Pillar 3 Disclosure

Pillar 3

Update as at
30 June 2015

MONTE
DEI PASCHI
DI SIENA
BANK SINCE 1472

Pillar 3 Disclosure
Pillar 3

Update as at
30 June 2015

Banca Monte dei Paschi di Siena SpA
Company Head Offices in Siena, Piazza Salimbeni 3, www.mps.it
Recorded in the Siena Company Register – Registration no. and tax code 00884060526
Member of the Italian Interbank Deposit Protection Fund. Bank Register no. 5274
Parent Company of the Monte dei Paschi di Siena Banking Group, registered with the Banking Groups register

Table of Contents

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, particularly the European Union's New Regulatory and Institutional Framework for Banking Supervision.

The new regulatory package, commonly known as the "Basel 3 framework" is governed by the:

- ✓ 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 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 – 58th Update, 30 June 2015 – 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 transparency and disclosure, 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.

That assessment shall pay particular attention to the possible need for more frequent disclosure of items of information laid down in Article 437, and points (c) to (f) of Article 438, and information on risk exposure and other items prone to rapid change.

The EBA Guidelines (EBA / GL / 2014/14) of 23.12.2014, on the frequency of Pillar3 publication, confirmed the minimum requirement for all to take out an yearly publication, together with the financial statements, including the possibility that, in accordance with Article 106 of the CRD IV, each National Competent Authority may impose a higher frequency than that provided by the CRR, within their own country, by requiring each bank to do a self-evaluation about the need to provide with a more frequent disclosure.

The current document, therefore, provides an update as at 30 June 2015 of quantitative information deemed most by the Group and in particular the quantitative information concerning 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 2014.

Further information on the risk profile of the Group, based on Art. 434 of the CRR, are also published in the Consolidated Half-year Report as at 30 June 2015, in the Report on Corporate Governance and Compensation Report.

The current update introduces the new information templates required by the Basel 3 framework and reports also values as at 31 December 2014.

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: www.mps.it/Investor+Relations.

Executive Summary on Own Funds and Capital Requirements

Data in thousands of euros

			Delta vs. 31-12-2014	
Own Funds	**jun-15**	**dec-14**	**Absolute**	**%**
Common Equity Tier 1 (CET1)	8,287,060	6,607,509	1,679,551	25.4%
Additional Tier 1 Capital (AT1)	557,386	-	557,386	-
Tier 2 Capital (T2)	2,798,553	3,292,608	-494,055	-15.0%
Own Funds	**11,642,999**	**9,900,117**	**1,742,882**	**17.6%**
↳ *of which Delta PA**	*190,450*	*174,843*	*15,607*	*8.9%*
Capital Requirements				
Credit and Counterparty Risk	4,895,760	5,001,640	-105,880	-2.1%
↳ *of which Standardised Approach*	*2,233,214*	*2,670,400*	*-437,186*	*-16.4%*
↳ *of which Airb Approach*	*2,662,546*	*2,331,240*	*331,306*	*14.2%*
Market Risk	363,699	289,142	74,557	25.8%
↳ *of which Standardised Approach*	*355,685*	*286,106*	*69,579*	*24.3%*
↳ *of which Concentration Risk*	*8,014*	*3,036*	*4,978*	*164.0%*
Operational Risk	701,342	708,267	-6,925	-1.0%
↳ *of which Foundation Approach*	*18,587*	*20,212*	*-1,625*	*-8.0%*
↳ *of which Advanced Approach*	*682,755*	*688,055*	*-5,300*	*-0.8%*
CVA Risk	70,109	98,579	-28,470	-28.9%
Regulatory Capital Requirements	**6,030,910**	**6,097,628**	**-66,718**	**-1.1%**
Risk-weighted assets	**75,386,375**	**76,220,350**	**-833,975**	**-1.1%**

			Delta vs. 31-12-2014	
Capital Ratio			**Absolute**	**%**
CET1 Ratio	**10.99%**	**8.67%**	**232**	**2.3%**
Tier 1 Ratio	**11.73%**	**8.67%**	**306**	**3.1%**
Total Capital Ratio	**15.44%**	**12.99%**	**246**	**2.5%**

**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 framework Basel 3. The total amount of the Delta PA amounts to -215,132 EUR / thousand (-981,903 EUR / thousand as at 31 December 2014).*

The Total capital ratio and the CET1 ratio were respectively 15.44% and 10.99%, an increase compared to 31 December 2014 and they are higher than the regulatory minimum limit, based on transitional measures, in the Common Equity Tier 1 Ratio of 10.2% and a Total Capital Ratio of 10.9% with regard to the SREP.

3. Own Funds

Regulatory capital, an element of Pillar 1, is calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and related integrations, by the Capital Requirements Directive (CRD IV), by Regulatory Technical Standards and Implementing Technical Standards issued by the EBA, and by supervisory instructions issued by Bank of Italy (specifically, Circular nos. 285 and 286). The introduction of Basel 3 regulations 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.

Regulatory capital, an element of Pillar 1, is calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and related integrations, by the Capital Requirements Directive (CRD IV), by Regulatory Technical Standards and Implementing Technical Standards issued by the EBA, and by supervisory instructions issued by Bank of Italy (specifically, Circular nos. 285 and 286). The introduction of Basel 3 regulations 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.

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 Part F of the Consolidated Half-Year Report as at 30 June 2015. 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. The AFS reserve linked to AFS securities (BTP) related to the Alexandria transaction constitutes a derogation to this regime. More specifically, the ECB, following the Supervisory Review and Evaluation Process (SREP), has requested the inclusion of 100% of unrealised losses on Italian government bonds (BTP) encompassed in the 'Alexandria transaction' for the calculation of the CET 1. In accordance with this request, the entire amount of the negative reserve related to the government bonds that were the subject of the transaction, above mentioned (amounting to EUR 345 mln as at 30 June 2015, EUR 423 mln as at 31 December 2014) was considered in the CET 1 calculation.

