Pillar 3 Disclosure

Pillar 3

Update as at
30 June 2016

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Pillar 3 Disclosure

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Update as at
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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 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 – Supervisory Provisions for Banks;
- ✓ Circular 286 of 17 December 2013 – Instructions for Prudential reporting for banks and securities' firm;
- ✓ Circular 154 of 22 November 1991 – 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 June 2016 of quantitative information deemed most significant by the Group and, in particular, the quantitative information on Own Funds, Capital requirements, the Leverage Ratio, Credit risk's exposures and the use of risk mitigation techniques.
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 Half-year Report as at 30 June 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 second quarter of 2016 and for 2015 along with the respective changes.

Own Funds and Capital Requirements Summary

Data in thousands of euros

			Delta vs. 31-12-2015	
Own Funds	**jun-2016**	**dec-2015**	**Absolute**	**%**
Common Equity Tier 1 (CET1)	8,595,876	8,503,145	92,731	1.1%
Additional Tier 1 Capital (AT1)	551,613	598,309	-46,697	-7.8%
Tier 2 Capital (T2)	1,914,498	2,196,268	-281,771	-12.8%
Own Funds	**11,061,986**	**11,297,722**	**-235,736**	**-2.1%**
↳ *of which EL Delta**	*175,952*	*2,084*	*173,868*	*8341.4%*
Regulatory Capital Requirements				
Credit and Counterparty Risk	4,693,036	4,624,341	68,695	1.5%
↳ *of which Standard*	*2,067,944*	*1,949,684*	*118,260*	*6.1%*
↳ *of which AIRB*	*2,625,092*	*2,674,657*	*-49,565*	*-1.9%*
Market Risk	257,241	274,556	-17,315	-6.3%
↳ *of which Standard*	*257,241*	*274,556*	*-17,315*	*-6.3%*
↳ *of which AIRB*	-	-	-	-
Operational Risk	678,449	702,894	-24,445	-3.5%
↳ *of which Foundation Approach*	*18,507*	*18,507*	-	-
↳ *of which Standardised Approach*	-	-	-	-
↳ *of which Advanced Approach*	*659,942*	*684,387*	*-24,445*	*-3.6%*
CVA Risk	49,988	64,487	-14,500	-22.5%
Concentration Risk	-	-	-	-
Settlement Risk	-	-	-	-
Regulatory Capital Requirements	**5,678,714**	**5,666,278**	**12,436**	**0.2%**
Risk Weighted Assets	**70,983,925**	**70,828,477**	**155,448**	**0.2%**

			Delta vs. 31-12-2015	
Capital ratios			**Absolute**	**%**
CET1 Capital Ratio	**12.11%**	**12.01%**	**10**	**0.1%**
Tier 1 Capital Ratio	**12.89%**	**12.85%**	**4**	**0.0%**
Total Capital Ratio	**15.58%**	**15.95%**	**-37**	**-0.4%**

* *The value represents the total contribution of the EL Delta, 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 EL Delta, prior to the application of the cap, amounts to 337,503 €/thousands (2,084 €/thousands as at 31 December 2015).*

On a transitional basis, the Total capital ratio and CET1 ratio stand at 15.58% and 12.11% respectively. The CET is increasing 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. Compared to 31 December 2015, CET1 is slightly higher (approximately +EUR 93 million); the positive impact of net profit generated in the period is greater than the negative effects caused mainly by the increase in the phase-in percentage of the deduction items (from 40% in 2015 to 60% in 2016) and the greater DTA not dependent on temporary differences.

Tier 1 is increased (about +EUR 46 million), since the positive effect produced by CET1, is partially offset by a lower grandfathering percentage, compared with 31 December 2015, applied to Additional Tier 1 instruments, which reduces its contribution to capital.

Instead, decrease in Tier 2 (approx. -EUR 282 million) is mainly due to the effect of the regulatory amortisation of subordinated securities as provided for in Basel 3, partially offset by the recovery of the excess of allocations toward the projected loss.

Overall, Total Capital level decreased by EUR 236 million.

RWAs recorded a total increase of EUR 155 million, due to the increase recorded in the "credit risk component" (increase in the standard portfolio above the reduction in the Airb portfolio); the components "market risk" and "operational risk" declined.

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 June 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 11.2 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 (CET1) capital: instruments and reserves	jun-2016 (A) - Amount at disclosure date	jun-2016 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	dec-2015 (A) - Amount at disclosure date	dec-2015 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013
1	Capital instruments and the related share premium accounts	8,803,949	-	8,810,274	-
	of which: Ordinary Shares	*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 gains and losses under the applicable accounting standards)	-362,425	-	-390,959	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	-	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-	-	-
5	Minority Interests (amount allowed in consolidated CET1)	-	-	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	301,925	-	388,096	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**9,746,255**		**9,414,501**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments	-45,600	-	-31,030	-
8	Intangible assets (net of related tax liability)	-422,009	-	-449,927	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	-244,589	-163,060	-106,671	-160,007
11	Fair value reserves related to gains or losses on cash flow hedges	111,985	-	138,603	-
12	Negative amounts resulting from the calculation of expected loss amounts	-12,555	-8,370	-5,066	-7,599
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-149,628	-	-142,277	-
16	Direct and indirect holdings by an institution of own CET1 instruments	-	-	-	-
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	-	-	-	-
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	-	-	-	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-56,661	-37,774	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	-	-	-	-
22	Amount exceeding the 15% threshold	-90,909	-88,357	-21,292	-38,361
23	*of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*	*-56,661*	*-37,774*	*-13,551*	*-20,326*
25	*of which: deferred tax assets arising from temporary differences*	*-34,248*	*-50,583*	*-7,741*	*-18,035*
25a	Losses for the current financial year	-	-	-	-
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-252,600	-	-214,550	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-95,554	-	-149,558	-
	of which: filter for unrealised loss on UCITs	-	-	-	-
	of which: filter for unrealised loss on EU securities	*-11,193*	-	*-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	*1,997*	-	*5,516*	-
	of which: filter for unrealised gains	*-86,358*	-	*-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	51,079	-	70,411	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution	-	-	-	-
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**-1,150,379**		**-911,356**	
29	**Common Equity Tier 1 (CET1) capital**	**8,595,876**		**8,503,145**	

