

Pillar 3 Disclosure

Update as at
30 September 2018



**MONTE
DEI PASCHI
DI SIENA**
BANK SINCE 1472



Pillar 3 Disclosure

Update as at
30 September 2018

**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, following reforms in the Basel Committee agreements (Basel 3), particularly the European Union's New Regulatory and Institutional Framework for Banking Supervision.

In particular, the contents of the "Basel 3 framework" have been adopted within the EU through two capital requirement rules:

- ✓ 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 current 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 and subsequent updates—Supervisory Provisions for Banks;
- ✓ Circular 286 of 17 December 2013 and subsequent updates—Instructions for Prudential reporting for banks and securities' firm;
- ✓ Circular 154 of 22 November 1991 and subsequent updates—Supervisory reports of banks and financial institutions. Reporting templates and instructions for transmission of information flows.

The current 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. Institutions are to assess the possible need for more frequent

disclosure of items of information laid down in Article 437 (Own Funds), and Article 438 (Capital Requirements), and information on risk exposure and other items prone to rapid change.

The EBA (European Banking Authority) subsequently issued its guidelines (EBA/GL/2014/14 of 23-12-2014), on the need to publish information more frequently than once a year.

In December 2016, the European Banking Association (EBA) published its Guidelines on disclosure requirements under Part Eight of the Capital Requirement Regulation (CRR), providing financial institutions with specifications on the information requested in specific articles of Part Eight of the CRR.

The EBA has also integrated the outcomes as expected from the aforementioned guidelines, by issuing the LCR Guidelines from art. 435, CRR of June 2017 and the reports guidelines in accordance with the law of art. 473 bis, CRR of January 2018 on transitional arrangements aimed at lessening the impact of the introduction of the IFRS9 on own funds, by introducing additional informational requisites.

The current document, therefore, provides an update as at 30 September 2018 of quantitative information deemed most significant by the Group and, in particular, the quantitative information on 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 2017. 3 framework and also reports values as at 31 December 2017.

Further information on the Group's risk profile, pursuant to Art. 434 of the CRR, is Pillar 3 Disclosure is prepared at consolidated level by the Parent Company.

also published in the Consolidated Interim Report as at 30 September 2018, the Report on Corporate Governance and the Compensation Report. Unless otherwise indicated, all the amounts in this report are stated in TEUR (thousand Euros).

The current update introduces the information templates required by the Basel The Montepaschi Group regularly publishes its Pillar 3 disclosure on its website at: english.mps.it/investors.



Executive Summary

The MPS Group's capital requirements for and related differences are summarized in the table below.

Own Funds and Capital Requirements Summary

Data in thousands of Euro

Own Funds	sep-18	dec-17	Delta vs. 31-12-2017	
			Absolute	%
Common Equity Tier 1	7,899,975	8,951,233	-1,051,258	-11.7%
Additional Tier 1	-	-	-	-
Tier 2	876,214	112,487	763,727	678.8%
Own Funds	8,776,189	9,063,720	-287,531	-3.2%
↳ of which Delta EL*	190,619	162,039	28,581	17.6%
Regulatory Capital Requirements				
Credit and Counterparty Risk	4,016,466	3,817,017	199,449	5.2%
↳ of which Standard	1,461,898	1,655,880	-193,982	-11.7%
↳ of which AIRB	2,554,568	2,161,137	393,431	18.2%
Market Risk	230,365	199,411	30,954	15.5%
↳ of which Standard	230,365	199,411	30,954	15.5%
↳ of which Internal Model	-	-	-	-
Operational Risk	777,653	800,923	-23,270	-2.9%
↳ of which Foundation Approach	11,936	11,936	-	-
↳ of which Standardised Approach	-	-	-	-
↳ of which Advanced Approach	765,717	788,987	-23,270	-2.9%
CVA Risk	33,651	27,650	6,001	21.7%
Concentration Risk	-	-	-	-
Settlement Risk	-	-	-	-
Regulatory Capital Requirements	5,058,135	4,845,001	213,134	4.4%
Risk Weighted Assets	63,226,689	60,562,512	2,664,177	4.4%
of which Credit and Counterparty Risk	50,205,830	47,712,717	2,493,113	5.2%
of which Market Risk	2,879,562	2,492,636	386,925	15.5%
of which Operational Risk	9,720,660	10,011,539	-290,879	-2.9%
of which CVA Risk	420,637	345,620	75,017	21.7%
			Delta vs. 31-12-2017	
Capital ratios			in bp	in %
CET1 Capital Ratio	12.49%	14.78%	-229	-2.29%
Tier1 Capital Ratio	12.49%	14.78%	-229	-2.29%
Total Capital Ratio	13.88%	14.97%	-109	-1.09%

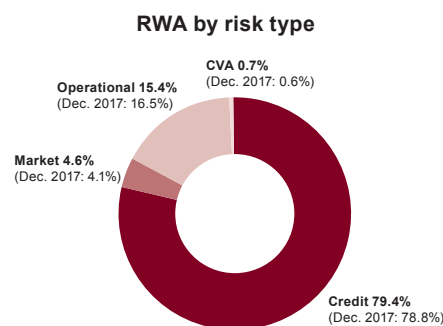
* The value represents the total contribution of the Delta PA, understood as the sum of the positive and deductions, to the determination of the Own Funds under the new regulatory framework. The total amount of the Delta PA, prior to the application of the cap, amounts to 1,735,559 €/thousand (7,119,971 €/thousand as at December 2017)



Compared to 31 December 2017, CET1 recorded an overall reduction of EUR 1,051 mln, essentially due to the deterioration of the OCI Reserve for EUR 357 mln, higher deductions for DTAs and significant investments (EUR 466 mln), partially offset by the increase deriving from the transitory effect of the first-time application of IFRS 9 and the share of profit for the period calculated in CET1. In particular, the share of the result for the period included in the CET1 as at 30 September 2018 corresponds to the profit accrued in the first quarter of 2018, while the profits accrued in the second and third quarters were not included. Conversely, in respect of the regulatory provisions, the higher deductions for DTAs and qualified investments, whose values are updated at the date of the report, contribute, inter alia, to the calculation of the CET1. Tier 2 showed a rise of EUR 764 mln, mainly due to the issue of a subordinated Tier 2 bond, finalised in January 2018, for the amount of EUR 750 mln. The Total Capital Ratio therefore shows an overall decrease in own funds of EUR 288 mln.

