Pillar 3 Disclosure

Update as at
30 September 2015

MONTE
DEI PASCHI
DI SIENA
BANK SINCE 1472

Pillar 3 Disclosure

Update as at
30 September 2015

Banca Monte dei Paschi di Siena SpA
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
Parent Company of the 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 harmonized 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 – 59th Update, 7 August 2015 – 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 transparency and disclosure, 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.

That assessment shall pay particular attention to the possible need for more frequent disclosure of items of information laid down in Article 437, and points (c) to (f) of Article 438, and information on risk exposure and other items prone to rapid change.

The EBA Guidelines (EBA / GL / 2014/14) of 23.12.2014, on the frequency of Pillar3 publication, confirmed the minimum requirement for all to take out an yearly publication, together with the financial statements, including the possibility that, in accordance with Article 106 of the CRD IV, each National Competent Authority may impose a higher frequency than that provided by the CRR, within their own country, by requiring each bank to do a self-evaluation about the need to provide with a more frequent disclosure.

The current document, therefore, provides an update as at 30 September 2015 of quantitative information deemed most by the Group and in particular the quantitative information concerning Own Funds, Capital requirements and the Leverage Ratio. For additional information not contained in this document, particularly regarding the general, organizational and methodological aspects relating to the different types of risk, please refer to the Annual Report as at 31 December 2014.

Further information on the risk profile of the Group, based on Art. 434 of the CRR, are also published in the Consolidated Interim Report as at 30 September 2015, in the Report on Corporate Governance and Compensation Report.

The current update introduces the new information templates required by the Basel 3 framework and reports also values as at 31 December 2014.

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.

Executive Summary on Own Funds and Capital Requirements

Data in thousands of euros

			Delta vs. 31-12-2014	
Own Funds	**sep-15**	**dec-14**	**Absolute**	**%**
Common Equity Tier 1 (CET1)	8,862,734	6,607,509	2,255,225	34.1%
Additional Tier 1 Capital (AT1)	598,788	-	598,788	-
Tier 2 Capital (T2)	2,611,102	3,292,608	-681,506	-20.7%
Own Funds	**12,072,623**	**9,900,117**	**2,172,506**	**21.9%**
↳ *of which Delta PA**	*178,160*	*174,843*	*3,317*	*1.9%*
Capital Requirements				
Credit and Counterparty Risk	4,783,835	5,001,640	-217,805	-4.4%
↳ *of which Standardised Approach*	*2,125,516*	*2,670,400*	*-544,883*	*-20.4%*
↳ *of which Airb Approach*	*2,658,318*	*2,331,240*	*327,079*	*14.0%*
Market Risk	339,035	289,142	49,893	17.3%
↳ *of which Standardised Approach*	*337,204*	*286,106*	*51,098*	*17.9%*
↳ *of which Concentration Risk*	*1,831*	*3,036*	*-1,205*	*-39.7%*
Operational Risk	704,208	708,267	-4,059	-0.6%
↳ *of which Foundation Approach*	*18,587*	*20,212*	*-1,625*	*-8.0%*
↳ *of which Advanced Approach*	*685,621*	*688,055*	*-2,434*	*-0.4%*
CVA Risk	90,980	98,579	-7,599	-7.7%
Regulatory Capital Requirements	**5,918,058**	**6,097,628**	**-179,570**	**-2.9%**
Risk-weighted assets	**73,975,725**	**76,220,350**	**-2,244,625**	**-2.9%**
			Delta vs. 31-12-2014	
Capital Ratio			**Absolute**	**%**
CET1 Ratio	**11.98%**	**8.67%**	**331**	**3.3%**
Tier 1 Ratio	**12.79%**	**8.67%**	**412**	**4.1%**
Total Capital Ratio	**16.32%**	**12.99%**	**333**	**3.3%**

**The value represents the total contribution of the Delta PA, understood as the sum of the positive and deductions, to the determination of the Own Funds under the framework Basel 3. The total amount of the Delta PA amounts to -178,011 € / thousand (-981,903 € / thousands as at 31 December 2014).*

The Total capital ratio and the CET1 ratio were respectively 16.32% and 11.98%, an increase compared to 31 December 2014 and they are higher than the regulatory minimum limit, based on transitional measures, in the Common Equity Tier 1 Ratio of 10.2% and a Total Capital Ratio of 10.9% with regard to the SREP.