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

	Additional Tier 1 (AT1) capital: instruments	jun-2016 (A) - Amount at disclosure date	jun-2016 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	dec-2015 (A) - Amount at disclosure date	dec-2015 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013
30	Capital instruments and the related share premium accounts	209,900	-	209,900	-
31	*of which: classified as equity under applicable accounting standards*	*181,985*	-	*181,985*	-
32	*of which: classified as liabilities under applicable accounting standards*	*27,915*	-	*27,915*	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	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	-	-	-	-
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	-	-	-	-
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	-	-	-	-
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions)	-	-	-	-
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	-	-	-
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-22,791	-	-13,647	-
	of whichi: Losses for the current year	-	-	-	-
	of which: Significant financial instruments	*-18,606*	-	*-9,848*	-
	of which: outstanding amount related to the excess of expected losses with respect to adjustments for IRB positions	*-4,185*	-	*-3,799*	-
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	-	-	-
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-	-	-	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution	-	-	-	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-22,791**		**-13,647**	
44	**Additional Tier 1 (AT1) capital**	**551,613**		**598,309**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**9,147,489**		**9,101,454**	

Tab. 3.1.3 - Own Funds - Tier 2 Capital

	Tier 2 (T2) capital: instruments and provisions	jun-2016 (A) - Amount at disclosure date	jun-2016 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	dec-2015 (A) - Amount at disclosure date	dec-2015 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013
46	Capital instruments and the related share premium accounts	1,878,896	-	2,351,275	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	-	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-	-	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-	-	-	-
50	Credit risk adjustments	196,877	-	14,749	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**2,075,773**		**2,366,023**	
	Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	-115,980	-	-133,663	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	-	-	-	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-	-	-	-
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 indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	-63,810	-	-63,598	-
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	-	-	-
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-22,791	-	-13,647	-
	of whichi: Losses for the current year	-	-	-	-
	of which: Significant financial instruments	*-18,606*	-	*-9,848*	-
	of which: outstanding amount related to the excess of expected losses with respect to adjustments for IRB positions	*-4,185*	-	*-3,799*	-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	-	-	-
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	41,305	-	41,153	-
	Of which: unrealised gains	*41,305*	-	*41,153*	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-161,275**		**-169,755**	
58	**Tier 2 (T2) capital**	**1,914,498**		**2,196,268**	
59	**Total capital (TC = T1 + T2)**	**11,061,986**		**11,297,722**	

Tab. 3.1.4 – Own Funds: Capital ratios and buffers

	Capital ratios and buffers	jun-2016 (A) - Amount at disclosure date	dec-2015 (A) - Amount at disclosure date
60	**Total risk weighted assets**	**70,983,925**	**70,828,477**
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	12.11%	12.01%
62	Tier 1 (as a percentage of risk exposure amount)	12.89%	12.85%
63	Total capital (as a percentage of risk exposure amount)	15.58%	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*	*0.002%*	-
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)	5.11%	5.01%
	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	528,630	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)	780,851	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)	701,432	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 internal ratings-based approach (prior to the application of the cap)	358,428	14,749
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	196,877	200,585
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase out arrangements	650,000	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 in line 61 and the Capital reserve requirement in line 64.*

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

Items	jun-2016	dec-2015
Group Equity	9,928,595	9,596,447
Minority Equity	25,985	26,259
Net Assets of the Balance Sheet	**9,954,580**	**9,622,707**
Net Assets after distribution to shareholders	**9,954,580**	**9,622,707**
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-197,808	-197,808
- Minority interests computable	-25,985	-26,259
- Own shares included in the regulatory adjustments		
- Other components non computable in regime	127,808	154,426
Common Equity Tier 1 (CET1) before the regulatory adjustments	**9,858,595**	**9,553,065**
Regulatory adjustments (including adjustments of the transitional period)	-1,262,719	-1,049,920
Common Equity Tier 1 (CET1) net of regulatory adjustments	**8,595,876**	**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 thousands)	Financial Statement	Prudential Statement	Information about differences	Relevant Amount for the purpose of Own Funds	See Table "Transitional Disclosure Template"
Assets					
100 Equity investments	948,009	1,055,804	107,795	-142,985	8, 23, 41a, 56a
of which: implicit goodwill	*49,112*	*49,112*	-	*-49,112*	*8*
130 Intangible assets	372,897	372,897	-	-372,897	8
of which: goodwill	*7,900*	*7,900*	-	*-7,900*	*8*
of which: other intangible assets	*364,997*	*364,997*	-	*-364,997*	*8*
140 Tax assets	4,801,721	4,801,721	-	-278,837	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	*489,220*	*489,220*	-	*-244,589*	*10*
Liabilities and Shareholders' Equity					
30 Debt securities issued	27,273,194	27,273,194	-	1,945,335	32, 33, 46, 52
50 Financial liabilities designated at fair value	1,653,416	1,653,416	-	210,000	33
140 Valuation reserves	7,736	7,736	-	65,118	3, 11, 26a, 56c
of which: AFS	*218,074*	*218,074*	-	*-54,248*	*3 (AFS), 26a, 56c*
of which: CFH	*-111,985*	*-111,985*	-	*111,985*	*3(CFH),11*
of which: legally-required revaluation	*11,498*	*11,498*	-	*11,498*	*3(rival)*
of which: other	*-109,852*	*-109,852*	-	*-4,117*	*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	301,925	301,925	-	301,925	5a
Fair value gains and losses arising from the institution's own credit risk related to derivate liabilities	-	-	-	-149,628	14
Value adjustment due to the requirements for prudent valutation	-	-	-	-45,600	7
IRB Shortf all of the credit risk adjustments to expected losses	-	-	-	-20,925	12, 41a, 56a
IRB Excess of provisions over expected losses eligible	-	-		196,877	50
Filter on double tax alignment	-	-	-	-252,600	26
Filter for IAS 19	-	-		51,079	26b
Direct and indirect holdings of Tier2 instruments of financial sector entities where the institution has a significant investment	-	-	-	-63,810	55
Indirect investments	-	-	-	-	-
Total Own Funds	**-**	**-**	**-**	**11,061,986**	**-**

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.

