Pillar 3 Disclosure

Update as at
30 September 2013

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Pillar 3 Disclosure

Update as at
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G R U P P O **M O N T E P A S C H I**

Banca Monte dei Paschi di Siena SpA
Company Head office in Siena, Piazza Salimbeni 3, www.mps.it
Registered with the Companies Register of Siena – registration number, tax code and VAT number: 00884060526
Parent Company of the Monte dei Paschi di Siena Banking Group - code Bank and code group 1030.6
Included in the National Register of Banks No. 5274
Member of the Italian Interbank Deposit Protection Fund and of the National Guarantee Fund

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Introduction

The existing prudential supervisory framework, commonly referred to as "Basel 2", was developed by the Basel Committee and transposed into European Union Directives 2006/48 and 2006/49. The European Union's legislative package known as "CRD IV", covering capital requirements for banks, was published on 27 June 2013. In particular, the package includes Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) no. 648/2012, and Directive 2013/36/EU of the European Parliament and of the 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 Basel 2 framework is based on three mutually underpinning concepts (so called "Pillars").

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

The purpose of Pillar 3 therefore is to complement the operation of minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) by developing a set of disclosure recommendations and requirements which will allow market participants to assess key, fully comprehensive and reliable information on capital adequacy, risk exposures and risk identification assessment and management processes.

In Italy, Pillar 3 disclosure is pursuant to Title IV, Chapter 1 of Bank of Italy Circular no. 263 of 27.12.2006 ("New Regulations for the Prudential Supervision of Banks", hereafter "Circular").

In compliance with this requirement, the current publication provides the update as at 30 September 2013 of quantitative data contained in Tables 3 and 4 with regard, respectively, to the Breakdown of Regulatory Capital and Capital Adequacy.

For other information not contained in this document, please refer to the already-published annual report as at 31 December 2012 and as at 30 June 2013.

Information has been updated according to the templates and criteria adopted for previous reports. Considering the time mismatch between publication requirements for Pillar 3 Public Disclosure and the corresponding consolidated Supervisory report, some of the values contained herein may still be subject to further modification.

The disclosure is prepared at consolidated level by the Parent Company.

Unless otherwise indicated, all the amounts in this report are stated in TEUR (thousands of Euro).

The Montepaschi Group regularly publishes its Pillar 3 disclosure on its website at:

www.mps.it/Investor+Relations.

Table 3 – Regulatory capital structure

Quantitative disclosure

Table 3.1 - Breakdown of regulatory capital

	sep-13	dec-12
Total Tier 1 positive items	13,234,477	14,162,029
Total Tier 1 negative items	-2,099,840	-4,545,450
Total items to be deducted	-1,168,800	-775,210
Tier 1 capital (Tier 1)	**9,965,837**	**8,841,370**
Total Tier 2 positive items	5,257,853	5,324,651
Total Tier 2 negative items	-99,536	-103,414
Total items to be deducted	-1,168,800	-775,210
Tier 2 capital (Tier 2)	**3,989,517**	**4,446,027**
Items to be deducted from Tier 1 and Tier 2 capital	-	-563,560
Regulatory Capital	**13,955,353**	**12,723,837**
Tier 3 capital (Tier 3)	**-**	**-**
Regulatory Capital inclusive of Tier 3	**13,955,353**	**12,723,837**