With respect to 31 December 2014, the increase in the CET1 ratio (up EUR 2.255 mln) and Tier1 ratio (up EUR 2.854 mln) is attributable, on the positive side, mainly to:

- increase in share capital dedicated to MEF in respect of the payment of the coupon on New Financial Instruments, accrued in 2014;
- closing of the Alexandria transaction with the counterparty Nomura, including the benefit of the elimination of the

deduction of the associated negative AFS reserve.

Partially offsetting this was the repayment of the last tranche of New Financial Instruments, the increase in DTA-linked deductions, equity investments and tax losses owing to the higher phasing-in percentage (from 20% in 2014 to 40% in 2015). The loss recorded in the quarter, net of the one generated by the closing of the Alexandria transaction, had a particularly negative impact. The excess of the expected loss with respect to the write-downs on loans is not significant.

By contrast, the Tier2 ratio decreased mainly due to the effect of the regulatory amortisation of subordinated securities as envisaged in Basel 3.

Overall, Total Capital was up by around EUR 2,172 mln.

RWAs recorded a total decrease of around EUR 2,245 mln, due mainly to the contraction in credit and counterparty risk (-EUR 218 mln), due to both the evolution of the performing portfolio and the closing of the Alexandria transaction.

3. Own Funds

Regulatory capital, an element of Pillar 1, is 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). 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 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). 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.

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

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

As provided for in Circular 285 of 17 December 2013, in January 2014 MPS Group exercised 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 following the introduction of national discretion rules provided for by the CRR established as part of the transition requirements by Bank of Italy. The AFS reserve linked to AFS securities (BTP) related to the Alexandria transaction constitutes a derogation to this regime. More specifically, the ECB, following the Supervisory Review and Evaluation Process (SREP), has requested the inclusion of 100% of unrealised losses on Italian government bonds (BTP) encompassed in the 'Alexandria transaction' for the calculation of the CET 1. As mentioned above, with regard to the position in question, already as at 31 December 2014 MPS included the negative AFS reserve from the "Alexandria" transaction in the own funds calculation. As at 23 September 2015 the "Alexandria" transaction has been closed and therefore has been removed, the corresponding filter for the calculation of own funds at 30 September 2015. With regard to events in the first three quarters of 2015, in the month of June the Parent Company completed a share capital increase to be offered for a total of EUR 3 bn. Costs incurred for the share capital increase and posted directly to equity amount to EUR 89 mln, after tax. The sale of unsubscribed rights involved recognition in the share premium reserve of a net amount of EUR 4 mln.

Due to this capital increase and to the authorisations received by the Bank of Italy and the Ministry of Economy and Finance, the Parent Company redeemed a nominal value of EUR 1,071 mln of New Financial Instruments for EUR 1,116 mln, which includes the effects from the terms and conditions of the prospectus following the sale of shares by Fondazione Monte dei Paschi di Siena.

Moreover, on 1 July, 117,997,241 ordinary shares, equal to 4% of the share capital, were issued in favour of the Ministry of Economy and Finance (MEF) for interest accrued as at 31 December 2014, pursuant to the regulations on NFIs, with a simultaneous increase in share capital of EUR 243 mln.

Below is the quantitative information on Own Funds, reported according to the Transitional Own funds disclosure template provided for in the EBA's instructions (Attachment VI of the European Commission's (EU) Implementing Regulation No. 1423/2013).