The RWAs record an overall increase of EUR 2,664 mln, essentially attributable to the increase in the RWAs relating to the “credit and counterpart risk” (EUR 2,493 mln), mainly due to the application of the specific requirements on non-performing exposures (EUR 4,061 mln, of which EUR 1,384 mln relating to bad loans), as well as the effect of the new disbursements; such increase is partly offset by the reduction in the RWAs from capital due to the effect of the reduction in the CET1 deductibles and the transformation of “transformable DTAs” into tax receivables. An increase in the RWAs relative to the “market risk” of around EUR 387 mln is also recorded.

As at 30 September 2018, the CET 1 ratio of 12.49%, is higher than the minimum coefficient set forth in art. 92 of the CRR, as well as the *Total SREP Capital Requirement* set by BCE and the *Overall Capital Requirement* (likewise, the Tier 1 ratio and the Total Capital ratio equal to 12.49% and 13.88%, respectively, are higher than the regulatory requirements) as reported in the table.



Capital adequacy indicators as of 1 January 2018	TSCR requirements (Pillar I + Pillar II)	OCR (TSCR + CBR)	OCR + P2G	Regulatory capital ratios 30/09/2018
CET 1 Ratio	7.5%	9.44%	10.94%	12.49%
Tier 1 Capital Ratio	9.0%	10.94%	10.94%	12.49%
Total Capital Ratio	11%	12.94%	12.94%	13.88%

TSCR - Total Srep Capital Requirement

CBR - the Combined Buffer Requirement includes Capital Conservation Buffer, Countercyclical Capital Buffer and O-SII Buffer

For further details, please refer to chapter 4 of this document.



3. Own Funds

Own funds, an element of Pillar 1, are 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 a new regulatory framework 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.

Own funds, calculated according to the transitional arrangements in force, differ from the net equity book value since prudential regulations aim to protect the quality of assets and reduce any potential volatility caused by the application of IAS/IFRS. The items that constitute own funds, therefore, must be fully available to the Group so that they may be used to cover risks and losses without any restrictions. Institutions are, in fact, required to demonstrate the quality and quantity of own funds in compliance with applicable European legislation.

Own funds are made up of Tier 1 capital

(T1), in turn consisting of Common Equity Tier 1 (CET1) and of Additional Tier 1 (AT1), and of Tier 2 (T2).

For a detailed description of the items included in Own Funds (CET1, AT1, T2) whether relating to transitional or final requirements, please refer to the Annual Financial Report as at 31 December 2017 - Notes to Part F – Information on consolidated shareholders' equity –Section 2.2.

On 1 January 2018, the new accounting standard IFRS 9 “Financial Instruments”, which replaces IAS 39 (on the classification and evaluation of financial assets and liabilities), came into effect. On January 2018, the Montepaschi Group, availing itself of the option provided for by Regulation UE 2935/2017, has communicated to the competent supervisory authorities the intention to apply the IFRS9 transitional arrangements aimed at mitigating the impact on the own funds linked to the introduction of the new accounting standards. Such transitional regime, applicable from 1 January 2018 to 31 December 2022, as at art. 473 bis, Regulation UE no.575/2013, allows the isolation of the CET1 through a mechanism of gradual introduction of the IFRS 9 impact relative to the amendments carried out during FTA. In particular, coherently with the diminution of the equity linked to the major rectifications arisen from



the application of the impairment model introduced by the IFRS9, it is allowed to be included, as positive element, a decreasing progressive quota of the increased reserves for attended credit losses in the primary capital of class 1, according to the following percentages:

- ✓ 95% from 1 January to 31 December 2018
- ✓ 85% from 1 January to 31 December 2019
- ✓ 70% from 1 January to 31 December 2020
- ✓ 50% from 1 January to 31 December 2021
- ✓ 25% from 1 January to 31 December 2022.

Here follows the Own Funds quantitative information exposed according to the general

model for the publication of the information on the Own Funds (Annex IV of the Rule of Execution (UE) no. 1423/2013 if the European Committee), with the application of the transitional regime IFRS 9 and of the other transitional arrangements in force.

Moreover, the comparison with 31/12/2017 is brought according to the rules in force on 31/12/2017. The Group has availed itself of the option of not determining the comparative data on homogenous bases in the exercise of the IFRS 9 application, therefore the data as at 31/12/2017 do not include any effect of the IFRS 9.



Quantitative information

Tab. 3.1.1 - Own funds disclosure template

	sep-2018	dec-2017
Common Equity Tier 1: instruments and reserves		
1 Capital instruments and the related share premium accounts	10,328,618	10,328,618
<i>of which: Paid up capital instruments</i>	<i>10,328,618</i>	<i>10,328,618</i>
2 Retained earnings	-994,952	1,480,953
3 Accumulated other comprehensive income (and other reserves, to include unrealised gain and losses under the applicable accounting standards)	-430,355	2,435,574
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium account subject to phase out from CET1	-	-
Public sector capital injections grandfathered until 1 January 2018	-	-
5 Minority Interests (amount allowed in consolidated CET1)	-	-
5a Independently reviewed interim profits net of any foreseeable change or dividend	187,505	-
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	9,090,817	14,245,145
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7 Additional value adjustments (negative amount)	-53,554	-43,926
8 Intangible assets (net of related tax liability) (negative amount)	-285,897	-332,347
10 Deferred tax assets that rely on future probability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-1,164,893	-764,514
11 Fair value reserves related to gains or losses on cash flow hedges	444	222
12 Negative amounts resulting from the calculation of expected loss amounts	-	-
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-35,816	-36,533
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-313,710	-313,710
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 (negative amount)	-	-
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) (negative amount)	-	-
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 the eligible short positions) (negative amount)	-77,730	-
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) (negative amount)	-41,518	-
22 Amount exceeding the 15% threshold (negative amount)	-436,481	-81,327
23 <i>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</i>	<i>-218,240</i>	<i>-46,315</i>
25 <i>of which: deferred tax assets arising from temporary differences</i>	<i>-218,240</i>	<i>-35,013</i>
25a Losses for the current financial year (negative amount)	-	-2,801,871
26b Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR 1	1,218,311	29,489
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-706,062
28 Total regulatory adjustments to Common equity Tier 1 (CET1)	-1,190,842	-5,293,912
29 Common Equity Tier 1 (CET1) Capital	7,899,975	8,951,233

