Pillar 3 Disclosure

Update as at
30 September 2016

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

Index

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

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

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

Pillar 3, therefore, aims to complement the minimum capital requirements (Pillar 1) and supervisory review process (Pillar 2) by developing a set of transparent disclosure requirements which will allow market participants to have access to key, fully comprehensive and reliable information on capital adequacy, risk exposures and risk identification, measurement and management processes. Public Disclosure (Pillar3) is now governed directly by European Regulation no. 575/2013 of 26 June 2013 of the European Parliament and Council, Part 8 and Part 10, Title I, Chapter 3 (hereinafter referred to as "The Regulations" or "CRR").

The previous Regulations (Bank of Italy Circular 263/06, Paragraph IV) along with the reporting templates and rules provided therein are to be considered no longer applicable. Under the new regulations, the CRR requires banks to publish information at least on an annual basis along with their financial statements and to evaluate the need to publish some or all disclosures more frequently than once a year depending on their specific activities. 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), pursuant to 16 of EU Regulation no.1093/2010, on the need to publish information more frequently than once a year.

The current document, therefore, provides an update as at 30 September 2016 of quantitative information deemed most significant by the Group and, in particular, the quantitative information on Own Funds, Capital requirements, 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 2015.

Further information on the Group's risk profile, pursuant to Art. 434 of the CRR, is also published in the Consolidated Interim Report as at 30 September 2016, the Report on Corporate Governance and the Compensation Report.

The current update introduces the new information templates required by the Basel 3 framework and also reports values as at 31 December 2015.

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: english.mps.it/investors

The following table summarizes the MPS Group's capital requirements for the third quarter of 2016 and for 2015 along with the respective changes.

Own Funds and Capital Requirements Summary

Data in thousands of Euro

Own Funds	sep-16	dec-15	Delta vs. 31-12-2015 Absolute	%
Common Equity Tier 1	7,848,680	8,503,145	-654,465	-7.7%
Additional Tier 1	217,547	598,309	-380,763	-63.6%
Tier 2	1,695,437	2,196,268	-500,831	-22.8%
Own Funds	**9,761,664**	**11,297,722**	**-1,536,058**	**-13.6%**
↳ *of which Delta EL**	*191,164*	*2,084*	*189,079*	*9,071.2%*
Regulatory Capital Requirements				
Credit and Counterparty Risk	4,491,809	4,624,341	-132,532	-2.9%
↳ *of which Standard*	*1,942,909*	*1,949,684*	*-6,776*	*-0.3%*
↳ *of which AIRB*	*2,548,901*	*2,674,657*	*-125,756*	*-4.7%*
Market Risk	226,685	274,556	-47,871	-17.4%
↳ *of which Standard*	*226,685*	*274,556*	*-47,871*	*-17.4%*
↳ *of which AIRB*	-	-	-	-
Operational Risk	701,371	702,894	-1,523	-0.2%
↳ *of which Foundation Approach*	*18,507*	*18,507*	-	-
↳ *of which Standardised Approach*	-	-	-	-
↳ *of which Advanced Approach*	*682,864*	*684,387*	*-1,523*	*-0.2%*
CVA Risk	43,422	64,487	-21,065	-32.7%
Concentration Risk	-	-	-	-
Settlement Risk	-	-	-	-
Regulatory Capital Requirements	**5,463,288**	**5,666,278**	**-202,990**	**-3.6%**
Risk Weighted Assets	**68,291,097**	**70,828,477**	**-2,537,380**	**-3.6%**

Capital ratios	sep-16	dec-15	Delta vs. 31-12-2015 in bp	in %
CET1 Capital Ratio	**11.49%**	**12.01%**	**-51**	**-0.5%**
Tier 1 Capital Ratio	**11.81%**	**12.85%**	**-104**	**-1.0%**
Total Capital Ratio	**14.29%**	**15.95%**	**-166**	**-1.7%**

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 1,276,634 €/thousands (2,084 €/thousands as at 31 December 2015).