Tab. 3.1.1 - Own Funds: Common Equity Tier 1 (CET1) capital

	Common Equity Tier 1 (CET1) capital: instruments and reserves	sep-2015 (A) - Amount at disclosure date	sep-2015 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	dec-2014 (A) - Amount at disclosure date	dec-2014 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013
1	Capital instruments and the related share premium accounts	8,810,274	-	12,297,339	-
	of which: Ordinary Shares	*8,803,949*	-	*12,295,049*	-
2	Retained earnings	1,226,317	-	-200,541	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-453,723	-	-557,915	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	-	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-	1,071,000	-
5	Minority Interests (amount allowed in consolidated CET1)	-	-	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	84,658	-	-	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**9,667,525**		**12,609,883**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments	-39,980	-	-61,317	-
8	Intangible assets (net of related tax liability)	-466,502	-	-511,727	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	-121,587	-182,380	-66,002	-264,009
11	Fair value reserves related to gains or losses on cash flow hedges	152,245	-	184,473	-
12	Negative amounts resulting from the calculation of expected loss amounts	-99	-148	-	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-88,455	-	-124,338	-
16	Direct and indirect holdings by an institution of own CET1 instruments	-	-	-	-
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	-	-	-	-
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	-	-	-	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-	-	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	-	-	-	-
22	Amount exceeding the 15% threshold	-27,156	-51,019	-40,844	-264,022
23	*of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*	*-17,947*	*-26,920*	*-29,951*	*-119,806*
25	*of which: deferred tax assets arising from temporary differences*	*-9,209*	*-24,099*	*-10,893*	*-144,217*
25a	Losses for the current financial year	-	-	-1,068,578	-4,274,314
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-195,525	-	-596,677	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-88,144	-	-10,114	-
	Of which: unrealised losses on UCITS	*4,136*	-	*1,084*	-
	Of which: unrealised losses on EU government bonds	*-122,012*	-	*164,334*	-
	Of which: unrealised losses on debt securities	*29,732*	-	*-66,335*	-
	Of which: unrealised losses on Equity Investments	-	-	*-109,198*	-
	Of which: unrealised losses on Investments valued at equity	-	-	-	-
	Of which: unrealised losses on trading shares	-	-	-	-
	Of which: unrealised losses on exchange differences	-	-	-	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	70,411	-	88,014	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution	-	-	-3,795,262	-
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**-804,791**		**-6,002,373**	
29	**Common Equity Tier 1 (CET1) capital**	**8,862,734**		**6,607,509**	

Tab. 3.1.2 – Own Funds: Additional Tier 1 (AT1) capital

	Additional Tier 1 (AT1) capital: instruments	sep-2015 (A) - Amount at disclosure date	sep-2015 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	dec-2014 (A) - Amount at disclosure date	dec-2014 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013
30	Capital instruments and the related share premium accounts	209,900	-	217,073	-
31	*of which: classified as equity under applicable accounting standards*	*181,985*	-	*189,158*	-
32	*of which: classified as liabilities under applicable accounting standards*	*27,915*	-	*27,915*	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	402,056	-	321,347	-
	Public sector capital injections grandfathered until 1 January 2018	-	-	-	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-	-	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-	-	-	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	611,956		538,420	-
	Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 Instruments	-	-	-	-
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	-	-	-	-
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	-	-	-	-
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions)	-	-	-	-
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	-	-	-
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-13,168	-	-4,333,682	-
	of which: losses for the current financial year	-	-	-4,274,314	-
	of which: Significant financial instruments	-13,094	-	-59,368	-
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	-	-	-
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-	-	3,795,262	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution	-	-	-	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-13,168**		**-538,420**	
44	**Additional Tier 1 (AT1) capital**	**598,788**		-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**9,461,522**		**6,607,509**	

Tab. 3.1.3 – Own Funds: Tier 2 (T2) capital

	Tier 2 (T2) capital: instruments and provisions	sep-2015 (A) - Amount at disclosure date	sep-2015 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	dec-2014 (A) - Amount at disclosure date	dec-2014 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013
46	Capital instruments and the related share premium accounts	2,589,951	-	3,182,232	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	-	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-	-	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-	-	-	-
50	Credit risk adjustments	178,258	-	174,843	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**2,768,210**		**3,357,075**	
	Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	-135,300	-	-5,867	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	-	-	-	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-	-	-	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	-65,650	-	-68,516	-
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	-	-	-
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	43,841	-	-59,368	-
	Of which: significant share holdings	-	-	*-59,368*	-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	-	-	-
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	-	-	69,284	-
	Of which: unrealised gains	-	-	*69,284*	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-157,108**		**-64,467**	
58	**Tier 2 (T2) capital**	**2,611,102**		**3,292,608**	
59	**Total capital (TC = T1 + T2)**	**12,072,623**		**9,900,117**	

