# Pillar 3 Disclosure

Update as at
30 June 2019

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

# Pillar 3 Disclosure

**Update as at**
**30 June 2019**

**Banca Monte dei Paschi di Siena SpA**
Company Head Office in Siena, Piazza Salimbeni 3, www.mps.it
Recorded in the Arezzo-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 current 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 now governed directly by European Regulation no. 575/2013 of 26 June 2013 of the European Parliament and Council, Part 8 and Part 10, Title I, Chapter 3 (hereinafter referred to as "The Regulations" or "CRR").

The previous Regulations (Bank of Italy Circular 263/06, Paragraph IV) along with the reporting templates and rules provided therein are to be considered no longer applicable. Under the new regulations, the CRR requires banks to publish information at least on an annual basis along with their financial statements and to evaluate the need to publish some or all disclosures more frequently than once a year depending on their specific activities. Institutions are to assess the possible need for more frequent disclosure of items of information laid down in Article 437 (Own Funds), and Article 438 (Capital Requirements), and information on risk exposure and other items prone to rapid change.

The EBA (European Banking Authority) subsequently issued its guidelines (EBA/GL/2014/14 of 23-12-2014), on the need to publish information more frequently than once a year.

In view of the above regulations and in the interest of transparency and continuity, the Group publishes summary information on its Own Funds, Capital Requirements and Leverage in its quarterly reports, providing further information on exposures subject to internal models in its half-year report.

In December 2016, the European Banking Association (EBA) published its Guidelines on disclosure requirements under Part Eight of the Capital Requirement Regulation (CRR), providing financial institutions with specifications on the information requested in specific articles of Part Eight of the CRR. The EBA has also integrated the outcomes as expected from the aforementioned guidelines, by issuing the LCR Guidelines from art. 435, CRR of June 2017 and the reports guidelines in accordance with the law of Art. 473 bis, CRR of January 2018 on transitional arrangements aimed at lessening the impact of the introduction of the IFRS9 on own funds, by introducing additional informational requisites.

The current document, therefore, provides an update as at 30 June 2019 of quantitative information deemed most significant by the Group and, in particular, the quantitative information on Own Funds, Capital requirements, the Leverage Ratio, Credit and Counterparty 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 2018. 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 2019, 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 2018.

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.

## Executive Summary

The MPS Group's capital requirements for 30 June 2019 and 31 December 2018, and related differences are summarized in the table below, in accordance with Article 92 of the CRR (own funds requirements – Pillar I).

### Own Funds and Capital Requirements Summary

*Data in thousands of Euro*

| | | | Delta vs. 31-12-2018 | |
|---|---|---|---|---|
| **Common Equity Tier 1** | **Jun-19** | **Dec-18** | **Absolute** | **%** |
| Additional Tier 1 | 8,222,985 | 8,020,457 | 202,528 | 2.5% |
| Tier 2 | - | - | - | - |
| Own Funds | 856,528 | 857,482 | -954 | -0.1% |
| **Own Funds** | **9,079,513** | **8,877,939** | **201,574** | **2.3%** |
| ↳ *of which Delta EL** | *170,276* | *171,131* | *-855* | *-0.5%* |
| **Regulatory Capital Requirements** | | | | |
| Credit and Counterparty Risk | 3,651,254 | 3,674,032 | -22,779 | -0.6% |
| ↳ *of which Standard* | *1,367,764* | *1,379,799* | *-12,035* | *-0.9%* |
| ↳ *of which AIRB* | *2,283,490* | *2,294,234* | *-10,744* | *-0.5%* |
| Market Risk | 214,130 | 194,079 | 20,050 | 10.3% |
| ↳ *of which Standard* | *214,130* | *194,079* | *20,050* | *10.3%* |
| ↳ *of which Internal Model* | - | - | - | - |
| Operational Risk | 774,827 | 764,998 | 9,829 | 1.3% |
| ↳ *of which Foundation Approach* | *8,165* | *11,734* | *-3569* | *-30.4%* |
| ↳ *of which Standardised Approach* | - | - | - | - |
| ↳ *of which Advanced Approach* | *766,662* | *753,264* | *13,399* | *1.8%* |
| CVA Risk | 42,429 | 36,615 | 5,814 | 15.9% |
| Concentration Risk | - | - | - | - |
| Settlement Risk | - | - | - | - |
| **Regulatory Capital Requirements** | **4,682,639** | **4,669,725** | **12,915** | **0.3%** |
| **Risk Weighted Assets** | **58,532,990** | **58,371,557** | **161,433** | **0.3%** |
| *of which Credit and Couterparty Risk* | *45,640,670* | *45,925,406* | *-284,735* | *-0.6%* |
| *of which Market Risk* | *2,676,620* | *2,425,993* | *250,627* | *10.3%* |
| *of which Operational Risk* | *9,685,339* | *9,562,475* | *122,864* | *1.3%* |
| *of which CVA Risk* | *530,361* | *457,684* | *72,677* | *15.9%* |
| | | | **Delta vs. 31-12-2018** | |
| **Capital ratios** | | | **in bp** | **in %** |
| **CET1 Capital Ratio** | **14.05%** | **13.74%** | **31** | **0.31%** |
| **Tier1 Capital Ratio** | **14.05%** | **13.74%** | **31** | **0.31%** |
| **Total Capital Ratio** | **15.51%** | **15.21%** | **30** | **0.30%** |

