Pillar 3 Disclosure

Pillar 3

Update as at
30 June 2017

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Pillar 3 Disclosure

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Update as at
30 June 2017

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

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Introduction

The New Regulations for the Prudential Supervision of banks and banking groups entered into force as of 1 January 2014.

The regulations aim to align national requirements with the changes introduced to the International regulatory framework, following reforms in the Basel Committee agreements (Basel 3), particularly the European Union's New Regulatory and Institutional Framework for Banking Supervision.

In particular, the contents of the "Basel 3 framework" have been adopted within the EU through two capital requirement rules:

- ✓ CRR – Capital Requirements Regulation (EU) 575/2013 of the European Parliament and Council of 26 June 2013 regarding prudential requirements for credit institutions and investment firms, which amends Regulation (EU) 648/2012;
- ✓ CRD IV – Capital Requirements of the European Parliament and Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

The new regulatory package includes application criteria, set out in the Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) adopted by the European Commission, upon the proposal of the European Supervisory Authorities. At national level, the new harmonized framework has been implemented by Bank of Italy with:

- ✓ Circular 285 of 17 December 2013 and subsequent updates –Supervisory Provisions for Banks;
- ✓ Circular 286 of 17 December 2013 and subsequent updates – Instructions for Prudential reporting for banks and securities' firm;
- ✓ Circular 154 of 22 November 1991 and subsequent updates – Supervisory reports of banks and financial institutions. Reporting templates and instructions for transmission of information flows.

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

The Basel Committee has maintained a three Pillars-based approach which was at the basis of the previous capital accord known as "Basel 2", but has integrated and strengthened it to increase the quantity and quality of banks' capital base and introduce countercyclical supervisory tools as well as new standards for liquidity risk management and financial deleveraging. More specifically, Pillar 3 was designed on the notion that Market Discipline can be harnessed to reinforce capital regulation to promote stability and soundness in banks and financial systems. Pillar 3, therefore, aims to complement the minimum capital requirements (Pillar 1) and supervisory review process (Pillar 2) by developing a set of transparent disclosure requirements which will allow market participants to have access to key, fully comprehensive and reliable information on capital adequacy, risk exposures and risk identification, measurement and management processes.

Public Disclosure (Pillar3) is 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").

Under the new regulations, the CRR requires banks to publish information at least on an annual basis along with their financial statements and to evaluate the need to publish some or all disclosures more frequently than once a year depending on their specific activities. Institutions are to assess the possible need for more frequent disclosure of items of information laid down in Article 437 (Own Funds), and Article 438 (Capital Requirements), and information on risk exposure and other items prone to rapid change. The EBA (European Banking Authority) subsequently issued its guidelines (EBA/GL/2014/14 of 23-12-2014), pursuant to 16 of EU Regulation no.1093/2010, on the need to publish information more frequently than once a year.

The current document, therefore, provides an update as at 30 June 2017 of quantitative information deemed most significant by the Group and, in particular, the quantitative information on Own Funds, Capital requirements, the Leverage Ratio, Credit risk's exposures and the use of risk mitigation techniques. For additional information not contained in this document, particularly regarding the general, organizational and methodological aspects relating to the different types of risk, please refer to the Annual Report as at 31 December 2016. Further information on the Group's risk profile, pursuant to Art. 434 of the CRR, is also published in the Consolidated Half-year Report as at 30 June 2017, the Report on Corporate Governance and the Compensation Report.

The current update introduces the information templates required by the Basel 3 framework and also reports values as at 31 December 2016.

Pillar 3 Disclosure is prepared at consolidated level by the Parent Company.

Unless otherwise indicated, all the amounts in this report are stated in TEUR (thousand Euros).

The Montepaschi Group regularly publishes its Pillar 3 disclosure on its website at: english.mps.it/investors .

The following table summarizes the MPS Group's capital requirements for the second quarter of 2017 and for 2016 along with the respective changes.

Own Funds and Capital Requirements Summary

Data in thousands of Euro

Own Funds	Jun-17	Dec-16	Delta vs. 31-12-2016 Absolute	Delta vs. 31-12-2016 %
Common Equity Tier 1	918,352	5,353,400	-4,435,048	-82.8%
Additional Tier 1	-	-	-	-
Tier 2	766,094	1,463,924	-697,830	-47.7%
Own Funds	**1,684,446**	**6,817,324**	**-5,132,878**	**-75.3%**
↳ *of which Delta EL**	*176,741*	*181,906*	*-5,165*	*-2.8%*
Regulatory Capital Requirements				
Credit and Counterparty Risk	3,892,519	4,281,664	-389,145	-9.1%
↳ *of which Standard*	*1,535,411*	*1,855,698*	*-320,287*	*-17.3%*
↳ *of which AIRB*	*2,357,108*	*2,425,966*	*-68,858*	*-2.8%*
Market Risk	227,706	243,645	-15,939	-6.5%
↳ *of which Standard*	*227,706*	*243,645*	*-15,939*	*-6.5%*
↳ *of which AIRB*	-	-	-	-
Operational Risk	733,577	678,061	55,516	8.2%
↳ *of which Foundation Approach*	*15,234*	*15,234*	-	-
↳ *of which Standardised Approach*	-	-	-	-
↳ *of which Advanced Approach*	*718,343*	*662,827*	*55,516*	*8.4%*
CVA Risk	29,229	38,362	-9,133	-23.8%
Concentration Risk	-	-	-	-
Settlement Risk	-	-	-	-
Regulatory Capital Requirements	**4,883,031**	**5,241,732**	**-358,701**	**-6.8%**
Risk Weighted Assets	**61.037.890**	**65.521.653**	**-4.483.763**	**-6.8%**

Capital ratios			Delta vs. 31-12-2016 in bp	Delta vs. 31-12-2016 in %
CET1 Capital Ratio	**1.50%**	**8.17%**	**-667**	**-6.7%**
Tier1 Capital Ratio	**1.50%**	**8.17%**	**-667**	**-6.7%**
Total Capital Ratio	**2.76%**	**10.40%**	**-764**	**-7.6%**

* *The value represents the total contribution of the Delta PA, understood as the sum of the positive and deductions, to the determination of the Own Funds under the new regulatory framework. The total amount of the Delta PA, prior to the application of the cap, amounts to -7,134,119 €/thousands (-3,174,266 €/thousands as at 31 December 2016).*

Compared to 31 December 2016, all levels of capital declined significantly as a result of the loss for the period (roughly EUR -3,243 mln), primarily deriving from impairment losses on the non-performing loans portfolio currently under disposal (approximately EUR -4 bn) for a gross book value of about EUR 26.1 bn as at 31 December 2016, as defined in the Restructuring Plan approved by the European Commission on 4 July 2017.

In addition, the levels of capital reduced primarily due to:

- the application of the transitional rules valid for 2017, which are less favourable than those for 2016;
- the increase in DTAs which do not depend on future profitability and which are not related to temporary differences;
- the higher regulatory deductions due to the reduction in CET 1 exemptions.

The overall reduction of Total Capital was also due to the negative effect of regulatory amortisation on Tier 2 subordinated securities.

There was an overall reduction in RWAs (EUR -4,484 mln) mainly as a result of the decline in "credit and counterparty risk" due to the performance of the customer loan portfolio, the lower contribution of RWAs from capital due to the decrease in CET1 exemptions and the transformation of transformable DTAs into tax credits.

Please note that as of 30 June 2017, the Advanced Measurement Model was changed to increase the historical depth of internal loss data from 5 to 10 years and to introduce the scaling of external data. This change caused a slight increase in operational risks.

The considerable loss for the half brought the capital ratios to below the minimum levels set forth in art. 92 of Reg. 575/2013 (CRR).

On 4 July 2017, the European Commission announced that it had approved the 2017-2021 Restructuring Plan after obtaining confirmation of the Bank's solvency from the ECB, to allow for its precautionary recapitalisation. Subsequent to this approval, on 28 July 2017, pursuant to Decree 237/2016 converted into Law 15/2017, the ministerial decrees were published relating to burden sharing and the subscription of capital by the Ministry of Economy and Finance which entailed, respectively, share capital increases for a value of EUR 4,473 mln and EUR 3,854 mln, respectively, for an overall capital strengthening, net of the subordinated bonds held by the Group and converted into treasury shares, exceeding EUR 8,137 mln.

The share capital increase was done on 2 August 2017 and completed on 11 August. The authorisations for its calculation in regulatory capital were received on 10 August. Therefore, at the date of approval of the half-year report, the consolidated capital ratios are higher than the minimum thresholds laid out in art. 92 of the CRR and the SREP threshold currently in force. Indeed, the CET 1 and Total Capital ratios as at 30 June 2017, after the share capital increase, are estimated at 15.4% and 15.6%, respectively, while the SREP threshold for the CET 1 ratio in force until 31 December 2017 is 10.75%, as communicated in the SREP letter to the ECB dated 25 November 2015. The ratios, which were recalculated to take account of the effects of Burden sharing and the MEF Capital Increase, are even higher than those set for 2018 with the SREP decision of June 2017; according to the last SREP letter the capital requirements to be met as of 1 January 2018 are 9.44% for the CET1 ratio and 12.94% for the TC ratio (on a transitional basis and excluding only the P2 Guidance component).

