatch between publication requirements for Pillar 3 Disclosure and the corresponding consolidated Supervisory report, some of the values contained herein may still be subject to further modification or recalculation. For this reason, data is presented in a more aggregated and concise form with respect to previous disclosures.

Pillar 3 Disclosure is prepared at consolidated level by the Parent Company.

Unless otherwise indicated, all the amounts in this report are stated in TEUR (thousand Euros).

The Montepaschi Group regularly publishes its Pillar 3 disclosure on its website at: www.mps.it/Investor+Relations.

Own Funds

Table 1 - Own Funds

	31/03/2014*	31/12/2013**
Common Equity Tier 1 (CET1) - elements and tools	6,036,631	7,136,919
Common Equity Tier 1 (CET1) - prudential filters***	4,827,891	5,169,378
Common Equity Tier 1 (CET1) - negative and deductible elements	-2,080,193	-3,380,707
Common Equity Tier 1 (CET1) - TOTAL	**8,784,329**	**8,925,590**
Additional Tier 1 Capital (AT1) - elements and tools	539,127	539,127
Additional Tier 1 Capital (AT1) - negative and deductible elements	-539,127	-539,127
Additional Tier 1 Capital (AT1) - TOTAL	**-**	**-**
TIER 1 Capital - TOTAL	**8,784,329**	**8,925,590**
Tier 2 Capital (T2) - elements and tools	4,089,787	4,307,820
Tier 2 Capital (T2) - negative and deductible elements	-772,176	-800,028
Tier 2 Capital (T2) - TOTAL	**3,317,611**	**3,507,792**
Own Funds Total	**12,101,940**	**12,433,382**

** Estimated Data*
*** Recalculated Data for comparative purposes only*
**** This aggregate comprehends the amount of EUR 4,071 million relating to New Financial Instruments, as at 31 March 2014 and 31 December 2013*

The introduction of Basel 3 regulations is subject to a transition period that extends the full application of the rules to 2019 (2022 for the phase-out of certain capital instruments) and during which the new rules will be applied in an increasing proportion.

Regulatory capital, an element of Pillar 1, is therefore calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and related integrations, by the Capital Requirements Directive (CRD IV), by Regulatory Technical Standards and Implementing Technical Standards issued by the EBA, and by supervisory instructions issued by Bank of Italy (specifically, Circular nos. 285 and 286).

Regulatory reporting relative to 31 March 2014 must be submitted by the reporting date of 30 June 2014, which is later than the more stringent deadlines originally envisaged. The introduction of a body of regulations that is significantly changed with respect to existing regulations, and for which the specifics of the new rules have yet to be established, requires time to adjust the calculations. Thus the Bank used estimates for the quantitative information below.

As previously stated, the data as at 31 March 2014 represent the Bank's best estimate based on the application of the new rules envisaged by CRR and CRDIV.

In the first quarter of 2014, total Own Funds registered a decrease of EUR 331.4 mln, standing at EUR 12,101.9 mln, against a pro-forma value of EUR 12,433.4 mln at the end of 2013.

The reduction in Own Funds includes a decrease of EUR 141.3 mln in CET1 and a decrease of EUR 190.2 mln in Tier 2 (T2).

CET1 decreased to EUR 8,784.3 mln compared to a pro-forma value of EUR 8,925.6 mln at the end of 2013. At the same date, T2 decreased by EUR 190.2 mln, totalling EUR 3,317.6 mln, compared to EUR 3,507.8 mln, pro-forma, at the end of 2013.

As at 31 December 2013, the official data, calculated according to the previous regulatory framework, for T1, T2 and regulatory capital was EUR 8,973 mln, EUR 3,865 mln and EUR 12,838.6 mln, respectively.

Below is a description of the different elements of Own Funds with a focus on the most relevant aspects for the Group.

The Bank's Own Funds is made up of the following:

- ✓ Tier 1 (T1) capital, consisting of:
  - o Common equity Tier 1 (CET1);
  - o Additional Tier 1 (AT1);
- ✓ Tier 2 (T2).

As with other regulatory indicators, capital is subject to specific transition rules. Therefore, there are full application requirements and transition requirements.

Common equity Tier 1 (CET1)

Full application requirements

Common equity Tier 1 (CET1) mainly consists of:

- Share capital;
- Share premium reserve resulting from the calculated share capital;
- Retained earnings;
- Valuation reserves.