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. 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 second quarter of 2016 the counter-cyclical capital reserve 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 individual jurisdiction. The Bank of Italy's decision established an O-SII buffer of zero percent for 2016;

- a component of CETI 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%.
The data on capital adequacy provided below includes the positive impact from profit for the period. 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

Regulatory Capital Requirements	jun-2016	dec-2015
Credit and Counterparty Risk	**4,693,036**	**4,624,341**
Standard Approach	2,067,944	1,949,684
Advanced IRB Approach	2,625,092	2,674,657
Market Risks	**257,241**	**274,556**
Standardised Approach	257,241	274,556
Internal Models	-	-
Operational Risk	**678,449**	**702,894**
Foundation Approach	18,507	18,507
Standardised Approach	-	-
Advanced Approach	659,942	684,387
CVA Risk	**49,988**	**64,487**
Originary Exposure Method (OEM)	-	-
Standardised Approach	49,988	64,487
Advanced Approach	-	-
Concentration Risk	-	-
Settlement Risk	-	-
Regulatory Capital Requirements	**5,678,714**	**5,666,278**

Risk-weighted assets	**70,983,925**	**70,828,477**
CET1 Capital Ratio	**12.11%**	**12.01%**
Tier1 Capital Ratio	**12.89%**	**12.85%**
Total Capital Ratio	**15.58%**	**15.95%**

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

The Capital Requirement for Counterparty Risk amounts to EUR 214,466 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 – Capital requirements for Credit and Counterparty Risk

	jun-16	dec-15
	Requirements	Requirements
Standard Approach		
Standard Approach Total	**2,067,944**	**1,949,684**
of which: Counterparty Risk	*172,996*	*157,979*
IRB Approach		
IRB Approach Total	**2,625,092**	**2,674,657**
of which: Counterparty Risk	*41,470*	*49,390*
Total	**4,693,036**	**4,624,341**
of which: Counterparty Risk	*214,466*	*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 and Counterparty Risk

Standard Approach	jun-16	dec-15
Exposures to central governments and central banks	292,052	289,817
Exposures to regional governments and local authorities	35,836	34,177
Exposures to public sector entities	34,513	31,706
Exposures to Multi-lateral development banks	-	-
Exposures to International Organisations	-	-
Exposures to Supervised institutions	232,891	205,362
Exposures to Corporates	589,029	476,702
Retail Exposures	96,705	113,250
Exposures secured by mortgages on immovable property	43,031	40,965
Exposures in Default	149,385	160,299
Exposures associated with high-risk	13,264	14,753
Exposures in the form of covered bonds	12,008	12,811
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to UCITs	49,039	47,302
Equity Exposures	208,756	217,587
Other Exposures	310,763	300,698
Securitization positions	-	3,910
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	672	345
Standard Approach Total	**2,067,944**	**1,949,684**
AIRB Approach		
Exposures to or secured by corporates:	1,788,237	1,773,752
- SMEs	870,529	855,834
- Other companies	782,362	797,457
- Specialized lending	135,346	120,461
Retail exposures:	836,786	900,716
- secured by real estate: SMEs	195,637	231,626
- secured by real estate: Individuals	259,294	261,201
- Qualifying revolving	84	96
- Other retail exposures: SMEs	347,829	372,679
- Other retail exposures: Individuals	33,943	35,114
Securitization positions	69	189
AIRB Approach Total	**2,625,092**	**2,674,657**
Credit and Counterparty Risk Total	**4,693,036**	**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	jun-16	dec-15
Category 1 - 50%	-	-
Category 1 - 70% equal to or greater than 2.5 years	920	978
Category 2 -70% less than 2.5 years	10,786	6,778
Category 2 - 90%	79,152	67,871
Category 3 - 115%	38,950	34,974
Category 4 - 250%	5,539	9,859
Category 5 - 0%	-	-
Total	**135,346**	**120,461**

Tab 4.4 Capital Requirements for Market Risk

Standardised Approach	jun-16	dec-15
Position risk on debt instruments	149,495	166,257
Position risk on equity	57,088	70,022
Foreign exchange risk	36,875	24,090
Commodities risk	13,783	14,187
Total Standardised Approach	**257,241**	**274,556**
Internal models		
Total Internal models	**-**	**-**
Total Market Risks	**257,241**	**274,556**

Tab 4.5 Capital Requirements for Operational Risk

Requirements by Approach	jun-16	dec-15
Foundation Approach	18,507	18,507
Standardised Approach	-	-
Advanced Measurement Approach	659,942	684,387
Total Operational Risk	**678,449**	**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 170.81% as at 30 June 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 5.33% as at 30 June 2016. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 4.99%.

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 June 2016.

Tab. 4.6 – Leverage Ratio

	jun-16	dec-15
Capital and total exposures		
Tier 1 capital	9,147,489	9,101,454
Total exposures	171,485,363	174,280,357
Leverage ratio		
Basel III leverage ratio	5.33%	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 June 2016 the Group's leverege registred an improvement due increase in Tier 1 and the ongoing deleveraging of assets by the Group. Compared with 31 December 2015, the Tier 1, increased slightly (about EUR +46 mln) since the positive effect produced by CET1, is partially offset by a lower grandfathering percentage, compared with 31 December 2015, applied to the instruments of Additional Tier 1, which reduces the contribution to the capital. Exposures declined by around EUR 2,795 million due to the decrease registered in cash exposures, derivatives and off-balance exposures.

5. Credit Risk

5.1 Credit Risk: general disclosure

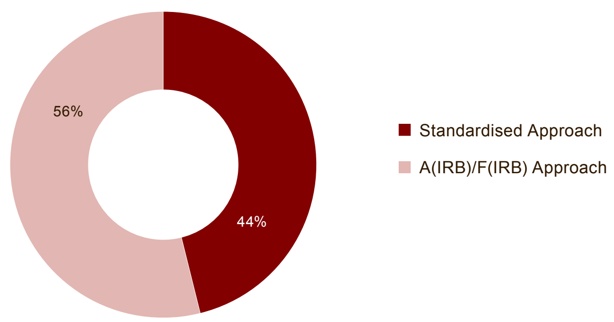
The MPS group gives special attention to the management and measurement of Credit Risk, which represents the greatest risk to which the Group is exposed, accounting for approximately 83% of total capital requirements. The main objective of the Credit Risk Management function is to promote a culture of "responsible lending" within the Group and pursue a sustainable growth in lending transactions that is in line with risk appetite and value creation. The Group's strategies in the area of risk management are aimed at limiting the economic impact from defaulting loans and containing the cost of credit. The credit risk management function is involved in defining credit policy guidelines by identifying the customer segments with greater opportunities from risk-return perspective, promoting risk diversification, limiting the concentration of risk exposure in single business groups/sectors and geographical areas. The function also defines the supports available to Credit disbursement strategies. The use and allocation of ratings is crucial, since they are the synthetic measurement of a customer's creditworthiness both during the loan disbursement and monitoring processes. This forms the basis of the preliminary procedure that is followed as a loan proposal is processed and then subsequently monitored. The assignment of a rating to each borrower means that borrowers can be classified into actual levels of risk and that both an overall or broken-down objective assessment of risk components may be made; this system, therefore, provides the basis of information for supporting both strategic decisions and the ordinary management of risk positions. Credit policy guidelines are thus provided by the sales network according to customer segments, rating categories, business sector, Regional Area, loan type and types of collateral used.