¹ Such item includes tax realignment for -172,200 €/thousands, IFRS 9 transitional adjustments for 1,370,173 €/thousands, IAS 19 transitional adjustments for 12,138 €/thousands and others deductions with 17.65% thresholds for 8,200 €/thousands.

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

	sep-2018	dec-2017
Additional Tier 1 (AT1) capital: instruments		
30 Capital instruments and the related share premium accounts	-	-
31 <i>of which: classified as equity under applicable accounting standards</i>	-	-
32 <i>of which: classified as liabilities under applicable accounting standards</i>	-	-
33 Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	-
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 <i>of which: instruments issued by subsidiaries subject to phase out</i>	-	-
36 Additional Tier 1 (AT1) capital before regulatory adjustments	-	-
Additional Tier 1 (AT1) capital: regulatory adjustments		
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	-
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 (negative amount)	-	-
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) (negative amount)	-	-
40 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-
44 Additional Tier 1 (AT1) capital	-	-
45 Tier 1 capital (T1 = CET1 + AT1)	7,899,975	8,951,233



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

	sep-2018	dec-2017
Tier 2 (T2) capital: instruments and provisions		
46 Capital instruments and the related share premium accounts	750,000	-
47 Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	-
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 <i>of which: instruments issued by subsidiaries subject to phase out</i>	-	-
50 Credit risk adjustments	190,619	162,039
51 Tier 2 (T2) capital before regulatory adjustments	940,619	162,039
Tier 2 (T2) capital: regulatory adjustments		
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-
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 (negative amount)	-	-
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) (negative amount)	-	-
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 eligible of short positions)	-64,405	-62,214
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	-	-5,594
<i>of which: Losses for the current year</i>	-	-
<i>of which: Significant financial instruments</i>	-	-5,594
<i>of which: Not Significant financial instruments</i>	-	-
<i>of which: outstanding amount related to the excess of expected losses with respect to adjustments for IRB positions</i>	-	-
56c Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	-	18,256
<i>of which: unrealised gains</i>	-	18,256
57 Total regulatory adjustments to Tier 2 (T2) capital	-64,405	-49,552
58 Tier 2 (T2) capital	876,214	112,487
59 Total Capital (TC= T1+T2)	8,776,189	9,063,720



Tab. 3.1.4 - Own Funds: Capital ratios and buffers

		sep-2018	dec-2017
Capital ratios and buffer			
60	Total Risk Weighted Assets	63,226,689	60,562,512
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	12.49%	14.78%
62	Tier 1 (as a percentage of risk exposure amount)	12.49%	14.78%
63	Total capital (as a percentage of risk exposure amount)	13.88%	14.97%
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)	6.44%	5.75%
65	<i>of which: capital conservation buffer requirement</i>	1.875%	1.25%
66	<i>of which: countercyclical buffer requirement</i>	0.001%	0.002%
67	<i>of which: systemic risk buffer requirement</i>	-	-
67a	<i>of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer</i>	0.06%	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) ²	5.88%	6.97%
Capital ratios and buffer			
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)	471,227	641,235
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)	707,733	877,780
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)	707,733	686,162
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 IRB approach (prior to the application of the cap)	1,735,559	7,119,971
79	Cap on inclusion of credit risk adjustments in T2 under IRB approach	190,619	162,039
Capital instruments subject to phase-out arrangements (only 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	-	-
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)	-	-

²Tier 1 capital available for reserves is calculated as the difference between the Common Equity Tier 1 and the requirement referring to Tier 1 capital for the portion covered by Common Equity Tier 1 Capital and Tier total capital components, expressed as a percentage of risk exposure amount.

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

Items	sep-2018	dec-2017
Group Equity	8,968,856	10,429,096
Minority Equity	2,218	2,279
Net Assets of the Balance Sheet	8,971,074	10,431,375
Net Assets after distribution to shareholders	8,971,074	10,431,375
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-	-
- Minority interests computable	-2,218	-2,279
- Own shares included in the regulatory adjustments	-313,710	-313,710
- Other components non computable in regime	444	222
Common Equity Tier 1 (CET1) before the regulatory adjustments	8,969,301	10,429,318
Regulatory adjustments (including adjustments of the transitional period)	-1,069,326	-1,478,085
Common Equity Tier 1 (CET1) net of regulatory adjustments	7,899,975	8,951,233



Tab. 3.3 – Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital, as well as the filters and deductions applied to the institution's own funds and the balance sheet of the financial statements