The requirements for including capital instruments in CET1 are very stringent. They include:

- Instruments must be classified as equity for accounting purposes;
- The nominal amount cannot be reduced except in cases of liquidation or discretionary repurchases by the issuer, with the appropriate authorisation by the Supervisory Authority;
- They must have infinite duration;
- The issuer is not obliged to distribute dividends;

- The issuer can only distribute dividends from distributable profits;
- There can be no preferential treatment in distributions, unless as a reflection of different voting rights;
- There are no caps on distribution;
- Cancellation of distributions does not result in restrictions on the issuer;
- With respect to issued capital instruments, CET1 instruments absorb firstly, and a proportionally greater amount of, the losses in the moment that they are incurred;
- They represent more subordinated instruments in the event of the Bank's bankruptcy or liquidation;
- The holders have the right to the issuer's residual assets in the event of the issuer's liquidation;
- They are not subject to guarantees or contractual provisions that increase their seniority.

The CET1 calculation excludes the valuation reserve generated by cash flow hedges and the gains/losses from changes in the Bank's credit standing (fair value option liabilities and derivative liabilities).

Furthermore, CET1 includes additional value adjustments (so-called "prudent valuation"). These adjustments are made to fair value exposures in the financial statements and must include the uncertainty of the parameters (model risk, cost of closure, etc.) and potential future costs (operating risks, concentration risk, liquidity risk, etc.). The adjustments vary according to the financial instruments' classification as Level 1, 2 or 3.

In addition to these components, which represent the prudential filters, CET1 is subject to the following deductions:

- Loss for the year;
- Intangible assets, including the goodwill implicit in the equity investments under significant influence or joint control, valued according to the equity method;
- Tax assets that are based on future profitability and do not derive from temporary differences (tax losses);
- Deferred tax assets that depend on future profitability and derive from temporary differences (net of the corresponding deferred tax liability). On the other hand, deferred tax assets that do not depend on future profitability and can be transformed into tax credits as per Law no. 214/2011 are not deducted. Instead, these latter assets are included in RWA and weighted at 100%;
- Deferred tax assets associated with multiple tax alignments of the same goodwill item for the portion that has not yet been transformed into current taxes;
- The surplus of expected losses on portfolio

impairments validated for purposes of adopting the AIRB internal rating system (so-called “expected loss delta”);

- Direct, indirect and synthetic investments in the Bank’s own CET1 instruments;
- Insignificant direct, indirect and synthetic investments in CET1 instruments of financial institutions;
- Significant (>10%) direct, indirect and synthetic investments in CET1 instruments of financial institutions;
- Qualified equity investments (>10%) in non-financial businesses;
- Any deductions in excess of the AT1 instruments.

Deductions for equity investments in financial institutions and deferred tax assets are applicable only for the portion that exceed established CET1 thresholds, known as exemptions, according to the specific mechanism described below:

- Insignificant investments in CET1, AT1 and T2 instruments of financial institutions are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to direct, indirect and synthetic investments in CET1 instruments of financial institutions, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in non-financial businesses;
- Net deferred tax assets that depend on future profitability and derive from temporary differences are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in non-financial businesses;
- Significant investments in CET1 capital instruments of financial institutions are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in non-financial businesses;
- Amounts not deducted as a result of the 10% exemption of significant investments

in CET1 capital instruments of financial institutions and net deferred tax assets that depend on future profitability and derive from temporary differences, added together, are deducted only for the portion that exceeds 17,65% of the CET1 that is obtained after applying the prudential filters and all deductions, including investments in financial institutions and deferred tax assets, with the exception of any deductions in excess of the AT1 capital instruments.

Amounts not deducted as part of the exemptions are included in the RWA with 250% weighting.

Non-controlling interests are calculated in CET1 to the extent to which they cover the corresponding minimum capital requirements of the subsidiary. Hence, any excess cannot be included in the CET1 calculation.

Finally, note that Bank of Italy announced the adoption of specific provisions against Banca Monte dei Paschi di Siena under articles 53 and 67 of Legislative Decree no. 385/93 for regulatory treatment of the transaction known as Fresh 2008. This resulted in the exclusion from the CET1 calculation of the share of Fresh notes falling under the indemnity issued by the Bank to Bank of New York S.A. The negative impact on CET1 as at 31 March 2014 amounted to EUR 76 mln, unchanged with respect to 31 December 2013.

