MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

PRESS RELEASE

BANCA MPS COMPREHENSIVE ASSESSMENT OUTCOME

The outcome of the Comprehensive Assessment ("CA") exercise has confirmed Banca Monte dei Paschi di Siena's ("BMPS" or the "Bank") capital structure to be sound and capable of absorbing the impact of the Asset Quality Review ("AQR"). This result was achieved thanks to the appropriately-sized capital increase carried out in June 2014. In fact, the exercise showed a post-AQR Common Equity Tier 1 ("CET1") of 9.5% as at 31 December 2013 against a threshold of 8.0%.

The Stress Test in the Baseline Scenario was also passed with the exercise revealing a CET1 of 8.8%[1] against a threshold of 8.0%.

On the other hand, the Adverse Stress Test Scenario at 2016 was not passed, showing a shortfall of €2.1 billion net of actions already implemented.

The result of the exercise applied to the Bank - which has recently embarked upon a restructuring exercise approved by the European Commission - was penalized by the methodologies adopted in the CA.

The Board of Directors of BMPS has begun a review of the potential actions to be included in the Capital Plan which will be submitted for approval by Supervisory Authorities within the terms established by regulations. Resulting changes in the Restructuring Plan already approved by the European Commission, should be approved by the same authority.

The Board of Directors of the Bank has appointed UBS and Citigroup as financial advisers for the definition, structuring and execution of the mitigating actions of the Capital Plan, as well as to explore all strategic alternatives for the Bank.

Siena, 26 October 2014 – During yesterday's session, the BoD of BMPS took formal note of the results of the CA exercise conducted by the European Central Bank ("ECB") and the European Banking Authority ("EBA").

In order to understand the scope of the results, an introductory explanation regarding the conceptual difference between the AQR and Stress Test procedures is hereby provided.

The AQR was conducting using a "point-in-time" approach based on balance sheet data for the year ending 31 December 2013.

Instead, the Stress Tests ("Baseline" and "Adverse Scenario") are a forward-looking assessment aimed at testing the viability of BMPS to hypothetical worsening stress scenarios, without any reference to data or assessment parameters used as a basis when drawing up the balance sheet.

1 Capital ratios in the Baseline and Adverse Scenarios of the Comprehensive Assessment were calculated on the basis of biggest cumulative impacts calculated during the 2014-2016 Stress Test period adjusted to the Bank's capital as at 1 January 2014, post AQR and Join-up.

A further component of the CA is the so-called “Join-Up” which integrates the AQR and Stress Test assuming, for the Stress Test exercise, not the actual CET1 as at 31 December 2013 based on balance sheet data, but rather a theoretical CET1 value determined by the ECB adjusting the actual data by the AQR results.

Compared to the initial CET1 of €8,504 mln and a 5.5% threshold equivalent to €4,177 mln, the final result of BMPS’s CA shows a regulatory capital shortfall of €2,111 million, which includes:

- an AQR component of € -2,851 million;
- a component relative to Adverse Stress Test Scenario at 2016 cumulatively amounting to € -5,243 million;
- a Join-up component of € -483 million; and
- mitigation actions amounting to € 2,139 million (including the €5 billion capital increase, net of €3 billion in repayment of State Aid in the form of NFIs and revaluation of the stake in Bank of Italy).

The AQR component results from the application of classification and assessment standards established by the ECB for the purpose of prudential supervision. These standards are based on the conservative application of evaluation criteria and statistical methods, which do not substitute the accounting standards.

According to the ECB, the AQR component of €2,851 mln is largely due to:

“Main drivers of the AQR results are the additional provisions related to individual Credit File Review (“CFR”), due to very significant level of reclassification from PE to NPE exposures and the projection of these findings to the un-sample part of the portfolios. Collective provisioning has also a relevant impact. The quality of loans is still affected by the expansive loan policy adopted in the past years (2008-2010), the below average quality of the ex Banca Antonveneta portfolio and past low credit standards in origination of loans to related parties and local economy.”

More specifically, the AQR examined an overall portfolio of over €100 bn of loan positions, of which €73 bn Corporate and €27 bn Retail and Small Business.

The exercise was conducted through the CFR using an analytical approach on approx. 950 Corporate positions for a total exposure of approx. €16 bn, of which approx. €9 bn in performing loans and approx. €7 bn in impaired loans. The analysis resulted in a negative balance sheet impact of €759 million.