Items (Euro mln)	Financial Statement	Prudential Statement	Information about differences	Relevant amount for the purpose of Own Funds	See Table "Own funds disclosure template"
Assets					
70 Equity investments	905,140	998,201	93,061	-345,082	8, 18, 19, 23
<i>of which: implicit goodwill</i>	49,112	49,112	-	-49,112	8
100 Intangible assets	236,785	236,785	-	-236,785	8
<i>of which: goodwill</i>	7,900	7,900	-	-7,900	8
<i>of which: other intangible assets</i>	228,885	228,885	-	-228,885	8
110 Tax assets	3,807,375	3,807,375	-	-1,424,651	10, 21, 25
<i>of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability</i>	1,164,893	1,164,893	-	-1,164,893	10
Liabilities and Shareholders' Equity					
10 Debt securities issued	13,412,639	13,412,639	-	750,000	32, 33, 46, 52
30 Financial liabilities designated at fair value	277,957	277,957	-	-	33
120 Valuation reserves	-305,008	-305,008	-	-305,007	3, 11
<i>of which: FVOCI</i>	-237,073	-237,073	-	-314,505	3 (FVOCI)
<i>of which: CFH</i>	-444	-444	-	444	3 (CFH), 11
<i>of which: legally-required revaluations</i>	9,053	9,053	-	9,053	3 (reval)
<i>of which: other</i>	-75,677	-75,677	-	-	3 (other)
150 Reserves	-1,120,298	-1,120,298	-	-1,119,854	2, 3
160 Share premium reserve	-	-	-	-	-
170 Share Capital	10,328,618	10,328,618	-	10,328,618	1, 2, 31
180 Treasury shares	313,710	313,710	-	-313,710	16
200 Profit/loss for the period	379,254	379,254	-	187,505	5a, 25a
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-	-	-	-35,816	14
Value adjustments due to the requirements for prudent valuation	-	-	-	-53,554	7
IRB Shortfall of credit risk adjustments to expected losses	-	-	-	-	12
IRB Excess of provisions over expected losses eligible	-	-	-	190,619	50
Filter on double tax realignment	-	-	-	-172,201	26b
Filter for IAS 19 and IFRS 9	-	-	-	1,390,511	26b
Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities	-	-	-	-	39
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment	-	-	-	-64,405	54, 55
Indirect investments	-	-	-	-	-
Total Own Funds	-	-	-	8,776,189	-

The information was summarized according to the methodology described in Annex I of the Implementing Regulation (EU) No. 1423/2013 which establishes technical standards implementation with regard to the disclosure on Own Funds.



4. Capital requirements, liquidity ratios 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, the ICAAP

and the ILAAP. 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 economic capital corresponding to the maximum losses estimated on measurable risks at a predetermined confidence interval and on the basis of the Group's internal models and rules.

Both measurements are used as part of RAPM metrics.

Following the implementation of the regulatory framework, Pillar 1, which



governs the requirements used to reflect the potential risk of activities as well as capital requirements, was strengthened through a more harmonised definition of capital as well as higher capital requirements. Therefore, alongside the minimum levels of capital required to face credit, counterparty, market and operational risks, a definition of higher quality capital has been added to own resources, essentially focused on common equity. Also added are capital reserves which have the function of preserving primary capital, providing counter-cyclical buffers and hedging against greater losses for systemically important financial institutions. These reserves are determined by the Member States (Bank of Italy) in accordance with the framework, and are to be added to Core Equity Tier 1. In addition to the system of minimum capital requirements and reserves, there is now a monitoring plan of leverage caps (including off-balance sheet exposures) as a backstop to capital requirements based on risk and to reduce excessive leverage across the system.

The regulatory framework also introduces 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.

Capital adequacy

Under Prudential requirements, as of

January 2014 all banks must comply with a CET1 ratio of at least 4.5%, a Tier 1 ratio of at least 6% and a Total capital Ratio of at least 8% of the Group's total risk exposure. Additionally, Banks are also required to hold the following buffers against Pillar 1 risks. In addition to maintaining these minimum requirements against Pillar 1 risk, there is a further Core Equity Tier 1 component against Pillar 2 risk, established following the annual SREP, as well as the following buffers:

- a capital conservation buffer of 2.5% from 1st January 2014 to 31 December 2016. The Bank of Italy recently modified the capital conservation buffer requirement, reviewing the choice made when it transposed the CRD IV to fully implement the buffer early and, instead, deciding to adopt the transitional arrangement provided for in the CRD IV, which entails the gradual phase-in of the buffer. Banks, on both a stand-alone and consolidated basis, will therefore be required to maintain a minimum capital conservation buffer of:

- 1.25% from 1 January 2017 to 31 December 2017;

- 1.875% from 1 January 2018 to 31 December 2018;

- 2.5% starting from 1st January 2019;

- As of 2016, a specific countercyclical capital buffer for the bank in periods of excessive growth in loans. This capital buffer is equal to the Bank's total risk-weighted exposure (RWA) multiplied by the countercyclical capital buffer rate. The latter is equal to the weighted



average of the countercyclical rates applied in the various countries where the Bank has significant credit exposures. In particular, the Bank of Italy has set the countercyclical rate of exposures to Italian counterparties at 0% for the third quarter of 2018. For the other credit exposures, the Bank uses the countercyclical rate set by the relevant State authorities, in accordance with applicable regulations;

- A *G-SII* capital buffer (1% – 3.5%; as of 2016) and a *O-SII* capital buffer (0% – 2%). The Montepaschi Group falls under the group of Other Systemically Important Institutions (O-SII), for which the Bank of Italy has established a buffer of 0.06% for 2018, 0.13% for 2019, 0.19% for 2020 and 0.25% for 2021.
- a non-cyclical systemic risk or macroprudential buffer to be set by the Member States and currently not yet determined by the Bank of Italy.

Buffers are calculated by Member States (Bank of Italy) on the basis of the new regulatory framework (Bank of Italy) and are to be added to Common Equity Tier 1 capital. The amount of Core Equity Tier 1 necessary to comply with the requirement for each buffer determines the *Combined Buffer Requirement (CBR)*.

On 19 June 2017 the ECB informed the Parent Company of the results of the Supervisory Review and Evaluation Process (SREP). In this document, the ECB ordered the Bank to maintain as of 1 January 2018:

- a Total SREP Capital Requirement ratio of 11% at consolidated level (which includes

a minimum Pillar 1 requirement of 8% and an additional Pillar 2 requirement of 3% (P2R), entirely in terms of Common Equity Tier 1 capital) and

- an *Overall Capital Requirement – OCR*, including, besides the TSCR, also the combined capital requirement. The following table shows the minimum capital requirements on a consolidated basis starting from 1 January 2018 (*phase-in*).