Transition requirements

The following are the key aspects of the transition requirements:

- Actuarial gains/losses arising from the measurement of liabilities connected with employee benefits (staff severance pay, defined-benefit pension funds, etc.) are recognised, net of tax effect, in valuation reserves and are included in CET1, with a gradual introduction of 20% per year (20% in 2014 and 100% in 2018);
- Unrealised gains on financial instruments classified in the AFS portfolio, other than those related to exposures with central governments, are calculated in CET1 beginning in 2015 at 40% and then with a gradual introduction of 20% per year (40% in 2015 and 100% in 2018). Unrealised losses on financial instruments classified in the AFS portfolio, other than those related to exposures with central governments, are calculated in CET1 with a gradual introduction of 20% per year (20% in 2014 and 100% in 2018);
- The option to exclude from CET1 the unrealised profits and losses on exposures with central governments classified in the AFS portfolio, until approval by

the European Commission of the IFRS that replaces IAS 39, as a result of the introduction of the CRR according to each country's discretion established as part of the transition requirements by Bank of Italy. In January 2014, MPS Group exercised this right, as provided for in Circular 285 of 17 December 2013;

- Deferred tax assets that depend on future profitability and do not derive from temporary differences are deducted at 20% for 2014 (100% in 2018). These are essentially deferred financial assets associated with tax losses;
- Deferred tax assets that depend on future profitability and derive from temporary differences existing at 1 January 2014 are deducted from CET1 with a gradual introduction of 10% per year beginning in 2015 (10% in 2015 and 100% in 2024);
- Other deferred tax assets that depend on future profitability and derive from temporary differences, generated after 1 January 2014, are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (20% in 2014 and 100% in 2018);
- Insignificant investments in CET1 instruments of financial institutions held directly, indirectly or synthetically are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (20% in 2014 and 100% in 2018). Direct investments in financial institutions not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2. Indirect and synthetic investments are subject to capital requirements and included in RWA;
- Significant investments in CET1 instruments of financial institutions held directly, indirectly or synthetically are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (20% in 2014 and 100% in 2018). Direct investments in financial institutions not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2. Indirect and synthetic investments are subject to capital requirements and included in RWA;
- The excess of expected losses on impairments (expected loss delta) are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (20% in 2014 and 100% in 2018). The portion not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2.

Additional impairments to assets and liabilities designated at fair value are calculated in proportion to the amount with which said assets and liabilities are calculated in CET1 during the transition period. For example, since unrealised gains and losses on exposures to central governments classified in the AFS portfolio are not at this time included in the CET1 calculation, any additional corresponding impairments are not recognised.

The New Financial Instruments (NFIs), considered state aid, are included in CET1 until 31 December 2017.

The NFIs were issued by Banca Monte dei Paschi di Siena S.p.A. on 28 February 2013 pursuant to article 23-sexies of Law Decree no. 95 of 6 July 2012, converted, with amendments, into Law no.135 of 7 August 2012, as subsequently amended. In particular, the Ministry of Economy and Finance subscribed to the NFIs issued by the Bank for a total of EUR 4,071 mln, of which EUR 1,900 mln allocated to full repayment of the Tremonti Bonds already issued by the Bank in 2009, and EUR 171 mln, due on 1 July 2013, for advance payment of interest accrued on Tremonti Bonds up to 31 December 2012, in consideration of the Bank's negative results as at 31 December 2012.

The characteristics of the NFIs include:

- The NFIs are financial instruments which may be converted into ordinary shares by the issuer and are characterised by subordination pari passu with ordinary shares, in the event of both voluntary liquidation or bankruptcy proceedings and under going concern assumptions. In particular, on a going-concern basis, the NFIs absorb losses that reduce the capital ratio to below 8% in the same proportion with respect to the share capital and reserves, by reducing the nominal value;
- The NFIs are perpetual instruments and BMPS has the right to redeem them subject to the prior authorisation by the Bank of Italy; the Prospectus specifically lays down that repayment will occur at the greater of the following values:
  - an increasing percentage of the nominal value over time (100% by 30 June 2015, then increased by 5% every two years up to a maximum of 160%);
  - the product of shares underlying the NFIs and the price paid in the event of a takeover bid on BMPS after the subscription date;
  - the product of shares underling the NFIs and the price received by the MPS Foundation in the event that over 10% of its shareholding is sold over a period of 12 months.