On a transitional basis, the Total capital ratio and CET1 ratio stand at 14.29% and 11.49% respectively. The CET is decreasing from 31 December 2015 though still remaining above the minimum thresholds required by and notified in the Supervisory Authority's SREP decision of 25 November 2015, requesting the Group to reach and maintain a transitional minimum Common Equity Tier 1 Ratio of 10.75% as of 31 December 2016. Until then, the minimum CET1 ratio to be complied with remains at 10.2%, as communicated on 10 February 2015. CET1 was lower compared to 31 December 2015 (approximately -EUR 65 million), largely owing to the negative impact from the loss for the period (-509M EUR attributable to CET 1) and higher deductions. The latter are linked to the increased phasing-in percentage on deduction entries (from 40% in 2015 to 60% in 2016) as well as reduced exemptions following the decrease in CET 1.
Additional Tier 1 (AT1) decreased (approx. -381M EUR) due to 40% of the loss for the period being included in the aggregate (approx. -339M EUR) and the lower percentage – compared to 31 December 2015 - of grandfathering applied to Additional Tier 1 instruments, which reduces its contribution to capital (approx. -38M EUR).

Instead, decrease in Tier 2 (approx. -EUR 501 million) is mainly due to the effect of the regulatory amortisation of subordinated securities as provided for in Basel 3 (-EUR 683 million), partially offset by the recovery of the excess of allocations for credits toward the projected loss (+EUR 176.4 million).
Overall, Total Capital level decreased by EUR 1,536 million.
There was an overall reduction in RWAs (around EUR -2,537 mln) as a result of the decline in "credit and counterparty risk" (around EUR -1,657 mln) due to the evolution in the performing loan portfolio. The "market risk" (around EUR -598 mln) and "CVA risk" (approx. EUR -263 mln) components were also down due to the optimisation of the respective portfolios.

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, Circulars 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.

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).

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 2015 - Notes to Part F – Information on consolidated shareholders' equity. 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.

At 30 September 2016 unrealised gains relating to exposures to central administrations of the European Union classified as AFS and not included in the calculation of own funds amount to EUR 24 million.

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 Transitional Own Funds Disclosure Template

	Common Equity Tier 1: instruments and reserves	sep-16 (A) - Amount at Disclosure Date	sep-16 (C) - Amounts subject to Pre-Regulation (EU) No. 575/2013 or predescribed residual amount of regulation (EU) No. 575/2013	dec-15 (A) - Amount at Disclosure Date	dec-15 (C) - Amounts subject to Pre-Regulation (EU) No. 575/2013 or predescribed residual amount of regulation (EU) No. 575/2013
1	Capital instruments and the related share premium accounts	8,803,949	-	8,810,274	-
	of which: Paid up capital instruments	*8,803,949*	-	*8,803,949*	-
2	Retained earnings	1,002,807	-	607,090	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gain and losses under the applicable accounting standards)	-394,516	-	-390,959	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premiun account subkect 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	-	-	388,096	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**9,412,241**	-	**9,414,501**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-43,897	-	-31,030	-
8	Intangible assets (net of related tax liability) (negative amount)	-408,988	-	-449,927	-
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)	-136,044	-90,696	-106,671	-160,007
11	Fair value reserves related to gains or losses on cash flow hedges	103,010	-	138,603	-
12	Negative amounts resulting from the calculation of expected loss amounts	-	-	-5,066	-7,599
14	Gains or losses on liabilities valued at fair value resullting from changes in own credit standing	-175,591	-	-142,277	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	-	-	-
17	Holdings of the CET1 instruments of financial sector entitites 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) (negarive amount)	-	-	-	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entitites where the institution has a significant investment in those entities (amount above 10% threshold and net the eligible short positions) (negative amount)	-	-	-	-
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)	-	-	-	-
22	Amount exceeding the 15% threshold (negative amount)	-85,648	-75,150	-21,292	-38,361
23	*of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entites where the institution has a significatn investment in those entitites*	*-53,927*	*-35,951*	*-13,551*	*-20,326*
25	*of which: deferred tax assets arising from temporary differences*	*-31,721*	*-39,199*	*-7,741*	*-18,035*
25a	Losses for the current financial year (negative amount)	-509,185	-339,457	-	-
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-271,624	-	-214,550	-
26a	Regulatory adjustments realting to unrealised gains and losses pursuant to Articles 467 and 468	-87,076	-	-149,558	-
	of which: filter for unrealised loss on UCITs	-	-	-	-
	of which: filter for unrealised loss on EU securities	*-23,993*	-	*-51,467*	-
	of which: filter for unrealised gain on debt securities	-	-	-	-
	of which: filter for unrealised gain on investments	-	-	-	-
	of which: filter for unrealised losses	*1,209*	-	*5,516*	-
	of which: filter for unrealised gains	*-64,292*	-	*-103,607*	-
	of which: others	-	-	-	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	51,482	-	70,411	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-	-	-
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**-1,563,561**	-	**-911,356**	
29	**Common Equity Tier 1 (CET1) Capital**	**7,848,680**	-	**8,503,145**	

