Pillar 3 Disclosure

Update as at
31 March 2016

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Pillar 3 Disclosure

Update as at
31 March 2016

Banca Monte dei Paschi di Siena SpA
Company Head Office 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 – 60th Update, 15 March 2016 – 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 31 March 2016 of quantitative information deemed most significant by the Group and, in particular, the quantitative information on Own Funds, Capital requirements and the Leverage Ratio.

For additional information not contained in this document, particularly regarding the general, organizational and methodological aspects relating to the different types of risk, please refer to the Annual Report as at 31 December 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 31 March 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).

Given the public relevance of this disclosure, the document is submitted by the Financial Reporting Officer to the Corporate Bodies responsible for its approval. This document is therefore subject to the related attestation, pursuant to art. 154-bis of Legislative Decree no. 58/98 (Consolidated Law on Finance, "TUF").

The Montepaschi Group regularly publishes its Pillar 3 disclosure on its website at: www.mps.it/Investor+Relations.

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

Executive Summary on Own Funds and Capital Requirements

Data in thousands of euros

			Delta vs. 31-12-2015	
Own Funds	**mar-16**	**dec-15**	**Absolute**	**%**
Common Equity Tier 1 (CET1)	8,441,452	8,503,145	-61,692	-0.7%
Additional Tier 1 Capital (AT1)	546,728	598,309	-51,581	-8.6%
Tier 2 Capital (T2)	2,003,746	2,196,269	-192,523	-8.8%
Own Funds	**10,991,926**	**11,297,723**	**-305,797**	**-2.7%**
↳ *of which Delta PA**	*39,397*	*2,084*	*37,312*	*1790.1%*
Capital Requirements				
Credit and Counterparty Risk	4,711,977	4,624,341	87,636	1.9%
↳ *of which Standardised Approach*	*2,026,098*	*1,949,684*	*76,413*	*3.9%*
↳ *of which Airb Approach*	*2,685,880*	*2,674,657*	*11,223*	*0.4%*
Market Risk	292,429	274,556	17,873	6.5%
↳ *of which Standardised Approach*	*292,429*	*274,556*	*17,873*	*6.5%*
↳ *of which Airb Approach*	-	-	-	-
Operation Risk	704,216	702,894	1,322	0.2%
↳ *of which Foundation Approach*	*18,507*	*18,507*	-	-
↳ *of which Advanced Approach*	*685,709*	*684,387*	*1,322*	*0.2%*
CVA Risk	60,430	64,487	-4,057	-6.3%
Concentration Risk	-	-	-	-
Regulatory Capital Requirements	**5,769,053**	**5,666,278**	**102,775**	**1.8%**
Risk-weighted assets	**72,113,167**	**70,828,477**	**1,284,690**	**1.8%**

			Delta vs. 31-12-2015	
Capital Ratio			**Absolute**	**%**
CET1 Capital Ratio	**11.71%**	**12.01%**	**-30**	**-0.3%**
Tier 1 Ratio	**12.46%**	**12.85%**	**-39**	**-0.4%**
Total Capital Ratio	**15.24%**	**15.95%**	**-71**	**-0.7%**

** 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 amounts to 39,397 €/thousands (2,084 €/thousands as at 31 December 2015).*

On a transitional basis, the Total capital ratio and CET1 ratio stand at 15.24% and 11.71% respectively, down slightly 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 lower (approximately -EUR 62 million), essentially as a result of the increased filter on profit from own liabilities carried at fair value (due to changes in creditworthiness), as well as a higher phasing-in percentage on deduction entries (from 40% in 2015 to 60% in 2016). The positive impact of net profit generated in the quarter, for the residual component compared to profits on liabilities at fair value, is permanently offset by the increase in Basel 3 deductions.

Tier 1 is reduced (about -EUR 113 million), not only as a result of CET1, but also and primarily due to the grandfathering applied to Additional Tier 1 instruments, which reduces its contribution to capital.

Instead, decrease in Tier 2 (approx. -EUR 193 million) is mainly due to the effect of the regulatory amortisation of subordinated securities as provided for in Basel 3.

Overall, Total Capital decreased by EUR 306 million.

RWAs recorded a total increase of EUR 1,285 million, due mainly to an increase in the standard credit risk portfolio, driven by the growth in the managed businesses portfolio, and in market risk.