In addition, operational guidelines are structured into quantitative and qualitative objectives to develop and reclassify the loan portfolio, according to business sector and regional units. The Credit Risk Management function is also involved in the monitoring phase and verifies that the Network Structures achieve their goals of credit quality and alignment with established benchmarks, identifying the appropriate remedial actions to be implemented, reviewing objectives and, on a more general level, analysing trends in the quality of the loan portfolio in terms of market/product/customer segment and related causes. For a detailed description of the tasks of the Credit Risk function, *see* Chapter 1 of the Annual Report as at 31 December 2015.

As concerns capital requirements, for credit risks the Group uses the Advanced Internal Rating Based (AIRB) method with reference to the "Credit Exposures to Retail" and "Credit Exposures to Entities" regulatory portfolios. The scope of application of the AIRB method currently includes the Parent Company Banca MPS, MPS Capital Services Banca per le Imprese and MPS Leasing & Factoring. For the remaining portfolios and Group entities, capital requirements relative to credit risks are calculated according to the standard method.

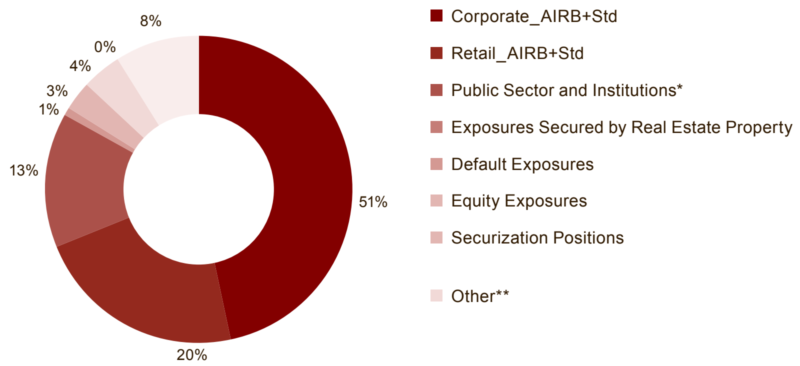
RWAs by credit risk show a prevalence of exposures treated under the advanced approach (56%) over those subject to the Standardised Approach (44%).

Credit risk's RWA by approach



An analysis by type of exposure reveals that 71% of Credit Risk refers to the Corporate and Retail portfolios. The remaining 29% is mainly concentrated in the Public Sector and Institutions (13%).

RWA by type of exposure



* *Includes the following portfolios:Central Governments and Central Banks, Regional Governments and Local Authorities, Public sector entities, Multi-lateral Development Banks, International Organisations, Supervised Institutions.*

** *Includes the following portfolios: Exposures associated with high-risk, Exposures in the form of covered bonds, Exposures to institutions and corporates with a short-term credit assessment, Exposures to UCITS, Exposures to Central Conterparties in the form of pre-funded contributions to the guarantee fund, Other exposures.*

The following table shows a breakdown of exposures and RWAs by approach (Standard/ AIRB) and by regulatory portfolio. In compliance with regulatory standards, in the case of the standard approach, the EAD value corresponds to the value of the exposure, which takes account of the prudential filters, risk mitigation techniques and credit conversion factors. In the case of the internal ratings- based approach, the EAD value reported corresponds to the "Exposure At Default" calculated according to the rules of prudential supervision and therefore expressed gross of value adjustments and without the impacts from risk mitigation techniques which, in the case of exposures subject to an internal models-based approach, are directly included in the weighting factor applied. Instead, the EAD value takes into account the credit conversion factors for guarantees issued and commitments to disburse funds.

Tab 5.1.1 – EAD and RWA overview between Credit Risk and Counterparty Risk

	jun-16		dec-15			
	EAD	RWA	EAD	RWA	Δ EAD	Δ RWA
Standard Approach						
Standard Approach Total	**59,841,882**	**25,849,298**	**60,748,209**	**24,371,056**	**-906,327**	**1,478,242**
of which: Counterparty Risk	*5,807,906*	*2,162,451*	*6,208,174*	*1,974,733*	*-400,267*	*187,717*
IRB Approach						
IRB Approach Total	**115,830,153**	**32,813,653**	**118,185,352**	**33,433,210**	**-2,355,200**	**-619,557**
of which: Counterparty Risk	*591,203*	*518,369*	*810,934*	*617,377*	*-219,731*	*-99,008*
Total	**175,672,035**	**58,662,951**	**178,933,561**	**57,804,266**	**-3,261,526**	**858,685**
of which: Counterparty Risk	*6,399,109*	*2,680,820*	*7,019,107*	*2,592,111*	*-619,998*	*88,709*

The following table shows a breakdown of exposures and RWAs by approach (Standard/ AIRB) and by regulatory portfolio.

Tab. 5.1.2 – EAD and RWA Distribution of Credit and Counterparty Risk

Standard Approach	jun-16		dec-15	
Regulatory portfolios	EAD	RWA	EAD	RWA
Exposures to central governments and central banks	25,399,855	3,650,650	26,573,189	3,622,709
Exposures to regional governments and local authorities	2,240,758	447,945	2,136,800	427,216
Exposures to public sector entities	507,401	431,412	579,495	396,327
Exposures to Multi-lateral development banks	45,806	-	41,783	-
Exposures to International Organisations	-	-	-	-
Exposures to Supervised institutions	10,438,260	2,911,135	10,799,807	2,567,026
Exposures to Corporates	8,011,659	7,362,863	6,475,505	5,958,779
Retail Exposures	1,666,015	1,208,807	1,932,479	1,415,627
Exposures secured by mortgages on immovable property	1,314,077	537,886	1,269,170	512,066
Exposures in Default	1,487,909	1,867,315	1,601,248	2,003,736
Exposures associated with high-risk	110,535	165,803	122,941	184,411
Exposures in the form of covered bonds	792,686	150,099	816,345	160,143
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-
Exposures to UCITs	612,992	612,992	591,269	591,269
Equity Exposures	1,579,826	2,609,449	1,629,637	2,719,834
Other Exposures	5,634,101	3,884,541	6,174,626	3,758,727
Securitization positions	-	-	3,914	48,879
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	8,400	-	4,308
Standard Approach Total	**59,841,882**	**25,849,298**	**60,748,209**	**24,371,056**
AIRB Approach				
Exposures to or secured by corporates:	54,050,577	22,352,966	53,998,435	22,171,901
- SMEs	34,161,166	10,881,612	34,404,460	10,697,928
- Other companies	16,796,966	9,779,524	16,995,323	9,968,215
- Specialized lending	3,092,446	1,691,829	2,598,652	1,505,758
Retail exposures:	61,774,816	10,459,828	64,177,053	11,258,949
- secured by real estate: SMEs	7,791,248	2,445,462	9,104,309	2,895,329
- secured by real estate: Individuals	28,661,438	3,241,170	29,135,293	3,265,009
- Qualifying revolving	6,948	1,048	7,664	1,195
- Other retail exposures: SMEs	20,176,020	4,347,856	20,845,566	4,658,490
- Other retail exposures: Individuals	5,139,162	424,291	5,084,221	438,926
- Securitization positions	4,759	859	9,865	2,360
AIRB Approach Total	**115,830,153**	**32,813,653**	**118,185,352**	**33,433,210**
Credit and Counterparty Risk Total	**175,672,035**	**58,662,951**	**178,933,561**	**57,804,266**