3. Own Funds

Own funds, an element of Pillar 1, are calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and related integrations, by the Capital Requirements Directive (CRD IV), by Regulatory Technical Standards and Implementing Technical Standards issued by the EBA, and by supervisory instructions issued by Bank of Italy (specifically, Circulars nos. 285 and 286). The introduction of the current regulatory framework is subject to a transition period that extends the full application of the rules to 2019 (2022 for the phase-out of certain capital instruments) and during which the new rules will be applied in an increasing proportion.

Own funds, calculated according to the transitional arrangements in force, differ from the net equity book value since prudential regulations aim to protect the quality of assets and reduce any potential volatility caused by the application of IAS/IFRS. The items that constitute own funds, therefore, must be fully available to the Group so that they may be used to cover risks and losses without any restrictions. Institutions are, in fact, required to demonstrate the quality and quantity of own funds in compliance with applicable European legislation.

The Bank's Own Funds is made up of the following:

- ✓ Tier 1 (T1) capital, consisting of Common equity Tier 1 (CET1) and Additional Tier 1 (AT1);
- ✓ Tier 2 (T2).

For a detailed description of the items included in Own Funds (CET1, AT1, T2) whether relating to transitional or final requirements, please refer to the Annual Financial Report as at 31 December 2016 - Notes to Part F – Information on consolidated shareholders' equity – Section 2.2. It should be noted that, with EU Reg. 2016/445 of 14 March 2016 unrealised profits and losses relating to exposures to central administrations of the European Union classified as AFS are treated in the same way as those deriving from AFS exposures to other types of counterparties, or with the same transition regime, without prejudice to the sterilization of the portion not calculated in CET 1, for which the previous domestic regulations continue to apply; in particular current transition requirements provides that unrealised gains and losses on financial instruments classified in the AFS portfolio are calculated in CET1 since 2015 at 40% with a subsequent phase-in of 20% per year (60% in 2016, 80% in 2017 and 100% in 2018). Therefore unrealised losses relating to exposures to central administrations classified as AFS amount to EUR -101.4 mln and are included in the calculation of own funds for EUR -81.1. 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 - Transitional own funds disclosure template

	Common Equity Tier 1 (CET1) capital: instruments and reserves	Jun-2017 (A) - Amount at disclosure date	Jun-2017 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	Dec-2016 (A) - Amount at disclosure date	Dec-2016 (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	7,167,866	-	7,167,866	-
	of which: Paid up capital instruments	*7,167,866*	-	*7,167,866*	-
2	Retained earnings	-2,456,505	-	974,531	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gain and losses under the applicable accounting standards)	1,396,918	-	1,342,143	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premiun account subkect to phase out from CET1	-	-	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-	-	-
5	Minority Interests (amount allowed in consolidated CET1)	-	-	-	-
5a	Independently reviewed interim profits net of any foreseeable change or dividend	-	-	-	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**6,108,279**		**9,484,541**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-59,190	-	-59,513	-
8	Intangible assets (net of related tax liability) (negative amount)	-341,463	-	-402,525	-
10	Deferred tax assets that rely on future probability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-675,703	-168,926	-184,026	-122,684
11	Fair value reserves related to gains or losses on cash flow hedges	2,410	-	28,401	-
12	Negative amounts resulting from the calculation of expected loss amounts	-	-	-	-
14	Gains or losses on liabilities valued at fair value resullting from changes in own credit standing	-123,414	-	-173,129	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	-	-	-
17	Holdings of the CET1 instruments of financial sector entitites where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	-	-
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negarive amount)	-58,792	-14,698	-	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entitites where the institution has a significant investment in those entities (amount above 10% threshold and net the eligible short positions) (negative amount)	-506,892	-126,723	-125,894	-83,929
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-369,834	-92,459	-	-
22	Amount exceeding the 15% threshold (negative amount)	-67,033	-35,572	-165,437	-118,677
23	*of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entites where the institution has a significatn investment in those entitites*	*-41,042*	*-10,261*	*-87,811*	*-58,540*
25	*of which: deferred tax assets arising from temporary differences*	*-25,991*	*-25,312*	*-77,626*	*-60,137*
25a	Losses for the current financial year (negative amount)	-2,594,112	-648,528	-1,944,666	-1,296,444
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-218,123	-	-290,649	-
26a	Regulatory adjustments realting to unrealised gains and losses pursuant to Articles 467 and 468	-20,839	-	-73,075	-
	of which: filter for unrealised loss on UCITs	-	-	-	-
	of which: filter for unrealised loss on EU securities	*20,276*	-	*26,541*	-
	of which: filter for unrealised gain on debt securities	-	-	-	-
	of which: filter for unrealised gain on investments	-	-	-	-
	of which: filter for unrealised losses	-	-	-	-
	of which: filter for unrealised gains	*-41,115*	-	*-99,616*	-
	of which: others	-	-	-	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	33,011	-	52,476	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-189,952	-	-793,104	-
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**-5,189,927**		**-4,131,141**	
29	**Common Equity Tier 1 (CET1) Capital**	**918,352**		**5,353,400**	

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

	Additional Tier 1 (AT1) capital: instruments	Jun-2017 (A) - Amount at disclosure date	Jun-2017 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	Dec-2016 (A) - Amount at disclosure date	Dec-2016 (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	210,607	-	209,900	-
31	*of which: classified as equity under applicable accounting standards*	*181,985*	-	*181,985*	-
32	*of which: classified as liablilities under applicable accounting standards*	*28,622*	-	*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	321,503	-	364,503	-
	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**	**532,110**		**574,403**	
	Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	-	-	-
38	Holdings of the AT1 instruments of financial sector entities where those entitites have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	-	-
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	-	-
40	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	-	-
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	-	-	-	-
41a	Residual amounts deducted from Additional Tier 1 caqpital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No. 575/2013	-722,062	-	-1,367,507	-
	of whichi: Losses for the current year	*-648,528*	-	*-1,296,444*	-
	of which: Significant financial instruments	*-68,338*	-	*-71,063*	-
	of which: Not Significant financial instruments	*-5,196*	-	-	-
	of which: outstanding amount related to the excess of expected losses with respect to adjustments for IRB positions	-	-	-	-
41b	Residual amounts deducted from Additional Tier 1 caqpital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 472 of Regulation (EU) No. 575/2013	-	-	-	-
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	189,952	-	793,104	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-	-	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-532,110**	**-**	**-574,403**	**-**
44	**Additional Tier 1 (AT1) capital**	**-**	**-**	**-**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**918,352**	**-**	**5,353,400**	**-**

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

	Tier 2 (T2) capital: instruments and provisions	Jun-2017 (A) - Amount at disclosure date	Jun-2017 (C) - Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual Amount of regulation (EU) No 575/2013	Dec-2016 (A) - Amount at disclosure date	Dec-2016 (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 realted share premium accounts	1,118,289	-	1,481,336	-
47	Amopunt of qualifying items referred to in Articole 484 (5) and the related share premium accounts subject to phase out from T2	-	-	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-	-	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-	-	-	-
50	Credit risk adjustments	176,741	-	181,906	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**1,295,029**		**1,663,242**	
	Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-113,280	-	-113,280	-
53	Holdings iof the T2 instruments and subordinated loans of financial sector entitites where those entitites have recirpocal cross holdings with the institution designed to inflate artificialli the own funds of the institution (negative amount)	-	-	-	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entitites where the institution does not have a significant investment in those entities (amount above 10% threshdol and net of eligible short positions) (negative amount)	-299,997	-	-	-
54a	*of which: new holdings not subjcet to transitional arrangements*	-	-	-	-
54b	*of which: holdings existing before January 2013 and subject to transitional arrangements*	-	-	-	-
55	Direct and indrect holdings by the institution of the T2 instruments and subordinated loans fo financial sector entitites where the institution has a significant investment in those entities (net eligible of short positions)	-62,252	-	-63,173	-
56	Regulaory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 i.e. CRR residual amounts)	-	-	-	-
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No. 575/2013	-73,534	-	-71,063	-
	of whichi: Losses for the current year	-	-	-	-
	of which: Significant financial instruments	*-68,338*	-	*-71,063*	-
	of which: Not Significant financial instruments	*-5,196*	-	-	-
	of which: outstanding amount related to the excess of expected losses with respect to adjustments for IRB positions	-	-	-	-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tir 1capital during the transitional period pursuant to article 472 of Regulation (EU) No. 575/2013	-	-	-	-
56c	Amount to be deducted from or added to Tier 2 capital capital with regard to additional filters and deductions required pre-CRR	20,128	-	48,198	-
	of which: unrealised gains	*20,128*	-	*48,198*	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-528,935**		**-199,318**	
58	**Tier 2 (T2) capital**	**766,094**		**1,463,924**	
59	**Total Capital (TC= T1+T2)**	**1,684,446**		**6,817,324**	