Regulatory capital was determined on the basis of the calculation criteria set forth by the Basel 2 Accord for banks that apply internal models for the determination of capital requirements for credit and operational risks (respectively AIRB and AMA approaches for portfolios and legal entities in scope of validation). Comparative data as at 31December 2012 reported in this document differs from data published in the Pillar 3 Disclosure to the Public as at 31 December because the Bank was requested by the Supervisory Authority on 7 May 2013 to implement a retrospective change to Tier 1, which reduced it by EUR 76 mln. The change refers to the regulatory treatment Fresh 2008. At 30 September 2013, Regulatory Capital (inclusive of Tier 3) increased by approximately EUR 1,231.5 mln (+10%), totalling EUR 13,995.3 mln as compared to EUR 12,723.8 mln as at the end of 2012. The increase in Regulatory Capital is essentially attributable to Core Capital (Tier 1), which was up EUR 1,124.5 mln di Euro (+13%). The latter is linked to the issuance of New Financial Instruments (NFIs) which, net of Tremonti Bonds (EUR 1,900 mln), contributed additional capital of EUR 2,171 mln. Tier 1 was instead reduced by: loss for the period (-EUR 521.4 mln), increased deductions on the surplus of expected losses over total impairment provisions (-EUR 107.3 mln) and higher deductions (-EUR 277.5 mln) on shareholdings in insurance companies, due to the expiry of transitional regulations which allowed for their overall deduction from total regulatory capital rather than 50% from Tier 1 and 50% from Tier 2. The -EUR 456.5 mln reduction in Tier 2, totalling EUR a 3,989.5 mln vs. EUR 4,446 mln as at the end of 2012, is due to the increases in deductions on shareholdings in insurance compagnie (-EUR 277.5 mln), to the increased deductions on the surplus of expected losses over total impairment provisions (-EUR 107.3 mln), to the reduction of valuation reserve (-EUR 50 mln), and to the regulatory amortization of subordinated securities (-EUR 20 mln). As previously explained, items deductible from Tier 1 and Tier 2, were zeroed after the expiry of transitional regulations which allowed for the deduction of insurance shareholdings purchased prior to 20/07/2006 from total Tier 1 and Tier 2 capital (see Title 1, Chapter 2 of Circ. 263/2006 are still applicable). As of 1 January 2013, these elements were deducted, 50% from Tier 1 and 50% from Tier 2. It is noted that, under the measures set forth by the Bank of Italy on 18 May 2010 regarding prudential filters for regulatory capital, the Group opted for the symmetrical treatment of revaluation reserves relating to debt securities issued by the Central Governments of EU countries held in the "Available for Sale" portfolio. Consequently, with regard to these securities, the impact of variations in AFS reserves upon regulatory capital as of 1 January 2010, amounting to approximately EUR 1,869.1 mln, has been completed sterilized.

Table 3.1.1 - Breakdown of Tier 1 and Tier 2 Capital

	sep-13	dec-12
Share capital	7,296,178	7,296,181
Share premium	211	255,311
Reserves	1,185,406	4,091,074
Innovative and held-to-maturity non-innovative capital instruments	401,442	401,684
Innovative capital instruments	217,779	217,780
Grandfathered instruments	-	-
Profit for the period	-	-
Prudential filters: decreases in Tier 1 capital	4,133,460	1,900,000
Total Tier 1 positive items	**13,234,477**	**14,162,029**
Treasury shares	-24,532	-24,532
Goodwill	-728,245	-728,255
Other intangible assets	-457,800	-465,628
Loss for the period	-521,377	-3,191,919
Other negative items	-69,710	-
Prudential filters: decreases in Tier 1 capital(*)	-298,176	-135,116
Total Tier 1 negative items	**-2,099,840**	**-4,545,450**
Shareholdings in credit and financial institutions with a share of ≥ 20% of the equity of the investee	-99,837	-98,035
Shareholdings in credit and financial institutions with a share of > 10% but <20% of the equity of the investee	-32,077	-25,099
Shareholdings in credit and financial institutions with a share of ≤ 10% of the equity of the investee	-	-
Shareholdings in insurance companies	-316,837	-39,294
Surplus of expected losses in respect of related write-downs	-720,049	-612,782
Total items to be deducted	**-1,168,800**	**-775,210**
Total Tier 1 capital	**9,965,837**	**8,841,370**

(*) On 28 February 2013, the issuance of New Financial Instruments was completed, as provided for by articles 23-sexies of Law Decree no. 95 of 6 July 2012, converted, with amendments, into Law no.135 of 7 August 2012, as subsequently amended. In particular, the Ministry of Economy and Finance subscribed to the New Financial Instruments issued by the Bank for a total of EUR 4,071 mln, of which EUR 1,900 mln allocated to full repayment of the Tremonti Bonds already issued by the Bank in 2009, and EUR 171 mln, due on 1 July 2013, for advance payment of interest accrued on Tremonti Bonds up to 31 December 2012, in consideration of the operating loss for the 2012year. From a Capital Adequacy standpoint, although included in Direct Funding, the NFIs qualify as Core Tier 1, by reason of their subordination pari passu with ordinary shares, in the event of both voluntary liquidation or bankruptcy proceedings and under going concern assumptions.