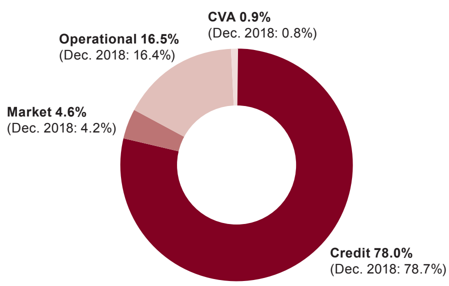
** The value represents the total contribution of the Delta PA, understood as the sum of the positive and deductions, to the determination of the Own Funds under the new regulatory framework. The total amount of the Delta PA, prior to the application of the cap, amounts to 1,052,271 €/thousand (1,123,116 €/thousand as at December 2018).*

Compared to 31 December 2018, CET1 recorded a total increase of EUR 202 m, essentially attributable to the improvement in the balance of the OCI reserve for EUR +162 m and other reserves for EUR +90 m (primarily as a result of the extinction of the indemnity issued to Bank of NY in relation to the FRESH 2008, equal to EUR 76 m, as the ten-year term had been completed), the inclusion of the result for the period of EUR +93 m, as well as the decrease in deductions associated with intangible assets, prudent valuation, DTAs and qualified financial investments (totalling EUR +22 m). These effects were partially offset by the reduction in the sterilisation of the IFRS 9 impact connected to the first-time adoption of the accounting standard, as envisaged by EU Regulation 2017/2935 (inclusive of the positive effect of the related DTAs), totalling EUR -151 m and the negative effects of the end of the transitional regime of EUR -14 m.

Tier 2 remained substantially unchanged compared to the end of 2018.

The Total Capital Ratio therefore shows an overall increase in own funds of EUR 202 m.

**Breakdown of RWAs by risk type**




RWAs recorded an overall increase of EUR 161 m, due to higher RWAs relating to market risk (EUR +250 m), operational risk (EUR +123 m) and CVA risk (EUR +73 m), partly offset by lower RWAs relating to credit and counterparty risk (EUR -285 m).

As of 30 June 2019, the Bank had a CET 1 ratio of 14.05%, higher than the minimum requirements set forth in Article 92 of the CRR and higher than both the Total SREP Capital Requirement set by ECB and the Overall Capital Requirement for 2019; the Bank's CET1 ratio is also compliant with the P2G requirement for 2019. Likewise, the Tier 1 ratio and the Total Capital ratio equal to 14.05% and 15.51%, respectively, are higher than the requirements established by Article 92 of the CRR as reported in the table below.

| Capital adequacy indicators as of 1 March 2019 | CET 1 Ratio | Tier 1 Ratio | Total Capital Ratio |
|---|---|---|---|
| *Pillar I minimun Requirements (Art. 92 CRR, Pillar I)* | *4.50%* | *6.00%* | *8.00%* |
| *TSCR (Pillar I + Pillar II)* | *7.50%* | *9.00%* | *11.00%* |
| *Combined Buffer Requirement (CBR)* | *2.50%* | *2.50%* | *2.50%* |
| *OCR Requirement (TSCR+CBR)* | *10.00%* | *11.50%* | *13.50%* |
| **OCR + P2G** | **11.30%** | **11.50%** | **13.50%** |
| **Capital Ratio at 30/06/2019** | **14.05%** | **14.05%** | **15.51%** |

*TSCR - Total Srep Capital Requirement*
*OCR - Overall Capital Requirement*
*P2G - Pillar 2 Guidance*

Furthermore, on 16 July 2019 the Parent Company successfully completed the issue of a fixed-rate Subordinated Tier 2 bond with a 10-year maturity and an amount of EUR 300 m, reserved to institutional investors.

For further details, please refer to chapter 4 of this document.

# 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, Circular nos. 285 and 286). The introduction of a new regulatory framework is subject to a transition period that extends the full application of the rules to 2019 (2022 for the phase-out of certain capital instruments) and during which the new rules will be applied in an increasing proportion.

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

Own funds are made up of the following:

- Tier 1 (T1) capital, consisting of:
- Common Equity Tier 1 (CET1);
- 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 Pillar 3 Report as of 31 December 2018.

On 1 January 2018, the new accounting standard IFRS 9 "Financial Instruments", which replaces IAS 39 (on the classification and evaluation of financial assets and liabilities), came into effect. In January 2018, the Montepaschi Group, availing itself of the option provided for by Regulation UE 2935/2017, has communicated to the competent supervisory authorities the intention to apply the IFRS9 transitional arrangements aimed at mitigating the impact on the own funds linked to the introduction of the new accounting standards. Such transitional regime, applicable from 1 January 2018 to 31 December 2022, as at Art. 473 bis, Regulation UE no.575/2013, allows the isolation of the CET1 through a mechanism of gradual introduction of the IFRS 9 impact relative to the amendments carried out during FTA. In particular, coherently with the diminution of the equity linked to the major rectifications arisen from the application of the impairment model introduced by the IFRS9, it is allowed to be included, as positive element, a decreasing progressive quota of the increased reserves for attended credit losses in the Common Equity Tier 1, according to the following percentages:

- ✓ 95% from 1 January to 31 December 2018
- ✓ 85% from 1 January to 31 December 2019
- ✓ 70% from 1 January to 31 December 2020
- ✓ 50% from 1 January to 31 December 2021
- ✓ 25% from 1 January to 31 December 2022.