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

	Additional Tier 1 (AT1) capital: instruments	sep-16 (A) - Amount at Disclosure Date	sep-16 (C) - Amounts subject to Pre-Regulation (EU) No. 575/2013 or predescribed residual amount of regulation (EU) No. 575/2013	dec-15 (A) - Amount at Disclosure Date	dec-15 (C) - Amounts subject to Pre-Regulation (EU) No. 575/2013 or predescribed residual amount of regulation (EU) No. 575/2013
30	Capital instruments and the related share premium accounts	209,900	-	209,900	-
31	*of which: classified as equity under applicable accounting standards*	*181,985*	-	*181,985*	-
32	*of which: classified as liablilities 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	364,503	-	402,056	-
	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**	**574,403**	**-**	**611,956**	
	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 entitites 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)	-	-	-	-
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 caqpital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No. 575/2013	-356,857	-	-13,647	-
	of whichi: Losses for the current year	*-339,457*	-	-	-
	of which: Significant financial instruments	*-17,400*	-	*-9,848*	-
	of which: outstanding amount related to the excess of expected losses with respect to adjustments for IRB positions	-	-	*-3,799*	-
41b	Residual amounts deducted from Additional Tier 1 caqpital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 472 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	-	-	-	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-	-	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-356,857**		**-13,647**	
44	**Additional Tier 1 (AT1) capital**	**217,547**		**598,309**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**8,066,226**		**9,101,454**	

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

		sep-16	sep-16	dec-15	dec-15
	Tier 2 (T2) capital: instruments and provisions	(A) - Amount at Disclosure Date	(C) - Amounts subject to Pre-Regulation (EU) No. 575/2013 or predescribed residual amount of regulation (EU) No. 575/2013	(A) - Amount at Disclosure Date	(C) - Amounts subject to Pre-Regulation (EU) No. 575/2013 or predescribed residual amount of regulation (EU) No. 575/2013
46	Capital instruments and the realted share premium accounts	1,668,053	-	2,351,275	-
47	Amopunt of qualifying items referred to in Articole 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	191,164	-	14,749	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**1,859,217**		**2,366,023**	
	Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-113,280	-	-133,663	-
53	Holdings iof the T2 instruments and subordinated loans of financial sector entitites where those entitites have recirpocal cross holdings with the institution designed to inflate artificialli the own funds of the institution (negative amount)	-	-	-	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entitites where the institution does not have a significant investment in those entities (amount above 10% threshdol and net of eligible short positions) (negative amount)	-	-	-	-
54a	*of which: new holdings not subjcet to transitional arrangements*	-	-	-	-
54b	*of which: holdings existing before January 2013 and subject to transitional arrangements*	-	-	-	-
55	Direct and indrect holdings by the institution of the T2 instruments and subordinated loans fo financial sector entitites where the institution has a significant investment in those entities (net eligible of short positions)	-63,699	-	-63,598	-
56	Regulaory 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	-17,400	-	-13,647	-
	of whichi: Losses for the current year	-	-	-	-
	of which: Significant financial instruments	*-17,400*	-	*-9,848*	-
	of which: outstanding amount related to the excess of expected losses with respect to adjustments for IRB positions	-	-	*-3,799*	-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tir 1capital during the transitional period pursuant to article 472 of Regulation (EU) No. 575/2013	-	-	-	-
56c	Amount to be deducted from or added to Tier 2 capital capital with regard to additional filters and deductions required pre-CRR	30,600	-	41,153	-
	of which: unrealised gains	30,600	-	41,153	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-163,779**	-	**-169,755**	
58	**Tier 2 (T2) capital**	**1,695,437**	-	**2,196,268**	
59	**Total Capital (TC= T1+T2)**	**9,761,664**	-	**11,297,722**	