Table 3.1.1 - Breakdown of Tier 1 and Tier 2 Capital *(continued)*

	sep-13	dec-12
Valuation reserve	214,679	270,195
Innovative and held-to-maturity non-innovative capital instruments, not eligible for inclusion in Tier 1 capital	-	-
Non-innovative capital instruments not eligible for inclusion in Tier 1 capital	-	-
Hybrid capital instruments	2,660,848	2,659,096
Subordinated liabilities	2,347,072	2,372,596
Surplus of overall write-downs in respect of expected losses	35,254	22,765
Other positive items	-	-
Total Tier 2 positive items	**5,257,853**	**5,324,651**
Other negative items	-3,708	-2,540
Prudential filters: deductions from Tier 2 capital	-95,828	-100,874
Total Tier 2 negative items	**-99,536**	**-103,414**
Shareholdings in credit and financial institutions with a share of ≥ 20% of the equity of the investee	-99,837	-98,035
Shareholdings in credit and financial institutions with a share of > 10% but <20% of the equity of the investee	-32,077	-25,099
Shareholdings in insurance companies	-316,837	-39,294
Surplus of expected losses in respect of overall write-downs value adjustments	-720,049	-612,782
Total items to be deducted	**-1,168,800**	**-775,210**
Total Tier 2 capital	**3,989,517**	**4,446,027**
Items to be deducted from Tier 1 and Tier 2 capital(*)	-	-563,560
Regulatory Capital	**13,955,353**	**12,723,837**
Tier 3 Capital	-	-
Regulatory Capital inclusive of Tier 3	**13,955,353**	**12,723,837**

(*) Items deductible from Tier 1 and Tier 2, were zeroed after the expiry of transitional regulations which allowed for the deduction of insurance shareholdings purchased prior to 20/07/2006 from total Tier 1 and Tier 2 capital (see Title 1, Chapter 2 of Circ. 263/2006). As of 1 January 2013, these elements were deducted, 50% from Tier 1 and 50% from Tier 2.

Table 4 – Capital adequacy

Quantitative disclosure

The Montepaschi Group has been using internal advanced ratings-based (AIRB) models since 30 June 2008 for the calculation of capital requirements for credit and operational risks, in relation to the regulatory "Retail exposures" and "Exposures to corporates" portfolio. The scope of application of the AIRB method as at today includes the Parent Company Banca MPS, MPS Capital Services Banca per le Imprese, and MPS Leasing & Factoring. Capital requirements against credit risk for the remaining portfolios and entities of the Group are calculated according to the standardized approach. Capital requirements in relation to market risk are instead calculated for all Group entities by adopting the standardized approach. Capital ratios for Operational Risk are calculated according to the AMA – Advanced Measurement Approach for an extent equal to 95%. The standardized approach is used for the remaining part of the scope. The consolidated requirement is conceived of as a sum of the individual requirements of the individual entities of the Banking Group, net of the requirements for *Floor* calculation. The application of internal models is in fact allowed on condition that it is in compliance with a number of qualitative and quantitative limits set forth in the Supervisory regulations. In particular, limits are established (so-called "floors"), whereby any savings on capital obtained with the internal models is subject to maximums to be parameterised with respect to the requirements calculated based on the previous regulations (Basel 1). Such limitations are expected to be eliminated in the future, taking into account the continuous fine-tuning and consolidation of the internal models adopted. In addition to the Total Capital Ratio, expressed as a ratio between regulatory capital and risk weighted assets which, pursuant to Basel 2 regulations, must be at least equal to 8% on a consolidated level, the Group ascertains its capital soundness also by mans of its Tier 1 Ratio expressed as a ratio between Core Capital and risk-weighted assets. The following table reports the Group's capital requirements as at 30 September 2013 and 31 December 2012, calculated as indicated above, broken down by type of risk/methodology and related capital ratios.

Table 4.1 - Capital requirements and capital ratio

	sep-13	dec-12
Credit Risk		
Standardised approach	2,485,524	2,677,649
Advanced Internal Rating Based approach	2,843,794	3,126,001
Total	**5,329,318**	**5,803,650**
Market Risk		
Standardised approach	466,444	483,831
Internal models approach	-	-
Concentration risk	-	-
Total	**466,444**	**483,831**
Operational Risk		
Foundation approach	31,421	31,404
Standardised approach	-	-
Advanced Measurement Approach	772,820	636,387
Total	**804,241**	**667,791**
Regulatory Capital Floor	143,177	470,968
Aggregate Capital Requirements	**6,743,180**	**7,426,240**
Risk-weighted assets	**84,289,750**	**92,828,000**
Tier 1 Ratio	**11.8%**	**9.5%**
Total Capital Ratio	**16.6%**	**13.7%**

It is noted that the herein reported capital requirements as at 31 December 2012 do not take account of the NFIs, which are instead considered in the requirements as at 30 September 2013.