The statistical projection of the CFR result on the remaining Corporate portfolio selected, amounting to approx. €57 bn, resulted in a further impact of €1,474 mln and a further reduction of €574 mln on the potential increase in the coverage of performing loans included in the portfolio itself.

An additional negative impact of €44 mln relates to the review conducted on complex financial instruments and other assets designated at Fair Value, totalling approx. €650 mln

Finally, the review of the Retail and Small Business portfolios did not show any impact.

The combined effect of just the AQR and mitigation actions already implemented, results in a post exercise CET1 phased-in at 9.5%, well above the required threshold of 8.0%. The recent capital increase of €5 billion is thus consistent in terms of size and has allowed the bank to strengthen its balance sheet ahead of this strict review of its asset quality.

Neither the Join-Up nor application of the Baseline Scenario generates a shortfall in the Bank's CET1, which stands at 8.8%.

The shortfall of €2,111 million, therefore, should thus be viewed in relation to the methods and assumptions applied in the Adverse Stress Test scenario, which furthermore differ significantly from those applied by the European Commission in their assessment and subsequent approval of the Restructuring Plan.

The shortfall does not reflect real facts affecting the Bank's solvency, but aims to represent the impact of certain extremely negative hypothetical scenarios on prospective capital ratios, combining this with the already tough review of credit assets as at 31 December 2013, executed by the AQR.

It is also important to bear in mind that BMPS defined a Restructuring Plan approved by the European Commission with resolution dated 27 November 2013, following the State Aid received in the course of 2013.

In the period between the second half of 2011 and the first half of 2013, BMPS in fact faced a severe financial and reputational crisis due to certain issues within the Bank, the repercussions of which were exacerbated further by the adverse market conditions. This crisis led to serious problems to the bank's capital structure with strong liquidity strains and heavy implications on profit, linked in particular to the deteriorating quality in loans.

Actions implemented by current management have allowed BMPS to achieve:

- significant deleveraging of over €45 billion on assets of more than €240 billion at the end of 2011;
- loan loss provisions for approx. €6.6 billion from 2012 to 30 June 2014;
- reduction in operating costs by over €760 million (end of 2011- 1H14 annualized);
- increase in wealth management commissions by around €200 million.

These actions have allowed the Bank to recover customer confidence and come back to the market with a successful capital increase of €5 billion. This recapitalisation has enabled the repayment of €3 out of the €4 billion of NFIs received, increasing Bank's capital base and capital quality, and led to a change in its shareholders’ structure.

The size and timing of the capital increase carried out were agreed upon with the Supervisory Authorities and were defined on the basis of Commitments assumed in the Restructuring Plan regarding the repayment of NFIs by 31 December 2014 and strengthen the Bank with a capital buffer able to meet potential requirements arising from the CA.

In order to better assess the outcome of the Adverse Scenario, it is important to consider the purpose of the Restructuring Plan, which is that of restoring the Bank’s viability within a reasonable period of time, starting from a considerably challenging situation that makes the Bank vulnerable to the impacts of an especially adverse macroeconomic scenario. It should also be specified that, for the first time, stress test outcomes have been incorporated into the asset quality review, thereby further affecting BMPS’s end result.

Turning more specifically to the Stress Test itself, although in the Adverse Scenario the ECB modified the P&L projections contained in the Bank's Restructuring Plan in order to reflect certain mitigating factors such as (i) benefits potentially deriving from access to the ECB's weekly refinancing auctions in the period 2014-2016 and (ii) the inclusion of net interest income from the so-called unwinding discount effect on NPLs in the same period, below is a summary of the elements which are best indicative of the approach adopted and which carry the greatest consequences, almost entirely accounting for the shortfall:

1. Repayment of NFIs. In the Adverse Scenario, the ECB did not consider the postponement of the reimbursement of the remaining €750 million of NFIs (out of a total amount of approximately €1.1 billion), which is a possible implicit contingency measure in the Restructuring Plan. The effect is extremely penalizing, as it is assumed that the Bank– in a severe crisis situation – is obliged to do a refund which would further weaken the capital base.
2. Fees. Within the framework of the Adverse Scenario, the envisaged transformation in the Bank’s business model, more focused on commissions rather than on net interest income, was not taken into account. Instead, a stress criteria using income data based on historical averages was applied. This did not allow for the inclusion of projections embedded in the currently underway Restructuring Plan such as, for example: the shift in the consumer credit business from the direct intermediation to the distribution of third parts products (on the basis of an agreement already in force), or the contribution to future results of the so-called “Commissione di Istruttoria Veloce” which was not in place until the end of 2013 and, therefore, not included in the ECB methodology.
3. Workout of doubtful loans. Cure of NPL actions envisaged in the Restructuring Plan are not considered. As previously stated, the improvement in credit quality constitutes one of the Restructuring Plan’s main drivers.

The Board of Directors of BMPS has begun a review of the potential actions to be included in the Capital Plan which will be submitted for approval by Supervisory Authorities within the terms established by regulations. Resulting changes in the Restructuring Plan already approved by the European Commission, will be subject to approval by the same authority.

In addition to the above, the Bank’s Board of Directors also appointed UBS and Citigroup as financial advisers for the structuring and execution of the mitigating actions of the Capital Plan as well as to explore all strategic alternatives for the Bank.

The Attachments contain the ECB and Bank of Italy templates with comments on the main findings.

Attachment

ECB and Bank of Italy commented templates

°°°°°°°°°°°°°°

For further information contact:

External Relations

Tel. +39 0577 296634

ufficio.stampa@mps.it

Investor Relations

Tel: 0577.293038

investor.relations@mps.it

Annex 1: ECB Template

COMPREHENSIVE ASSESSMENT OUTCOME EXPLANATIONS

2014 COMPREHENSIVE ASSESSMENT OUTCOME

ECB PUBLIC

NAME OF THE ENTITY	ITMPS	Banca Monte dei Paschi di Siena S.p.A.

1 Main Results and Overview

A MAIN INFORMATION ON THE BANK BEFORE THE COMPREHENSIVE ASSESSMENT (end 2013)

			END 2013
A1	Total Assets (based on prudential scope of consolidation)	Mill. EUR	199,105.91
A2	Net (+) Profit/ (-) Loss of 2013 (based on prudential scope of consolidation)	Mill. EUR	-1,439.04
A3	Common Equity Tier 1 Capital according to CRDIV/CRR definition, transitional arrangements as of 1.1.2014	Mill. EUR	8,504.58
A4	Total risk exposure * according to CRDIV/CRR definition, transitional arrangements as of 1.1.2014	Mill. EUR	83,492.00
A5	Total exposure measure according to Article 429 CRR "Leverage exposure"	Mill. EUR	207,423.41
A6	CET1 ratio according to CRDIV/CRR definition, transitional arrangements as of 1.1.2014 A6=A3/A4	%	10.19%
A7	Tier 1 Ratio (where available) according to CRD3 definition, as of 31.12.2013 as reported by the bank	%	10.62%
A8	Core Tier 1 Ratio (where available) according to EBA definition	%	9.89%
A9	Leverage ratio	%	4.30%
A10	Non-performing exposures ratio	%	18.11%
A11	Coverage ratio for non-performing exposure	%	40.09%
A12	Level 3 instruments on total assets	%	0.35%

* Total risk exposure figure is pre-AQR. Please note that the corresponding Year End 2013 figure in the EBA Transparency template is post-AQR and therefore may not match exactly.

Total Assets (A1) and Net Profit/Loss (A2) as Financial Statement at 31/12/2013

The CET1 capital (A3) differs (approx. €-420 mln) from CET1 Bis3 adjusted as at 31/12/2013, as reported in 1Q14 financial report (€8,926 mln), because of the following items requested by ECB:

- Removal of positive prudential filter on AFS reserve related to EU govies (as prescribed by National Discretion rules), the negative AFS reserve has been deducted from CET1 with the phase-in mechanism. The net total negative impact on CET1 is approx. €-500 mln;
- Removal of the net gains related to the new valuation of the equity stake in the Bank of Italy. The net total negative impact on CET1 is approx. €-110 mln;
- Recovery of approx. €+70 mln resulting from lower deductions related to treasury shares due to the UCITS portfolio optimization (look through);
- Application of the CET1 threshold calculated according to EBA FAQ #2014_842 explanation, allowing to use transitional deductions instead of full application deductions. The net total positive impact is approx. €+130 mln

The differences in RWA (A4) reported (about €+1 bn) are due to the changes in CET1 thresholds.

MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

Comprehensive Assessment outcome: Table with the shortfall after mitigation actions

	2014 COMPREHENSIVE ASSESSMENT OUTCOME					
B	**MAIN RESULTS OF THE COMPREHENSIVE ASSESSMENT (CA)**				**With Mitigants**	
B1	**CET1 Ratio** **at year end 2013 including retained earnings / losses of 2013** **B1 = A6**	%	**10.19%**			
B2	Aggregated adjustments due to the outcome of the AQR	Basis Points Change	-320			
B3	**AQR adjusted CET1 Ratio** **B3 = B1 + B2**	%	**6.99%**		**9.55%**	
B4	Aggregate adjustments due to the outcome of the **baseline** scenario of the joint EBA ECB Stress Test to lowest capital level over the 3-year period	Basis Points Change	-98			
B5	**Adjusted CET1 Ratio after Baseline Scenario** **B5 = B3 + B4**	%	**6.01%**		**8.82%**	
B6	Aggregate adjustments due to the outcome of the **adverse** scenario of the joint EBA ECB Stress Test to lowest capital level over the 3-year period	Basis Points Change	-708			
B7	**Adjusted CET1 Ratio after Adverse Scenario** **B7 = B3 + B6**	%	**-0.09%**		**2.72%**	
	Capital Shortfall		Basis Points 1	Mill. EUR	Basis Points 1	Mill. EUR
B8	to threshold of 8% for AQR adjusted CET1 Ratio		101	845	0	
B9	to threshold of 8% in Baseline Scenario		199	1,516	0	
B10	to threshold of 5.5% in Adverse Scenario		559	4,250	278	2,111
B11	**Aggregated Capital Shortfall of the Comprehensive Assessment** **B11 = max(B8, B9, B10)**		559	4,250	278	2,111

[1] RWA used corresponds to relevant scenario in worst case year

AQR

The ECB AQR results produced an impact on CET1 ratio of -320 bps [B2]; this amount does not consider the net capital raising made in June 2014 of €2,000 mln (€5,000 mln capital increase net of €3,000 mln NFI repayment) and the other mitigation measures realized as indicated in section Capital Measures from January 2014 to September 2014 [C1 and C2]. Therefore the CET1, after these mitigants, is 9.5%.

Stress Test - Baseline Scenario

The second step of the CA is to check if the CET1 ratio after AQR adjustment in the 2014-2016 time period of the Baseline Scenario is above the 8% threshold. The lowest CET1 ratio during the 2014-2016 time period of the Baseline Scenario produced a CET1 ratio AQR adjusted of 6.0% [B5], 2.0% below the threshold; anyway this result does not consider the net capital raising made in June 2014 and the other mitigant measures realized as indicated in section Capital Measures from January 2014 to September 2014 [C1 and C2]; therefore the CET1 AQR adjusted in the Stress Test Baseline Scenario after Capital Measures is 8.8% thus well above the 8% threshold.

Stress Test - Adverse Scenario

The third step of the CA is to check if the CET1 ratio after AQR adjustment in the 2014-2016 time period of the Adverse Scenario is above the 5,5% threshold. The lowest CET1 ratio during the 2014-2016 time period of the Baseline Scenario produced a CET1 ratio AQR adjusted of -0.09% [B7], 5.6% below the threshold. Furthermore consider the Capital Measures made from January 2014 to September 2014 [C1 and C2], the CET1 in the Stress Test Adverse Scenario is 2.7%, with a capital shortfall of **€-2,111 mln**.

2014 COMPREHENSIVE ASSESSMENT OUTCOME

ECB PUBLIC

C MAJOR CAPITAL MEASURES IMPACTING TIER 1 ELIGIBLE CAPITAL FROM 1 JANUARY 2014 TO 30 SEPTEMBER 2014

	Issuance of CET1 Instruments	*Impact on Common Equity Tier 1 Million EUR*
C1	Raising of capital instruments eligible as CET1 capital	5,138.75
C2	Repayment of CET1 capital, buybacks	-3,000.00
C3	Conversion to CET1 of hybrid instruments becoming effective between January and September 2014	0.00
	Net issuance of Additional Tier 1 Instruments	*Impact on Additional Tier 1 Million EUR*
C4	with a trigger at or above 5.5% and below 6%	0.00
C5	with a trigger at or above 6% and below 7%	0.00
C6	with a trigger at or above 7%	0.00
	Fines/Litigation costs	*Million EUR*
C7	Incurred fines/litigation costs from January to September 2014 (net of provisions)	-63.06