Tab. 3.1.4 - Own Funds: Capital ratios and buffers

	Capital ratios and buffer	sep-16 (A) - Amount at Disclosure Date	dec-15 (A) - Amount at Disclosure Date
60	**Total Risk Weighted Assets**	**68,291,097**	**70,828,477**
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	11.49%	12.01%
62	Tier 1 (as a percentage of risk exposure amount)	11.81%	12.85%
63	Total capital (as a percentage of risk exposure amount)	14.29%	15.95%
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%*
66	*of which: countercyclical buffer requirement*	*0.001%*	-
67	*of which: systemic risk buffer requirement*	-	-
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) [1]	4.49%	5.01%
	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)	524,977	508,402
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)	755,112	760,037
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)	595,835	578,282
	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 sIRB approach (prior to the application of the cap)	1,276,634	14,749
79	Cap on inclusion of credit risk adjustments in T2 under IRB approach	191,164	200,585
	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 mover cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase out arrangements	650,000	650,000
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)	-	-

[1] *Tier 1 Capital available for reserves is calculated as the difference between Common Equity Tier 1 (line 61) and the Capital reserve requirement (line 64).*

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

Items	sep-2016	dec-2015
Group Equity	8,745,584	9,596,447
Minority Equity	26,476	26,259
Net Assets of the Balance Sheet	**8,772,061**	**9,622,707**
Net Assets after distribution to shareholders	**8,772,061**	**9,622,707**
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-197,808	-197,808
- Minority interests computable	-26,476	-26,259
- Own shares included in the regulatory adjustments		
- Other components non computable in regime	118,833	154,426
Common Equity Tier 1 (CET1) before the regulatory adjustments	**8,666,609**	**9,553,065**
Regulatory adjustments (including adjustments of the transitional period)	-817,929	-1,049,920
Common Equity Tier 1 (CET1) net of regulatory adjustments	**7,848,680**	**8,503,145**