Capital adequacy indicators as of 1 January 2018	Minimum equity requirements (art. 92 CRR, Pillar I)	TSCR requirements (Pillar I + Pillar II)	Combined Buffer Requirement	OCR (TSCR + CBR)
<i>CET 1 Ratio</i>	4.50%	7.50%	1.94%	9.44%
<i>Tier 1 Capital Ratio</i>	6.00%	9.00%	1.94%	10.94%
<i>Total Capital Ratio</i>	8.00%	11.00%	1.94%	12.94%

TSCR - Total Srep Capital Requirement

CBR - the Combined Buffer Requirement includes Capital Conservation Buffer, Countercyclical Capital Buffer and O-SII Buffer.

As a result, BMPS must meet the following requirements at consolidated level as of 1 January 2018:

- CET1 Ratio of 9.44% on a transitional basis,
- Total Capital Ratio of 12.94% on a transitional basis including, aside from the P2R, 1.875% for the Capital Conservation Buffer and 0.06% for the O-SII Buffer (Other Systemically Important Institutions Buffer).

Furthermore, the ECB notified to the Bank the expectation for the Group to comply with an additional 1.5% threshold (the so called “Pillar 2 capital guidance”) to be fully satisfied with Common Equity Tier 1. The following table shows the minimum capital



requirements which Group must respect.

Capital adequacy indicators as of 1 January 2018	OCR (TSCR + CBR)	Pillar II capital guidance (P2G)	OCR +P2G
CET 1 Ratio	9.44%	1.50%	10.94%
Tier 1 Capital Ratio	10.94%	-	10.94%
Total Capital Ratio	12.94%	-	12.94%

TSCR - Total Srep Capital Requirement

CBR - the Combined Buffer Requirement includes Capital Conservation Buffer, Countercyclical Capital Buffer and O-SII Buffer.

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 Parent Company may not distribute dividends to shareholders or pay cash flows to holders of AT1 instruments.

Please note that failure to comply with the *Pillar 2 Guidance – P2G* requirement is not equivalent to failure to comply with capital requirements; however, in the case of a reduction of capital below the level that includes the P2G requirement, BMPS will need to promptly disclose the reasons for non-observance to the Supervisory Authority, which will evaluate and communicate any measures on a case by case basis.

In addition, on 14 June 2018 the ECB communicated the additional requirements to be applied to non-performing loans until obtaining the authorisation from the same ECB for the implementation of the specific models for the calculation of the LGD and ELBE with reference to the non-performing exposures.

The Group as at 30 September 2018 draws attention to a CET 1 ratio of 12.49%, higher

than the minimum coefficient as expected from art. 92 CRR, to the *Total SREP Capital Requirement* established by the ECB and the Overall Capital Requirement (analogously larger than the aforementioned regulatory requirements, Tier 1 ratio and Total Capital ratio, respectively 12.49% and 13.88%).

Capital adequacy indicators as of 1 January 2018	TSCR requirements (Pillar I + Pillar II)	OCR (TSCR + CBR)	OCR + P2G	Regulatory capital ratios 30/09/2018
CET 1 Ratio	7.5%	9.44%	10.94%	12.49%
Tier 1 Capital Ratio	9.0%	10.94%	10.94%	12.49%
Total Capital Ratio	11%	12.94%	12.94%	13.88%

TSCR - Total Srep Capital Requirement

CBR - the Combined Buffer Requirement includes Capital Conservation Buffer, Countercyclical Capital Buffer and O-SII Buffer.



Quantitative information

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 standard 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.

The AIRB model's scope of application currently includes the Parent Company Banca MPS, MPS Capital Services Banca per le Imprese and MPS Leasing & Factoring, for the regulatory portfolios "Retail Exposures" and "Exposures to corporates".

For the remaining portfolios and Group entities, capital requirements against Credit risk are calculated using the standard approach. Capital requirements against Counterparty risk are calculated independently of the portfolio. More specifically, the Market value method is applied for OTC derivatives and the comprehensive approach for the treatment of financial collateral is used for repos, sell-buy backs and security lending.

Capital requirements against CVA risk are calculated according to the standard 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. In the following tables, the details of the Group property requirements are exposed as at 30 September 2018, according to the application of the transitional regime IFRS 9 and of the other transitional arrangements in force. The Group opted not to restate the comparative figures on a like-for-like basis in the year of first-time application of IFRS 9; therefore the amounts for 2017 are not fully comparable.

**Tab. 4a – Capital requirements and Regulatory capital ratios**

Regulatory Capital Requirements	sep-18	dec-17
Credit and Counterparty Risk	4,016,466	3,817,017
Standard Approach	1,461,898	1,655,880
Advanced IRB Approach	2,554,568	2,161,137
Market Risks	230,365	199,411
Standardised Approach	230,365	199,411
Internal Models	-	-
Operational Risk	777,653	800,923
Foundation Approach	11,936	11,936
Standardised Approach	-	-
Advanced Approach	765,717	788,987
CVA Risk	33,651	27,650
Originary Exposure Method (OEM)	-	-
Standardised Approach	33,651	27,650
Advanced Approach	-	-
Concentration Risk	-	-
Settlement Risk	-	-
Regulatory Capital Requirements	5,058,135	4,845,001
Risk-weighted assets	63,226,689	60,562,512
CET1 Capital Ratio	12.49%	14.78%
Tier1 Capital Ratio	12.49%	14.78%
Total Capital Ratio	13.88%	14.97%

Report on IFRS 9

Having opted for the adoption of the transitional arrangements, the Group, under the EBA Guidelines GL 2018/01, is required to provide a comparison between own funds, risk-weighted assets, capital and leverage ratios, with and without the application of the IFRS 9 transitional arrangements or

equal losses on credits.