The table shows the major capital measures impacting CET1 capital realized from the 1st January 2014 to the 30th September. In particular:

[C1] includes €5,000 mln of capital raising made in July 2014 and €139 mln related to the net gains arising from the revaluation of the equity stake in the Bank of Italy.

[C2] relates to the repayment of €3.000 €mln of State aid (New Financial Instruments-NFI).

MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

LEVERAGE RATIO

2014 COMPREHENSIVE ASSESSMENT OUTCOME		
		ECB PUBLIC
NAME OF THE ENTITY	ITMPS	Banca Monte dei Paschi di Siena S.p.A.

1 Main Results and Overview

A MAIN INFORMATION ON THE BANK BEFORE THE COMPREHENSIVE ASSESSMENT (end 2013)

			END 2013
A9	Leverage ratio	%	4.30%
A5	Total exposure measure according to Article 429 CRR "Leverage exposure"	Mill. EUR	207,423.41

For information purposes only

F. LEVERAGE RATIO IMPACT OF THE COMPREHENSIVE ASSESSMENT

Expl

- Note that the leverage ratio is based on the CRR Article 429 as of January 2014.
- It is currently not binding, is displayed for information purposes only and has no impact on the capital shortfall (B11).
- As the constant balance sheet assumption, which is applied in the Stress Test, might be misleading for the leverage ratio, the ratio is displayed for AQR only.

F1	Leverage Ratio at year end 2013	*Please refer to Definitions and Explanations sheet* F1 = A9	%	4.30%
F2	Aggregated adjustments to Leverage Ratio due to the outcome of the **AQR**	F2 = (D20+D21+D22)/A5	Basis Points	-137
F3	AQR adjusted Leverage Ratio	F3 = F1 + F2	%	2.92%

Leverage ratio reported in CA Disclosure template is for information purposes only and does not involve any regulatory threshold test. The ratio will become mandatory from 2018 and will be published starting from 2015.

The leverage ratio reported has been calculated using as denominator CET1 capital instead of T1 capital (according to art. 429 of CRR).

AQR adjusted Leverage Ratio considers only the AQR net impact (€-2,851 mln) and does not consider the Capital Measures made from January 2014 to September 2014. Taking into account these measures the AQR adjusted Leverage Ratio would be 3.95%.

MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

Annex 2: Template BANCA D'ITALIA

Results of the Comprehensive Assessment

Name	Results disclosed by the ECB						Excess/Shortfall after the AQR, including main capital strengthening measures	Results including other capital strengthening measures	
	Excess/Shortfall after the AQR	Excess/Shortfall after the ST baseline	Excess/Shortfall after the ST adverse	Min Excess/Max Shortfall	Main capital strengthening measures *	Excess/Shortfall, including main capital strengthening measures		Other capital strengthening measures	**Final** Excess/Shortfall, including all capital strengthening measures
How is calculated	A	B	C	D = min(A,B,C)	E	F = D+E	**G = A+E**	H	**I = D+E+H**
Contents	Excess/Shortfall vs CET1 8% treshold as at 31/12/2013 (B8 on the ECB template).	Excess/Shortfall vs CET1 8% treshold as at 31/12/2013 (B9 on the ECB template).	Excess/Shortfall vs CET1 5.5% treshold as at 31/12/2013 (B10 on the ECB template).	Min Excess/ Max Shortfall at as at 31/12/2013 (B11 on the ECB template).	Major Capital measures impacted CET1 made from 1 January 2014 to 30 September 2014			Other Capital measures impacted CET1 made in 2014	
€ mln	-845	-1,515	-4,250	-4,250	2,139	-2,111	1,294		-2,111

(*) Capital strengthening measures impacting CET1 capital:
€ +5,000 mln of Capital increase
€ +139 mln related to the new valuation of the equity stake in the Bank of Italy
€ -3,000 mln relates to the repayment of State aid (New Financial Instruments-NFI)