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, and of the NFIs, 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 31 March 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 18.5 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	mar-2016 (A) - Amount at disclosure date	mar-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	8,810,274	-	8,810,274	-
	of which: Ordinary Shares	*8,803,949*	-	*8,803,949*	-
2	Retained earnings	996,140	-	607,090	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-406,324	-	-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	93,156	-	388,096	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**9,493,246**		**9,414,501**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments	-38,432	-	-31,030	-
8	Intangible assets (net of related tax liability)	-432,156	-	-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)	-173,496	-115,664	-106,671	-160,007
11	Fair value reserves related to gains or losses on cash flow hedges	126,016	-	138,603	-
12	Negative amounts resulting from the calculation of expected loss amounts	-26,570	-17,713	-5,066	-7,599
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-142,428	-	-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)	-	-	-	-
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	-94,946	-86,146	-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*	*-58,283*	*-38,855*	*-13,551*	*-20,326*
25	*of which: deferred tax assets arising from temporary differences*	*-36,663*	*-47,291*	*-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	-233,575	-	-214,550	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-86,404	-	-149,558	-
	of which: unrealised losses on UCITS	-	-	-	-
	of which: unrealised losses on EU government bonds	-	-	-	-
	of which: unrealised losses on debt securities	-	-	-	-
	of which: unrealised losses on Equity Investments	-	-	-	-
	of which: unrealised losses	*2,286*	-	*5,516*	-
	of which: unrealised gains	*-70,234*	-	*-103,607*	-
	of which: other	*-18,456*	-	*-51,467*	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	50,197	-	70,411	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution	-	-	-	-
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**-1,051,793**		**-911,356**	
29	**Common Equity Tier 1 (CET1) capital**	**8,441,452**		**8,503,145**	

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

	Common Equity Tier 1 (CET1) capital: instruments and reserves	mar-2016 (A) - Amount at disclosure date	mar-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	-27,675	-	-13,647	-
	of which: Losses for the current financial year	-	-	-	-
	of which: Significant financial instruments	*-18,818*	-	*-9,848*	-
	of which: Residual amount related to the excess of expected losses vs loan loss provisions for IRB positions	*-8,857*	-	*-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**	**-27,675**		**-13,647**	
44	**Additional Tier 1 (AT1) capital**	**546,728**		**598,309**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**8,988,180**		**9,101,454**	

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

	Common Equity Tier 1 (CET1) capital: instruments and reserves	mar-2016 (A) - Amount at disclosure date	mar-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	2,115,929	-	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	83,680	-	14,749	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**2,199,609**		**2,366,023**	
	Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	-133,663	-	-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)	-	-	-	-
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)	-64,001	-	-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	-27,675	-	-13,647	-
	of which: Losses for the current financial year	-		-	
	of which: Significant financial instruments	-18,818	-	-9,848	-
	of which: Residual amount related to the excess of expected losses vs loan loss provisions for IRB positions	-8,857	-	-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	29,476	-	41,153	-
	of which: unrealised gains	29,476	-	41,153	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-195,863**		**-169,755**	
58	**Tier 2 (T2) capital**	**2,003,746**		**2,196,269**	
59	**Total capital (TC = T1 + T2)**	**10,991,926**		**11,297,723**	

Tab. 3.1.4 - Own Funds: Capital ratios and buffers

	Capital ratios and buffers	mar-2016 (A) - Amount at disclosure date	dec-2015 (A) - Amount at disclosure date
60	**Total risk weighted assets**	**72,113,167**	**70,828,477**
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	11,71%	12,01%
62	Tier 1 (as a percentage of risk exposure amount)	12,46%	12,85%
63	Total capital (as a percentage of risk exposure amount)	15,24%	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)[1]	4,70%	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)	62,292	50,420
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)	783,975	760,037
74			
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)	677,576	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)	83,680	14,749
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	201,427	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	mar-2016	dec-2015
Group Equity	9,675,231	9,596,447
Minority Equity	25,710	26,259
Net Assets of the Balance Sheet	**9,700,941**	**9,622,707**
Net Assets after distribution to shareholders		
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-197,808	-197,808
- Minority interests computable	-25,710	-26,259
- Own shares included in the regulatory adjustments		
- Other components non computable in regime	141,839	154,426
Common Equity Tier 1 (CET1) before the regulatory adjustments	**9,619,261**	**9,553,065**
Regulatory adjustments (including adjustments of the transitional period)	-1,177,809	-1,049,920
Common Equity Tier 1 (CET1) net of regulatory adjustments	**8,441,452**	**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	934,321	1,040,242	105,921	-144,482	8, 23, 41a, 56a
of which: implicit goodwill	*49,112*	*49,112*		*-49,112*	*8*
130. Intangible assets	390,944	390,944		-383,044	8
of which: goodwill	*7,900*	*7,900*		*-7,900*	*8*
of which: other intangible assets	*383,044*	*383,044*		*-375,144*	*8*
140. Tax assets	5,117,033	5,117,033		-210,159	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	*356,340*	*356,340*		*-173,496*	*10*
Liabilities and Shareholders' Equity					
30. Debt securities issued	28,316,706	28,316,706		2,010,181	32, 46, 52
50. Financial liabilities designated at fair value	1,661,881	1,661,881		364,503	33
140. Valuation reserves	-36,518	-36,518		-342,122	3, 11, 26a, 56c
of which: AFS	*165,836*	*165,836*		*-337,236*	*3, 26a, 56c*
of which: CFH	*-126,016*	*-126,016*		*0*	*11*
of which: legally-required revaluations	*11,498*	*11,498*		*11,498*	*3*
of which: other	*-87,836*	*-87,836*		*-16,384*	*26a*
170. Reserves	610,511	610,511		984,626	2, 3
180. Share premium reserve	6,325	6,325		6,325	1
190. Share Capital	9,001,757	9,001,757		9,001,757	1, 2, 31
220. Profit/loss of the period	93,156	93,156		93,156	5a
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities				-142,428	14
Value adjustments due to the requirements for prudent valuation				-38,432	7
IRB Shortfall of credit risk adjustments to expected losses				-44,284	12, 41a, 56a
IRB Excess of provisions over expected losses eligible				83,680	50
Filter on double tax realignment				-233,547	26
Filter for IAS 19				50,197	26b
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment				-64,001	55
Indirect investments					
Total Own Funds				**10,991,926**	