Tab. 3.1.4 - Own Funds: Capital ratios and buffers

Capital ratios and buffer		Jun-2017 (A) - Amount at Disclosure Date	Dec-2016 (A) - Amount at Disclosure Date
60	**Total Risk Weighted Assets**	**61,037,890**	**65,521,653**
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	1.50%	8.17%
62	Tier 1 (as a percentage of risk exposure amount)	1.50%	8.17%
63	Total capital (as a percentage of risk exposure amount)	2.76%	10.40%
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)	5.75%	7.00%
65	*of which: capital conservation buffer requirement*	*1.25%*	*2.50%*
66	*of which: countercyclical buffer requirement*	*0.002%*	*0.001%*
67	*of which: systemic risk buffer requirement*	-	-
67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	-5.24%	2.17%
	Capital ratios and buffer		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	211,091	548,851
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)	205,211	643,783
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)	205,211	606,006
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	-	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-
78	Credit risk adjustments included in T2 in respect of exposures subject to sIRB approach (prior to the application of the cap)	7,134,119	3,174,266
79	Cap on inclusion of credit risk adjustments in T2 under IRB approach	176,741	181,906
	Capital instruments subject to phase-out arrangements (only 1 Jan 2013 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	-
81	Amount excluded from CET1 due to cap (excess mover cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase out arrangements	321,503	364,503
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	328,497	285,497
84	Current cap on T2 instruments subject to phase out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

[1] *Tier 1 capital available for reserves is calculated as the difference between the Common Equity Tier 1 and the requirement referring to Tier 1 and Tier total capital for the portion covered by Common Equity Tier 1 Capital components, expressed as a percentage of risk exposure amount.*

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

Items	Jun-2017	Dec-2016
Group Equity	3,047,624	6,425,416
Minority Equity	2,219	34,859
Net Assets of the Balance Sheet	**3,049,843**	**6,460,274**
Net Assets after distribution to shareholders	**3,049,843**	**6,460,274**
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-197,808	-197,808
- Minority interests computable	-2,219	-34,859
- Own shares included in the regulatory adjustments	-	-
- Other components non computable in regime	**18,233**	**44,224**
Common Equity Tier 1 (CET1) before the regulatory adjustments	**2,868,048**	**6,271,832**
Regulatory adjustments (including adjustments of the transitional period)	-1,949,696	-918,432
Common Equity Tier 1 (CET1) net of regulatory adjustments	**918,352**	**5,353,400**

Tab. 3.3 – Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital, as well as the filters and deductions applied to the institution's own funds and the balance sheet of the financial statements

Items (Euro thousands)	Financial Statement	Prudential Statement	Information about differences	Relevant Amount for the purpose of Own Funds	See Table "Transitional Disclosure Template"
Assets					
100 Equity investments	1,023,568	1,115,851	92,283	-802,906	8, 18, 19, 23, 41a, 56a
of which: implicit goodwill	*49,112*	*49,112*		*-49,112*	*8*
130 Intangible assets	292,352	292,352	-	-292,352	8
of which: goodwill	*7,900*	*7,900*	-	*-7,900*	*8*
of which: other intangible assets	*284,452*	*284,452*	-	*-284,452*	*8*
140 Tax assets	4,184,398	4,184,398	-	-1,071,529	10, 21, 25
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*844,629*	*844,629*		*-675,703*	*10*
Liabilities and Shareholders' Equity					
30 Debt securities issued	24,659,763	24,659,763	-	1,180,133	32, 33, 46, 52
50 Financial liabilities designated at fair value	1,584,230	1,584,230	-	175,000	33
140 Valuation reserves	102,025	102,025	-	103,724	3, 11, 26a, 56c
of which: AFS	*84,047*	*84,047*	-	*-711*	*3 (AFS), 26a, 56c*
of which: CFH	*-2,410*	*-2,410*	-	*2,410*	*3(CFH),11*
of which: legally-required revaluation	*9,053*	*9,053*	-	*9,053*	*3(rival)*
of which: other	*11,335*	*11,335*	-	*92,972*	*3(altre)*
170 Reserves	-1,177,435	-1,177,435	-	-1,177,435	2, 3
180 Share premium reserve	-	-	-	-	-
190 Share Capital	7,365,674	7,365,674	-	7,365,674	1, 2, 31
220 Profit / loss for the period	-3,242,640	-3,242,640	-	-3,242,640	5a, 25a, 41a, 56a
Fair value gains and losses arising from the institution's own credit risk related to derivate liabilities	-	-	-	-123,414	14
Value adjustment due to the requirements for prudent valutation	-	-	-	-59,190	7
IRB Shortf all of the credit risk adjustments to expected losses	-	-	-	-	12, 41a, 56a
IRB Excess of provisions over expected losses eligible	-	-	-	176,741	50
Filter on double tax alignment	-	-	-	-218,123	26
Filter for IAS 19	-	-	-	33,011	26b
Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities	-	-	-	-	39
Direct and indirect holdings of Tier2 instruments of financial sector entities where the institution has a significant investment	-	-	-	-362,249	54, 55
Indirect investments					
Total Own Funds				**1,684,446**	

The information was summarized according to the methodology described in Annex I of Implementing Regulation (EU) No. 1423/2013 which establishes technical standards implementation regarding disclosure on Own Funds.

4. Capital requirements, liquidity ratios and leverage

The Montepaschi Group pursues strategic objectives focused on quantitative and qualitative strengthening of capital, structuring rebalancing of liquidity and achievement of sustainable levels of profitability. In this perspective, capital management, planning and allocation activities play a crucial role in ensuring compliance over time with the minimum capitalisation requirements set by the regulations and the supervisory authorities, as well as with the risk appetite level approved by the Group's strategic supervision body.

This is the purpose served by the Risk Appetite Framework (RAF) through which the target capitalisation levels are estimated on a yearly basis and capital is allocated to the business units according to expected development and estimated risk levels, making sure that the allocated capital is sufficient to ensure compliance with minimum requirements, under both normal and stress conditions.

In the context of the RAF, prospective capital adequacy assessments are performed over a multiyear period, under both normal and stress conditions.

The achievement of objectives and compliance with regulatory minimum requirements is constantly monitored throughout the year.

The formal corporate processes to which the RAF is applied at least on an annual basis are the budget, the risk appetite and the ICAAP.

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

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Own Funds; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post. The Capital Risk concepts applied are those in the regulatory requirements, corresponding to the risk weighted assets (RWAs), determined on the basis of the rules set out in the supervisory regulations, and the economical capital estimated on the basis of the "Pillar1 Plus" approach. Both measurements are used as part of RAPM metrics.

Following the implementation of the "Basel 3" regulatory framework, Pillar 1 which governs the requirements used to reflect the potential riskiness of activities as well as capital requirements, was strengthened through a more harmonised definition of capital as well as higher capital requirements. Therefore, alongside the minimum levels of capital required to face credit, counterparty, market and operational risks, a definition of higher quality capital has been added to own resources, essentially focused on common equity. Also added are capital reserves which have the function of preserving primary capital, providing counter-cyclical buffers and hedging against greater losses for systemically important financial institutions. These reserves are determined by the Member States (Bank of Italy) in accordance with the new framework, and are to be added to Core Equity Tier 1.

In addition to the system of minimum capital requirements and reserves, there is now a plan to introduce leverage caps (including off-balance sheet exposures) as a backstop to capital requirements based on risk and to reduce excessive leverage across the system. The new regulatory framework also introduces new liquidity risk monitoring requirements and tools which focus on shortterm 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.

Regulatory Capital Adequacy Requirements

Under the prudential regulation (art. 92 CRR), the minimum equity requirements for 2017 are as follows:

- CET1 ratio of at least 4.5% of the Group's total risk exposure;
- AT1 ratio of at least 6% of the Group's total risk exposure;
- Total Capital ratio of at least 8% of the Group's total risk exposure.

In addition to maintaining these minimum requirements against Pillar 1 risk, there is a further Core Equity Tier 1 component against Pillar 2 risk, established following the annual SREP, as well as the following buffers also made up of CET1:

- *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 up to 31 December 2016; 1.250% from 1° January 2017 to 31 December 2017; 1.875% from 1° January 2018 to 31 December 2018; 2.5% from 1° January 2019;
- *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 CRD IV provisions by the competent

national authorities; in the second and third quarter of 2017, the countercyclical buffer coefficient for Italy was kept at 0%. For the other credit exposures the Group uses the values of the countercyclical buffer established by the counterparty's Member State authorities in accordance with applicable regulations;

- the systemic risk buffer, aimed at dealing with long-term non-cyclical systemic risk in the financial sector, is to be established by the Member States and currently, has not yet been determined by the Bank of Italy;
- G-SII buffer for global systemically important banks and O-SII buffer for other systemically important institutions - impose higher capital requirements on those entities based on their systemic relevance, at a global or national level, which pose greater risks for the financial system and for which a crisis could have impacts on contributors. The Group is not a Global Systemically Important Institution (G-SII) but is classed as an Other Systematically Important Institution (O-SII), as defined by the Bank of Italy. For each bank or banking group, this identification took into consideration the four characteristics (size, relevance for the Italian economy, complexity and interconnection with the financial system) specified in the EBA guidelines to establish the systematic relevance of each entity at the level of individual jurisdiction. The Bank of Italy's decision established an O-SII buffer of zero percent for 2016 and 2017;

The combination of these buffers determines the *Combined Buffer Requirement* (CBR).