Tab. 3.1.4 – Own Funds: Capital ratios and buffers

	Capital ratios and buffers	sep-2015 (A) - Amount at disclosure date	dec-2014 (A) - Amount at disclosure date
60	**Total risk weighted assets**	**73,975,725**	**76,220,350**
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	11,98%	8,67%
62	Tier 1 (as a percentage of risk exposure amount)	12,79%	8,67%
63	Total capital (as a percentage of risk exposure amount)	16,32%	12,99%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	7,00%	7,00%
65	*of which: capital conservation buffer requirement*	*2,50%*	*2,50%*
67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7,48%	4,17%
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	62,365	62,505
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	812,873	919,278
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	600,639	952,131
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	-	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	178,258	981,903
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	178,258	174,843
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase out arrangements	650,000	401,684
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	Current cap on T2 instruments subject to phase out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

Tab. 3.2 – Reconciliation of shareholders' equity and the Common Equity Tier 1

Items	sep-2015	dec-2014
Group Equity	9,849,509	5,965,027
Minority Equity	25,547	23,625
Net Assets of the Balance Sheet	**9,875,056**	**5,988,652**
Net Assets after distribution to shareholders		
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-197,808	-189,158
- Minority interests computable	-25,547	-23,625
- Own shares included in the regulatory adjustments		
- Other components non computable in regime	168,068	181,471
Common Equity Tier 1 (CET1) before the regulatory adjustments	**9,819,769**	**5,957,340**
Regulatory adjustments (including adjustments of the transitional period)	-957,035	650,169
Common Equity Tier 1 (CET1) net of regulatory adjustments	**8,862,734**	**6,607,509**

4. Capital requirements and leverage

The Montepaschi Group pursues strategic objectives focused on quantitative and qualitative strengthening of capital, structuring rebalancing of liquidity and achievement of sustainable levels of profitability. In this perspective, capital management, planning and allocation activities play a crucial role in ensuring compliance over time with the minimum capitalisation requirements set by the regulations and the supervisory authorities, as well as with the risk appetite level approved by the Group's strategic supervision body.

This is the purpose served by the Risk Appetite Framework (RAF) through which the target capitalisation levels are estimated on a yearly basis and capital is allocated to the business units according to expected development and estimated risk levels, making sure that the allocated capital is sufficient to ensure compliance with minimum requirements, under both normal and stress conditions.

In the context of the RAF, prospective capital adequacy assessments are performed over a multiyear period, under both normal and stress conditions.

The achievement of objectives and compliance with regulatory minimum requirements is constantly monitored throughout the year.

The formal corporate processes to which the RAF is applied at least on an annual basis are the budget, the risk appetite and the ICAAP.

The Budgeting, Planning, Capital and Risk Management processes of the Montepaschi Group are based on the "Risk Adjusted Performance Management" (RAPM) logic.

The Montepaschi Group defines its targets on the basis of a Risk Adjusted Performance Measurement (RAPM), which measures profitability net of the cost of capital to be held for regulatory purposes relative to the assumed risk level.

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Capital; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post. The Capital Risk concepts applied are those in the regulatory requirements, corresponding to the risk weighted assets (RWAs), determined on the basis of the rules set out in the supervisory regulations, and the economical capital estimated on the basis of the "Pillar1 Plus approach. Both measurements are used as part of RAPM metrics.

Following the implementation of the "Basel 3" regulatory framework, Pillar 1 was 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 is 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 mandatory capital conservation buffer of 2.5%.

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.

Minimum capital requirements

The minimum capital requirements for 2014 are as follows:

- CET1 ratio of at least 4.5% of the Group's total risk exposure;
- AT1 ratio of at least 6% of the Group's total risk exposure (in 2014 the threshold was 6%);
- Total Capital ratio of at least 8% of the Group's total risk exposure.

Additionally, 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 Group falls under the Basel Committee's definition of systemically important banks, required to publish indicators according to the established times and methods. Hence, from 2016, the Group will be subject to additional loss absorbency requirements, the extent of which will be defined by the Bank of Italy.