Here follows the required information, according to the specified informative model in the Annex I of EBA Guidelines GL 2018/01 on uniform disclosure requirements of IFRS 9.

**IFRS 9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs**

	sep-18	jun-18
Available capital (amounts)		
1 Common Equity Tier 1 (CET1) capital	7,899,975	8,372,975
2 Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,529,802	6,763,590
3 Tier 1 capital	7,899,975	8,372,975
4 Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,529,802	6,763,590
5 Total capital	8,776,189	9,243,815
6 Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,406,016	7,634,429
Risk-weighted assets (amounts)		
7 Total risk-weighted assets	63,226,689	64,274,470
8 Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	63,150,315	63,589,518
Capital ratios		
9 Common Equity Tier 1 (as a percentage of risk exposure amount)	12.49%	13.03%
10 Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10.34%	10.64%
11 Tier 1 (as a percentage of risk exposure amount)	12.49%	13.03%
12 Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10.34%	10.64%
13 Total capital (as a percentage of risk exposure amount)	13.88%	14.38%
14 Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.73%	12.01%
Leverage ratio		
15 Leverage ratio total exposure measure	143,483,814	150,802,982
16 Leverage ratio	5.51%	5.55%
17 Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4.55%	4.50%

The application of the IFRS 9 *fully loaded* transitional arrangements) and 11.73% without taking into account the impact (instead of 13.88%). deriving from the cohesion with the IFRS 9 fully-loaded application would have transitional regime expected from 2018, entailed a total CET1 decrease of about would have entailed a reduction of 215 bp 1.37 bn euro linked to major provisions and 215 bp, respectively of CET1 ratio and implemented during FTA on IRB credit total capital ratio. Such coefficients would exposure. have resulted in 10.34% (instead of 12.49%



The following table provides a general overview of the total RWAs and capital requirements.

Tab. 4b (EU OV1) – Overview of RWAs

		RWAs		Minimum capital requirements	
		sep-18	jun-18	sep-18	jun-18
	1 Credit risk (excluding CCR)	47,651,324	47,890,693	3,812,106	3,831,255
Article 438 (c) (d)	2 Of which the standardised approach	16,266,693	17,542,473	1,301,335	1,403,398
Article 438, (c) (d)	3 Of which the foundation IRB (FIRB) approach	-	-	-	-
Article 438 (c) (d)	4 Of which the advanced IRB (AIRB) approach	31,384,631	30,348,220	2,510,770	2,427,858
Article 438, d)	5 Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-	-
Article 107, Article 438 (c) (d)	6 CCR	1,834,331	1,738,231	146,746	139,058
Article 438(c) (d)	7 Of which mark to market	878,568	901,025	70,285	72,082
Article 438, lettere c) e d)	8 Of which original exposure	-	-	-	-
	9 Of which the standardised approach	-	-	-	-
	10 Of which internal model method (IMM)	-	-	-	-
Article 438(c) (d)	11 Of which risk exposure amount for contributions to the default fund of a CCP	5,405	3,633	432	291
Article 438 (c) (d)	12 Of which CVA	420,637	450,801	33,651	36,064
Article 438 (e)	13 Settlement risk	-	-	-	-
Article 449 (o) (i)	14 Securitisation exposures in the banking book (after the cap)	162,112	155,664	12,969	12,453
	15 Of which IRB approach	162,112	155,664	12,969	12,453
	16 Of which IRB supervisory formula approach (SFA)	-	-	-	-
	17 Of which internal assessment approach (IAA)	-	-	-	-
	18 Of which standardised approach	-	-	-	-
Article 438 (e)	19 Market risk	2,879,562	3,197,537	230,365	255,803
	20 Of which the standardised approach	2,879,562	3,197,537	230,365	255,803
	21 Of which IMA	-	-	-	-
Article 438 (e)	22 Large exposures	-	-	-	-
Article 438 (f)	23 Operational risk	9,720,660	10,036,631	777,653	802,930
	24 Of which basic indicator approach	149,202	149,202	11,936	11,936
	25 Of which standardised approach	-	-	-	-
	26 Of which advanced measurement approach	9,571,459	9,887,429	765,717	790,994
Article 437(2), Article 48 and 60	27 Amounts below the thresholds for deduction (subject to 250% risk weight)	978,700	1,255,714	78,296	100,457
Article 500	28 Floor adjustment	-	-	-	-
	29 Total	63,226,689	64,274,470	5,058,135	5,141,958

The sum of rows 1,6 (excluding row 12), 14 and 27 is consistent with the item of total credit and counterparty risk of tables 4.1 and 4.2. Row 6 in addition to rows 7,8,9,10,11 and 12, includes the amount related to the financial collateral comprehensive method (for SFTs) equal to 529,721 of RWA as at 30 September 2018.



The RWAs as at 30 September 2018 compared to the previous quarter, record an overall decrease essentially attributable to the reduction in the RWAs relating to the “credit risk” due to the reduction in the RWAs from capital, different disposals that took place in the quarter as well as lower disbursements. With reference to the prudential aspects, it should be noted that the ECB authorized to the Parent Company the recognition of

the Significant Risk Transfer. In this context the Parent Company has also obtained the LGD waiver by ECB, which forms the basis of the projections of capital adequacy of the Restructuring Plan and which would make it possible not to include in the LGD estimate process a large part of the effects of the derecognition of the securitised portfolio.

Tab. 4.1 – Capital requirements for Credit and Counterparty Risk

	sep-18	dec-17
	Requirements	Requirements
Standard Approach		
Standard Approach Total	1,461,898	1,655,880
<i>of which: Counterparty Risk</i>	81,834	85,731
IRB Approach		
IRB Approach Total	2,554,568	2,161,137
<i>of which: Counterparty Risk</i>	30,829	28,551
Total	4,016,466	3,817,017
<i>of which: Counterparty Risk</i>	112,663	114,281

The Capital Requirement for Counterparty Risk amounts to 112,663 €/thousand and has been calculated on both the Trading Portfolio and the Banking Book. The requirement, summarised by methodology

in table 4.1, is reported in the individual regulatory portfolios of the Standard Approach and the AIRB Approach in table 4.2.