Here follows the Own Funds quantitative information exposed according to the general model for the publication of the information on the Own Funds (Annex IV of the Rule of Execution (UE) no. 1423/2013 if the European Committee), with the application of the transitional regime IFRS 9 and of the other transitional arrangements in force.

Moreover, the comparison with 31 December 2018 is brought according to the rules in force on 31 December 2018.

## Quantitative information

### Tab. 3.1.1 – Own funds disclosure template

| | Common Equity Tier 1: instruments and reserves | Jun-2019 | Dec-2018 |
|---|---|---|---|
| 1 | Capital instruments and the related share premium accounts | 10,328,618 | 10,328,618 |
| | *of which: Paid up capital instruments* | *10,328,618* | *10,328,618* |
| 2 | Retained earnings | -721,577 | -999,458 |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gain and losses under the applicable accounting standards) | -50,039 | -302,070 |
| 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 | 93,063 | 278,578 |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **9,650,065** | **9,305,669** |
| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | |
| 7 | Additional value adjustments (negative amount) | -36,780 | -53,286 |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -231,517 | -269,476 |
| 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) | -1,343,163 | -1,181,817 |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | -1,553 | 8 |
| 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 | -43,464 | -45,322 |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | -313,710 | -313,710 |
| 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) | - | - |
| 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) | -73,545 | -70,700 |
| 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) | -9,529 | -134,089 |
| 22 | Amount exceeding the 15% threshold (negative amount) | -454,971 | -462,433 |
| *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* | *-227,486* | *-231,216* |
| *25* | *of which: deferred tax assets arising from temporary differences* | *-227,486* | *-231,216* |
| 25a | Losses for the current financial year (negative amount) | - | - |
| 26b | Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR[1] | 1,081,152 | 1,245,614 |
| 27 | Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount) | - | - |
| **28** | **Total regulatory adjustments to Common equity Tier 1 (CET1)** | **-1,427,080** | **-1,285,212** |
| **29** | **Common Equity Tier 1 (CET1) Capital** | **8,222,985** | **8,020,457** |

*[1]Such item includes tax realignment for -191,636 €/thousand (-192,281 €/thousand as of 31/12/2018), IFRS 9 transitional adjustments for 1,268,779 €/thousand (1,098,381 €/thousand as of 31/12/2018), and others deductions with 17.65% thresholds for 4,009 €/thousand (2,564 €/thousand as of 31/12/2018). The figure at December 2018 also includes IAS 19 transitional adjustments for 11,563 €/thousand.*

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

| | Additional Tier 1 (AT1) capital: instruments | Jun-2019 | Dec-2018 |
|---|---|---|---|
| 30 | Capital instruments and the related share premium accounts | - | - |
| *31* | *of which: classified as equity under applicable accounting standards* | - | - |
| *32* | *of which: classified as liablilities under applicable accounting standards* | - | - |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | - | - |
| 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** | **-** | **-** |
| | **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) | - | - |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | - | - |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **-** | **-** |
| **44** | **Additional Tier 1 (AT1) capital** | **-** | **-** |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **8,222,985** | **8,020,457** |

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

| | Tier 2 (T2) capital: instruments and provisions | Jun-2019 | Dec-2018 |
|---|---|---|---|
| 46 | Capital instruments and the realted share premium accounts | 750,000 | 750,000 |
| 47 | Amopunt of qualifying items referred to in Articole 484 (5) and the related share premium accounts subject to phase out from T2 | - | - |
| 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 | 170,276 | 171,131 |
| **51** | **Tier 2 (T2) capital before regulatory adjustments** | **920,276** | **921,131** |
| | **Tier 2 (T2) capital: regulatory adjustments** | | |
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | - | - |
| 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) | - | - |
| 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) | -63,748 | -63,649 |
| 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 | - | - |
| | *of whichi: Losses for the current year* | - | - |
| | *of which: Significant financial instruments* | - | - |
| | *of which: Not Significant financial instruments* | - | - |
| | *of which: outstanding amount related to the excess of expected losses with respect to adjustments for IRB positions* | - | - |
| 56c | Amount to be deducted from or added to Tier 2 capital capital with regard to additional filters and deductions required pre-CRR | - | - |
| | *of which: unrealised gains* | - | - |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | **-63,748** | **-63,649** |
| **58** | **Tier 2 (T2) capital** | **856,528** | **857,482** |
| **59** | **Total Capital (TC= T1+T2)** | **9,079,513** | **8,877,939** |

## Tab. 3.1.4 – Own Funds: Capital ratios and buffers

| | Capital ratios and buffer | Jun-2019 | Dec-2018 |
|---|---|---|---|
| **60** | **Total Risk Weighted Assets** | **58,532,990** | **58,371,557** |
| 61 | Common Equity Tier 1 (as a percentage of risk exposure amount) | 14.05% | 13.74% |
| 62 | Tier 1 (as a percentage of risk exposure amount) | 14.05% | 13.74% |
| 63 | Total capital (as a percentage of risk exposure amount) | 15.51% | 15.21% |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount) | 7.00% | 6.44% |
| *65* | *of which: capital conservation buffer requirement* | *2.500%* | *1.875%* |
| *66* | *of which: countercyclical buffer requirement* | *0.002%* | *0.002%* |
| *67* | *of which: systemic risk buffer requirement* | - | - |
| *67a* | *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer* | - | *0.06%* |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) [2] | 7.51% | 7.21% |
| | **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) | 107,398 | 101,767 |
| 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) | 749,091 | 727,542 |
| 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) | 505,247 | 587,276 |
| | **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) | 1,052,271 | 1,123,116 |
| 79 | Cap on inclusion of credit risk adjustments in T2 under IRB approach | 170,276 | 171,131 |
| | **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 |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | - | 328,497 |
| 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) | - | - |