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 "Transitional Disclosure Template"
Assets					
100. Equity investments	910,700	1,018,495	107,795	-137,839	8, 23, 41a, 56a
of which: implicit goodwill	*49,112*	*49,112*		*-49,112*	*8*
130. Intangible assets	359,876	359,876		-359,876	8
of which: goodwill	*7,900*	*7,900*		*-7,900*	*8*
of which: other intangible assets	*351,976*	*351,976*		*-351,976*	*8*
140. Tax assets	4,236,004	4,236,004		-167,765	10, 25
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*289,681*	*289,681*		*-136,044*	*10*
Liabilities and Shareholders' Equity					
30. Debt securities issued	24,820,883	24,820,883		1,737,191	32, 33, 46, 52
50. Financial liabilities designated at fair value	1,575,328	1,575,328		210,000	33
140. Valuation reserves	-24,710	-24,710		21,824	3, 11, 26a, 56c
of which: AFS	*176,993*	*176,993*		*-56,476*	*3 (AFS), 26a, 56c*
of which: CFH	*-103,010*	*-103,010*		*103,010*	*3(CFH),11*
of which: legally-required revaluations	*11,498*	*11,498*		*11,498*	*3(rival)*
of which: other	*-110,191*	*-110,191*		*-36,207*	*3(altre)*
170. Reserves	617,178	617,178		617,178	2, 3
180. Share premium reserve	-	-		-	-
190. Share Capital	9,001,757	9,001,757		9,001,757	1, 2, 31
220. Profit/loss for the period	-848,641	-848,641		-848,641	5a, 25a, 41a, 56a
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities				-175,591	14
Value adjustments due to the requirements for prudent valuation				-43,897	7
IRB Shortfall of credit risk adjustments to expected losses				-	12, 41a, 56a
IRB Excess of provisions over expected losses eligible				191,164	50
Filter on double tax realignment				-271,624	26
Filter for IAS 19				51,482	26b
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment				-63,699	55
Indirect investments					
Total Own Funds				**9,761,664**	

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 and the ICAAP.

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 Own Funds; 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 new 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; added to this are the capital reserves, whose function is to conserve primary capital, provide counter-cyclical 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% of the Group's total risk exposure up to the end of 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, are required to maintain a minimum buffer of 1.25% from 1 January 2017 to 31 December2017, 1.875% in 2018 and 2.5% as from 1 January 2019.

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

The new regulatory framework 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 2016 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;
- 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 Group's total risk exposure until the end of 2016. 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. Currently and until the third quarter of 2016 the Group-specific countercyclical capital buffer ratio is close to zero;
- G-SII buffer for global systemically important banks and O-SII buffer for other systemically important institutions - 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 is not a Global Systemically Important Institution (G-SII) but is classed as an Other Systematically Important Institution (O-SII), as defined by the Bank of Italy. For each bank or banking group, this identification took into consideration the four characteristics (size, relevance for the Italian economy, complexity and interconnection with the financial system) specified in the EBA guidelines to establish the systematic relevance of each entity at the level of in-

dividual jurisdiction. The Bank of Italy's decision established an O-SII buffer of zero percent for 2016;

- a component of CET1 to be held in excess of CET1 against Pillar 2 risk, as required by art. 16 of EU Regulation no. 1024/2013 and established subsequent to the annual SREP at 3.20% until 31 December 2016 and 3.75% at the end of 2016.

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 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 securities 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.

The ECB's Supervisory Review and Evaluation Process (SREP) for the year 2015 was completed. In the SREP Decision, the ECB notified BMPS on 25 November 2015 that it should maintain the minimum capital requirement, in terms of the Common Equity Tier 1 Ratio, at 10.20% on a consolidated basis, until 31 December 2016 when it will be raised to 10.75%.

On 29 July, the results of the EBA's EU-wide stress test were published, showing a serious reduction in the CET1 ratio in the adverse scenario (fully loaded at -2.4%). The 2016 Stress Test does not have a threshold for success/failure, but is instead designed as an informative element relevant for the 2016 supervision process. The results will then be used by the competent authorities to assess the capacity of the Bank to meet the regulatory requirements in stressed scenarios on the basis of common methodologies and assumptions. The adverse stress scenario was designed by ECB/ESRB and covers a three-year horizon (2016-2018) under the assumption of static financial statements starting from December 2015; therefore, it does not take into account future changes in business strategies and the new Business Plan or other measures the Bank may take.

The table reports on the Group's capital adequacy according to the disclosure templates introduced by the new regulatory framework.