Capital adequacy

On 19 June 2017 the ECB informed the Parent Company of the results of the Supervisory Review and Evaluation Process (SREP). In this document, the ECB ordered the Bank to maintain a Total SREP Capital Requirement ratio of 11% at consolidated level as of 1 January 2018, which includes:

- a minimum Pillar 1 requirement of 8% and
- an additional Pillar 2 requirement of 3% (P2R), entirely in terms of Common Equity Tier 1 capital.

As a result, BMPS must meet the following requirements at consolidated level as of 1 January 2018:

- CET1 Ratio of 9.44% on a transitional basis,
- Total Capital Ratio of 12.94% on a transitional basis including, aside from the P2R, 1.875% for the Capital Conservation Buffer and 0.0625% for the O-SII Buffer (Other Systemically Important Institutions Buffer).

The Capital Conservation Buffer and the O-SII Buffer will be fully implemented in 2019 with 2.5% and in 2021 with 0.25%. Until 31 December 2017, the CET1 threshold to be observed remains 10.75%, announced on 25 November 2015 with the previous SREP letter.

Quantitative information

As to the definition of regulatory capital requirements, in June 2008 the Montepaschi Group was authorised to use the Advanced Internal Rating Based (AIRB) models for the measurement of capital requirements against credit risk in the retail and corporate portfolios and the Advanced Measurement Approach (AMA) for operational risk.

The AIRB model's scope of application currently includes the Parent Company Banca MPS, MPS Capital Services Banca per le Imprese and MPS Leasing & Factoring, for the regulatory portfolios "Retail Exposures" and "Exposures to corporates". For the remaining portfolios and Group entities, capital requirements against Credit risk are calculated using the standard approach. Capital requirements against Counterparty risk are calculated independently of the portfolio. More specifically, the Market value method is applied for OTC derviatives and the comprehensive approach for the treatment of financial collateral is used for repos, sell-buy backs and security lending.

Capital requirements against CVA risk are calculated according to the standard approach.

Capital ratios for Operational Risk are calculated almost completely according to the AMA – Advanced Measurement Approach.

The standardized approach is used for the remaining part of the scope.

Capital requirements in relation to market risk are instead calculated for all Group entities by adopting the standardized approach.

The tables below provide details on the Group's different capital requirements as at 30 June 2017.

Tab. 4 - Capital requirements and Regulatory capital ratios

Regulatory Capital Requirements	Jun-17	Dec-16
Credit and Counterparty Risk	**3,892,519**	**4,281,664**
Standard Approach	1,535,411	1,855,698
Advanced IRB Approach	2,357,108	2,425,966
Market Risks	**227,706**	**243,645**
Standardised Approach	227,706	243,645
Internal Models	-	-
Operational Risk	**733,577**	**678,061**
Foundation Approach	15,234	15,234
Standardised Approach	-	-
Advanced Approach	718,343	662,827
CVA Risk	**29,229**	**38,362**
Originary Exposure Method (OEM)	-	-
Standardised Approach	29,229	38,362
Advanced Approach	-	-
Concentration Risk	-	-
Settlement Risk	-	-
Regulatory Capital Requirements	**4,883,031**	**5,241,732**

Risk-weighted assets	**61,037,890**	**65,521,653**
CET1 Capital Ratio	**1.50%**	**8.17%**
Tier1 Capital Ratio	**1.50%**	**8.17%**
Total Capital Ratio	**2.76%**	**10.40%**

Compared to 31 December 2016, all levels of capital declined significantly as a result of the loss for the period (approximately EUR -3.243 mln), primarily deriving from impairment losses. Indeed, as a result of the commitments undertaken with the Restructuring Plan and the binding agreements entered into with Quaestio Capital Management SGR for the disposal of a doubtful loan portfolio, the Bank accounted for additional impairment losses on loans in the Condensed consolidated half-year Financial Statements totalling approximately EUR 4 bn, adjusting the net book value of the doubtful loans to the expected transfer values. The considerable loss for the half brought the capital ratios to below the minimum levels set forth in art. 92 of Reg. 575/2013 (CRR). On 11 August 2017 this breach was overcome as a result of the completion of the precautionary recapitalisation, which involved the following main steps. On 4 July 2017, the European Commission announced that it had approved the 2017-2021 Restructuring Plan after obtaining confirmation of the Bank's solvency from the ECB, to allow for its precautionary recapitalisation pursuant to Decree 237/2016, as converted and subsequently amended by the Bank (the "Precautionary Recapitalisation" and "Decree 237") in line with European Union ("EU") regulation. The Restructuring Plan approved by the European Commission on 4 July 2017 includes a doubtful loan disposal transaction which envisages the transfer of a portfolio of doubtful loans with a gross book value as at 31 December 2016 of roughly EUR 26.1 bn through a securitisation transaction. On 26 June 2017, a binding agreement was entered into with the Atlante II Fund (managed by Quaestio Capital Management SGR S.p.A.) for the acquisition of 95% of the junior and mezzanine notes as part of the assignment of doubtful loans.

The expected transfer price is around EUR 5.5 bn, equal to 21.0% of the GBV at the cut-off date of 31 December 2016, against a net book value as at 31 December 2016 of around EUR 9.4 bn; the difference between the transfer price and the net book value, equal to approx. EUR 4 bn, was accounted for in the first half of 2017 and the securitised portfolio is expected to be deconsolidated by the end of June 2018.

Data as at 30 June 2017 therefore includes the impairment losses on the scope of transferred positions (about EUR -4 bn) which were adjusted so that the net book value of such doubtful loans would reflect the conditions set forth in the term sheet signed with Quaestio.

Subsequent to approval of the Restructuring Plan, on 28 July 2017, pursuant to Decree 237/2016 converted into Law 15/2017, the ministerial decrees were published relating to burden sharing and the subscription of capital by the Ministry of Economy and Finance which entailed, respectively, share capital increases for a value of EUR 4,472,909,844.60 and EUR 3,854,215,456.30, respectively, for an overall capital strengthening, net of the subordinated bonds held by the Group and converted into treasury shares, exceeding EUR 8 bn.

The share capital increase, completed on 11 August and accounted for in regulatory capital following the authorization received on 10 August, led to an overall increase of EUR 8.137 mln, enabling the Group to exceed the minimum requirements set out in article 92 of Reg. 575/2013 (CRR) and the SREP threshold in force.

The tables below provide details on the Group's different capital requirements as at 30 June 2017.

The Capital Requirement for Counterparty Risk amounts to EUR 164,425 thousands (EUR 182,809 thousands as at 31 December 2016) and has been calculated on both the Trading Portfolio and the Banking Book. The requirement, summarised by methodology in table 4.1, is reported in the individual regulatory portfolios of the Standard Approach and the AIRB Approach in table 4.2.

Tab. 4.1 - Capital requirements for Credit and Counterparty Risk

	Jun-17	Dec-16
	Requirements	Requirements
Standard Approach		
Standard Approach Total	**1,535,411**	**1,855,698**
of which: Counterparty Risk	*133,346*	*150,832*
IRB Approach		
IRB Approach Total	**2,357,108**	**2,425,966**
of which: Counterparty Risk	*31,079*	*31,977*
Total	**3,892,519**	**4,281,664**
of which: Counterparty Risk	*164,425*	*182,809*

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

Tab. 4.2 – Capital requirements for Credit and Counterparty Risk

Standard Approach	Jun-17	Dec-16
Exposures to central governments and central banks	124,655	284,200
Exposures to regional governments and local authorities	33,576	32,619
Exposures to public sector entities	34,037	35,749
Exposures to Multi-lateral development banks	-	-
Exposures to International Organisations	-	-
Exposures to Supervised institutions	221,849	220,292
Exposures to Corporates	455,485	494,629
Retail Exposures	82,692	95,339
Exposures secured by mortgages on immovable property	36,344	36,182
Exposures in Default	105,057	121,780
Exposures associated with high-risk	11,122	11,801
Exposures in the form of covered bonds	11,091	11,850
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to UCITs	44,576	49,073
Equity Exposures	78,643	174,306
Other Exposures	295,262	286,767
Securitization positions	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	1,022	1,110
Standard Approach Total	**1,535,411**	**1,855,698**
AIRB Approach		
Exposures to or secured by corporates:	1,633,384	1,665,984
- SMEs	759,536	817,991
- Other companies	739,612	721,571
- Specialized lending	134,236	126,422
Retail exposures:	723,159	759,430
- secured by real estate: SMEs	164,089	182,205
- secured by real estate: Individuals	250,600	254,605
- Qualifying revolving	742	816
- Other retail exposures: SMEs	275,351	288,468
- Other retail exposures: Individuals	32,376	33,335
Securitization positions	566	553
AIRB Approach Total	**2,357,108**	**2,425,966**
Credit and Counterparty Risk Total	**3,892,519**	**4,281,664**