Capital adequacy

As to the definition of regulatory capital requirements, in June 2008 the Montepaschi Group was authorised to use the Advanced Internal Rating Based (AIRB) models for the measurement of capital requirements against credit risk in the retail and corporate portfolios and the Advanced Measurement Approach (AMA) for operational risk. The Montepaschi Group uses the standardised approach ratios for Exposure at default (EAD) pending validation by the Supervisory Authorities, the Group is instead authorised to use:

- Internal Probability of Default (PD) estimates, for the portfolio of exposures to corporates and retail exposures;
- internal Loss Given Default (LGD) estimates for the portfolio of exposures to corporates and retail exposures. For portfolios other than those mentioned above, the standardised approach will be used and applied according to the roll-out plan submitted to the Supervisory authorities.

wAs for legal entities, the scope of application of the authorised approaches shall be the following:

- AIRB: Banca Monte dei Paschi di Siena, MPS Capital Services, Banca Antonveneta, MPS Leasing & Factoring;
- the remaining legal entities of the Montepaschi Group use the standardized approach.

Capital requirements against Counterparty Risk are calculated separately from the portfolio. Capital requirements relating to counterparty risk are calculated using the current market value. In particular, the Market Value approach is applied to OTC derivatives and the comprehensive approach for the treatment of financial collateral to repo transactions and security lending.

Capital requirements against CVA risk are calculated according to the standardised approach.Capital ratios for Operational Risk are calculated almost completely according to the AMA – Advanced Measurement Approach. The standardized approach is used for the remaining part of the scope.

Capital requirements in relation to market risk are instead calculated for all Group entities by adopting the standardized approach.

Furthermore, in 2014 the ECB performed, in collaboration with the national competent authorities responsible for the supervision of banks, a system-wide Comprehensive Assessment, 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. The results of the Comprehensive Assessment, published by the EBC on 26 October 2014, identified for the MPS Group a shortfall of EUR 2.1 bn, which was offset through capital management measures, as well as with the capital increase of EUR 3 bn completed in June 2015.

On 10 February 2015 the ECB informed the Bank of the results of the Supervisory Review and Evaluation Process (SREP), based on which the Montepaschi Group was asked, with effect from completion of the share capital increase submitted to the extraordinary Shareholders' Meeting for approval, to reach and maintain in the long term a minimum limit, based on transitional measures, in the Common Equity Tier 1 Ratio of 10.2% and a Total Capital Ratio of 10.9%, compared to the regulatory limits now in force of 7.0% and 10.5%, respectively. The target ratios required by the EBC must be complied with at all times when the Authority's Decision is in force; similarly, at those times the Bank may not distribute dividends.

The capital adequacy figures illustrated in this report were all calculated by including the positive effect of profit for the period.

The following contains information on capital adequacy reported by the Group according to the new "Basel 3" templates.

Tab. 4 – Capital requirements and capital ratios

Regulatory Capital Requirements	sep-15	dec-14
Credit and Counterparty Risk	**4,783,835**	**5,001,640**
Standard Approach	2,125,516	2,670,400
Advanced IRB Approach	2,658,318	2,331,240
Market Risks	**339,035**	**289,142**
Standardised Approach	337,204	286,106
Internal Models	-	-
Concentration Risk	1,831	3,036
Operational Risk	**704,208**	**708,267**
Foundation Approach	18,587	20,212
Standardised Approach	-	-
Advanced Approach	685,621	688,055
CVA Risk	**90,980**	**98,579**
Originary Exposure Method (OEM)	-	-
Standardised Approach	90,980	98,579
Advanced Approach	-	-
Settlement Risk	**-**	**-**
Regulatory Capital Requirements	**5,918,058**	**6,097,628**

Risk-weighted assets	**73,975,725**	**76,220,350**
CET1 Capital Ratio	**11.98%**	**8.67%**
Tier1 Capital Ratio	**12.79%**	**8.67%**
Total Capital ratio	**16.32%**	**12.99%**

The Total capital ratio and the CET1 ratio were respectively 16.32% and 11.98%, an increase compared to 31 December 2014 and they are higher than the regulatory minimum limit, based on transitional measures with regard to the SREP.

The details of capital requirements broken down by type of risk and regulatory portfolio are reported in the following tables.