Unrealised losses relating to exposures to central administrations classified as AFS and not included in the Capital calculation amount to EUR -232,1 mln. Subsequent to the SREP, and as requested by the Supervisory Authorities, the Patagonia vehicle was consolidated, also for prudential purposes. This accounting treatment resulted in a Tier 2 reduction by approximately EUR 72,8 mln as at 30 June 2015. Patagonia Finance S.A. is a vehicle that issued asset-backed securities (ABS) which were subscribed by insurance companies and pledged as collateral of unit-linked policies. The vehicle invests in subordinated securities issued by BMPS.

With regard to events in the first half of 2015, in the month of June the Parent Company completed a share capital increase to be offered for a total of EUR 3 bn. Costs incurred for the share capital increase and posted directly to equity amount to EUR 89 mln, after tax. The sale of unsubscribed rights involved recognition in the share premium reserve of a net amount of EUR 4 mln.

Due to this capital increase and to the authorisations received by the Bank of Italy and the Ministry of Economy and Finance, the Parent Company redeemed a nominal value of EUR 1,071 mln of New Financial Instruments for EUR 1,116 mln, which includes the effects from the terms and conditions of the prospectus following the sale of shares by Fondazione Monte dei Paschi di Siena.

Moreover, on 1 July, 117,997,241 ordinary shares, equal to 4% of the share capital, were issued in favour of the Ministry of Economy and Finance (MEF) for interest accrued as at 31 December 2014, pursuant to the regulations on NFIs, with a simultaneous increase in share capital of EUR 243 mln.

In conclusion, as at 30 June 2015, CET 1 takes into account the effects of the EUR 3 bn share capital increase, the net proceeds from the sale of unsubscribed rights and the direct costs of the transaction. At the same date, as a result of the last redemption, the NFIs are no longer included in the CET 1 calculation. Lastly, note that the share capital increase in favour of the MEF was not included in the CET 1 calculation as at 30 June 2015 either.

As concerns special provisions against Banca Monte dei Paschi di Siena, the Supervisory Authority requested the exclusion of the share of Fresh notes falling under the indemnity issued by the Parent Company to Bank of New York S.A. The negative impact on Tier 1 due to this exclusion amounted to EUR 76 mln. 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 - Own Funds: Common Equity Tier 1 (CET1) capital

	Common Equity Tier 1 (CET1) capital: instruments and reserves	jun-2015 (A) - Amount at disclosure date	jun-2015 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	dec-2014 (A) - Amount at disclosure date	dec-2014 (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	8,564,831	-	12,297,339	-
	of which: Ordinary Shares	*8,560,875*	-	*12,295,049*	-
2	Retained earnings	1,227,027	-	-200,541	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-692,591	-	-557,915	-
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	-	-	1,071,000	-
5	Minority Interests (amount allowed in consolidated CET1)	-	-	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	193,610	-	-	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**9,292,876**		**12,609,883**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments	-50,219	-	-61,317	-
8	Intangible assets (net of related tax liability)	-479,153	-	-511,727	-
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)	-116,683	-175,024	-66,002	-264,009
11	Fair value reserves related to gains or losses on cash flow hedges	168,145	-	184,473	-
12	Negative amounts resulting from the calculation of expected loss amounts	-3,696	-5,545	-	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-74,895	-	-124,338	-
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)	-20,347	-70,492	-	-
22	Amount exceeding the 15% threshold	-104,136	-234,532	-40,844	-264,022
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*	*-64,267*	*-96,401*	*-29,951*	*-119,806*
25	*of which: deferred tax assets arising from temporary differences*	*-39,869*	*-138,131*	*-10,893*	*-144,217*
25a	Losses for the current financial year	-	-	-1,068,578	-4,274,314
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-521,754	-	-596,677	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	126,512	-	-10,114	-
	Of which: unrealised losses on UCITS	*3,457*	-	*1,084*	-
	Of which: unrealised losses on EU government bonds	*232,072*	-	*164,334*	-
	Of which: unrealised losses on debt securities	*-23,258*	-	*-66,335*	-
	Of which: unrealised losses on Equity Investments	*-85,759*	-	*-109,198*	-
	Of which: unrealised losses on Investments valued at equity	-	-	-	-
	Of which: unrealised losses on trading shares	-	-	-	-
	Of which: unrealised losses on exchange differences	-	-	-	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	70,411	-	88,014	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution	-	-	-3,795,262	-
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**-1,005,816**		**-6,002,373**	
29	**Common Equity Tier 1 (CET1) capital**	**8,287,060**		**6,607,509**	

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

	Additional Tier 1 (AT1) capital: instruments	jun-2015 (A) - Amount at disclosure date	jun-2015 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	dec-2014 (A) - Amount at disclosure date	dec-2014 (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	-	217,073	-
31	*of which: classified as equity under applicable accounting standards*	*181,985*	-	*189,158*	-
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	396,906	-	321,347	-
	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**	606,806		538,420	-
	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	-49,420	-	-4,333,682	-
	of which: losses for the current financial year	-	-2,772	-4,274,314	-
	of which: Significant financial instruments	-46,648	-	-59,368	-
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	-	-	3,795,262	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution	-	-	-	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-49,420**		**-538,420**	
44	**Additional Tier 1 (AT1) capital**	**557,386**		**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**8,844,447**		**6,607,509**	

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

	Tier 2 (T2) capital: instruments and provisions	jun-2015 (A) - Amount at disclosure date	jun-2015 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	dec-2014 (A) - Amount at disclosure date	dec-2014 (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	2,798,848	-	3,182,232	-
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	199,691	-	174,843	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**2,998,539**		**3,357,075**	
	Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	-135,300	-	-5,867	-
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)	-65,576	-	-68,516	-
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	890	-2,772	-59,368	-
	Of which: significant share holdings	-	-	*-59,368*	-
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	-	-	69,284	-
	Of which: unrealised gains	-	-	*69,284*	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-199,986**		**-64,467**	
58	**Tier 2 (T2) capital**	**2,798,553**		**3,292,608**	
59	**Total capital (TC = T1 + T2)**	**11,642,999**		**9,900,117**	