- The NFIs have no rights under art. 2351 of the Civil Code and are convertible into shares upon the request of the issuer (art. 23-decies para.1); in particular, the Prospectus provides that in the event of conversion, the MEF is to be assigned a number of shares equal to the ratio between the nominal value of the NFIs and the Theoretic Ex Rights Price (TERP) discounted by 30%; the TERP is positively related to the market value of BMPS shares;
- Interest on NFIs is paid in cash up to the amount of net profit for the year gross of the same interest, tax effect and net of provisions for statutory reserves;
- Any interest in excess of this threshold is paid through the issue of new shares at market value or, for 2013 interest, through the issue of additional NFIs for the equivalent nominal value;
- With regard to interest payment on NFIs, the Prospectus provides that:
  - interest on NFIs is calculated on a pro rata basis by applying a fixed rate of 9% to the nominal value for the first year (2013) with a subsequent step up of half a point every 2 years until the 15% cap is reached;
  - subject to the exceptions provided for in 2013 and 2014, interest that is not covered by net profit (loss) for the year is to be paid through the allocation of a number of shares equal to the number of shares in issue multiplied by the ratio between interest due and market capitalisation of the Bank (average of 10 days prior to the date of the BoD which approved the financial statements) net of the same interest;
  - in the event of loss for the year, no dividends shall be paid out under any circumstances.

The issuance of the NFIs is consequential to the shortfall revealed by the exercise conducted by the EBA on the capital requirements of Europe's major banks in the second half of 2011. The exercise revealed the Montepaschi Group's need for temporary and provisional capital strengthening in the amount of EUR 3,267 mln aimed at achieving a 9% (EBA) Core Tier 1 by the end of June 2012. In determining this target value, the exercise also included the lower valuation - as at 30 September 2011 - of exposures to sovereign issuers so as to take account of market concerns over sovereign debt risk.

Consequently, the Montepaschi Group developed a plan of actions aimed at strengthening capital, which led to determining an overall shortfall of EUR 2,000 mln, net of Tremonti bonds. Identified actions, aimed at further strengthening the Group's capital, lie at the basis of the Restructuring Plan approved by the BoD on 7 October 2013 and by the European Commission on 27 November 2013.

As envisaged in the Restructuring Plan, the Bank plans to repay EUR 3 bn of the NFIs in the coming months through the share capital increase approved at the end of 2013. At the Extraordinary Shareholders' Meeting called for 20, 21, and 22 May 2014, a proposal to augment the share capital increase from the current EUR 3 bn up to a maximum of EUR 5 bn, in order to:

- Provide MPS Group with a security buffer to absorb the negative impacts that may result from the Comprehensive Assessment, and therefore, allow the Group to better meet the commitments made in the Restructuring Plan;
- Align the Bank with the best practices in Italian markets in terms of the Common Equity Tier 1 ratio;
- Based on the results of the Comprehensive Assessment, benefit from a more solid capital structure as a result of the buffer created from the New Share Capital Increase, and possibly, bring forward the full or partial repayment of the New Financial Instruments, equivalent to EUR 1.071 bn, in addition to the EUR 3 bn already scheduled to be repaid.

Additional Tier 1

Full application requirements

The main requirements for including capital instruments in AT1 are:

- The subscription and acquisition must not be financed by the Parent Company or its subsidiaries;
- They are not subordinated to T2 instruments in the event of bankruptcy;
- They are not subject to guarantees that increase their seniority issued by the Parent Company, its subsidiaries or other companies with close ties to the Bank and its subsidiaries;
- They have indefinite duration and do not include incentives for repayment;
- Call options may be exercised only at the issuer's discretion and, in any event, no earlier than 5 years, unless authorised by the Supervisory Authority related to specific circumstances;
- Interest is paid as a function of distributable profits;
- The Bank has full discretion in paying interest and at any moment may decide to not pay for an unlimited period; the cancellation is not cumulative;
- Cancellation of interest does not constitute issuer default;
- In the event of trigger events, the nominal value may be reduced permanently or temporarily or the instruments may be converted into CET1 instruments.

AT1 is subject to the following deductions for GMPS:

- Direct, indirect and synthetics investments in the Bank's AT1 instruments;
- Direct, indirect and synthetics investments in AT1 instruments of financial institutions;
- any adjustments exceeding T2.