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

Tab. 4.3 – Capital requirements for Credit and Counterparty Risk (IRB methods) – Specialised lending - slotting criteria

Risk weight	Jun-17	Dec-16
Category 1 - 50%	43	-
Category 1 - 70% equal to or greater than 2.5 years	1,628	1,232
Category 2 -70% less than 2.5 years	6,246	6,725
Category 2 - 90%	77,764	80,296
Category 3 - 115%	31,488	30,039
Category 4 - 250%	17,067	8,130
Category 5 - 0%	-	-
Total	**134,236**	**126,422**

Tab. 4.4 – Capital Requirements for Market Risk

Standardised Approach	Jun-17	Dec-16
Position risk on debt instruments	120,818	143,361
Position risk on equity	59,764	44,236
Foreign exchange risk	27,904	37,728
Commodities risk	10,182	10,516
CIU Risk	9,039	7,804
Total Standardised Approach	**227,706**	**243,645**
Internal models		
Total Internal models	**-**	**-**
Total Market Risks	**227,706**	**243,645**

Tab. 4.5 – Capital requirements for Operational Risk

Requirements by Approach	Jun-17	Dec-16
Foundation Approach	15,234	15,234
Standardised Approach	-	-
Advanced Measurement Approach	718,343	662,827
Total Operational Risk	**733,577**	**678,061**

Liquidity Ratios and Leverage Ratio

With reference to the liquidity indicators, Liquidity Coverage Ratio and the Net Stable Funding Ratio, the observation period by the Supervisory Authorities began in March 2014. As of October 2015, the minimum obligatory requirement for the Liquidity Coverage Ratio came into force, with a level that gradually increases over the years: 60% in 2015; 70% in 2016; 80% in 2017; 90% in 2018 and 100% in 2019. The Liquidity Cover Ratio was 225.95% as at 30 June 2017 (107.68% as at 31 December 2016), well above the minimum required for 2017. As regards the Net Stable Funding Ratio, the minimum obligatory requirement will come into force on 1 January 2018. In addition to the system of capital requirements aimed at covering credit, counterparty, market, operational, CVA and regulatory risks, it is expected that the new regulatory framework will introduce a limit on leverage (including off-balance sheet exposures) with a twofold purpose to limit the accumulation of debt within the banking industry so as to avoid destabilizing the deleveraging process which may harm the financial system and the economy in general, and strengthen the system of capital requirements associated with risk with a simple backstop measure that is not based on risk profile.

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

The Leverage Ratio is calculated as a ratio between Tier1 and a denominator that is based on the non-risk weighted assets calculated at the end of the quarter. The exposures must be reported net of the regulatory adjustments included in the calculation of T1 in order to avoid any double counting. In fact, items fully deducted from capital do not contribute to the Leverage Ratio and are deducted to the extent of the exposure. The basis for the calculation is the quarter-end figure. The indicator will become binding in 2018 and the transition observation phase will last until 31 December 2017; the Basel Committee had indicated a 3% minimum ratio for this period. At present, the minimum thresholds for the Leverage Ratio have not yet been established by the Supervisory Authorities. However, as of 1 January 2015, quarterly disclosure has become obligatory in addition to the disclosure requirement already in force.

Moreover, as provided by Commission Implementing Regulation (EU) 2016/200 of 15 February 2016, banks publish this disclosure as of 16 February 2016, the date following this regulation's publication in the Official Journal of the European Union.

The Group's leverage ratio was 0.58% as at 30 June 2017. In accordance with public disclosure requirements, the basic data necessary for its calculation is provided below.

The information is provided via the application of the current Leverage Ratio calculation rules for reporting purposes. The templates used to report the information are those provided for by the ITS on Disclosure (*see* "EBA FINAL draft Implementing

Technical Standards on disclosure of the leverage ratio under Article 451(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) - Second submission following the EC's Delegated Act specifying the LR" - link) published by the EBA on 15/06/2015 and included in the Commission Implementing Regulation (EU) 2016/200 of 15 February 2016.
The tables below show the financial leverage ratio as at 30 June 2017.

Tab. 4.6 – Leverage Ratio

	Jun-17	Dec-16
Capital and total exposures		
Tier 1 capital	918,352	5,353,400
Total exposures	158,938,982	169,024,398
Leverage ratio		
Basel III leverage ratio	0.58%	3.17%

Process used to manage the risk of excessive leverage *(in accordance with article 451(1) letter d) of the CRR)*

The Group's Risk Appetite Framework (RAF) constitutes the basic risk management framework in the Montepaschi Group. The RAF is governed at Group level by a regulatory framework that establishes a system of governance, processes, tools and procedures for fully managing the Group's risk. Leverage risk is included in the RAF and is therefore subject to the control procedures contained therein. The Leverage Ratio is one of the Key Risk Indicators monitored within the RAF for 2017.
As at 30 June 2017, the Group's leverage ratio declined significantly due to the reduction in Tier 1 described above. Compared to 31 December 2016, Tier 1 registered a significant reduction as a result of the impairment losses on the non-performing loans currently under disposal, as defined in the Restructuring Plan approved by the European Commission. Exposures declined by around EUR 10 billion due to the decrease registered in cash exposures, derivatives and off-balance exposures.

5. Credit Risk

5.1 Credit Risk: general disclosure

The MPS group gives special attention to the management and measurement of Credit Risk, which represents the greatest risk to which the Group is exposed, accounting for approximately 80% of total capital requirements. The main objective of the Credit Risk Management function is to promote a culture of "responsible lending" within the Group and pursue a sustainable growth in lending transactions that is in line with risk appetite and value creation. The Group's strategies in the area of risk management are aimed at limiting the economic impact from defaulting loans and containing the cost of credit. The credit risk management function is involved in defining credit policy guidelines by identifying the customer segments with greater opportunities from risk-return perspective, promoting risk diversification, limiting the concentration of risk exposure in single business groups/sectors and geographical areas. The function also defines the supports available to Credit disbursement strategies. The use and allocation of ratings is crucial, since they are the synthetic measurement of a customer's creditworthiness both during the loan disbursement and monitoring processes. This forms the basis of the preliminary procedure that is followed as a loan proposal is processed and then subsequently monitored. The assignment of a rating to each borrower means that borrowers can be classified into actual levels of risk and that both an overall or broken-down objective assessment of risk components may be made; this system, therefore, provides the basis of information for supporting both strategic decisions and the ordinary management of risk positions. Credit policy guidelines are thus provided by the sales network according to customer segments, rating categories, business sector, Regional Area, loan type and types of collateral used.

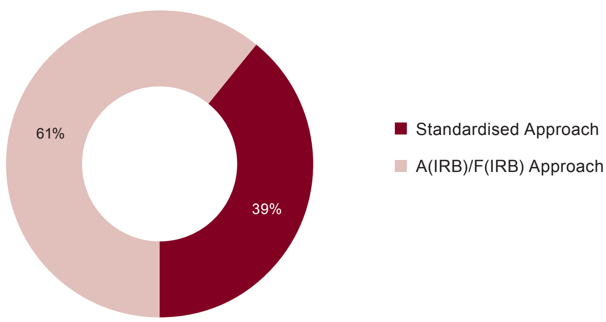
In addition, operational guidelines are structured into quantitative and qualitative objectives to develop and reclassify the loan portfolio, according to business sector and regional units. The Credit Risk Management function is also involved in the monitoring phase and verifies that the Network Structures achieve their goals of credit quality and alignment with established benchmarks, identifying the appropriate remedial actions to be implemented, reviewing objectives and, on a more general level, analysing trends in the quality of the loan portfolio in terms of market/product/customer segment and related causes. For a detailed description of the tasks of the Credit Risk function, *see* Chapter 1 of the Annual Report as at 31 December 2016.

As concerns capital requirements, for credit risks the Group uses the Advanced Internal Rating Based (AIRB) method with reference to the "Credit Exposures to Retail" and

"Credit Exposures to Entities" regulatory portfolios. The scope of application of the AIRB method currently includes the Parent Company Banca MPS, MPS Capital Services Banca per le Imprese and MPS Leasing & Factoring. For the remaining portfolios and Group entities, capital requirements relative to credit risks are calculated according to the standard method.

RWAs by credit risk show a prevalence of exposures treated under the advanced approach (61%) over those subject to the Standardised Approach (39%).