Tab. 3.1.4 – Own Funds: Capital ratios and buffers

Capital ratios and buffers		jun-2015 (A) - Amount at disclosure date	dec-2014 (A) - Amount at disclosure date
60	**Total risk weighted assets**	**75,386,375**	**76,220,350**
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	10,99%	8,67%
62	Tier 1 (as a percentage of risk exposure amount)	11,73%	8,67%
63	Total capital (as a percentage of risk exposure amount)	15,44%	12,99%
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%*
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)	6,49%	4,17%
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)	52,748	62,505
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)	759,246	919,278
74	Empty set in the EU		
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)	931,993	952,131
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)	224,373	981,903
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	199,691	174,843
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	401,684
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)	-	-

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

Items	jun-2015	dec-2014
Group Equity	9,373,071	5,965,027
Minority Equity	24,314	23,625
Net Assets of the Balance Sheet	**9,397,385**	**5,988,652**
Net Assets after distribution to shareholders		
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-197,808	-189,158
- Minority interests computable	-24,314	-23,625
- Own shares included in the regulatory adjustments		
- Other components non computable in regime	-59,106	181,471
Common Equity Tier 1 (CET1) before the regulatory adjustments	**9,116,156**	**5,957,340**
Regulatory adjustments (including adjustments of the transitional period)	-829,096	650,169
Common Equity Tier 1 (CET1) net of regulatory adjustments	**8,287,060**	**6,607,509**

4. Capital requirements 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 analyses are carried out both at Group level and by each individual legal entity subject to regulatory capital. 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 Budgeting, Planning, Capital and Risk Management processes of the Montepaschi Group are based on the "Risk Adjusted Performance Management" (RAPM) logic.

The Montepaschi Group defines its targets on the basis of a Risk Adjusted Performance Measurement (RAPM), which measures profitability net of the cost of capital to be held for regulatory purposes relative to the assumed risk level.

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Capital; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post. The Capital Risk concepts applied are those in the regulatory requirements, corresponding to the risk weighted assets (RWAs), determined on the basis of the rules set out in the supervisory regulations, and the economical capital estimated on the basis of the "Pillar1 Plus approach. Both measurements are used as part of RAPM metrics. For further details on this method, please refer to Part E of the Half-Year Financial Report as at 30-06-2015.

Following the implementation of the "Basel 3" 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. Capital reserves are added to this definition, which 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.

"Basel 3" 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 2014 are as follows:

- CET1 ratio of at least 4.5% of the Group's total risk exposure;
- AT1 ratio of at least 5.5% of the Group's total risk exposure; in 2015 the threshold will increase to 6%
- 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. Supervisory Authorities have not yet defined the amount of this reserve;
- G-SII buffer for global systemically important banks and O-SII buffer for other systemically important entities - 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 falls under the Basel Committee's definition of systemically important banks, required to publish indicators according to the established times and methods. Hence, from 2016, the Group will be subject to additional loss absorbency requirements, the extent of which will be defined by the Bank of Italy.

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 Montepaschi Group uses the standardised 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 standardised 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 standardized approach. Capital requirements against Counterparty Risk are calculated separately from the portfolio. Capital requirements relating to counterparty risk are calculated using the current market value. In particular, the Market Value approach is applied to OTC derivatives and the comprehensive approach for the treatment of financial collateral to repo transactions and security lending. Capital requirements against CVA risk are calculated according to the standardised 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. Furthermore, in 2014 the ECB performed, in collaboration with the national competent authorities responsible for the supervision of banks, a system-wide Comprehensive Assessment, pursuant to the regulations on the Single Supervisory Mechanism (EU Regulation no. 1024/2013 of the European Council on 15 October 2013), which became effective on 3 November 2013. The results of the Comprehensive Assessment, published by the EBC on 26 October 2014, identified for the MPS Group a shortfall of EUR 2.1 bn, which was offset through capital management measures, as well as with the capital increase of EUR 3 bn completed in June 2015.

On 10 February 2015 the ECB informed the Bank of the results of the Supervisory Review and Evaluation Process (SREP), based on which the Montepaschi Group was asked, with effect from completion of the share capital increase submitted to the extraordinary Shareholders' Meeting for approval, to reach and maintain in the long term a minimum limit, based on transitional measures, in the Common Equity Tier 1 Ratio of 10.2% and a Total Capital Ratio of 10.9%, compared to the regulatory limits now in force of 7.0% and 10.5%, respectively. The target ratios required by the EBC must be complied with at all times when the Authority's Decision is in force; similarly, at those times the Bank may not distribute dividends.

Also with regard to the SREP, it should be remembered that specifically with reference to the "Alexandria" transaction with the counterparty Nomura, the ECB - as an exception to the "neutralisation" rule for the AFS reserve of government securities envisaged until endorsement of IFRS 9 - ordered MPS to include the associated negative AFS reserve in the own funds calculation already starting from 31 December 2014. For additional details on this transaction, please refer to the relative paragraph below.

The capital adequacy figures illustrated in this report were all calculated by including the positive effect of profit for the period.

The following contains information on capital adequacy reported by the Group according to the new "Basel 3" templates.

Tab. 4 – Capital requirements and capital ratios

Regulatory Capital Requirements	jun-2015	dec-2014
Credit and Counterparty Risk	**4,895,760**	**5,001,640**
Standard Approach	2,233,214	2,670,400
Advanced IRB Approach	2,662,546	2,331,240
Market Risks	**363,699**	**289,142**
Standardised Approach	355,685	286,106
Internal Models	-	-
Concentration Risk	8,014	3,036
Operational Risk	**701,342**	**708,267**
Foundation Approach	18,587	20,212
Standardised Approach	-	-
Advanced Approach	682,755	688,055
CVA Risk	**70,109**	**98,579**
Originary Exposure Method (OEM)	-	-
Standardised Approach	70,109	98,579
Advanced Approach	-	-
Settlement Risk	**-**	**-**
Regulatory Capital Requirements	**6,030,910**	**6,097,628**

Risk-weighted assets	**75,386,375**	**76,220,350**
CET1 Capital Ratio	**10.99%**	**8.67%**
Tier1 Capital Ratio	**11.73%**	**8.67%**
Total Capital ratio	**15.44%**	**12.99%**

The Total capital ratio and CET1 ratio, at 15.44% and 10.99% respectively, were up from 31 December 2014, exceeding the minimum threshold required under the Supervisory Review and Evaluation Process (SREP).