5.2 Credit Risk: Standard approach

Quantitative disclosure

The table below shows the details of the banking Group's exposures subject to credit risk – standard approach, determined according to the rules of Prudential Supervision and including the effects from risk mitigation techniques (netting agreements, guarantees, etc.). The quantitative disclosures in this Section complement those provided in the section on Risk mitigation techniques. In fact, each regulatory portfolio provided for by regulations under the standard approach is broken down as follows:

- amount of on- and off-balance exposures, "without" the risk mitigation (Exposure before CRM), which does not take into account the decrease in exposure arising from application of collateral and guarantees; in the case of guarantees, which transfer risk in respect of the guaranteed portion, reference is made to the guarantor's regulatory portfolios and weightings, while as to the residual exposure, reference is made to the guaranteed party's information;
- amount of the same exposures "with" the risk mitigation effect (Exposure after CRM), i.e. net of the guarantees mentioned in the previous point. The difference between exposures "with" and "without" credit risk mitigation thus represents the amount of approved guarantees, disclosed also in the section on Risk mitigation techniques. The below information is listed in the "with" and "without" credit risk mitigation columns and credit risk mitigation techniques.

Tab. 5.2.1 – Standard approach: Ante and Post CRM Exposure Value

Regulatory Portfolio (Standard Approach)	jun-16			dec-15		
	Ante CRM Exposure	Post CRM Exposure	Credit Risk Mitigation Techniques	Ante CRM Exposure	Post CRM Exposure	Credit Risk Mitigation Techniques
Exposures to central governments and central banks	25,424,380	25,424,380	-	26,604,117	26,604,117	-
Exposures to regional governments and local authorities	2,854,183	2,854,183	-	2,231,534	2,231,534	-
Exposures to public sector entities	847,346	832,073	-15,273	951,732	936,520	-15,211
Exposures to Multi-lateral development banks	75,806	75,806	-	71,783	71,783	-
Exposures to International Organisations	-	-	-	-	-	-
Exposures to Institutions	54,175,975	15,936,752	-38,239,222	57,845,680	16,398,488	-41,447,193
Exposures to Corporates	13,451,709	12,232,203	-1,219,506	11,426,706	10,303,764	-1,122,942
Retail Exposures	2,781,250	2,768,095	-13,155	2,866,026	2,854,015	-12,011
Exposures secured by mortgages on immovable property	1,316,547	1,315,763	-784	1,275,685	1,275,239	-446
Exposures in Default	1,799,944	1,781,642	-18,302	1,903,136	1,882,370	-20,767
Exposures associated with particularly high-risk	110,535	110,535	-	122,941	122,941	-
Exposures in the form of covered bonds	792,686	792,686	-	816,345	816,345	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Exposures to UCITs	926,322	925,072	-1,250	673,209	671,959	-1,250
Equity Exposures	1,579,826	1,579,826	-	1,629,637	1,629,637	-
Other Exposures	5,634,101	5,634,101	-	6,174,626	6,174,626	-
Items representing securitization positions	-	-	-	3,914	3,914	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	-	-	-	-	-
Standard Approach Total	**111,770,608**	**72,263,117**	**-39,507,491**	**114,597,070**	**71,977,251**	**-42,619,819**

The Table shows the Banking Group's exposures reported by regulatory exposure classes and also contains off-balance sheet exposures relating to guarantees and commitments before the application of credit conversion factors (CCF).

The exposures reported in the table also include the off balance-sheet exposures relating to guarantees and commitments (including undrawn credit lines) subsequent to the application of the Credit Conversion Factors (CFFs) required by prudential regulations. The off-balance sheet exposures in relation to guarantees and commitments are disclosed side by side with the counterparty weighting factor. The exposure value shown in the tables of this section is stated net of adjustments in accordance with the prudential regulations.

The tables below provide the Post CRM exposures broken down by weighting factor.

As at 30 June 2016, the total amount of exposures deducted from Funds came to EUR 436.5 million.

Tab. 5.2.2 – Standard approach: Distribution in classes of creditworthiness (post CRM)

	Classes of creditworthiness (Weighting Factors)									
Regulatory Portfolio (Standard Approach)	0%	up to 20%	35%	50%	75% - 100%	150%	225% - 250%	370%	1250%	Total
Exposures to central governments and central banks	22,663,099	17	-	21,992	2,098,145	-	616,602	-	-	25,399,855
Exposures to regional governments and local authorities	-	2,240,758	-	-	-	-	-	-	-	2,240,758
Exposures to public sector entities	2,879	91,386	-	-	413,136	-	-	-	-	507,401
Exposures to Multi-lateral development banks	45,806	-	-	-	-	-	-	-	-	45,806
Exposures to International Organisations	-	-	-	-	-	-	-	-	-	-
Exposures to Institutions	80,718	6,943,195	-	3,249,244	164,307	796	-	-	-	10,438,260
Exposures to Corporates	41,729	487,233	-	268,814	7,088,702	125,181	-	-	-	8,011,659
Retail Exposures	1,901	-	-	-	1,664,114	-	-	-	-	1,666,015
Exposures secured by mortgages on immovable property	-	-	650,082	650,648	13,347	-	-	-	-	1,314,077
Exposures in Default	49	-	-	-	728,950	758,910	-	-	-	1,487,909
Exposures associated with particularly high-risk	-	-	-	-	-	110,535	-	-	-	110,535
Exposures in the form of covered bonds	-	792,686	-	-	-	-	-	-	-	792,686
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Exposures to UCITs	-	-	-	-	612,992	-	-	-	-	612,992
Equity Exposures	-	-	-	-	893,410	-	686,416	-	-	1,579,826
Other Exposures	707,437	1,302,505	-	276	3,623,844	38	-	-	-	5,634,101
Items representing securitization positions	-	-	-	-	-	-	-			-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	-	-	-	-	-	-	-	-	-
Total as at 30/06/2016	**23,543,619**	**11,857,780**	**650,082**	**4,190,974**	**17,300,948**	**995,460**	**1,303,018**	**-**	**-**	**59,841,882**
Total as at 31/12/2015	**25,003,469**	**13,624,842**	**678,368**	**3,068,429**	**16,075,191**	**1,014,539**	**1,279,460**	**-**	**3,910**	**60,748,209**

The Table shows the Banking Group's exposures reported by regulatory exposure classes and also contains off-balance sheet exposures relating to guarantees and commitments following the application of credit conversion factors (CCF).