Tab. 4.1 – Credit and Counterparty Risk capital requirement

Standard Approach	sep-15	dec-14
Exposures to central governments and central banks	286,804	500,704
Exposures to regional governments and local authorities	34,355	34,147
Exposures to public sector entities	28,299	30,288
Exposures to Multi-lateral development banks	-	-
Exposures to International Organisations	-	-
Exposures to Supervised institutions	272,651	320,196
Exposures to Corporates	521,104	633,173
Retail Exposures	127,654	199,176
Exposures secured by mortgages on immovable property	57,358	54,423
Exposures in Default	169,189	222,053
Exposures associated with high-risk	6,606	6,141
Exposures in the form of covered bonds	13,578	15,985
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to UCITs	47,465	69,695
Equity Exposures	231,664	231,789
Other Exposures	324,505	338,904
Securitization positions	3,749	13,093
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	535	633
Standard Approach Total	**2,125,516**	**2,670,400**
AIRB Approach		
Esposizioni verso o garantite da imprese:	1,730,635	1,467,873
- SMEs	802,853	751,742
- Other companies	808,473	716,132
- Specialized lending	119,309	-
Retail exposures:	927,365	863,367
- secured by real estate: SMEs	249,227	241,168
- secured by real estate: Individuals	242,679	213,701
- Qualifying revolving	97	77
- Other retail exposures: SMEs	400,600	377,765
- Other retail exposures: Individuals	34,762	30,656
Securitization positions	318	-
AIRB Approach Total	**2,658,318**	**2,331,240**
Credit and Counterparty Risk Total	**4,783,835**	**5,001,640**

Tab. 4.2 – Market Risk capital requirement

Standardised Approach	sep-15	dec-14
Position risk on debt instruments	190,619	173,170
Position risk on equity	78,039	75,456
Foreign exchange risk	59,654	29,734
Commodities risk	8,892	7,745
Total Standardised Approach	**337,204**	**286,106**
Concentration Risk	**1,831**	**3,036**
Total Market Risks	**339,035**	**289,142**

Liquidity Ratios and Leverage Ratio

With reference to the Liquidity Coverage Ratio and the Net Stable Funding, the observation period, which precedes its official introduction, by the Supervisory Authorities began in March 2014. The Liquidity Coverage Ratio will enter into force gradually as of 1 October 2015, with a requirement of 60%. The requirement of 100% is to be reached as of 1 January 2018. As of this date, the Net Stable Funding requirement will also be introduced, with the prior approval of the European Parliament and Council. In addition to the system of capital requirements aimed at covering credit, counterparty, market, operational, CVA and regulatory risks, it is expected that Basel 3 will introduce a limit on leverage (including off-balance sheet exposures) with a twofold purpose to limit the accumulation of debt within the banking industry so as to avoid destabilizing deleveraging process which may harm the financial system and the economy in general, and to strengthen the system of capital requirements associated with risk with a simple backstop measure that is not based on risk profile.

To this end, Circular no. 285 of 17 December 2013 of the Bank of Italy, “supervisory Provisions for banks” requires banks to calculates their leverage ratio.

The Leverage Ratio is calculated with a denominator that is based on the not risk weighted assets, calculated at the end of the quarter. The exposures must be reported net of the regulatory adjustments included in the calculation of T1 in order to avoid any double counting. In fact, items fully deducted from capital do not contribute to the Leverage Ratio and are deducted to the extent of the exposure. The indicator will become binding in 2018 and the transition observation phase will last until 1 January 2017. At present, the minimum thresholds for the Leverage Ratio have not yet been established. However, as of 1 January 2015, quarterly disclosure has become obligatory in addition to the disclosure requirement already in force. From the first quarter onwards, Banks are required to publish all the data necessary to calculate the indicator: numerator, denominator and leverage ratios (see table 4.3).

In accordance with public disclosure requirements, the basic data necessary for its calculation is provided below.

Tab. 4.3 – Leverage ratio

	sep-15	mar-15
Capital and total exposures		
Tier 1 capital	9,461,522	6,686,982
Total exposures	181,047,524	190,436,373
Leverage ratio		
Basel III leverage ratio	5.23%	3.51%

Declaration of the Financial Reporting Officer

Pursuant to para. 2, article 154-bis of the Consolidated Law on Banking, the Financial Reporting Officer, Mr. Arturo Betunio, declares that the accounting information contained in this document corresponds to the underlying documentary evidence and accounting records.

Siena, 6 November 2015

Arturo Betunio
Financial Reporting Officer

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