This resulted from an increase in CET1 and Total capital ratios (EUR -1,679 mln and EUR -1,743 mln vs. 31 December 2014) and to a slight reduction in risk-weighted assets (EUR -834 mln vs. 31 December 2014). The higher CET1 is largely due to the rights issue carried out in the second quarter of 2015, the profit generated for the period as well as the improvement in the negative AFS reserve linked to the "Alexandria" transaction with Nomura. Partially offsetting this was the repayment of the last tranche of New Financial Instruments, the increase in DTA-linked deductions, equity investments and tax losses owing to the higher phasing-in percentage (from 20% in 2014 to 40% in 2015).

Tier 2 decreased mainly due to the effect of regulatory amortisation of subordinated securities envisaged in Basel 3. Overall, Total Capital was up by around EUR 1,743 mln. RWAs were down overall (EUR -843 mln) due to offsetting effects of the increase in credit, counterparty and market risk and the reduction in transformable DTAs weighted at 100%. Approximately EUR 2 bn of transformable DTAs were converted into tax credits in April 2015.

The exposure to Nomura, net of guarantees received, was EUR 3,185 mln as at 30 June 2015, decreasing of about 818 mln from the value as at 31 December 2014, mainly due to the decrease in counterparty risk on the Long Term Repo transaction and to the collateral paid against the derivative and repurchase agreement operations (EUR -795 mln). The decreases derive solely from the performance of the market benchmarks underlying the existing transactions and the settlement of some of the exposure not associated with the "Alexandria" transaction (EUR -23 mln). The contraction of the exposure represents 27.36% of Own Funds as at 30 June 2015 (34.68% as at 31 December 2014) and therefore exceeds the regulatory limit of 25%.

As mentioned above, with regard to the position in question, already as at 31 December 2014 MPS included the negative AFS reserve from the "Alexandria" transaction (EUR -345 mln as at 30 June 2015) in the own funds calculation as the net effect of the gain on the security underlying the repo transaction and the loss on the hedging asset swap. In relation to this specific treatment, BMPS considers significant the guidance expressed by the EBA, which in responding to a query as part of the public Q&A recently confirmed (on 6 March 2015) that the value of exposures must be consistent with the plus/minus treatment of own funds, stating: *"However, in case filters on unrealised gains or losses in relation to such assets exist...., the exposure value of such assets will need to be adjusted by the amount of the corresponding unrealised losses or gains which have been filtered in or out from own funds respectively...."* (Single Rulebook Q&A, 2014_716).

Given the prudential treatment requested by the ECB for this exposure and considering the symmetry rule pronounced by the EBA, it is considered that the underlying exposure must consider a level of fair value that takes into account all the components that generate the effects included in the regulatory capital. In view of this, the value of the exposure to Nomura in relation to the Long Term Repo transaction should reduce by around EUR 986 mln, consistent with the real risk profile of the transaction.

As a result of this classification, the exposure to Nomura would drop to approx. EUR 2,200 mln.

On the forecast effects of the EBA interpretation, BMPS has begun specific discussions with the relevant ECB departments and, pending receipt of the final guidance, has decided at present not to reflect them in the financial reports and regulatory data as at 30 June 2015.

Considering the share capital increase in favour of the Ministry of Economy and Finance and the further settlements of Nomura positions not associated with the Alexandria transaction, completed in July, the pro forma exposure as at 30 June 2015 is 24.33%, i.e. lower than the regulatory limit. Including in the calculation of capital ratios the effects of the issue of ordinary shares to the Ministry of Economy and Finance (for interest accrued as at 31 December 2014 on the New Financial Instruments), the pro forma Common Equity Tier 1 ratio would be 11.3%.

The details of capital requirements broken down by type of risk and regulatory portfolio are reported in the following tables.

Tab. 4.1 – Credit and Counterparty Risk capital requirement

Standard Approach	jun-2015	dec-2014
Exposures to central governments and central banks	305,385	500,704
Exposures to regional governments and local authorities	35,652	34,147
Exposures to public sector entities	30,045	30,288
Exposures to Multi-lateral development banks	-	-
Exposures to International Organisations	-	-
Exposures to Supervised institutions	337,084	320,196
Exposures to Corporates	515,490	633,173
Retail Exposures	145,612	199,176
Exposures secured by mortgages on immovable property	66,006	54,423
Exposures in Default	158,878	222,053
Exposures associated with high-risk	7,107	6,141
Exposures in the form of covered bonds	14,869	15,985
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to UCITs	48,836	69,695
Equity Exposures	212,182	231,789
Other Exposures	351,783	338,904
Securitization positions	3,597	13,093
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	686	633
Standard Approach Total	**2,233,214**	**2,670,400**
AIRB Approach		
Exposures to or secured by corporates:	1,753,657	1,467,873
- SMEs	835,097	751,742
- Other companies	776,521	716,132
- Specialized lending	142,038	-
Retail exposures:	908,889	863,367
- secured by real estate: SMEs	246,459	241,168
- secured by real estate: Individuals	216,436	213,701
- Qualifying revolving	100	77
- Other retail exposures: SMEs	413,483	377,765
- Other retail exposures: Individuals	32,410	30,656
AIRB Approach Total	**2,662,546**	**2,331,240**
Credit and Counterparty Risk Total	**4,895,760**	**5,001,640**

Tab. 4.2 – Market Risk capital requirement

Standardised Approach	jun-2015	dec-2014
Position risk on debt instruments	191,951	173,170
Position risk on equity	91,351	75,456
Foreign exchange risk	61,994	29,734
Commodities risk	10,389	7,745
Total Standardised Approach	**355,685**	**286,106**
Concentration Risk	**8,014**	**3,036**
Total Market Risks	**363,699**	**289,142**

Liquidity Ratios and Leverage Ratio

With reference to the Liquidity Coverage Ratio and the Net Stable Funding, the observation period, which precedes its official introduction, by the Supervisory Authorities began in March 2014. The Liquidity Coverage Ratio will enter into force gradually as of 1 October 2015, with a requirement of 60%. The requirement of 100% is to be reached as of 1 January 2018. As of this date, the Net Stable Funding requirement will also be introduced, with the prior approval of the European Parliament and Council. In addition to the system of capital requirements aimed at covering credit, counterparty, market, operational, CVA and regulatory risks, it is expected that Basel 3 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 deleveraging process which may harm the financial system and the economy in general, and to strengthen the system of capital requirements associated with risk with a simple backstop measure that is not based on risk profile.