Credit risk's RWA by approach



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

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

	Jun-17		Dec-16			
	EAD	RWA	EAD	RWA	Δ EAD	Δ RWA
Standard Approach						
Standard Approach Total	**56,189,577**	**19,192,634**	**57,785,767**	**23,196,227**	**-1,596,190**	**-4,003,594**
of which: Counterparty Risk	*4,838,936*	*1,666,828*	*6,419,649*	*1,885,401*	*-1,580,714*	*-218,573*
IRB Approach						
IRB Approach Total	**110,119,742**	**29,463,856**	**112,212,322**	**30,324,577**	**-2,092,580**	**-860,721**
of which: Counterparty Risk	*671,618*	*388,488*	*458,528*	*399,717*	*213,090*	*-11,229*
Total	**166,309,319**	**48,656,489**	**169,998,089**	**53,520,804**	**-3,688,770**	**-4,864,315**
of which: Counterparty Risk	*5,510,554*	*2,055,317*	*6,878,177*	*2,285,118*	*-1,367,623*	*-229,801*

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-17		Dec-16	
Regulatory portfolios	EAD	RWA	EAD	RWA
Exposures to central governments and central banks	25,688,537	1,558,187	25,071,278	3,552,504
Exposures to regional governments and local authorities	2,099,534	419,698	2,039,455	407,737
Exposures to public sector entities	526,248	425,466	483,315	446,861
Exposures to Multi-lateral development banks	42,746	-	43,818	-
Exposures to International Organisations	-	-	-	-
Exposures to Supervised institutions	10,777,490	2,773,115	11,249,901	2,753,644
Exposures to Corporates	5,794,881	5,693,556	6,629,950	6,182,858
Retail Exposures	1,467,689	1,033,655	1,672,701	1,191,738
Exposures secured by mortgages on immovable property	1,146,973	454,302	1,119,758	452,281
Exposures in Default	1,123,979	1,313,215	1,296,263	1,522,252
Exposures associated with high-risk	92,680	139,020	98,341	147,511
Exposures in the form of covered bonds	721,631	138,633	769,243	148,131
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-
Exposures to UCITs	557,203	557,203	613,415	613,415
Equity Exposures	752,173	983,036	1,432,680	2,178,828
Other Exposures	5,397,815	3,690,769	5,265,650	3,584,594
Securitization positions	-	-	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	12,780	-	13,875
Standard Approach Total	**56,189,577**	**19,192,634**	**57,785,767**	**23,196,227**
AIRB Approach				
Exposures to or secured by corporates:	51,876,843	20,417,297	52,935,598	20,824,799
- SMEs	33,267,522	9,494,200	34,493,201	10,224,887
- Other companies	15,912,232	9,245,145	15,566,879	9,019,637
- Specialized lending	2,697,089	1,677,951	2,875,518	1,580,275
Retail exposures:	58,166,429	9,039,482	59,239,335	9,492,871
- secured by real estate: SMEs	6,711,510	2,051,115	7,368,382	2,277,567
- secured by real estate: Individuals	27,065,546	3,132,501	28,047,917	3,182,563
- Qualifying revolving	84,699	9,276	95,458	10,201
- Other retail exposures: SMEs	18,280,945	3,441,891	18,189,505	3,605,850
- Other retail exposures: Individuals	6,023,729	404,698	5,538,073	416,689
- Securitization positions	76,470	7,077	37,390	6,907
AIRB Approach Total	**110,119,742**	**29,463,856**	**112,212,322**	**30,324,577**
Credit and Counterparty Risk Total	**166,309,319**	**48,656,489**	**169,998,089**	**53,520,804**

5.2 Credit Risk: Standard approach

Quantitative disclosure

The table below shows the details of the banking Group's exposures subject to credit risk – standard approach, determined according to the rules of Prudential Supervision and including the effects from risk mitigation techniques (netting agreements, guarantees, etc.).

The 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. The amount of the same exposures "with" the risk mitigation effect (Exposure after CRM), i.e. net of the guarantees mentioned in the previous point. 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. Thus the difference between exposures "before" and "after" credit risk mitigation represents the amount of approved financial collaterals.

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

Regulatory Portfolio (Standard Approach)	Jun-17			Dec-16		
	Ante CRM Exposure	Post CRM Exposure	Credit Risk Mitigation Techniques	Ante CRM Exposure	Post CRM Exposure	Credit Risk Mitigation Techniques
Exposures to central governments and central banks	25,770,311	25,770,311	-	25,151,207	25,151,207	-
Exposures to regional governments and local authorities	3,217,853	3,217,853	-	2,659,040	2,659,040	-
Exposures to public sector entities	1,001,113	986,144	-14,968	1,000,817	985,875	-14,942
Exposures to Multi-lateral development banks	87,746	87,746	-	88,818	88,818	-
Exposures to International Organisations	-	-	-	-	-	-
Exposures to Institutions	47,566,405	16,096,282	-31,470,123	60,752,797	17,015,052	-43,737,745
Exposures to Corporates	9,637,575	8,816,614	-820,960	11,017,767	9,963,247	-1,054,519
Retail Exposures	2,765,316	2,750,910	-14,407	3,036,194	3,025,166	-11,028
Exposures secured by mortgages on immovable property	1,152,003	1,151,045	-958	1,124,585	1,123,565	-1,020
Exposures in Default	1,354,790	1,352,352	-2,439	1,599,674	1,582,036	-17,639
Exposures associated with particularly high-risk	92,680	92,680	-	98,341	98,341	-
Exposures in the form of covered bonds	721,631	721,631	-	769,243	769,243	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Exposures to UCITs	642,045	639,055	-2,991	807,274	804,614	-2,660
Equity Exposures	752,173	752,173	-	1,432,680	1,432,680	-
Other Exposures	5,397,815	5,397,815	-	5,265,650	5,265,650	-
Items representing securitization positions	-	-	-	-	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	-	-	-	-	-
Standard Approach Total	**100,159,456**	**67,832,610**	**-32,326,846**	**114,804,087**	**69,964,534**	**-44,839,554**

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

The exposures reported in the table 5.2.2 also include the off balance sheet exposures relating to guarantees and commitments (including undrawn credit lines) subsequent to the application of the Credit Conversion Factors (CFFs) required by prudential regualtions. The off-balance sheet exposures in relation to guarantees and commitments are disclosed side by side with the counterparty weighting factor. The exposure value shown in the tables of this section is stated net of adjustments in accordance with the prudential regulations. Reported below are the Post CRM exposures broken down by weighting factor.

As at 30 June 2017, the total amount of exposures deducted from Funds came to EUR 2,187.6 million.

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

	Classes of creditworthiness (Weighting Factors)									
Regulatory Portfolio (Standard Approach)	0%	Until 20%	35%	50%	70 - 100%	150%	225 - 250%	370%	1250%	Total as at 30/06/2017
Exposures to central governments and central banks	24,347,348	17	-	27,579	1,159,684	-	153,909	-	-	25,688,537
Exposures to regional governments and local authorities	-	2,099,534	-	-	-	-	-	-	-	2,099,534
Exposures to public sector entities	2,789	122,503	-	-	400,934	22	-	-	-	526,248
Exposures to Multi-lateral development banks	42,746	-	-	-	-	-	-	-	-	42,746
Exposures to International Organisations	-	-	-	-	-	-	-	-	-	-
Exposures to Institutions	67,693	7,579,607	-	2,981,469	148,116	605	-	-	-	10,777,490
Exposures to Corporates	38,897	38,536	-	139,208	5,469,766	108,473	-	-	-	5,794,881
Retail Exposures	159	-	-	-	1,467,529	-	-	-	-	1,467,689
Exposures secured by mortgages on immovable property	-	-	614,106	532,866	-	-	-	-	-	1,146,973
Exposures in Default	-	-	-	-	745,507	378,472	-	-	-	1,123,979
Exposures associated with particularly high-risk	-	-	-	-	-	92,680	-	-	-	92,680
Exposures in the form of covered bonds	-	721,631	-	-	-	-	-	-	-	721,631
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Exposures to UCITs	-	-	-	-	557,203	-	-	-	-	557,203
Equity Exposures	-	-	-	-	598,264	-	153,909	-	-	752,173
Other Exposures	708,676	1,247,807	-	284	3,441,009	38	-	-	-	5,397,815
Items representing securitization positions	-	-	-	-	-	-	-	-	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	-	-	-	-	-	-	-	-	-
Total as at 30/06/2017	**25,208,308**	**11,809,636**	**614,106**	**3,681,407**	**13,988,012**	**580,291**	**307,817**	**-**	**-**	**56,189,577**
Total as at 31/12/2016	**23,243,722**	**12,294,153**	**574,155**	**3,697,817**	**16,342,408**	**667,835**	**965,675**	**-**	**-**	**57,785,767**

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 post the application of credit conversion factors (CCF).