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%.

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 (in 2014 the threshold was 5.5%);
- Total Capital ratio of at least 8% of the Group's total risk exposure.

Additionally, the new regulations envisage that banks must have the following reserves:

- *capital conservation buffer* - aimed at conserving the minimum level of regulatory capital during difficult periods in the market, through the allocation of high quality capital in periods in which there are no market tensions. This reserve is mandatory and must be at least 2.5% of the Bank's total risk exposure. The reserve consists of CET1 capital;
- *countercyclical capital buffer* - aimed at protecting the banking sector in phases of excessive growth in loans. The buffer provides for the accumulation of CET1 capital during phases of rapid growth in the credit cycle, which can then be used to absorb losses in the downward phase of the cycle. As opposed to the capital conservation buffer, the countercyclical buffer is imposed only during periods of loan growth and is calculated according to pre-established criteria. Currently and until the first 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%.

In addition to the minimum capital requirements noted above relating to the CET 1 Ratio, with the SREP Decision the ECB confirmed the fulfilment of requirements to continue exercising the supervisory powers attributed to it by art. 16, paragraph 2 of Regulation (EU) no. 1024/2013 of 15 October 2013, with the objective of maintaining capital requirement standards exceeding those set forth by prudential regulations and strengthening the Bank's means, processes, mechanisms and strategies, requiring also the preparation of a capital plan listing detailed measures to achieve a capital ratio of 10.75% by 31 December 2016 and subject to quarterly monitoring by the Bank. This plan, approved by the Board of Directors in December 2015, identifies management actions focused on reducing risk levels in terms of RWA, as guarantee of the prudential buffer to be activated if levels come close to the threshold. Based on 2016-2018 RAF forecasts, the capital adequacy level is required to be structurally above the SREP threshold, which also provides a buffer along the entire projection horizon, generated in particular by profits without the need for any extraordinary measures. Q1 2016 results confirm the RAF forecasts with CET1 values above the SREP threshold and consistent with the capital plan.

The target ratios required by the ECB must be complied with at all times when the Authority's Decision is in force; similarly, at those times the Parent Company may not distribute dividends to shareholders or pay cash flows to holders of AT1 instruments.

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	mar-16	dec-15
Credit and Counterparty Risk	**4,711,977**	**4,624,341**
Standard Approach	2,026,098	1,949,684
Advanced IRB Approach	2,685,880	2,674,657
Market Risks	**292,429**	**274,556**
Standardised Approach	292,429	274,556
Internal Models	-	-
Operational Risk	**704,216**	**702,894**
Foundation Approach	18,507	18,507
Standardised Approach	-	-
Advanced Approach	685,709	684,387
CVA Risk	**60,430**	**64,487**
Originary Exposure Method (OEM)	-	-
Standardised Approach	60,430	64,487
Advanced Approach	-	-
Concentration Risk	**-**	**-**
Settlement Risk	**-**	**-**
Regulatory Capital Requirements	**5,769,053**	**5,666,278**
Risk-weighted assets	**72,113,167**	**70,828,477**
CET1 Capital Ratio	**11.71%**	**12.01%**
Tier1 Capital Ratio	**12.46%**	**12.85%**
Total Capital ratio	**15.24%**	**15.95%**

The tables below provide details on the Group's different capital requirements as at 31 March 2016.