To this end, Circular no. 285 of 17 December 2013 of the Bank of Italy, "supervisory Provisions for banks" requires banks to calculates their leverage ratio.

The Leverage Ratio is calculated with a denominator that is based on the not 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 indicator will become binding in 2018 and the transition observation phase will last until 1 January 2017. At present, the minimum thresholds for the Leverage Ratio have not yet been established. 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).

In accordance with public disclosure requirements, the basic data necessary for its calculation is provided below.

Tab. 4.3 – Leverage ratio

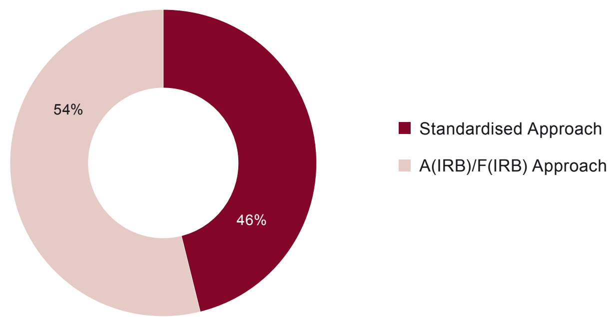
	jun-2015	mar-2015
Capital and total exposures		
Tier 1 capital	8,844,447	6,686,982
Total exposures	183,114,138	190,436,373
Leverage ratio		
Basel III leverage ratio	4.83%	3.51%

5. Credit Risk

5.1 Credit Risk: general disclosure

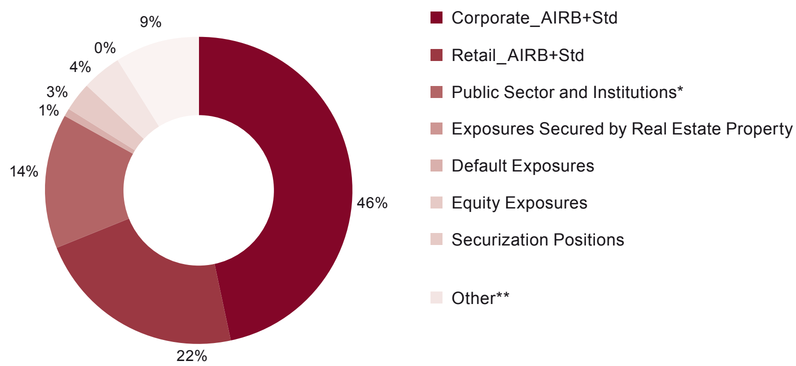
As concerns capital requirements, for credit risks the Group uses the Advanced Internal Rating Based (AIRB) method with reference to the "Credit Exposures to Retail" and "Credit Exposures to Entities" regulatory portfolios. The scope of application of the AIRB method currently includes the Parent Company 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. It should be noted that, as at 30 June 2015, the scope of application of internal models for the calculation of capital requirements was also extended to Specialised Lending – slotting criteria. RWAs by credit risk show also at 30 June 2015 an almost-equal breakdown between Standard approach and advanced approach (Std 46% vs. AIRB 54%).

Credit risk's RWA by approach



An analysis by type of exposure reveals that 68% of Credit Risk refers to the Corporate and Retail portfolios.

RWA by type of exposure



* *Includes the following portfolios: Central Governments and Central Banks+Regional Governments and Local Authorities+Institutions (Supervised Institutions, Multilateral Development Banks and International Organisations)*

** *Includes the following portfolios: Undertakings for Collective Investments in Transferable Securities (UCITS), Exposures in the form of Covered Bonds, High-risk Exposures and Short term Corporates and Other Entities 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 standardised 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-2015		dec-2014	
	EAD	RWA	EAD	RWA
Standard Approach				
Standard Approach Total	**72,423,414**	**27,915,169**	**80,040,020**	**33,379,995**
of which: Counterparty Risk	*8,590,246*	*2,963,304*	*10,037,650*	*2,776,680*
IRB Approach				
IRB Approach Total	**120,307,912**	**33,281,828**	**117,732,184**	**29,140,499**
of which: Counterparty Risk	*1,001,375*	*595,840*	*902,840*	*482,703*
Total	**192,731,326**	**61,196,997**	**197,772,204**	**62,520,494**
of which: Counterparty Risk	*9,591,621*	*3,559,143*	*10,940,490*	*3,259,383*