As a result of certain provisions, some instruments issued in previous years by GMPS do not meet the requirements to be included in AT1.

Transition requirements

The following are the key aspects of the transition requirements for 2014:

- Insignificant investments in AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from CET1 due to the transition period are deducted from AT1 at 50% and from T2 at 50%;
- Significant investments in AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from CET1 due to the transition period, are deducted from AT1 at 50% and from AT2 at 50% and from T2 at 50%;
- The excess of expected losses on impairments (expected loss delta), temporarily not deductible from CET1 due to the transition period, are deducted from AT1 at 50%.

Tier 2 capital

Full application requirements

The main requirements for including capital instruments in T2 are:

- The subscription and acquisition must not be financed by the Parent Company or its subsidiaries;
- They are not subject to guarantees that increase their seniority issued by the Parent Company, its subsidiaries or other companies with close ties to the Bank and its subsidiaries;
- The original duration is not less than 5 years and there are no incentives for early repayment;
- Call options may be exercised only at the issuer's discretion and, in any event, no earlier than 5 years, unless authorised by the Supervisory Authority related to specific circumstances;
- Interest does not vary based on the Parent Company's credit standing;
- Amortisation of these instruments for purposes of inclusion in the T2 calculation is temporarily pro-rated in the last 5 years.

T2 is subject to the following deductions:

- Direct, indirect and synthetics investments in the Bank's T2 instruments;
- Direct, indirect and synthetics investments in T2 instruments of financial institutions.

Transition requirements

The following are the key aspects of the transition requirements for 2014:

- insignificant investments in T2 instruments of financial institutions held directly are deducted from T2 at 100%; insignificant investments in T2 instruments of financial institutions held indirectly or synthetically are deducted with a phase-in of 20% per year as of 2014 (20% 2014 and 100% in 2018). Indirect and synthetic investments, not deducted during the transition phase, are subject to capital requirements and included in RWAs;
- Significant investments in T2 instruments of financial institutions held directly are deducted from T2 at 100%; significant investments in T2 instruments of financial institutions held indirectly or synthetically are deducted with a phase-in of 20% per year as of 2014 (20% 2014 and 100% in 2018). Indirect and synthetic investments, not deducted during the transition phase, are subject to capital requirements and included in RWAs;
- The excess of expected losses on impairments (expected loss delta), temporarily not deductible from CET1 due to the transition period, are deducted from T2 at 50%.

Grandfathering

A gradual exclusion from the relevant capital level is envisaged for capital instruments issued previously and calculated in regulatory capital through 31 December 2013 that do not meet the requirements of the new regulatory framework. Specifically, 80% of the nominal value in circulation in 2014 may be included in the CET1, AT1 and T2 calculation, decreasing 10% per year until its full exclusion in 2022, for those instruments issued or calculated in the regulatory capital prior to 31 December 2011 that do not meet the new requirements.

Capital Requirements

Capital Management involves all the policies and choices necessary to define the amount of capital and the optimum combination between different alternative equity instruments, so as to ensure that the amount of capital and the correlated ratios are consistent with the risk profile assumed and compliant with regulatory requirements.

From this standpoint, group-wide capital management has become increasingly more fundamental and strategic, in consideration of the fact that the quality and sizing of capital resources of Group companies are defined within the Group's more general objectives.

The prudential supervisory provisions for banks and banking groups became operational as of 1 January 2014, with the aim of aligning national regulations with the changes introduced to the international regulatory framework, particularly the European Union's new regulatory and institutional framework for banking supervision.

The new regulatory framework aims to improve the ability of banks to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen the bank's transparency and disclosures, while taking into account developments from the financial crisis. The reforms have two types of focus: microprudential, involving regulation at individual bank level; macroprudential, addressing systemic risk which can build up across the banking sector as well as the procyclical amplification of these risks over time.

The approach based on three pillars was maintained, which was also the basis of the previous capital agreement known as "Basel 2", which was supplemented and strengthened with measures that increase the quantity and quality of banks' capital base, as well as introduce countercyclical supervisory tools and new standards for liquidity risk management and financial deleveraging.