[2] *Tier 1 capital available for reserves is calculated as the difference between the Common Equity Tier 1 and the requirement referring to Tier 1 capital for the portion covered by Common Equity Tier 1 Capital and Tier total 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-2019 | Dec-2018 |
|---|---|---|
| Group Equity | 9,336,355 | 8,991,959 |
| Minority Equity | 1,996 | 2,242 |
| **Net Assets of the Balance Sheet** | **9,338,351** | **8,994,200** |
| **Net Assets after distribution to shareholders** | **9,338,351** | **8,994,200** |
| **Adjustments for instruments computable in AT1 or T2** | | |
| - Capital share computable in AT1 | - | - |
| - Minority interests computable | -1,996 | -2,242 |
| - Own shares included in the regulatory adjustments | -313,710 | -313,710 |
| - Other components non computable in regime | -1,553 | 8 |
| **Common Equity Tier 1 (CET1) before the regulatory adjustments** | **9,334,802** | **8,991,966** |
| Regulatory adjustments (including adjustments of the transitional period) | -1,111,818 | -971,510 |
| **Common Equity Tier 1 (CET1) net of regulatory adjustments** | **8,222,985** | **8,020,457** |

## 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 th) | Financial Statement | Prudential Statement | Information about differences | Relevant amount for the purpose of Own Funds | See Table "Own funds disclosure template" |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| 70 Equity investments | 958,167 | 1,048,856 | 90,689 | -350,143 | 8, 18, 19, 23 |
| *of which: implicit goodwill* | *49,112* | *49,112* | - | *-49,112* | *8* |
| 100 Intangible assets | 182,405 | 182,405 | - | -182,405 | 8 |
| *of which: goodwill* | *7,900* | *7,900* | - | *-7,900* | *8* |
| *of which: other intangible assets* | *174,505* | *174,505* | - | *-174,505* | *8* |
| 110 Tax assets | 4,065,701 | 4,065,701 | - | -1,580,177 | 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* | *1,343,163* | *1,343,163* | - | *-1,343,163* | *10* |
| **Liabilities and Shareholders' Equity** | | | | | |
| 10 Financial liabilities measured at amortised cost - c) debts securities issued | 14,810,592 | 14,810,592 | - | 750,000 | 32, 33, 46, 52 |
| 30 Financial liabilities designated at fair value | 256,339 | 256,339 | - | - | 33 |
| 120 Valuation reserves | -15,056 | -15,056 | - | -16,609 | 3, 11 |
| *of which: FVOCI* | *-22,898* | *-22,898* | - | *-24,110* | *3 (FVOCI)* |
| *of which: CFH* | *1,553* | *1,553* | - | *-1,553* | *3 (CFH),11* |
| *of which: legally-required revaluations* | *9,053* | *9,053* | - | *9,053* | *3 (rival)* |
| *of which: other* | *-2,765* | *-2,765* | - | - | *3 (other)* |
| 150 Reserves | -756,560 | -756,560 | | -756,560 | 2, 3 |
| 160 Share premium reserve | - | - | - | - | - |
| 170 Share Capital | 10,328,618 | 10,328,618 | | 10,328,618 | 1, 2, 31 |
| 180 Treasury shares | 313,710 | 313,710 | | -313,710 | 16 |
| 200 Profit/loss for the period | 93,063 | 93,063 | | 93,063 | 5a, 25a |
| Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities | - | - | - | -43,464 | 14 |
| Value adjustments due to the requirements for prudent valuation | - | - | - | -36,780 | 7 |
| IRB Shortfall of credit risk adjustments to expected losses | - | - | - | - | 12 |
| IRB Excess of provisions over expected losses eligible | - | - | - | 170,276 | 50 |
| Filter on double tax realignment | - | - | - | -191,636 | 26b |
| Filter for IAS 19 and IFRS 9 | - | - | - | 1,272,788 | 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 Tier 2 instruments of financial sector entities where the institution has a significant investment | - | - | - | -63,748 | 54, 55 |
| Indirect investments | - | - | - | - | - |
| **Total Own Funds** | **-** | **-** | **-** | **9,079,513** | **-** |

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

# 4. Capital requirements, liquidity ratios and leverage

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

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

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

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

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

The Budgeting, Planning, Capital and Risk Management processes of the Montepaschi Group are based on the "Risk Adjusted Performance Management" (RAPM) logic.

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

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Total Capital; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post. The Capital Risk concepts applied are those in the regulatory requirements, corresponding to the Risk Weighted Assets (RWAs), determined on the basis of the rules set out in the supervisory regulations, and the economic capital corresponding to the maximum losses estimated on measurable risks at a predetermined confidence interval and on the basis of the Group's internal models and rules. Both measurements are used as part of RAPM metrics. Following the implementation of the regulatory framework, Pillar 1, which governs the requirements used to reflect the potential risk 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 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 monitoring plan of 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 regulatory framework also introduces liquidity risk monitoring requirements and tools which focus on short-term liquidity resilience (Liquidity Coverage Ratio - LCR) and longer term structural balance (Net Stable Funding Ratio - NSFR) as well as providing standards for liquidity risk management and monitoring at both individual and system-wide level.