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

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

Standard Approach	jun-2015		dec-2014	
Regulatory portfolios	EAD	RWA	EAD	RWA
Exposures to central governments and central banks	28,719,355	3,817,310	35,006,699	6,258,802
Exposures to regional governments and local authorities	2,229,133	445,650	2,135,614	426,836
Exposures to public sector entities	482,064	375,562	490,029	378,596
Exposures to Multi-lateral development banks	43,276	-	34,291	-
Exposures to International Organisations	-	-	-	-
Exposures to Supervised institutions	17,471,649	4,213,548	15,990,718	4,002,449
Exposures to Corporates	6,977,600	6,443,626	8,121,044	7,914,657
Retail Exposures	2,474,267	1,820,147	3,371,548	2,489,700
Exposures secured by mortgages on immovable property	2,061,311	825,081	1,698,495	680,286
Exposures in Default	1,585,095	1,985,979	2,350,096	2,775,664
Exposures associated with high-risk	59,228	88,842	51,179	76,768
Exposures in the form of covered bonds	1,013,822	185,867	986,309	199,813
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-
Exposures to UCITs	610,454	610,454	871,192	871,192
Equity Exposures	1,754,403	2,652,270	1,745,153	2,897,361
Other Exposures	6,938,159	4,397,292	7,133,564	4,236,295
Securitization positions	3,597	44,962	54,088	163,665
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	8,580	-	7,911
Standard Approach Total	**72,423,414**	**27,915,169**	**80,040,020**	**33,379,995**
AIRB Approach				
Exposures to or secured by corporates:	53,559,769	21,920,712	50,358,660	18,348,417
- SMEs	32,699,058	10,438,714	32,276,311	9,396,770
- Other companies	17,657,469	9,706,516	18,082,349	8,951,647
- Specialized lending	3,203,242	1,775,481	-	-
Retail exposures:	66,748,144	11,361,116	67,373,524	10,792,082
- secured by real estate: SMEs	9,873,951	3,080,741	10,486,140	3,014,598
- secured by real estate: Individuals	29,195,847	2,705,454	30,106,751	2,671,257
- Qualifying revolving	7,942	1,250	8,868	968
- Other retail exposures: SMEs	22,636,828	5,168,542	21,969,599	4,722,059
- Other retail exposures: Individuals	5,033,577	405,129	4,802,167	383,200
AIRB Approach Total	**120,307,912**	**33,281,828**	**117,732,184**	**29,140,499**
Credit and Counterparty Risk Total	**192,731,326**	**61,196,997**	**197,772,204**	**62,520,494**

5.2 Credit Risk: Standard approach

The Montepaschi Group uses the following official rating agencies for legal entities not subject to airb validation as well as for statutory portfolios, for which the advanced internal rating system to calculate capital absorption on credit risk is not used, to measure the level of reliability of different borrowers:

- Standard & Poor's;
- Moody's Investor Service;
- Fitch Rating.

When determining capital requirements, it should be noted that if there are two evaluations of the same customer, the more conservative one is adopted. In the case of three evaluations, the intermediate is used.

At present the standardised approach is applied to all portfolios and entities of the Group with the exception of the portfolios, Exposures to corporates and Retail exposures, belonging to the following entities:

- Banca Monte dei Paschi di Siena;
- MPS Capital Services Banca per le Imprese;
- MPS Leasing & Factoring.

for which the advanced IRB model is adopted, details of which are described in paragraph 5.3.

The table below shows the details of the banking Group's exposures subject to credit risk - standardised 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 standardised 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)	Ante CRM Exposure	Post CRM Exposure	Credit Risk Mitigation Techniques
Exposures to central governments and central banks	28,745,949	28,745,949	-
Exposures to regional governments and local authorities	3,329,003	3,329,003	-
Exposures to public sector entities	1,177,682	1,164,487	-13,194
Exposures to Multi-lateral development banks	95,776	95,776	-
Exposures to International Organisations	-	-	-
Exposures to Supervised institutions	63,394,050	23,928,442	-39,465,609
Exposures to Corporates	12,005,590	10,749,763	-1,255,828
Retail Exposures	3,466,037	3,446,775	-19,262
Exposures secured by mortgages on immovable property	2,064,125	2,063,120	-1,005
Exposures in Default	1,873,233	1,849,651	-23,581
Exposures associated with high-risk	59,228	59,228	-
Exposures in the form of covered bonds	1,013,822	1,013,822	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-
Exposures to UCITs	660,630	659,380	-1,250
Equity Exposures	1,754,403	1,754,403	-
Other Exposures	6,938,159	6,938,159	-
Securitization positions	3,597	3,597	-
Total 30/06/2015	**126,581,283**	**85,801,555**	**-40,779,728**
Total 31/12/2014	**133,994,792**	**91,968,362**	**-42,026,430**

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 Table below provides the Banking Group's exposures reported by regulatory exposure classes and also contains off-balance sheet exposures relating to guarantees and commitments (including the margins available on lines of credit) following the application of credit conversion factors (CCF) required by the 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 according to the prudential regulations. The table below provides the breakdown of exposures with" credit risk mitigation by credit quality step and by exposure class.

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

	Classes of Credit Worthiness								
Egulatory Portfolio (Standard Approach)	0%	≤20%	35%	50%	75%-100%	150%	225%-250%	1250%	Totale
Exposures to central governments and central banks	25,881,799	17	-	29,925	2,144,461	-	663,154	-	28,719,355
Exposures to regional governments and local authorities	-	2,229,133	-	-	-	-	-	-	2,229,133
Exposures to public sector entities	-	133,128	-	-	348,936	-	-	-	482,064
Exposures to Multi-lateral development banks	43,276	-	-	-	-	-	-	-	43,276
Exposures to International Organisations	-	-	-	-	-	-	-	-	-
Exposures to Supervised institutions	1,001,754	12,603,112	-	3,782,453	83,615	714	-	-	17,471,649
Exposures to Corporates	39,389	404,811	-	160,840	6,292,558	80,002	-	-	6,977,600
Retail Exposures	-	-	-	-	2,474,267	-	-	-	2,474,267
Exposures secured by mortgages on immovable property	-	-	1,210,237	846,041	5,033	-	-	-	2,061,311
Exposures in Default	5,783	-	-	-	765,979	813,333	-	-	1,585,095
Exposures associated with high-risk	-	-	-	-	-	59,228	-	-	59,228
Exposures in the form of covered bonds	-	1,013,822	-	-	-	-	-	-	1,013,822
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-
Exposures to UCITs	-	-	-	-	610,454	-	-	-	610,454
Equity Exposures	-	-	-	-	1,155,825	-	598,578	-	1,754,403
Other Exposures	837,635	2,128,876	-	300	3,971,309	38	-	-	6,938,159
Securitization positions	-	-	-	-	-	-	-	3,597	3,597
Total 30/06/2015	**27,809,638**	**18,512,900**	**1,210,237**	**4,819,559**	**17,852,436**	**953,316**	**1,261,731**	**3,597**	**72,423,414**
Total 31/12/2014	**31,028,850**	**17,918,674**	**984,128**	**4,412,567**	**23,123,891**	**954,093**	**1,613,723**	**4,094**	**80,040,020**

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 conversione factors (FCC).