Quantitative information

Tab. 4 - Capital requirements and Regulatory capital ratios

	sep-16	dec-15
Credit and Counterparty Risk	**4,491,809**	**4,624,341**
Standard Approach	1,942,909	1,949,684
Advanced IRB Approach	2,548,901	2,674,657
Market Risks	**226,685**	**274,556**
Standardised Approach	226,685	274,556
Internal Models	-	-
Operational Risk	**701,371**	**702,894**
Foundation Approach	18,507	18,507
Standardised Approach	-	-
Advanced Approach	682,864	684,387
CVA Risk	**43,422**	**64,487**
Originary Exposure Method (OEM)	-	-
Standardised Approach	43,422	64,487
Advanced Approach	-	-
Concentration Risk	-	-
Settlement Risk	-	-
Regulatory Capital Requirements	**5,463,288**	**5,666,278**
Risk-weighted assets	**68,291,097**	**70,828,477**
CET1 Capital Ratio	**11.49%**	**12.01%**
Tier1 Capital Ratio	**11.81%**	**12.85%**
Total Capital Ratio	**14.29%**	**15.95%**

The tables below provide details on the Group's different capital requirements as at 30 September 2016.

The Capital Requirement for Counterparty Risk amounts to EUR 207,724 thousands (EUR 207,369 thousands as at 31 December 2015) 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. 4.1 – Requirements Summary between Credit & Counterparty Risk

	sep-16	dec-15
	Requirements	Requirements
Standard Approach		
Standard Approach Total	**1,942,909**	**1,949,684**
of which: Counterparty Risk	*166,813*	*157,979*
IRB Approach		
IRB Approach Total	**2,548,901**	**2,674,657**
of which: Counterparty Risk	*40,911*	*49,390*
Total	**4,491,809**	**4,624,341**
of which: Counterparty Risk	*207,724*	*207,369*

Table 4.2 shows the capital requirements for credit risk and counterparty risk broken down by approach and class of exposure.

Tab. 4.2 – Capital Requirements for Credit & Counterparty Risk

Standard Approach	sep-16	dec-15
Exposures to central governments and central banks	267,442	289,817
Exposures to regional governments and local authorities	34,293	34,177
Exposures to public sector entities	37,689	31,706
Exposures to Multi-lateral development banks	-	-
Exposures to International Organisations	-	-
Exposures to Supervised institutions	221,403	205,362
Exposures to Corporates	528,703	476,702
Retail Exposures	105,699	113,250
Exposures secured by mortgages on immovable property	40,465	40,965
Exposures in Default	134,574	160,299
Exposures associated with high-risk	12,792	14,753
Exposures in the form of covered bonds	11,838	12,811
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to UCITs	47,849	47,302
Equity Exposures	205,420	217,587
Other Exposures	293,884	300,698
Securitization positions	-	3,910
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	860	345
Standard Approach Total	**1,942,909**	**1,949,684**
AIRB Approach		
Exposures to or secured by corporates:	1,775,755	1,773,752
- SMEs	868,561	855,834
- Other companies	776,729	797,457
- Specialized lending	130,465	120,461
Retail exposures:	773,092	900,716
- secured by real estate: SMEs	187,793	231,626
- secured by real estate: Individuals	252,512	261,201
- Qualifying revolving	616	96
- Other retail exposures: SMEs	298,660	372,679
- Other retail exposures: Individuals	33,512	35,114
Securitization positions	53	189
AIRB Approach Total	**2,548,901**	**2,674,657**
Credit and Counterparty Risk Total	**4,491,809**	**4,624,341**

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

Tab. 4.3 – IRB Approach Requirements: Specialized Lending - Slotting Criteria

Risk weight	sep-16	dec-15
Category 1 - 50%	-	-
Category 1 - 70% equal to or greater than 2.5 years	894	978
Category 2 -70% less than 2.5 years	8,508	6,778
Category 2 - 90%	76,534	67,871
Category 3 - 115%	37,479	34,974
Category 4 - 250%	7,051	9,859
Category 5 - 0%	-	-
Total	**130,465**	**120,461**