**Capital Adequacy**

Under Prudential requirements, as of January 2014 all banks must comply with a CET1 ratio of at least 4.5%, a Tier 1 ratio of at least 6% and a Total capital Ratio of at least 8% of the Group's total risk exposure. Additionally, Banks are also required to hold the following buffers against Pillar 1 risks. 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:

- A capital conservation buffer aimed at preserving 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 1.25% of the Bank's total risk exposure for 2017; 1.875% from 1 January 2018 to 31 December 2018; 2.5% as of 1 January 2019;
- A 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 quarter of 2019, the countercyclical buffer for Italy was kept at 0%. For the other credit exposures, the Group uses the countercyclical buffers 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 Bank of Italy's decision established an O-SII buffer of zero percent for 2016 and 2017, 0.06% for 2018, 0.13% for 2019, 0.19% for 2020 and 0.25% starting from 2021. The Group is not a Global Systemically Important Institution (G-SII) but until the end of 2018 it was 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 combination of these buffers determines the Combined Buffer Requirement (CBR).

**Capital requirements – 2019**

The Parent Company received the new SREP decision from the Supervisory Authority on 8 February 2019. As regards own funds, the ECB asked BMPS to maintain a total SREP capital requirement of 11% at consolidated level starting from 1 March 2019, which includes a minimum Pillar 1 requirement (P1R) of 8% and an additional Pillar 2 requirement (P2R) of 3%. The P2R is therefore the same as in 2018, to be fully met with Common Equity Tier 1 capital.

Moreover, as of 1 January 2019, the Group is no longer required to comply with the O-SII buffer as, for 2019, it was not identified by the Bank of Italy as a systemically important institution authorised in Italy. It should also be noted that the Capital Conservation buffer is to be fully implemented from 1 January 2019 (2.5%). The following table shows the minimum capital requirements which the Group must respect.

| Capital adequacy indicators as at 1 March 2019 | CET 1 Ratio | Tier 1 Ratio | Total Capital Ratio |
|---|---|---|---|
| Pillar I minimun Requirements (Art. 92 CRR, Pillar I) | 4.50% | 6.00% | 8.00% |
| Pillar 2 Requirement (P2R) | 3.00% | 3.00% | 3.00% |
| TSCR (Pillar I+P2R) | 7.50% | 9.00% | 11.00% |
| Combined Buffer Requirement (CBR) | 2.50% | 2.50% | 2.50% |
| *of which: Capital Conservation Buffer* | *2.50%* | *2.50%* | *2.50%* |
| *of which: Countercyclical Capital Buffer* | *0.002%* | *0.002%* | *0.002%* |
| **OCR (TSCR+CBR)** | **10.00%** | **11.50%** | **13.50%** |

*TSCR - Total SREP Capital Requirement*
*OCR - Overall Capital Requirement*

As regards its guidance, the ECB expects BMPS to adjust on a consolidated basis to a P2G of 1.3%, compared to 1.5% in 2018, to be fully met with Common Equity Tier 1 capital.

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

Please note that failure to comply with the Pillar 2 Guidance (P2G) requirement is not equivalent to failure to comply with capital requirements; however, in the case of a reduction of capital below the level that includes the P2G requirement, BMPS will need to promptly disclose the reasons for non-observance to the Supervisory Authority, which will evaluate and communicate any measures on a case by case basis.

As of 30 June 2019, the Bank had a CET 1 ratio of 14.05%, higher than the minimum requirements set forth in Article 92 of the CRR and higher than both the Total SREP Capital Requirement set by ECB and the Overall Capital Requirement for 2019; the Bank's CET1 ratio is also compliant with the P2G requirement for 2019. Likewise, the Tier 1 ratio and the Total Capital ratio equal to 14.05% and 15.51%, respectively, are higher than the requirements established by Article 92 of the CRR as reported in the table below.

| Capital adequacy indicators as at 1 March 2019 | CET 1 Ratio | Tier 1 Ratio | Total Capital Ratio |
|---|---|---|---|
| Pillar I minimun Requirements (Art. 92 CRR, Pillar I) | 4.50% | 6.00% | 8.00% |
| TSCR (Pillar I + Pillar II) | 7.50% | 9.00% | 11.00% |
| Combined Buffer Requirement (CBR) | 2.50% | 2.50% | 2.50% |
| OCR Requirement (TSCR+CBR) | 10.0% | 11.50% | 13.50% |
| **OCR + P2G** | **11.30%** | **11.50%** | **13.50%** |
| **Capital Ratio at 30/06/2019** | **14.05%** | **14.05%** | **15.51%** |

*TSCR - Total SREP Capital Requirement*
*OCR - Overall Capital Requirement*
*P2G - Pillar 2 Guidance*

**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 derivatives 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 requirements 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 standard approach.

In the following tables, the details of the Group's regulatory requirements are exposed as of 30 June 2019, according to the application of the transitional regime IFRS9 and of the other transitional arrangements in force.