The Capital Requirement for Counterparty Risk amounts to EUR 218,511 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

	mar-16	dec-15
	Req	Req
Standard Approach		
Standard Approach Total	2,026,098	1,949,684
of which: Counterparty Risk	*170,800*	*157,979*
IRB Approach		
IRB Approach Total	2,685,880	2,674,657
of which: Counterparty Risk	*47,711*	*49,390*
Total	**4,711,977**	**4,624,341**
of which: Counterparty Risk	***218,511***	***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	mar-16	dec-15
Exposures to central governments and central banks	290,687	289,817
Exposures to regional governments and local authorities	34,594	34,177
Exposures to public sector entities	29,560	31,706
Exposures to Multi-lateral development banks	-	-
Exposures to International Organisations	-	-
Exposures to Supervised institutions	218,513	205,362
Exposures to Corporates	576,769	476,702
Retail Exposures	104,911	113,250
Exposures secured by mortgages on immovable property	45,571	40,965
Exposures in Default	154,830	160,299
Exposures associated with high-risk	14,079	14,753
Exposures in the form of covered bonds	11,695	12,811
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to UCITs	45,967	47,302
Equity Exposures	205,734	217,587
Other Exposures	292,234	300,698
Securitization positions	-	3,910
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	953	345
Standard Approach Total	**2,026,098**	**1,949,684**
AIRB Approach		
Exposures to or secured by corporates:	1,838,217	1,773,752
- SMEs	883,277	855,834
- Other companies	817,013	797,457
- Specialized lending	137,927	120,461
Retail exposures:	847,471	900,716
- secured by real estate: SMEs	200,687	231,626
- secured by real estate: Individuals	261,405	261,201
- Qualifying revolving	88	96
- Other retail exposures: SMEs	350,460	372,679
- Other retail exposures: Individuals	34,831	35,114
Securitization positions	192	189
AIRB Approach Total	**2,685,880**	**2,674,657**
Credit and Counterparty Risk Total	**4,711,977**	**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 – Capital requirements for Credit and Counterparty Risk (IRB methods) – Specialised lending - slotting criteria

Risk weight	mar-16	dec-15
Category 1 - 50%	-	-
Category 1 - 70% with residual maturity ≥ 2.5 years	921	978
Category 2 - 70% with residual maturity < 2.5 years	12,782	6,778
Category 2 - 90%	76,597	67,871
Category 3 - 115%	37,704	34,974
Category 4 - 250%	9,922	9,859
Category 5 - 0%	-	-
Total Specialised lending - slotting criteria	**137,927**	**120,461**

Tab. 4.4 – Capital Requirements for Market Risk

Standardised Approach	mar-16	dec-15
Position risk on debt instruments	171,162	166,257
Position risk on equity	65,598	70,022
Foreign exchange risk	43,720	24,090
Commodities risk	11,950	14,187
Total Standardised Approach	**292,429**	**274,556**
Internal models		
Total Internal models	**-**	**-**
Total Market Risks	**292,429**	**274,556**

Tab. 4.5 – Capital requirements for Operational Risk

Standardised Approach	mar-16	dec-15
Foundation Approach	18,507	18,507
Standardised Approach	-	-
Advanced Measurement Approach	685,709	684,387
Total Operational Risk	**704,216**	**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 Coverage Ratio was 151.04% as at 31 March 2016 (222.15% 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 destabilizingthe 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 simple arithmetic average of the monthly leverage ratios for the quarter; during the transitional period between 1 January 2014 and 31 December 2017, the quarter-end figure may be used instead of the simple arithmetic average. 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 5.05% as at 31 March 2016. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 4.74%.

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 31 March 2016.

Tab. 4.6 – Leverage Ratio

	mar-16	dec-15
Capital and totaal exposures		
Tier 1 Capital	8,988,180	9,101,454
Total exposures	177,815,103	174,280,357
Leverage ratio		
Basel III leverage ratio	5.05%	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. In the first quarter of 2016, the Group's leverage registered a slight decrease owing to the modest reduction in Tier 1 as well as an increase in assets. Compared to 31 December 2015, Tier1 decreased by approximately EUR 113 million, not only as a result of CET1 but also and primarily due to the grandfathering applied to Additional Tier 1 instruments, which reduces its contribution to capital. On the whole, exposures grew by around EUR 3,535 million due to the increase registered in the standard credit risk portfolio, driven by the increase in the businesses portfolio.

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, 5 May 2016

Arturo Betunio
Financial Reporting Officer

List of Tables

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