Tab. 4.4 – Capital Requirements for Market Risk

Standardised Approach	sep-16	dec-15
Position risk on debt instruments	137,953	166,257
Position risk on equity	47,772	70,022
Foreign exchange risk	30,877	24,090
Commodities risk	10,083	14,187
Total Standardised Approach	**226,685**	**274,556**
Internal models		
Total Internal models	-	-
Total Market Risks	**226,685**	**274,556**

Tab. 4.5 – Capital Requirements for Operational Risk

Requirements by Approach	sep-16	dec-15
Foundation Approach	18,507	18,507
Standardised Approach	-	-
Advanced Measurement Approach	682,864	684,387
Total Operational Risk	**701,371**	**702,894**

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; 90% in 2018 and 100% in 2019. The Liquidity Cover Ratio was 153.2% as at 30 September 2016 (222.00% as at 31 December 2015), well above the minimum of 70% required for 2016. As regards the Net Stable Funding Ratio, the minimum obligatory requirement will come into force on 1 January 2018. In addition to the system of capital requirements aimed at covering credit, counterparty, market, operational, CVA and regulatory risks, it is expected that the new regulatory framework 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 the deleveraging process which may harm the financial system and the economy in general, and 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 as a ratio between Tier1 and a denominator that is based on the non-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 basis for the calculation is the quarter-end figure. The indicator will become binding in 2018 and the transition observation phase will last until 31 December 2017. 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. 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). The Group's leverage ratio was 4.44% as at 30 September 2016. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 4.12%. In accordance with public disclosure requirements, the basic data necessary for its calculation is provided below. The information is provided via the application of the current Leverage Ratio calculation rules for reporting purposes. 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. The tables below show the financial leverage ratio as at 30 September 2016.

Tab. 4.6 – Leverage Ratio

	sep-16	dec-15
Capital and total exposures		
Tier 1 capital	8,066,227	9,101,454
Total exposures	181,842,040	174,280,357
Leverage ratio		
Basel III leverage ratio	4.44%	5.22%

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 2016. As at 30 September 2016 the Group's leverage ratio registered a reduction from 5.22 % as at 31 December 2015 to 4.44% as at 30 September 2016 due to a decrease in Tier 1 and an increase in total exposures used to calculate the indicator itself. Compared to 31 December 2015, Tier 1 decreased (around EUR -1,035M) largely as a result of the loss for the period (-848M EUR), higher deductions relating to the Phase-in rules and lower percentage – compared to 31 December 2015 – of grandfathering applied to Additional Tier 1 instruments, which reduces its contribution to capital. Exposures increased by around EUR 7,562 million. This increase results from the changes made to the calculation of Total Exposures following application of the new provisions contained in the Commission Delegated Regulation (EU) 2015/62 and Implementing Regulation (EU) 2016/428. The main changes concern the following: a) the treatment of repurchase transactions, which are now included in total exposure by book value and not by counterparty risk; b) the treatment of Securities Financing Transactions (SFTs) for which an add-on is determined in a similar way as for counterparty risk but without factoring in haircuts; c) the inclusion of written credit derivatives by their notional amount with the possibility of reducing this amount if there is a purchased credit derivative provided that the reference entity is the same and the remaining maturity of the credit derivative purchased is equal to or greater than the remaining maturity of the written credit derivative.

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, 24 October 2016

Arturo Betunio
Financial Reporting Officer

List of Tables

Contacts

Head Office

Banca Monte dei Paschi di Siena S.p.A.

Piazza Salimbeni, 3

53100 Siena

Tel: 0577.294111

Investor Relations

Piazza Salimbeni, 3

53100 Siena

Email: investor.relations@mps.it

Press Relations

Piazza Salimbeni, 3

53100 Siena

Email: ufficio.stampa@mps.it

Internet

www.mps.it

MONTE
DEI PASCHI
DI SIENA
BANK SINCE 1472