### Tab. 4 – Capital requirements and Regulatory capital ratios

| Regulatory Capital Requirements | Jun-19 | Dec-18 |
|---|---|---|
| **Credit and Counterparty Risk** | **3,651,254** | **3,674,032** |
| Standard Approach | 1,367,764 | 1,379,799 |
| Advanced IRB Approach | 2,283,490 | 2,294,234 |
| **Market Risks** | **214,130** | **194,079** |
| Standardised Approach | 214,130 | 194,079 |
| Internal Models | - | - |
| **Operational Risk** | **774,827** | **764,998** |
| Foundation Approach | 8,165 | 11,734 |
| Standardised Approach | - | - |
| Advanced Approach | 766,662 | 753,264 |
| **CVA Risk** | **42,429** | **36,615** |
| Originary Exposure Method (OEM) | - | - |
| Standardised Approach | 42,429 | 36,615 |
| Advanced Approach | - | - |
| **Concentration Risk** | **-** | **-** |
| **Settlement Risk** | **-** | **-** |
| **Regulatory Capital Requirements (Article 92 CRR)** | **4,682,639** | **4,669,725** |

| | | |
|---|---|---|
| **Risk-weighted assets** | **58,532,990** | **58,371,557** |
| **CET1 Capital Ratio** | **14.05%** | **13.74%** |
| **Tier1 Capital Ratio** | **14.05%** | **13.74%** |
| **Total Capital Ratio** | **15.51%** | **15.21%** |

### Report on IFRS 9

Having opted for the adoption of the transitional arrangements, the Group, under the EBA Guidelines GL 2018/01, is required to provide a comparison between own funds, risk-weighted assets, capital and leverage ratios, with and without the application of the IFRS9 transitional arrangements or equal losses on credits. Here follows the required information, according to the specified informative model in the Annex I of EBA Guidelines GL 2018/01 on uniform disclosure requirements of IFRS9.

**Tab. 4a – IFRS 9 – Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs**

| | | a | b | c | d |
|---|---|---|---|---|---|
| | | **Jun-19** | **Mar-19** | **Dec-18** | **Sep-18** |
| | **Available capital (amounts)** | | | | |
| 1 | Common Equity Tier 1 (CET1) capital | 8,222,985 | 7,953,631 | 8,020,457 | 7,899,975 |
| 2 | Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 6,954,205 | 6,685,108 | 6,603,686 | 6,529,802 |
| 3 | Tier 1 capital | 8,222,985 | 7,953,631 | 8,020,457 | 7,899,975 |
| 4 | Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 6,954,205 | 6,685,108 | 6,603,686 | 6,529,802 |
| 5 | Total capital | 9,079,513 | 8,813,312 | 8,877,939 | 8,776,189 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 7,810,734 | 7,544,789 | 7,461,168 | 7,406,016 |
| | **Risk-weighted assets (amounts)** | | | | |
| 7 | Total risk-weighted assets | 58,532,990 | 59,880,217 | 58,371,557 | 63,226,689 |
| 8 | Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 58,349,004 | 59,698,605 | 58,166,722 | 63,150,315 |
| | **Capital ratios** | | | | |
| 9 | Common Equity Tier 1 (as a percentage of risk exposure amount) | 14.05% | 13.28% | 13.74% | 12.49% |
| 10 | Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 11.92% | 11.20% | 11.35% | 10.30% |
| 11 | Tier 1 (as a percentage of risk exposure amount) | 14.05% | 13.28% | 13.74% | 12.49% |
| 12 | Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 11.92% | 11.20% | 11.35% | 10.34% |
| 13 | Total capital (as a percentage of risk exposure amount) | 15.51% | 14.72% | 15.21% | 13.88% |
| 14 | Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 13.39% | 12.64% | 12.83% | 11.73% |
| | **Leverage ratio** | | | | |
| 15 | Leverage ratio total exposure measure | 139,206,895 | 141,650,938 | 145,308,685 | 143,483,814 |
| 16 | Leverage ratio | 5.91% | 5.62% | 5.52% | 5.51% |
| 17 | Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 5.01% | 4.73% | 4.56% | 4.55% |

The application of the IFRS 9 fully loaded without taking into account the impact deriving from the cohesion with the transitional regime expected from 2018, would have entailed a reduction of 213 bp of both the CET1 ratio and Total Capital ratio. Such coefficients would have resulted in 11.92% (instead of 14.05% transitional arrangements) and 13.39% (instead of 15.51%). IFRS 9 fully-loaded application would have entailed a total CET1 decrease of about EUR 1.3bn linked to major provisions implemented during FTA on IRB credit exposure.

The following table provides a general overview of the total RWAs and capital requirements.