Tab. 4.2 – Capital requirements for Credit and Counterparty Risk

Standard Approach	sep-18	dec-17
Exposures to central governments and central banks	165,399	217,601
Exposures to regional governments and local authorities	29,471	31,705
Exposures to public sector entities	31,303	34,592
Exposures to Multi-lateral development banks	-	-
Exposures to International Organisations	-	-
Exposures to Supervised institutions	156,571	176,025
Exposures to Corporates	368,584	407,640
Retail Exposures	62,373	75,457
Exposures secured by mortgages on immovable property	45,258	43,176
Exposures in Default	72,349	90,247
Exposures associated with high-risk	15,834	11,232
Exposures in the form of covered bonds	11,299	11,024
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to UCITs	32,881	36,593
Equity Exposures	162,874	242,245
Other Exposures	307,269	277,321
Securitization positions	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	432	1,023
Standard Approach Total	1,461,898	1,655,880
AIRB Approach		
Exposures to or secured by corporates:	1,815,818	1,474,882
- SMEs	889,626	686,016
- Other companies	809,491	666,005
- Specialized lending	116,702	122,861
Retail exposures:	725,781	685,634
- secured by real estate: SMEs	170,158	153,857
- secured by real estate: Individuals	242,768	242,241
- Qualifying revolving	607	741
- Other retail exposures: SMEs	283,664	258,486
- Other retail exposures: Individuals	28,584	30,309
Securitization positions	12,969	621
AIRB Approach Total	2,554,568	2,161,137
Credit and Counterparty Risk Total	4,016,466	3,817,017

Below is a breakdown of capital requirements criteria, for Market Risk and Operational Risk. Below is a breakdown of capital requirements for Credit and Counterparty Risk (IRB method) –Specialised Lending - slotting

**Tab. 4.3 – Capital requirements for Credit and Counterparty Risk (IRB methods) – Specialised lending - slotting criteria**

Risk weight	sep-18	dec-17
Category 1 - 50%	84	50
Category 1 - 70% equal to or greater than 2.5 years	2,270	2,048
Category 2 -70% less than 2.5 years	8,529	5,201
Category 2 - 90%	67,019	68,015
Category 3 - 115%	33,716	33,634
Category 4 - 250%	5,084	13,914
Category 5 - 0%	-	-
Total	116,702	122,861

Tab. 4.4 – Capital Requirements for Market Risk

Standardised Approach	sep-18	dec-17
Position risk on debt instruments	149,262	126,299
Position risk on equity	45,521	41,428
Foreign exchange risk	7,892	16,676
Commodities risk	13,060	13,190
CIU Risk	14,629	1,817
Total Standardised Approach	230,365	199,411
Internal models		
Total Internal models	-	-
Total Market Risks	230,365	199,411

Tab. 4.5 – Capital requirements for Operational Risk

Requirements by Approach	sep-18	dec-17
Foundation Approach	11,936	11,936
Standardised Approach	-	-
Advanced Measurement Approach	765,717	788,987
Total Operational Risk	777,653	800,923

The following table shows the main changes in risk under the IRB approach. in RWA and capital requirements for credit

Tab. 4.6 (EU CR8) – RWA flow statements of credit risk exposures under the IRB approach

	a	b
	RWA amounts	Capital requirements
1 RWAs as of 30/06/2018	30,644,870	2,451,590
9 RWAs as of 30/09/2018	31,546,743	2,523,739

The growth of 0.9 billion of the RWA of credit risk exposures under the IRB approach is mainly due to the application of the specific requirements on non-performing exposures, as well as the effect of the new disbursements. The amounts are net of the counterparty risk component.



Countercyclical Capital Buffer

As of 30 September 2018, the Montepaschi Group is required to hold a countercyclical capital buffer of 632.3 EUR thousands. This buffer, as established by Article 130 of the CRD IV, is equal to the total risk exposure amount (expressed in terms of risk-weighted assets) multiplied by the institution's specific countercyclical rate, which, for the Montepaschi Group, stands at 0.001%. The latter is equal to the weighted average of the countercyclical rates applicable in the countries where the Institution has exposures. Each Member State, in accordance with article 130, paragraph 1 of Directive 2013/36/UE of the European Parliament and Council (CRD), shall require institutions to maintain an institution-specific countercyclical capital buffer against exposures to their own Country and establish the related countercyclical buffer rate. In particular, the Bank of Italy has set the countercyclical buffer rate for exposures to Italian counterparties at 0% for 2017 and the third quarter of 2018. As far as the other credit exposures are concerned, the Group uses the rates established by the competent authorities of the State in order to calculate its own indicator. As of 30 September 2018, only the competent authorities of United Kingdom, Hong Kong, Sweden, Norway, Czech Republic, Slovak Republic and Iceland among the Countries to which the Group has relevant exposures for the purpose of calculating the countercyclical buffer, have established a non-zero countercyclical capital buffer rate. As shown in the following tables, the Montepaschi Group holds 93.82% of relevant exposures to Italy, which has a 0% rate, for the purpose of calculating the countercyclical buffer. Reported below are the main items of calculation of the countercyclical capital buffer, presented in the standard format shown in table 2, Attachment I of Commission Delegated Regulation (EU) 1555/2015.

Tab. 4.7 – Amount of institution-specific countercyclical capital buffer

	sep-18
10 Total risk exposure amount	63,226,689
20 Institution specific countercyclical buffer rate	0.001%
30 Institution specific countercyclical buffer requirement	632.3



Liquidity Ratios and Leverage Ratio

With reference to the liquidity indicators, Liquidity Coverage Ratio and the Net Stable Funding Ratio, the observation period by the Supervisory Authorities began in March 2014. As of October 2015, the minimum obligatory requirement for the Liquidity Coverage Ratio came into force, with a level that gradually increases over the years: 60% in 2015; 70% in 2016; 80% in 2017; and 100% in 2018. The Liquidity Cover Ratio was 185.93% as at 30 September 2018, well above the minimum of 100% required for the year 2018.