More specifically, Pillar 1 has been strengthened through a more harmonised definition of capital as well as higher capital requirements. In the face of more stringent capital requirements that more accurately reflect the potential risk of certain activities (e.g. securitisations and trading book), a definition of higher quality capital has been added, essentially focused on common equity. Capital reserves are added to this definition, which function to conserve primary capital, provide countercyclical buffers, and hedge against greater losses for systemically important financial institutions. These reserves are envisaged at the discretion of Supervisory Authorities, net of the capital conservation buffer, which is required to be set up (a gradual plan to include this reserve over time is provided for, arriving at the required level, 2.5%, in 2019).

In addition to the system of capital requirements aimed at covering credit, counterparty, market and operational risk, there is now a plan to introduce leverage caps (including off-balance sheet exposures) as a backstop to capital requirements based on risk and to reduce excessive leverage across the system.

"Basel 3" also introduces new liquidity risk monitoring requirements and tools which focus on short-term liquidity resilience (Liquidity Coverage Ratio - LCR) and longer term structural balance (Net Stable Funding Ratio - NSFR) as well as providing standards for liquidity risk management and monitoring at both individual and system-wide level.

The introduction of Basel 3 regulations is subject to a transition period that extends the full application of the rules to 2019 (2022 for the phase-out of certain capital instruments) and during which the new rules will be applied in an increasing proportion.

Regulatory capital, an element of Pillar 1, is therefore calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and related integrations, by the Capital Requirements Directive (CRD IV), by Regulatory Technical Standards and Implementing Technical Standards issued by the EBA, and by supervisory instructions issued by Bank of Italy (specifically, Circular nos. 285 and 286).

In reference to defining regulatory requirements, in June 2008, the Montepaschi Group was authorised to use Advanced Internal Rating-Based (AIRB) systems for the determination of capital requirements for credit risk in relation to retail and corporate portfolios and Advanced Measurement Approaches (AMA) for operational risks.

Minimum capital requirements

The following capital requirements are envisaged for 2014:

- CET1 ratio of at least 4.5% of the Group's total risk exposure;
- AT1 ratio of at least 5.5% of the Group's total risk exposure; in 2015 the threshold will increase to 6%;
- Total Capital ratio of at least 8% of the Group's total risk exposure.

In addition, the Bank must have additional CET1 reserves.

More specifically, the new regulations envisage that banks must have the following reserves:

- Capital conservation buffer - aimed at conserving the minimum level of regulatory capital during difficult periods in the market, through the allocation of high quality capital in periods in which there are no market tensions. This reserve is mandatory and must be at least 2.5% of the Bank's total risk exposure. The reserve consists of CET1 capital;
- Countercyclical capital buffer - aimed at protecting the banking sector in phases of excessive growth in loans. The buffer provides for the accumulation of CET1 capital during phases of rapid growth in the credit cycle, which can then be used to absorb losses in the downward phase of the cycle. As opposed to the capital conservation buffer, the countercyclical buffer is imposed only during periods of loan growth and is calculated according to pre-established criteria. Supervisory Authorities have not yet defined the amount of this reserve;
- G-SII buffer for global systemically important banks and O-SII buffer for other systemically important entities - impose higher capital requirements on those entities based on their systemic relevance, at a global or national level, which pose greater risks for the financial system and for which a crisis could have impacts on contributors. The Montepaschi Group falls under the Basel Committee's definition of systemically important banks required to publish indicators according to established methods and times. Thus, as of 2016, the Group will be subject to additional loss absorbency requirements in an amount that will be determined by the Bank of Italy.

Liquidity and Leverage Ratio

In reference to the Liquidity Coverage Ratio, the observation period by the Supervisory Authorities began in March 2014, which precedes the official introduction of this ratio in January 2015. In addition, 31 March 2014 is the start date for the observation period for the Net Stable Funding Ratio. These two ratios and the associated minimum requirements will become effective 1 January 2018, upon authorisation of the European Council and Parliament.

The Leverage Ratio is calculated with a denominator that is not based on the risk weighting of assets. The calculation is the simple arithmetic average of the monthly leverage ratios for the quarter, and will come into effect in 2018. The transition observation phase will last from 2014 to the end of December 2017. At this time, the Supervisory Authorities have not yet established the minimum thresholds for the Leverage Ratio.

The following table contains information on capital adequacy, reported by the Group in accordance with the new "Basel 3" disclosure templates.