5.3 Credit Risk: use of the IRB 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 standardised 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 standardised 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 standardised approach.

The following table reports the Group's exposure to credit risk – AIRB , as at 30 June 2015 and as at 31 December 2014 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 expo-sures 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 their values of the risk weighted assets (RWA), expected loss (PA) and actual losses (PE) as at the end of 2014.

Tab. 5.3.1 – IRB approach: Summary of Exposures, RWAs, expected and actual losses

Regulatory Portfolio	Exposure	RWA	EL	AL
Exposures to or secured by corporates:	53,559,769	21,920,712	12,388,311	12,157,524
- SMEs	32,699,058	10,438,714	8,703,627	8,929,386
- Other companies	17,657,469	9,706,516	2,979,715	2,839,517
- Specialized lending	3,203,242	1,775,481	704,969	388,621
Retail exposures:	66,748,144	11,361,116	9,420,576	9,866,496
- secured by real estate: SMEs	9,873,951	3,080,741	935,767	846,809
- secured by real estate: Individuals	29,195,847	2,705,454	355,851	370,963
- Qualifying revolving	7,942	1,250	114	118
- Other retail exposures: SMEs	22,636,828	5,168,542	6,574,193	6,840,178
- Other retail exposures: Individuals	5,033,577	405,129	1,554,652	1,808,428
IRB Approach Total 30/06/2015	**120,307,912**	**33,281,828**	**21,808,888**	**22,024,019**
IRB Approach Total 31/12/2014	**117,732,184**	**29,140,499**	**19,444,112**	**20,426,015**

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 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)

Classes of creditworthiness	Exposures vs. Corporates	Retail Exposure	AIRB Total Exposures	AIRB Total EL	AIRB Total AL
Class 01	1,354,489	13,356,731	14,711,220	2,902	4,054
Class 02	5,556,156	12,329,021	17,885,177	15,428	24,927
Class 03	9,576,504	10,766,493	20,342,997	71,097	87,079
Class 04	8,094,841	9,273,463	17,368,304	261,940	259,886
Class 05	1,664,492	2,177,647	3,842,139	264,521	231,394
Class 06	24,110,044	18,844,789	42,954,833	20,488,031	21,028,060
Total 30/06/2015	**50,356,527**	**66,748,144**	**117,104,670**	**21,103,918**	**21,635,399**
Total 31/12/2014	**50,358,660**	**67,373,524**	**117,732,184**	**19,444,112**	**20,426,015**

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: Exposure 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	771,491	507,474	284,588	65.78%	0.10%	36.43%	22.15%
Class 02	2,662,634	1,934,382	810,334	72.65%	0.35%	35.33%	40.45%
Class 03	5,416,204	4,526,847	1,055,997	83.86%	1.18%	32.36%	61.97%
Class 04	6,427,606	5,823,945	788,696	90.78%	4.81%	29.69%	83.13%
Class 05	1,502,751	1,314,032	216,987	87.56%	23.28%	31.18%	144.37%
Class 06	19,174,017	18,592,378	761,778	97.06%	100.00%	43.81%	-
Total 30/06/2015	**35,954,703**	**32,699,058**	**3,918,380**		**4.59%**	**31.70%**	
Total 31/12/2014	**35,806,888**	**32,276,311**	**4,050,870**		**4.31%**	**28.62%**	

(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: Exposure 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	3,943,172	847,014	3,441,331	21.48%	0.08%	42.59%	22.99%
Class 02	8,990,939	3,621,774	6,091,145	40.31%	0.37%	41.38%	52.60%
Class 03	8,746,986	5,049,657	4,523,984	57.78%	1.08%	41.21%	83.17%
Class 04	3,193,879	2,270,896	1,272,868	71.28%	4.84%	35.47%	115.84%
Class 05	423,604	350,461	92,444	82.73%	23.59%	41.83%	221.53%
Class 06	6,139,561	5,517,666	800,053	90.08%	100.00%	51.78%	-
Total 30/06/2015	**31,438,140**	**17,657,469**	**16,221,825**		**2.15%**	**40.30%**	
Total 31/12/2014	**32,692,872**	**18,082,349**	**17,357,417**		**2.03%**	**37.10%**	

(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. 5.3.5 – IRB approach: Specialized lending

Rating Class	Nominal Value	Exposure Value	RWA
Category 1 - 50%/ 70% equal to or greater than 2,5 years	37,849	37,849	26,494
Category 2 -70% less than 2,5 years - 90%	1,441,429	1,289,397	1,097,352
Category 3 - 115%	562,541	510,566	587,150
Category 4 - 250%	29,446	25,794	64,485
Category 5 - 0%	1,480,435	1,339,637	
Total 30/06/2015	**3,551,700**	**3,203,242**	**1,775,481**
Total 31/12/2014	**-**	**-**	**-**

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	74,753	72,680	3,715	97.23%	0.10%	19.53%	4.10%
Class 02	636,836	625,378	22,546	98.20%	0.37%	19.77%	11.65%
Class 03	2,714,282	2,674,517	76,856	98.53%	1.20%	20.05%	26.42%
Class 04	2,828,143	2,747,902	157,439	97.16%	4.78%	20.29%	57.80%
Class 05	717,475	682,332	69,810	95.10%	25.67%	20.43%	104.05%
Class 06	3,129,082	3,071,142	102,730	98.15%	100.00%	24.86%	-
Total 30/06/2015	**10,100,572**	**9,873,951**	**433,096**		**5.01%**	**20.15%**	
Total 31/12/2014	**10,737,394**	**10,486,140**	**507,733**		**4.79%**	**18.64%**	

(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	12,513,520	12,503,424	17,589	99.92%	0.13%	13.10%	4.03%
Class 02	9,414,124	9,395,519	33,953	99.80%	0.35%	12.47%	7.79%
Class 03	3,598,082	3,585,659	22,618	99.65%	0.98%	12.49%	16.17%
Class 04	1,217,864	1,212,005	10,365	99.52%	4.73%	12.66%	40.62%
Class 05	552,763	550,774	3,265	99.64%	26.25%	12.27%	72.09%
Class 06	1,963,834	1,948,465	16,924	99.22%	100.00%	15.39%	-
Total 30/06/2015	**29,260,188**	**29,195,847**	**104,714**		**1.05%**	**12.77%**	
Total 31/12/2014	**30,153,942**	**30,106,751**	**93,781**		**0,95%**	**12,38%**	