## Tab. 4b (EU OV1) – Overviews of RWAs

| | | | RWAs | | Minimum capital requirements | |
|---|---|---|---|---|---|---|
| | | | Jun-19 | Mar-19 | Jun-19 | Mar-19 |
| | 1 | **Credit risk (excluding CCR)** | **42,788,647** | **43,776,129** | **3,423,092** | **3,502,090** |
| Article 438 (c) (d) | 2 | Of which the standardised approach | 14,726,619 | 15,180,632 | 1,178,130 | 1,214,451 |
| Article 438, (c) (d) | 3 | Of which the foundation IRB (FIRB) approach | - | - | - | - |
| Article 438 (c) (d) | 4 | Of which the advanced IRB (AIRB) approach | 28,062,028 | 28,595,497 | 2,244,962 | 2,287,640 |
| Article 438, d) | 5 | Of which equity IRB under the simple risk-weighted approach or the IMA | - | - | - | - |
| Article 107, Article 438 (c) (d) | 6 | **CCR** | **2,120,386** | **2,080,045** | **169,631** | **166,404** |
| Article 438(c) (d) | 7 | Of which mark to market | 848,023 | 806,743 | 67,842 | 64,539 |
| Article 438, lettere c) e d) | 8 | Of which original exposure | - | - | - | - |
| | 9 | Of which the standardised approach | - | - | - | - |
| | 10 | Of which internal model method (IMM) | - | - | - | - |
| Article 438(c) (d) | 11 | Of which risk exposure amount for contributions to the default fund of a CCP | 6,622 | 6,622 | 570 | 530 |
| Article 438 (c) (d) | 12 | Of which CVA | 530,361 | 452,755 | 42,429 | 36,220 |
| Article 438 (e) | 13 | **Settlement risk** | **-** | **-** | **-** | **-** |
| Article 449 (o) (i) | 14 | **Seecuritisation exposures in the banking book (after the cap)** | **174,176** | **166,472** | **13,934** | **13,318** |
| | 15 | Of which IRB approach | 164,226 | 156,388 | 13,138 | 12,511 |
| | 16 | Of which IRB supervisory formula approach (SFA) | - | - | - | - |
| | 17 | Of which internal assessment approach (IAA) | - | - | - | - |
| | 18 | Of which standardised approach | 9,950 | 10,084 | 796 | 807 |
| Article 438 (e) | 19 | **Market risk** | **2,676,620** | **2,863,074** | **214,130** | **229,046** |
| | 20 | Of which the standardised approach | 2,676,620 | 2,863,074 | 214,130 | 229,046 |
| | 21 | Of which IMA | - | - | - | - |
| Article 438 (e) | 22 | **Large exposures** | **-** | **-** | **-** | **-** |
| Article 438 (f) | 23 | **Operational risk** | **9,685,339** | **9,947,251** | **774,827** | **795,780** |
| | 24 | Of which basic indicator approach | 102,062 | 146,680 | 8,165 | 11,734 |
| | 25 | Of which standardised approach | - | - | - | - |
| | 26 | Of which advanced measurement approach | 9,583,277 | 9,800,571 | 766,662 | 784,046 |
| Article 437(2), Article 48 and 60 | 27 | **Amounts below the thresholds for deduction (subject to 250% risk weight)** | **1,087,821** | **1,047,247** | **87,026** | **83,780** |
| Article 500 | 28 | Floor adjustment | - | - | - | - |
| | 29 | **Total** | **58,532,990** | **59,880,217** | **4,682,639** | **4,790,417** |

*The sum of rows 1,6 (excluding row 12), 14 and 27 is consistent with the item of total credit and counterparty risk of tables 4.1 and 4.2. Row 6(consistent with table 6.2.1 - EU CCR1), in addition to rows 7,8,9,10,11, and 12, includes the amount related to the financial collateral comprehensive method (for SFTs) equal to 734,874 of RWA as of 30/06/2019.*

Further information on exposures (non-weighted amounts) and RWAs (weighted amounts), are reported:

- for exposures subject to the standard approach – Credit Risk in Section 5.2 (which also contains the amounts of off-balance sheet transactions after weighting by credit conversion factors – CCF);
- for exposures subject to internal credit risk models in section 5.3;
- for exposures subject to the Counterparty Risk in Section 6.

## Tab. 4.1 – Capital requirements for Credit and Counterparty Risk

| | Jun-19 | Dec-18 |
|---|---|---|
| | Capital requirements | Capital requirements |
| **Standard Approach** | | |
| Standard Approach Total | **1,367,764** | **1,379,799** |
| *of which: Counterparty Risk* | *101,243* | *102,082* |
| **IRB Approach** | | |
| IRB Approach Total | **2,283,490** | **2,294,234** |
| *of which: Counterparty Risk* | *25,389* | *24,054* |
| **Total** | **3,651,254** | **3,674,032** |
| *of which: Counterparty Risk* | *126,632* | *126,136* |

The capital requirement for Counterparty Risk amounts to 126,632 €/thousand 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 Appoach and the AIRB Approach in table 4.2.

## Tab. 4.2 – Capital requirements for Credit and Counterparty Risk

| Standard Approach | Jun-19 | Dec-18 |
|---|---|---|
| Exposures to central governments or central banks | 151,952 | 158,959 |
| Exposures to regional governments or local authorities | 27,443 | 27,229 |
| Exposures to public sector entities | 31,900 | 31,153 |
| Exposures to multilateral development banks | - | - |
| Exposures to International Organisations | - | - |
| Exposures to institutions | 157,196 | 165,328 |
| Exposures to Corporates | 248,268 | 306,277 |
| Retail Exposures | 54,517 | 63,562 |
| Exposures secured by mortgages on immovable property | 40,184 | 45,260 |
| Exposures in Default | 48,033 | 52,369 |
| Exposures associated with high-risk | 61,171 | 75,255 |
| Exposures in the form of covered bonds | 6,749 | 7,019 |
| Exposures to institutions and corporates with a short-term credit assessment | - | - |
| Exposures to CIUs | 18,116 | 18,142 |
| Equity Exposures | 160,217 | 149,775 |
| Other Exposures | 360,653 | 278,541 |
| Securitization positions | 796 | - |
| Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund | 570 | 929 |
| **Standard Approach Total** | **1,367,764** | **1,379,799** |
| **AIRB Approach** | | |
| Exposures to or secured by corporates: | 1,651,182 | 1,636,008 |
| - SMEs | 807,820 | 817,559 |
| - Other companies | 733,960 | 704,933 |
| - Specialized lending | 109,402 | 113,515 |
| Retail exposures: | 619,169 | 645,744 |
| - secured by real estate: SMEs | 143,715 | 148,644 |
| - secured by real estate: Individuals | 203,825 | 206,366 |
| - Qualifying revolving | 568 | 652 |
| - Other retail exposures: SMEs | 245,980 | 262,880 |
| - Other retail exposures: Individuals | 25,081 | 27,202 |
| Securitization positions | 13,138 | 12,482 |
| **AIRB Approach Total** | **2,283,490** | **2,294,234** |
| **Credit and Counterparty Risk Total** | **3,651,254** | **3,674,032** |