5.3 Credit Risk: use of the AIRB approach

AIRB Authorization

With decree no. 647555 of 12 June 2008, the bank of Italy authorised the Montepaschi Group to use advanced internal rating based (AIRB) systems to calculate the capital requirements for credit and operational risk. In particular, whereas 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.

For portfolios other than those mentioned above, the standard approach will be used and applied according to the roll-out plan submitted to the Supervisory authorities. As for legal entities, the scope of application of the authorised approaches shall be the following:

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

Quantitative information

The following table reports the Group's exposure to credit risk – AIRB , as at 30 June 2016 divided by classes of regulatory activities. The exposure values reported are determined according to prudential supervisory requirements and as such are inclusive of value adjustments and do not factor in the effects of risk mitigation techniques which, in the case of exposures subject to an internal models-based approach, are directly included in the risk weighting factor applied. As for guarantees issued and commitments to disburse funds, the values reported take into account credit conversion factors. Following are the values of risk weighted assets (RWA), expected loss (PA) and actual losses (PE) as at June 2015. It is noted that the amount of value adjustments on general-purpose and special-purpose receivables relating to securitisation exposures are not included in the calculation of the Expected Loss Delta, as required by the CRR.

Tab. 5.3.1 – IRB Approach: RWA, EAD, EL & AL Summary

	jun-16			
Regulatory Portfolio	EAD	RWA	EL	AL
Exposures to or secured by corporates:	54,050,577	22,352,966	12,260,916	12,055,917
- SMEs	34,161,166	10,881,612	8,817,635	8,932,367
- Other companies	16,796,966	9,779,524	2,740,112	2,707,886
- Specialized lending	3,092,446	1,691,829	703,169	415,664
Retail exposures:	61,774,816	10,459,828	8,589,074	9,131,576
- Secured by real estate: SMEs	7,791,248	2,445,462	697,046	594,810
- Secured by real estate: Individuals	28,661,438	3,241,170	328,135	339,306
- Qualifying revolving	6,948	1,048	105	97
- Other retail exposures: SMEs	20,176,020	4,347,856	6,158,784	6,513,597
- Other retail exposures: Individuals	5,139,162	424,291	1,405,003	1,683,766
Securitization positions	4,759	859	-	318
Total as at 30/06/2016	**115,830,153**	**32,813,653**	**20,849,990**	**21,187,811**
Total as at 31/12/2015	**118,202,817**	**33,445,435**	**22,010,823**	**22,013,154**

The table below shows the breakdown by PD class, identified by the MPS Group to allow for a significant distinction to be made for credit risk (see para. 5.3) by Group exposures and regulatory portfolio.

Tab. 5.3.2 – IRB Approach: Exposures, expected and actual losses distribution by regulatory portfolio and PD classes (except for Specialized lending and AIRB Securitization)

	jun-16				
Classes of creditworthiness	Corporates Exposure	Retail Exposure	AIRB Total Exposures	AIRB Total EL	AIRB Total AL
Class 01	1,341,687	9,610,451	10,952,138	2,264	2,065
Class 02	5,014,704	11,191,749	16,206,453	13,289	18,084
Class 03	10,575,244	12,649,774	23,225,018	76,197	70,338
Class 04	8,402,208	8,923,247	17,325,455	250,678	248,735
Class 05	1,456,106	1,629,211	3,085,317	176,903	154,815
Class 06	24,168,183	17,770,384	41,938,566	19,627,489	20,277,792
Total as at 30/06/2016	**50,958,132**	**61,774,816**	**112,732,948**	**20,146,820**	**20,771,829**
Total as at 31/12/2015	**51,399,783**	**64,177,053**	**115,576,836**	**21,431,643**	**21,646,724**

The following table shows a breakdown by PD band with quantitative details for the advanced IRB approach of the Portfolio "Exposures to or guaranteed by businesses" divided by regulatory asset class:

- *SMEs,*
- *Other companies,*
- *Specialized lending – slotting criteria.*

Tab. 5.3.3 – IRB approach: Exposures to or secured by corporates - SMEs

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD (%)	Average Risk Weight % (RW%)
Class 01	791,210	494,737	328,540	9.76%	0.11%	37.86%	24.90%
Class 02	3,158,462	2,116,958	1,177,517	11.55%	0.34%	36.37%	39.74%
Class 03	6,387,761	5,127,543	1,559,816	19.21%	1.19%	33.52%	62.98%
Class 04	7,031,268	6,296,827	972,299	24.46%	4.98%	30.70%	85.38%
Class 05	1,076,601	984,280	109,304	15.54%	22.14%	28.88%	133.30%
Class 06	19,752,730	19,140,821	803,089	23.81%	100.00%	44.29%	-
Total as at 30/06/2016	**38,198,032**	**34,161,166**	**4,950,565**	**17.42%**	**4.00%**	**32.58%**	**-**
Total as at 31/12/2015	**38,310,021**	**34,404,460**	**5,066,839**	**18.96%**	**4.13%**	**32.61%**	**-**

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds
(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

Tab. 5.3.4 – IRB Approach: Exposures to or secured by corporates - Other companies

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD (%)	Average Risk Weight % (RW%)
Class 01	3,648,087	846,950	3,120,261	10.23%	0.09%	43.05%	26.32%
Class 02	7,735,347	2,897,746	5,468,554	11.54%	0.34%	42.93%	53.30%
Class 03	9,604,127	5,447,701	5,163,068	19.50%	1.08%	41.36%	85.52%
Class 04	3,051,717	2,105,381	1,176,666	19.58%	4.21%	41.49%	131.74%
Class 05	825,066	471,825	479,824	26.38%	18.33%	23.08%	122.86%
Class 06	5,670,917	5,027,362	795,526	19.10%	100.00%	52.58%	-
Totale as at 30/06/2016	**30,535,261**	**16,796,966**	**16,203,900**	**15.01%**	**2.08%**	**41.16%**	**-**
Totale as at 31/12/2015	**30,955,889**	**16,995,323**	**16,458,443**	**14.49%**	**2.31%**	**40.98%**	**-**