Table 2 - Capital Requirements and Regulatory Capital Ratios

Regulatory Capital Requirements	mar-2014*	dec-2013**
Credit and Counterparty Risk	5,304,731	5,333,359
Market Risk	453,441	504,621
Operational Risk	635,291	659,407
Credit Valuation Adjustment risk	90,673	93,313
Regulatory Risk	-	-
Concentration Risk	-	-
Total Prudential Requirements	**6,484,136**	**6,590,700**
Risk Assets and Capital Ratios		
Risk-Weighted Assets	81,051,701	82,383,750
Core Equity Tier 1 (CET1)/Risk-Weighted Assets (CET1 Capital Ratio)	10,84%	10,83%
Total Tier 1 Capital (Tier1) /Risk-Weighted Assets (Tier1 Capital Ratio)	10,84%	10,83%
Total Tier1+Tier2 Capital /Risk-Weighted Assets (Total capital ratio)	14,93%	15,09%

** Estimated Data*
*** Recalculated Data for comparative purposes only*

As previously stated, the data as at 31 December 2013 and 31 March 2014 represent the Bank's best estimate based on the application of the new rules envisaged by CRR and CRDIV. The deadline for prudential reporting is 30 June 2014.

As at 31 March 2014, CET1 decreased by EUR 141.3 mln, totalling EUR 8,784.3 mln, compared to EUR 8,925.6 mln, pro-forma, at the end of 2013.

At the same date, AT1 was zero, unchanged from 31 December 2013.

T2 decreased by EUR 190.2 mln, totalling EUR 3,317.6 mln, compared to EUR 3,507.8 mln, pro-forma, at the end of 2013.

As at 31 December 2013, the official data, calculated according to the previous regulatory framework, for T1, T2 and regulatory capital was EUR 8,973 mln, EUR 3,865 mln and EUR 12,838 mln, respectively.

Furthermore, note that on 23 October 2013, the ECB announced that it will perform, together with national banking Supervisory Authorities, a Comprehensive Assessment of the banking system, pursuant to the regulations on the Single Supervisory Mechanism (EU Regulation no. 1024/2013 of the European Council on 15 October 2013), which became effective on 3 November 2013. This exercise, which began in November 2013 with a data collection phase, will last for approximately 12 months, and will involve the 15 largest Italian banking institutions, including MPS Group.

The Comprehensive Assessment is a complex process broken down into three specific verification activities: (i) Supervisory Risk Assessment, to provide a quantitative and qualitative evaluation of the fundamental risk factors to which the Group is exposed, including risks related to liquidity, financial leverage and lending; (ii) Asset Quality Review, to improve transparency of banking exposures through an analysis of the quality of banks' assets, including the adequate valuation of assets and guarantees as well as the adequacy of provisions; (iii) Stress Test, to verify the financial stability of banks in the event of adverse circumstances (evaluated over the 2014-2016 time period).

The Asset Quality Review will result in the recalculation of the Common Equity Tier 1 ratio, that cannot be less than 8%.

At the same time as the Asset Quality Review, the Stress Test phase was launched. The conclusion of this phase will also result in the recalculation of the Common Equity Tier 1 ratio by the EBA. In the adverse scenario, or the most critical scenario for the issuer, it is expected that the recalculated Common Equity Tier 1 ratio cannot be lower than the threshold of 5.5% (8.0% threshold for the base scenario).

The entire Comprehensive Assessment process is expected to be completed by October 2014.

As a result of the Comprehensive Assessment and, more specifically, from the Asset Quality Review and Stress Test, the Common Equity Tier 1 ratio may be found to be less than the thresholds defined by the ECB and, therefore, it may be necessary for the Bank to take new capital enhancement measures.

As regards the Stress Test, note that the complex process of applying the methodologies and scenarios recently published by the EBA is made more difficult by the Restructuring Plan that was announced prior to 31 December 2013 and formally agreed with the European Commission. The Restructuring Plan replaces the base scenario and constitutes the initial element for applying the adverse scenario, whose results will be subject to specific review by the ECB, Bank of Italy, and the EBA.

Declaration of the Financial Reporting Officer

Pursuant to para. 2, article 154-bis of the Consolidated Law on Financial Intermediation, the Financial Reporting Officer, Mr. Arturo Betunio, declares that the accounting information contained in this Interim Report as at 31 March 2014 corresponds to the underlying documentary evidence and accounting records.

Siena, 12 May 2014

Arturo Bertunio

Financial Reporting Officer

List of Tables

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