(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 – Metodo IRB: Esposizioni rotative al dettaglio qualificate

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (AVERAGE)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	8,776	993	7,783	11.32%	0.13%	30.64%	2.43%
Class 02	4,071	1,681	2,390	41.29%	0.32%	28.77%	4.73%
Class 03	3,869	1,547	2,322	39.99%	1.02%	29.46%	11.94%
Class 04	4,207	3,334	873	79.26%	4.16%	21.67%	24.65%
Class 05	308	188	120	61.11%	25.89%	26.41%	73.98%
Class 06	514	197	317	38.41%	100.00%	33.07%	-
Total 30/06/2015	**21,746**	**7,942**	**13,804**		**2.71%**	**26.03%**	
Total 31/12/2014	**16,713**	**8,868**	**7,846**		**1.91%**	**22.68%**	

(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 – Metodo IRB: Altre esposizioni al dettaglio: PMI

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (AVERAGE)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	2,294,577	548,966	1,892,028	23.93%	0.10%	42.42%	8.40%
Class 02	4,639,001	1,813,981	3,135,576	39.14%	0.34%	41.82%	19.95%
Class 03	7,223,155	3,988,097	3,535,001	55.25%	1.19%	40.97%	38.16%
Class 04	7,002,951	4,925,380	2,278,280	70.36%	4.98%	41.04%	52.24%
Class 05	1,035,875	851,888	200,719	82.32%	21.98%	40.89%	78.10%
Class 06	11,187,580	10,508,516	708,600	94.13%	100.00%	61.08%	-
Total 30/06/2015	**33,383,138**	**22,636,828**	**11,750,205**		**4.01%**	**41.18%**	
Total 31/12/2014	**33,775,129**	**21,969,599**	**12,585,229**		**3.94%**	**38.26%**	

(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 – Metodo IRB: Altre esposizioni al dettaglio: Persone fisiche

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (AVERAGE)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	777,922	230,668	552,768	29.65%	0.13%	20.48%	6.51%
Class 02	820,185	492,462	385,090	60.04%	0.35%	25.12%	15.48%
Class 03	856,546	516,673	361,927	60.32%	1.12%	22.81%	25.02%
Class 04	466,080	384,841	86,182	82.57%	4.86%	22.45%	34.82%
Class 05	98,410	92,464	6,626	93.96%	24.22%	22.59%	54.74%
Class 06	3,333,767	3,316,469	18,449	99.48%	100.00%	45.14%	-
Total 30/06/2015	**6,352,910**	**5,033,577**	**1,411,041**		**2.85%**	**23.06%**	
Total 31/12/2014	**6,138,208**	**4,802,167**	**1,432,718**		**2.92%**	**20.89%**	

(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.

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 counter¬party risk with institutional counterparties, by entering into netting agreements and col¬lateral agreements both in relation to deriva-tives 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.

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

	jun-2015			dec-2014		
Regulatory Portfolio (Standard Approach)	Financial Collaterals	Guarantees and Credit Derivatives	Other Guarantees	Financial Collaterals	Guarantees and Credit Derivatives	Other Guarantees
Exposures to central governments and central banks	-	17	-	-	-	-
Exposures to regional governments and local authorities	-	-	-	-	-	-
Exposures to public sector entities	13,194	8,973	-	13,194	9,170	-
Exposures to Multi-lateral deve-lopment banks	-	-	-	-	-	-
Exposures to International Orga-nisations	-	-	-	-	-	-
Exposures to Supervised institu-tions	39,465,609	67,133	-	40,911,645	68,897	-
Exposures to Corporates	1,255,828	137,596	-	1,056,087	76,833	-
Retail Exposures	19,262	35,419	-	32,865	808	-
Exposures secured by mortgages on immovable property	1,005	52,303	-	798	-	-
Exposures in Default	23,581	12,970	-	5,177	2,347	-
Exposures associated with high-risk	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Exposures to institutions and corpora-tes with a short-term credit assessment	-	-	-	-	-	-
Exposures to UCITs	1,250	-	-	6,663	-	-
Equity Exposures	-	-	-	-	-	-
Other Exposures	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-
Exposures to Central Counterparties in the form of pre-funded contribu-tions to the guarantee fund	-	-	-	-	-	-
Standard Approach Total	**40,779,728**	**314,411**	**-**	**42,026,430**	**158,056**	**-**

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

Regulatory Portfolio (IRB Approach)	jun-2015 Financial Collaterals	jun-2015 Guarantees and Credit Derivatives	jun-2015 Other Guarantees	dec-2014 Financial Collaterals	dec-2014 Guarantees and Credit Derivatives	dec-2014 Other Guarantees
Exposures to or secured by corporates:	-	86,202	-	-	389,835	-
- SMEs	-	50,244	-	-	284,498	-
- Other companies	-	35,958	-	-	105,337	-
Retail exposures:	-	36,933	-	-	425,855	-
- secured by real estate: SMEs	-	36,775	-	-	73	-
- secured by real estate: Individuals	-	79	-	-	-	-
- Qualifying revolving	-	-	-	-	-	-
- Other retail exposures: SMEs	-	79	-	-	423,599	-
- Other retail exposures: Individuals	-	-	-	-	2,183	-
IRB Approach Total	**-**	**123,135**	**-**	**-**	**815,690**	**-**

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, 6 August 2015

Arturo Betunio
Financial Reporting Officer

List of Tables

Contacts

Head Office

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

Piazza Salimbeni, 3

53100 Siena

Tel: 0577.294111

Investor Relations

Piazza Salimbeni, 3

53100 Siena

Email: investor.relations@mps.it

Press Relations

Piazza Salimbeni, 3

53100 Siena

Email: ufficio.stampa@mps.it

Internet

www.mps.it

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472