5.3 Credit Risk: use of the AIRB approach

AIRB Authorization

With decree no. 647555 of 12 June 2008, the bank of Italy authorised the Montepaschi Group to use advanced internal rating based (AIRB) systems to calculate the capital requirements for credit and operational risk. In particular, whereas the Montepaschi Group uses the standard approach ratios for Exposure at default (EAD) pending validation by the Supervisory Authorities, the Group is instead authorised to use:

- Internal Probability of Default (PD) estimates, for the portfolio of exposures to corporates and retail exposures;
- internal Loss Given Default (LGD) estimates for the portfolio of exposures to corporates and retail exposures.

For portfolios other than those mentioned above, the standard approach is used. As for legal entities, the scope of application of the authorised approaches shall be the following:

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

Quantitative information

The following table reports the Group's exposure to credit risk – AIRB , as at 30 June 2017 divided by classes of regulatory activities. The exposure values reported are determined according to prudential supervisory requirements and as such are inclusive of value adjustments and do not factor in the effects of risk mitigation techniques which, in the case of exposures subject to an internal models-based approach, are directly included in the risk-weighting factor applied. As for guarantees issued and commitments to disburse funds, the values reported take into account credit conversion factors. The exposure value reported in the table therefore shows the credit equivalent.

Following are the values of risk weighted assets (RWA), expected loss (PA) and actual losses (PE) as at June 2017. It is noted that the amount of value adjustments on general-purpose and special-purpose receivables relating to securitisation exposures are not included in the calculation of the Expected Loss Delta, as required by the CRR.

The nominal value in table 5.3.3 and following shows the exposure value before applying the credit conversion factor.

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

	Jun-17			
Regulatory Portfolio	EAD	RWA	EL	AL
Exposures to or secured by corporates:	51,876,843	20,417,297	12,822,857	16,784,912
- SMEs	33,267,522	9,494,200	9,471,243	12,804,953
- Other companies	15,912,232	9,245,145	2,785,020	3,348,728
- Specialized lending	2,697,089	1,677,951	566,594	631,231
Retail exposures:	58,166,429	9,039,482	9,098,834	12,270,944
- Secured by real estate: SMEs	6,711,510	2,051,115	578,787	830,758
- Secured by real estate: Individuals	27,065,546	3,132,501	238,261	361,435
- Qualifying revolving	84,699	9,276	594	562
- Other retail exposures: SMEs	18,280,945	3,441,891	6,424,867	8,125,991
- Other retail exposures: Individuals	6,023,729	404,698	1,856,326	2,952,199
Securitization positions	76,470	7,077	-	729
Total as at 30/06/2017	**110,119,742**	**29,463,856**	**21,921,691**	**29,056,584**
Total as at 31/12/2016	**112,212,322**	**30,324,577**	**21,566,670**	**24,741,329**

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

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

	Jun-17				
Classes of creditworthiness	Corporates Exposure	Retail Exposure	AIRB Total Exposures	AIRB Total EL	AIRB Total AL
Class 01	1,329,354	7,105,368	8,434,722	1,799	2,066
Class 02	5,205,846	11,392,595	16,598,441	13,416	15,075
Class 03	9,546,430	12,911,535	22,457,964	69,863	75,649
Class 04	7,626,453	7,632,128	15,258,580	218,656	245,447
Class 05	1,076,730	1,162,618	2,239,348	138,175	129,480
Class 06	24,394,943	17,962,184	42,357,127	20,913,189	27,956,908
Total as at 30/06/2017	**49,179,754**	**58,166,429**	**107,346,183**	**21,355,097**	**28,424,625**
Total as at 31/12/2016	**50,060,080**	**59,239,335**	**109,299,415**	**20,904,433**	**24,160,425**

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

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

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

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	1,776,199	613,807	1,236,161	5.97%	0.10%	37.65%	18.86%
Class 02	4,180,250	2,262,569	2,130,954	10.01%	0.35%	37.59%	39.47%
Class 03	6,530,423	4,822,482	2,046,174	16.53%	1.13%	33.84%	60.48%
Class 04	6,122,654	5,176,203	1,148,260	17.58%	4.86%	31.82%	85.95%
Class 05	949,349	867,436	114,102	28.21%	22.83%	29.07%	129.12%
Class 06	20,031,800	19,525,026	686,747	26.21%	100.00%	46.76%	-
Total as at 30/06/2017	**39,590,676**	**33,267,522**	**7,362,396**	**12.87%**	**3.73%**	**33.57%**	
Total as at 31/12/2016	**41,190,896**	**34,493,201**	**7,811,519**	**12.99%**	**3.69%**	**33.22%**	

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds

(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

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

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	3,488,617	715,546	3,058,481	9.33%	0.10%	40.10%	24.79%
Class 02	8,295,828	2,943,277	6,131,623	12.71%	0.36%	42.87%	53.73%
Class 03	8,388,826	4,723,948	4,458,911	17.81%	1.15%	42.04%	86.11%
Class 04	3,378,249	2,450,250	1,192,650	22.19%	4.60%	37.18%	121.36%
Class 05	245,965	209,294	49,619	26.10%	19.47%	39.59%	212.54%
Class 06	5,457,577	4,869,917	743,110	20.92%	100.00%	55.23%	-
Total as at 30/06/2017	**29,255,061**	**15,912,232**	**15,634,394**	**14.34%**	**1.98%**	**41.01%**	
Total as at 31/12/2016	**30,148,836**	**15,566,879**	**17,169,249**	**14.91%**	**2.11%**	**41.32%**	

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds

(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

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

Rating Class	Nominal Value	Exposure Value	RWA	Value adjustments	Expected Loss
Category 1 - 50%	1,641	1,076	538	6	-
Category 1 - 70% equal to or greater than 2.5 years	33,790	29,080	20,356	138	116
Category 2 -70% less than 2.5 years	115,962	111,527	78,069	1,756	446
Category 2 - 90%	1,158,545	1,080,050	972,045	15,109	8,640
Category 3 - 115%	356,681	342,265	393,605	17,143	9,583
Category 4 - 250%	87,539	85,335	213,338	4,221	6,827
Category 5 - 0%	1,129,130	1,047,755	-	592,858	540,981
Total as at 30/06/2017	2,883,288	2,697,089	1,677,951	631,231	566,594
Total as at 31/12/2016	**3,082,443**	**2,875,518**	**1,580,275**	**580,511**	**662,237**

The following tables show 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	66,168	63,302	5,714	49.84%	0.11%	19.27%	4.40%
Class 02	524,913	521,349	6,564	45.70%	0.38%	19.94%	11.91%
Class 03	1,880,773	1,872,397	14,967	44.04%	1.19%	20.10%	26.58%
Class 04	2,067,095	2,052,587	22,823	36.43%	4.42%	20.30%	56.32%
Class 05	319,499	316,762	4,593	40.40%	23.69%	20.25%	105.03%
Class 06	1,906,931	1,885,112	26,214	16.77%	100.00%	26.68%	-
Total as at 30/06/2017	**6,765,379**	**6,711,510**	**80,874**	**41.36%**	**3.94%**	**20.17%**	
Total as at 31/12/2016	**7,516,502**	**7,368,382**	**263,798**	**46.22%**	**4.31%**	**20.21%**	

(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	6,703,424	6,699,935	6,627	47.35%	0.13%	13.13%	4.04%
Class 02	9,349,447	9,343,672	9,403	38.57%	0.29%	13.07%	7.24%
Class 03	7,697,016	7,690,485	10,715	39.04%	0.96%	12.39%	15.86%
Class 04	1,692,789	1,686,216	8,225	20.09%	4.40%	12.83%	40.17%
Class 05	402,046	400,354	1,932	12.40%	25.70%	12.22%	71.94%
Class 06	1,271,785	1,244,884	28,271	4.85%	100.00%	15.94%	-
Total as at 30/06/2017	**27,116,507**	**27,065,546**	**65,172**	**34.80%**	**1.11%**	**12.85%**	
Total as at 31/12/2016	**28,156,634**	**28,047,917**	**178,454**	**45.51%**	**1.18%**	**12.84%**	

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds

(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

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

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	35,332	16,645	18,687	-	0.13%	21.97%	1.74%
Class 02	47,443	22,828	24,616	-	0.31%	24.94%	4.01%
Class 03	48,430	23,540	24,890	-	1.07%	22.88%	9.71%
Class 04	43,090	19,447	23,643	-	4.99%	21.01%	25.69%
Class 05	2,802	1,298	1,505	-	25.81%	21.30%	60.64%
Class 06	7,491	941	6,550	-	100.00%	26.39%	-
Total as at 30/06/2017	**184,589**	**84,699**	**99,890**	**-**	**1.97%**	**22.80%**	
Total as at 31/12/2016	**187,555**	**95,458**	**92,097**	**-**	**1.92%**	**22.61%**	