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds
(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

Tab. 5.3.5 – IRB approach: Specialized lending – slotting criteria

Rating Class	Nominal Value	Exposure Value	RWA	Value adjustments	Expected Loss
Category 1 - 50%	-	-	-	-	-
Category 1 - 70% equal to or greater than 2.5 years	16,426	16,426	11,498	83	66
Category 2 -70% less than 2.5 years	195,349	192,599	134,819	1,569	770
Category 2 - 90%	1,210,371	1,099,331	989,398	13,819	8,795
Category 3 - 115%	448,090	423,370	486,875	13,083	11,854
Category 4 - 250%	29,728	27,696	69,239	153	2,216
Category 5 - 0%	1,435,598	1,333,25	-	387,593	679,469
Total as at 30/06/2016	3,335,563	3,092,446	1,691,829	415,664	703,169
Total as at 31/12/2015	**2,752,421**	**2,598,652**	**1,505,758**	**366,114**	**579,110**

The following table shows a breakdown by PD band with quantitative details for the advanced IRB approach of the Portfolio “Retail Exposures” divided by regulatory asset class:

- *Secured by real estate - SMEs,*
- *Secured by real estate - Individuals,*
- *Qualifying revolving,*
- *Other retail exposures - SMEs,*
- *Other retail exposures - Individuals.*

Tab. 5.3.6 – IRB approach: Retail Exposures Secured by real estate - SMEs

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	51,425	46,979	6,204	28.35%	0.11%	19.38%	4.22%
Class 02	496,322	488,865	14,255	47.69%	0.37%	19.88%	11.64%
Class 03	2,073,165	2,042,093	59,604	47.87%	1.21%	20.08%	26.75%
Class 04	2,422,536	2,365,148	108,935	47.32%	4.45%	20.42%	56.86%
Class 05	485,260	470,876	28,477	49.49%	25.19%	20.60%	105.25%
Class 06	2,423,452	2,377,286	73,436	37.13%	100.00%	25.96%	-
Total as at 30/06/2016	**7,952,160**	**7,791,248**	**290,911**	**47.24%**	**4.63%**	**20.25%**	**-**
Total as at 31/12/2015	**9,295,849**	**9,104,309**	**362,445**	**48.94%**	**5.00%**	**20.10%**	**-**

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds
(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

Tab. 5.3.7 – IRB approach: Retail Exposures Secured by real estate - Individuals

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	9,070,083	9,058,100	22,659	47.12%	0.13%	13.12%	4.04%
Class 02	8,793,218	8,764,010	54,995	46.89%	0.31%	12.87%	7.35%
Class 03	6,629,143	6,606,188	42,265	45.69%	0.99%	12.40%	16.21%
Class 04	1,828,407	1,816,748	19,589	40.48%	4.58%	12.80%	40.98%
Class 05	573,884	571,761	3,281	35.32%	27.32%	12.33%	72.76%
Class 06	1,862,204	1,844,630	18,827	6.65%	100.00%	15.26%	-
Total as at 30/06/2016	**28,756,939**	**28,661,438**	**161,615**	**45.43%**	**1.28%**	**12.82%**	**-**
Total as at 31/12/2015	**29,222,159**	**29,135,293**	**139,021**	**43.48%**	**1.27%**	**12.80%**	**-**

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds
(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

Tab. 5.3.8 – IRB Approach: Retail Exposures - Qualifying revolving

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	26,236	619	25,617	-	0.13%	31.79%	2.52%
Class 02	40,838	1,530	39,308	-	0.32%	28.78%	4.82%
Class 03	55,591	1,597	53,994	-	1.03%	28.37%	11.64%
Class 04	14,766	2,890	11,876	-	4.04%	21.20%	23.47%
Class 05	1,779	118	1,662	-	26.45%	27.93%	80.40%
Class 06	3,404	195	3,209	-	100.00%	33.33%	-
Total as at 30/06/2016	**142,614**	**6,948**	**135,666**	**-**	**2.52%**	**25.70%**	**-**
Total as at 31/12/2015	**68,411**	**7,664**	**60,747**	**-**	**2.59%**	**26.02%**	**-**

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds
(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

Tab. 5.3.9 – IRB approach: Other retail Exposures - SMEs

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	1,774,912	377,047	1,506,968	7.24%	0.10%	43.43%	8.54%
Class 02	3,960,537	1,471,957	2,677,673	7.06%	0.35%	42.51%	20.74%
Class 03	6,284,454	3,410,877	3,117,501	7.82%	1.19%	41.97%	39.11%
Class 04	6,142,924	4,303,832	1,997,805	7.95%	4.56%	41.82%	52.69%
Class 05	629,918	522,622	122,494	12.40%	21.56%	41.08%	78.22%
Class 06	10,472,145	10,089,686	437,248	12.53%	100.00%	60.78%	-
Total as at 30/06/2016	**29,264,889**	**20,176,020**	**9,859,689**	**7.60%**	**3.52%**	**42.00%**	**-**
Total as at 31/12/2015	**30,840,555**	**20,845,566**	**10,903,522**	**8.38%**	**3.77%**	**41.89%**	**-**

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds
(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

Tab. 5.3.10 – IRB approach: Other retail Exposures - Individuals

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	559,419	127,706	432,949	0.29%	0.13%	22.05%	7.01%
Class 02	870,835	465,387	461,074	12.07%	0.35%	25.83%	15.84%
Class 03	1,030,915	589,019	459,535	3.84%	1.13%	23.41%	25.82%
Class 04	559,469	434,629	133,718	6.64%	4.37%	23.18%	35.36%
Class 05	69,035	63,834	5,365	3.06%	23.15%	23.39%	56.12%
Class 06	3,474,017	3,458,587	16,914	8.78%	100.00%	40.73%	-
Total as at 30/06/2016	**6,563,691**	**5,139,162**	**1,509,556**	**5.60%**	**2.51%**	**23.92%**	**-**
Total as at 31/12/2015	**6,512,380**	**5,084,221**	**1,520,683**	**6.10%**	**2.84%**	**24.09%**	**-**

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds
(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

Exposures subject to the AIRB approach broken down by geographical location

The Montepaschi Group operates almost exclusively in the domestic market. If the geographical location of the counterparties is considered, 100% of AIRB exposures are towards counterparties resident in Italy.