As regards the Net Stable Funding Ratio, EU legislation does not currently contemplate a regulatory limit.

Leverage Ratio

In addition to the system of capital requirements aimed at covering credit, counterparty, market, operational, CVA and regulatory risks, it is expected that the current regulatory framework will monitor a limit on leverage 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 calculate their leverage ratio.

As required by the Regulation EU 62/2015, the Leverage Ratio is calculated as a ratio between Tier1 and a denominator that is based on the non-risk weighted assets (including off-balance sheet exposures) 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. At present, the minimum thresholds for the Leverage Ratio have not yet been established by the Supervisory Authorities. However, as of 1 January 2015, quarterly disclosure has become obligatory in addition to the disclosure requirement already in force. Moreover, as provided for by Commission Implementing Regulation (EU) 2016/200 of 15 February 2016, banks publish this disclosure as of 16 February 2016, the date following this regulation’s publication in the Official Journal of the European Union.

The Group’s leverage ratio was 5.51% as at 30 September 2018. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 4.54%. In accordance with public disclosure requirements, the data necessary for its calculation is provided below.

The templates used to report the information are those provided for by the ITS on Disclosure (*see* “EBA FINAL draft Implementing Technical Standards on disclosure of the leverage ratio under Article 451(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) - Second submission following the EC’s



Delegated Act specifying the LR” - [link](#)) published by the EBA on 15/06/2015 and included in the Commission Implementing Regulation (EU) 2016/200 of 15 February 2016. The table below show the financial leverage ratio as at 30 September 2018. The figures shown relate to the calculation of the leverage ratio according to applicable transitional provisions for reporting purposes.

Tab. 4.8 – Leverage Ratio

	sep-18	dec-17
Capital and total exposures		
20 Tier 1 capital	7,899,975	8,951,233
21 Total exposures	143,483,814	149,831,148
Leverage ratio		
22 Basel III leverage ratio	5.51%	5.97%

Process used to manage the risk of excessive leverage
(in accordance with article 451(1) letter d) of the CRR)

The Group’s Risk Appetite Framework (RAF) constitutes the basic risk management framework in the Montepaschi Group. The RAF is governed at Group level by a regulatory framework that establishes a system of governance, processes, tools and procedures for fully managing the Group’s risk. Leverage risk is included in the RAF and is therefore subject to the control procedures contained therein. The Leverage Ratio is one of the Key Risk Indicators monitored within the RAF for 2018. As at 30 September 2018, the Group recorded a slight reduction in the financial leverage indicator linked to the decrease in Tier 1 respect to 31/12/2017.



Declaration of the Financial Reporting Officer

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

Siena, 9 November 2018

Nicola Massimo Clarelli
Financial Reporting Officer



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Appendix 1: Summary of Information published in line with CRR requirements

<i>CRR Article</i>		<i>Reference to the present document Pillar 3</i>
Art. 431 - Scope of disclosure requirements	<i>Par. 1; 2 ;3; 4</i>	Introduction
Art. 432 - Non-material, proprietary or confidential information		Introduction
Art. 433 - Frequency of disclosure		Introduction
Art. 434 - Means of disclosure		Introduction
Art. 435 - Risk management objectives and policies	<i>Par. 2</i>	Introduction : reference to the link: https://www.gruppompis.it/en/corporate-governance/corporate-governance-report.html
Art. 437 - Own funds	<i>Par. a</i>	Chapter 3 - Own funds - Tab. 3.2; Tab. 3.3
	<i>Par. d</i>	Chapter 3 - Own funds - Tab. 3.1.1/3.1.2/3.1.3/3.1.4
	<i>Par. e/f</i>	Chapter 3 - Own funds
Art. 438 - Capital requirement	<i>Par. a, b, c, d</i>	Chapter 4 - Capital requirements, liquidity ratios and leverage
	<i>Par. e; f</i>	Chapter 4 - Capital requirements, liquidity ratios and leverage (Tab. 4a)
	<i>Slotting criteria</i>	Chapter 4 - Capital requirements, liquidity ratios and leverage (Tab. 4.3)
Art. 440 - Capital buffers	<i>Par. a</i>	Chapter 4 - Capital requirements, liquidity ratios and leverage
	<i>Par. b</i>	Chapter 4 - Section countercyclical capital buffer (Tab. 4.7)
Art. 445 - Exposure to market risk		Chapter 4 - Capital requirements, liquidity ratios and leverage (Tab. 4; Tab.4.4)
Art. 450 - Remuneration Policy		Introduction - reference to BMPS website https://www.gruppompis.it/en/corporate-governance/remuneration.html
Art. 451 - Leverage		Chapter 4 - Capital requirements, liquidity ratios and leverage (Tab. 4.8)

Appendix 2 - Details of Information provided in compliance with EBA Guidelines GL 2016/11

<i>Guidelines on disclosure requirements EBA/GL/2016/11</i>		<i>Reference to the present document Pillar 3</i>
EU OV1	Overview of RWAs	Chapter 4 - Capital requirements, liquidity ratios and leverage (tab. 4.b)
EU CR8	RWA flow statements of credit risk exposures under the IRB approach	Chapter 4 - Capital requirements, liquidity ratios and leverage (tab. 4.6)

Appendix 3 - Details of Information provided in compliance with EBA Guidelines GL 2018/01

<i>Guidelines on uniform disclosure of IFRS 9 transitional arrangements EBA/GL/2018/01</i>		<i>Reference to the present document Pillar 3</i>
IFRS 9	<i>Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs</i>	Chapter 4 - Capital requirements, liquidity ratios and leverage



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