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds

(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

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

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	1,103,951	245,577	895,492	4.14%	0.10%	42.58%	8.74%
Class 02	2,520,201	1,090,445	1,546,084	7.52%	0.35%	42.19%	21.10%
Class 03	4,757,238	2,707,905	2,224,102	7.86%	1.19%	42.04%	39.62%
Class 04	4,870,182	3,442,842	1,562,030	8.62%	4.58%	41.55%	52.62%
Class 05	468,633	392,784	90,085	15.80%	21.61%	40.41%	77.83%
Class 06	10,629,806	10,401,393	278,461	17.97%	100.00%	61.74%	-
Total as at 30/06/2017	**24,350,012**	**18,280,945**	**6,596,255**	**7.55%**	**3.54%**	**41.78%**	
Total as at 31/12/2016	**24,590,756**	**18,280,945**	**6,878,479**	**6.76%**	**3.74%**	**41.73%**	

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds

(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

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

Rating Class	Nominal Value	Exposure Value	Revocable and Irrevocable Margins	CCF% (Average)	Weighted Average PD (%)	Weighted Average LGD(%)	Average Risk Weight % (RW%)
Class 01	457,175	79,910	384,366	1.85%	0.13%	22.40%	7.12%
Class 02	786,547	414,302	408,786	8.94%	0.34%	24.29%	14.69%
Class 03	1,061,543	617,208	478,228	7.09%	1.12%	23.39%	25.68%
Class 04	571,679	431,035	154,783	9.13%	4.41%	23.12%	35.31%
Class 05	57,818	51,421	7,358	13.06%	22.25%	22.51%	53.39%
Class 06	4,443,567	4,429,854	15,290	10.32%	100.00%	41.62%	-
Total as at 30/06/2017	**7,378,329**	**6,023,729**	**1,448,812**	**6.46%**	**2.44%**	**23.48%**	
Total as at 31/12/2016	**6,887,171**	**5,538,073**	**1,431,582**	**5.71%**	**2.62%**	**24.08%**	

(a) For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds

(b) The weighted average PD (%) and weighted average LDG (%) under Total does not include class 6

Exposures subject to the AIRB approach broken down by geographical location

The Montepaschi Group operates almost exclusively in the domestic market. If the geographical location of the counterparties is considered, the almost totality of AIRB exposures are towards counterparties resident in Italy. For the purposes of this disclosure and in accordance with Article 452 of the CRR, the relevant geographical location of credit exposures means exposures in the Member States in which the institution has been authorized and Member States or third countries in which institutions carry out activities through a branch or subsidiary. As far as credit risk is concerned, the Group is currently authorized to use internal estimates of PD, LGD parameters for portfolios of loans to locals Counterparties (Companies and Retail Exposures) of the main Italian subsidiaries of the Group, namely Banca Monte dei Paschi di Siena, MPS Capital Services and MPS Leasing & Factoring. The other foreign subsidiaries (MP Banque and MP Belgio) adopt standard models and their exposures are included among those subject to credit risk – the standard approach. The Group also operates in Member States or third countries via foreign branches, whose operations focus on supporting the expansion of Italian businesses and investments abroad and in the major foreign financial markets.

AIRB credit exposures (net of default) held by foreign branches amount to 0.0001% and are entirely towards local counterparties (with headquarters/residence or domicile in Italy). The exposures are towards counterparties that were assigned an internal PD and LGD estimate since they are already counterparties of Italian subsidiaries and are reported under the Parent Company Banca MPS for regulatory purposes. Accordingly, the values of the exposure-weighted average PD and LGD by geographical location coincide with those reported in the tables above which show the AIRB exposures of authorized Italian subsidiaries broken down by class of exposure. Reported below are the credit exposures subject to the AIRB approach (net of default) according to the definition of geographical location described above, i.e. by Member State in which the institution has been authorized (Italy) and by Member State or third country in which the institution operates through a branch.

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

		EAD	Incidence	Weighted Average PD	Weighted Average LGD
Exposures to or secured by corporates	Italy	24,784,754	100.00%	2.95%	36.88%
	Other EU Countries	57	0.00%	0.09%	48.07%
	America	-	-	-	-
	Total as at 30/06/2017	**24,784,811**	**100.00%**	**2.95%**	**36.88%**
	Total as at 31/12/2016	**25,348,554**	**100.00%**	**3.02%**	**36.61%**

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

		EAD	Incidence	Weighted Average PD	Weighted Average LGD
Retail exposures	Italy	40,204,244	100.00%	1.98%	19.84%
	Other EU Countries	-	-	-	-
	America	-	-	-	-
	Total as at 30/06/2017	**40,204,244**	**100.00%**	**1.98%**	**19.84%**
	Total as at 31/12/2016	**41,484,419**	**100.00%**	**2.13%**	**19.91%**

5.5 Credit Risk: use of risk mitigation techniques

With reference to the retail and corporate loan portfolio, the Montepaschi Group does not apply any netting processes to the credit risk exposures with on- or off-balance sheet items with opposite sign. The Montepaschi Group adopts policies reducing the counterparty risk with institutional counterparties, by entering into netting agreements according to the international ISDA and ISMA standards and related collateral agreements both in relation to derivatives and repos *(repurchase agreements)*.
The Montepaschi Group has fulfilled the obligations set out by the New regulations for Prudential Supervision for the purpose of recognition of risk mitigation effects produced by any existing collaterals securing the loan.

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

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

Regulatory Portfolio (Standard Approach)	Jun-17			Dec-16		
	Financial Collaterals	Guarantees and Credit Derivatives	Other Guarantees	Financial Collaterals	Guarantees and Credit Derivatives	Other Guarantees
Exposures to central governments and central banks	-	17	-	-	17	-
Exposures to regional governments and local authorities	-	-	-	-	-	-
Exposures to public sector entities	14,968	-	-	14,942	7,847	-
Exposures to Multi-lateral development banks	-	-	-	-	-	-
Exposures to International Organisations	-	-	-	-	-	-
Exposures to Supervised institutions	31,470,123	-	-	43,737,745	62,064	-
Exposures to Corporates	820,960	231,287	-	1,054,519	222,255	-
Retail Exposures	14,407	51,145	-	11,028	44,618	-
Exposures secured by mortgages on immovable property	958	15,914	-	1,020	26,564	-
Exposures in Default	2,439	12,072	-	17,639	7,804	-
Exposures associated with high-risk	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Exposures to UCITs	2,991	-	-	2,660	-	-
Equity Exposures	-	-	-	-	-	-
Other Exposures	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	-	-	-	-	-
Standard Approach Total	**32,326,846**	**310,436**	**-**	**44,839,554**	**371,169**	**-**

The column Financial C:ollaterals in the above table is a supplement to the Post CRM exposure reported in table 5.2.1 (values of exposures ante and post CRM), which shows the portion of exposure outstanding not covered by these collaterals. Please note that, pursuant to regulations, if the line-by-line method is applied, the collateral reduces risk exposure, whereas personal guarantees (simplified approach) transfer the related risk to the regulatory portfolio of the guarantor; thus the representation of personal guarantees in table 5.5.1 is broken down by collateralized exposure, whereas the same exposure, in line with the substitution principle, is shown in reference to the guarantor in table 5.2.2.

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

Regulatory Portfolio (Standard Approach)	Jun-17 Financial Collaterals	Jun-17 Guarantees and Credit Derivatives	Jun-17 Other Guarantees	Dec-16 Financial Collaterals	Dec-16 Guarantees and Credit Derivatives	Dec-16 Other Guarantees
Exposures to or secured by corporates:	527,712	2,575,693	-	391,497	2,653,068	-
- SMEs	160,705	1,577,350	-	187,812	1,670,418	-
- Other companies	367,007	998,342	-	203,685	982,650	-
	-	-	-	-	-	-
Retail exposures:	377,786	1,632,271	-	421,284	1,646,473	-
- secured by real estate: SMEs	5,454	5,779	-	5,913	8,982	-
- secured by real estate: Individuals	5,476	1,776	-	6,020	2,090	-
- Qualifying revolving	-	-	-	-	-	-
- Other retail exposures: SMEs	223,964	1,596,469	-	253,861	1,605,655	-
- Other retail exposures: Individuals	142,892	28,246	-	155,489	29,747	-
Esposizioni verso cartolarizzazioni	-	-	-	-	-	-
IRB Approach Total	**905,498**	**4,207,963**	**-**	**812,780**	**4,299,541**	**-**

The values reported in the table above are referred to all of the AIRB-scope exposures to businesses and consumers, backed by collaterals or personal guarantees. Exposures to Businesses or Consumers backed by mortgage collateral on real estate, for which the Group adopts the AIRB approach, are not included in this table, as they have already been shown in the tables under the Section dedicated to the use of the AIRB method.

Declaration of the Financial Reporting Officer

Pursuant to para. 2, article 154-bis of the Consolidated Law on Banking, the Financial Reporting Officer, Mr. Nicola Massimo Clarelli, declares that the accounting information contained in this document corresponds to the underlying documentary evidence and accounting records.

Siena, 11 August 2017

Nicola Massimo Clarelli

Financial Reporting Officer

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