For the purposes of this disclosure and in accordance with Article 452 of the CRR, the relevant geographical location of credit exposures means exposures in the Member States in which the institution has been authorised and Member States or third countries in which institutions carry out activities through a branch or subsidiary. As far as credit risk is concerned, the Group is currently authorized to use internal estimates of PD, LGD parameters for portfolios of loans to locals Counterparties (Companies and Retail Exposures) of the main Italian subsidiaries of the Group, namely Banca Monte dei Paschi di Siena, MPS Capital Services and MPS Leasing & Factoring. The other foreign subsidiaries (MP Banque and MPS Belgio) adopt standard models and their exposures are included among those subject to credit risk – the standard approach. The Group also operates in Member States or third countries via foreign branches, whose operations focus on supporting the expansion of Italian businesses and investments abroad and in the major foreign financial markets. AIRB credit exposures (net of default) held by foreign branches amount to 0.0002% and are entirely towards local counterparties (with headquarters/residence or domicile in Italy). The exposures are towards counterparties that were assigned an internal PD and LGD estimate since they are already counterparties of Italian subsidiaries and are reported under the Parent Company Banca MPS for regulatory purposes Accordingly, the values of the exposure-weighted average PD and LGD by geographical location coincide with those reported in the tables above which show the AIRB exposures of authorised Italian subsidiaries broken down by class of exposure. Reported below are the credit exposures subject to the AIRB approach (net of default) according to the definition of geographical location described above, i.e. by Member State in which the institution has been authorised (Italy) and by Member State or third country in which the insitution operates through a branch.

Tab. 5.3.11 – IRB approach: Exposures to or secured by corporates – Geographic Segmentation

		EAD	Incidence	Weighted Average PD	Weighted Average LGD
Exposures to or secured by corporates	Italy	26,789,888	100.00%	3.16%	36.35%
	Other EU Countries	60	0.00%	0.20%	48.07%
	America	-	-	-	-
	Total as at 30/06/2016	**26,789,949**	**100.00%**	**3.16%**	**36.35%**
	Total as at 31/12/2015	**26,158,876**	**100.00%**	**3.32%**	**36.35%**

Tab. 5.3.12 – IRB approach: Retail Exposures – Geographic Segmentation

		EAD	Incidence	Weighted Average PD	Weighted Average LGD
Retail exposures	Italy	44,004,432	100.00%	2.25%	20.85%
	Other EU Countries	0	0.00%	5.03%	11.15%
	America	-	-	-	-
	Total as at 30/06/2016	**44,004,432**	**100.00%**	**2.25%**	**20.85%**
	Total as at 31/12/2015	**45,805,043**	**100.00%**	**2.43%**	**21.03%**

5.5 Credit Risk: use of risk mitigation techniques

With reference to the retail and corporate loan portfolio, the Montepaschi Group does not apply any netting processes to the credit risk exposures with on- or off-balance sheet items with opposite sign. The Montepaschi Group adopts policies reducing the counterparty risk with institutional counterparties, by entering into netting agreements and collateral agreements both in relation to derivatives and repos (repurchase agreements).

The Montepaschi Group has fulfilled the obligations set out by the New regulations for Prudential Supervision for the purpose of recognition of risk mitigation effects produced by any existing collaterals securing the loan.

Quantitative information

The values shown below refer to the exposures of the banking group considered for credit risk purposes, Standard approach and IRB approach, secured by financial collaterals, personal guarantees and credit derivatives. The exposures taken into consideration are determined according to prudential supervisory regulations, net of any netting agreements. Therefore, the values do not include all types of guarantees; for example, exposures guaranteed by real estate are not included since they are not recognised for the purpose of risk mitigation and are directly reported in the same class, as shown in table 5.2.2 and table 5.3.1. Collateral on transactions secured by real estate are for marginal additional collateral received on these types of transactions. The Montepaschi Group does not have credit exposures hedged with credit derivatives, which are valid for the purpose of risk mitigation techniques. It follow, therefore, that the values reported under Personal Guarantees and credit derivatives refer to collateral received in the form of personal guarantees.

Tab. 5.5.1 – Credit risk mitigation techniques (Standard approach)

Regulatory Portfolio (IRB Approach)	jun-16 Financial Collaterals	jun-16 Guarantees and Credit Derivatives	dec-15 Financial Collaterals	dec-15 Guarantees and Credit Derivatives
Exposures to central governments and central banks	-	17	-	17
Exposures to regional governments and local authorities	-	-	-	-
Exposures to public sector entities	15,273	8,134	15,211	8,521
Exposures to Multi-lateral development banks	-	-	-	-
Exposures to International Organisations	-	-	-	-
Exposures to Supervised institutions	38,239,222	63,762	41,447,193	65,455
Exposures to Corporates	1,219,506	241,974	1,122,942	197,967
Retail Exposures	13,155	42,222	12,011	36,566
Exposures secured by mortgages on immovable property	784	28,379	446	29,377
Exposures in Default	18,302	9,915	20,767	8,571
Exposures associated with high-risk	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-
Exposures to UCITs	1,250	-	1,250	-
Equity Exposures	-	-	-	-
Other Exposures	-	-	-	-
Securitization positions	-	-	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	-	-	-
Standard Approach Total	**39,507,491**	**394,404**	**42,619,819**	**346,473**

The column Financial Guarantees in the above table is a supplement to the Post CRM exposure reported in table 5.2.1 (values of exposures pre and post CRM), which shows the portion of exposure outstanding not covered by these collaterals. Please note that, pursuant to regulations, if the line-by-line method is applied, the collateral reduces risk exposure, whereas personal guarantees (simplified approach) transfer the related risk to the regulatory portfolio of the guarantor; thus the representation of personal guarantees in table 5.5.1 is under the guarantor and does not entail a reduction in the value of the exposure.

Tab. 5.5.2 – Credit risk mitigation techniques (IRB approach)

	jun-16		dec-15	
Regulatory Portfolio (IRB Approach)	Financial Collaterals	Guarantees and Credit Derivatives	Financial Collaterals	Guarantees and Credit Derivatives
Exposures to or secured by corporates:	505,400	1,958,606	432,456	1,856,976
- SMEs	225,316	1,021,191	233,798	889,641
- Other companies	280,084	937,415	198,658	967,336
- Specialized Lending	-	-	-	-
Retail exposures:	485,529	1,323,585	575,001	1,469,092
- secured by real estate: SMEs	7,349	16,312	10,706	16,320
- secured by real estate: Individuals	6,614	1,254	6,837	1,529
- Qualifying revolving	-	-	-	-
- Other retail exposures: SMEs	298,688	1,275,375	355,903	1,421,312
- Other retail exposures: Individuals	172,879	30,645	201,555	29,930
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	-	-	-
IRB Approach Total	**990,929**	**3,282,191**	**1,007,457**	**3,326,068**

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, 29 July 2016

Arturo Betunio
Financial Reporting Officer

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