Total risk-weighted assets as at 30 September 2013, amounting to EUR 84,290 mln, were down by approximately -EUR 8,538 mln (-9%) as compared to the end of the previous year (see Table 4.1). The reduction is primarily attributable to a significantly contraction in RWAs by -EUR 5,929 mln for credit and counterpart risk (-EUR 474 mln in terms of requirements), by –EUR 217 mln for market risk (-EUR 17,4 mln in terms of requirements), and by –EUR 4,097 mln to a lower Basel 1 Floor (-EUR 327,8 mln in terms of requirements), although an increase was registered in the component associated with operational risk. The latter (+EUR 1,705.6 mln, +20%, EUR 136 mln in terms of requirements)) is connected with the in-depth reviews carried out following the events which were subjected to restatement of the accounts as at 31 December 2012. The analyses conducted led to the identification of operating losses which had a significant impact in terms of items classified under the Event Type "Internal fraud". The "floor", (i.e. threshold limit under which the ratio of total capital to risk weighted assets must not fall) is now set at 85% of the risk weigthed assets calculated on the basis of the previous regulatory framework (Basel 1). At the end of September 2013, the Tier 1 capital ratio was 11.8% (9.5% as at 31 December 2012) while the total capital ratio was 16.6% (13.7% as at 31 December 2012). Solvency ratios as at 30 September 2013 include EUR 4,071 mln in New Financial instruments (NFIs). A detailed description of the NFI features is provided in the Pillar 3 Disclosure to the Public as at 31 December 2012. Comparative data for the Tier 1 ratio and Total capital ratio as at 31 December 2012 reported in this document differs from data published in the Pillar 3 Disclosure to the Public as at 31 December because the Bank was requested by the Supervisory Authority on 7 May 2013 to implement a retrospective change to Tier 1, which reduced it by EUR 76 mln and resulted also in a slight variation in solvency ratios. The change refers to the regulatory treatment Fresh 2008.

Table 4.2 - Capital requirements for Credit Risk

Standardised approach	sep-13	dec-12
Exposures to central governments and central banks	18,749	15,603
Exposures to regional governments and local authorities	45,839	50,018
Exposures to non-commercial and public sector entities	57,736	65,364
Exposures to multilateral development banks	-	-
Exposures to international organisations	-	-
Exposures to supervised institutions	344,222	403,802
Exposures to corporates	757,364	845,730
Retail exposures	362,834	400,601
Exposures secured by real estate property	105,997	104,056
Past due exposures	169,795	141,566
High-risk exposures	47,049	57,158
Exposures in the form of covered bonds	7,335	12,196
Short term exposures to corporates	-	-
Exposures to Undertakings for Collective Investments in Transferable Securities (UCITS)	128,572	139,564
Other exposures	315,992	339,225
Securitisation exposures	124,040	102,766
Total Standardised Approach	**2,485,524**	**2,677,649**
Advanced Internal Ratings-Based approach		
Corporate exposures	2,023,453	2,230,408
Retail exposures	820,341	895,592
↳ *Secured by real estate property*	*418,638*	*461,768*
↳ *Qualifying revolving retail exposures*	*165*	*385*
↳ *Other exposures*	*401,538*	*433,440*
Other assets	-	-
Total Advanced Internal Ratings-Based approach	**2,843,794**	**3,126,001**
Total Credit Risk	**5,329,318**	**5,803,650**

The capital requirement for Counterparty Risk amounts to 212,783 EUR/000 and is calculated based not only on the Trading Book but also on the Banking Book. This requirement is reported for each individual regulatory portfolio under the Standardised and Advanced IRB approach (in thousands of Euro).

Table 4.3 - Capital requirements for Market Risk

Standardised approach	sep-13	dec-12
General market risk	253,104	242,192
Specific risk*	166,040	139,120
Position risk of Undertakings for Collective Investments in Transferable Securities (UCITS)	6,334	52,965
Options	12,093	5,505
Foreign exchange risk	7,651	13,489
Commodities risk	21,222	30,558
Total Standardised Approach	**466,444**	**483,831**
Internal models		
Total Internal models	-	-
Concentration risk	-	-
Total Market Risk	**466,444**	**483,831**

(*) Capital requirements under Specific Risk for positions with securitisations included in the Regulatory Trading Book as at 30 September 2013 amounted to EUR 19,896 (in thousands of Euro).

Tab. 4.4 - Capital Requirements for Operational Risk

Breakdown of Operational Risk by	sep-13	dec-12
Foundation approach	31,421	31,404
Standardised approach	-	-
Advanced approach	772,820	636,387
Total Operational Risk	**804,241**	**667,791**

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, 14 November 2013

Arturo Bertunio

Financial Reporting Officer

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