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-19 | Dec-18 |
|---|---|---|
| Category 1 - 50% | - | 36 |
| Category 1 - 70% equal to or greater than 2.5 years | 2,800 | 1,672 |
| Category 2 -70% less than 2.5 years | 7,700 | 7,769 |
| Category 2 - 90% | 81,243 | 69,520 |
| Category 3 - 115% | 12,358 | 28,288 |
| Category 4 - 250% | 5,301 | 6,230 |
| Category 5 - 0% | - | - |
| **Total** | **109,402** | **113,515** |

## Tab. 4.4 – Capital requirements for Market Risk

| Standardised Approach | Jun-19 | Dec-18 |
|---|---|---|
| Position risk on debt instruments | 132,730 | 126,630 |
| Position risk on equity | 39,337 | 37,680 |
| Foreign exchange risk | 11,630 | 6,210 |
| Commodities risk | 7,053 | 8,402 |
| CIU Risk | 23,378 | 15,157 |
| **Total Standardised Approach** | **214,130** | **194,079** |
| **Internal models** | | |
| **Total Internal models** | **-** | **-** |
| **Total Market Risks** | **214,130** | **194,079** |

*The capital requirement included in Marekt Risk for securitisaiton positions in the Regulatory Trading Portfolio amount 18,936 (expressed in thousands of Euros) as of 30/06/2019.*

## Tab. 4.5 – Capital requirements for Operational Risk

| Requirements by Approach | Jun-19 | Dec-18 |
|---|---|---|
| Foundation Approach | 8,165 | 11,734 |
| Standardised Approach | - | - |
| Advanced Measurement Approach | 766,662 | 753,264 |
| **Total Operational Risk** | **774,827** | **764,998** |

The following table shows the main changes in RWA and capital requirements for Credit Risk under the IRB approach.

## Tab. 4.6 (EU CR8) – RWA flow statements of Credit Risk exposures under the IRB approach

| | | a | b |
|---|---|---|---|
| | | RWA amounts | Capital requirements |
| 1 | **RWAs as of 31/03/2019** | **28,751,643** | **2,300,131** |
| 9 | **RWAs as of 30/06/2019** | **28,226,254** | **2,258,100** |

*In the second quarter 2019, RWAs of Credit Risk exposures under the IRB approach recorded a reduction of 0.5 €/bn. The amounts are net of the counterparty risk component.*

Details on the impact on RWAs in terms of the authorisation granted to entities not to deduct instruments of own funds held in a financial entity in which the entities hold a significant investment are provided below.

### Tab. 4.7 (EU INS1) – Non-deducted participations in insurance undertakings

| | Jun-19 |
|---|---|
| Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting) | 649,647 |
| **Total RWA s** | **1,624,118** |

### Countercyclical Capital Buffer

As of 30 June 2019, the Montepaschi Group is required to hold a countercyclical capital buffer of EUR 1,170.7. This buffer, as established by Article 130 of the CRD IV, is equal to the total risk exposure amount (expressed in terms of risk-weighted assets) multiplied by the institution's specific countercyclical rate, which, for the Montepaschi Group, stands at 0.002%. The latter is equal to the weighted average of the countercyclical rates applicable in the countries where the Institution has exposures. Each Member State, in accordance with article 130, paragraph 1 of Directive 2013/36/UE of the European Parliament and Council (CRD), shall require institutions to maintain an institution-specific countercyclical capital buffer against exposures to their own Country and establish the related countercyclical buffer rate. In particular, the Bank of Italy has set the countercyclical buffer rate for exposures to Italian counterparties at 0% for 2018 and the second quarter of 2019. As far as the other credit exposures are concerned, the Group uses the rates established by the competent authorities of the State in order to calculate its own indicator. As of 30 June 2019, only the competent authorities of United Kingdom, Hong Kong, Sweden, Norway, Czech Republic, Slovakia, Lithuania, Iceland and Denmark among the countries to which the Group has relevant exposures for the purpose of calculating the countercyclical buffer, have established a non-zero countercyclical capital buffer rate. The Montepaschi Group holds 96.21% of relevant exposures to Italy, which has a 0% rate, for the purpose of calculating the countercyclical buffer. Reported below are the main items of calculation of the countercyclical capital buffer, presented in the standard format shown in table 2, Attachment I of Commission Delegated Regulation (EU) 1555/2015.

**Tab. 4.8 – Amount of institution-specific countercyclical buffer**

| | | Jun-19 |
|---|---|---|
| 10 | Total risk exposure amount | 58,532,990 |
| 20 | Institution specific countercyclical buffer rate | 0.002% |
| 30 | Institution specific countercyclical buffer requirement | 1,170.7 |

## 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 (100% in 2018). The Liquidity Cover Ratio was 201% as of 30 June 2019 (190% as of 31 December 2018[1]), well above the minimum of 100% required for the year 2019.

As regards the Net Stable Funding Ratio, EU legislation does not currently contemplate a regulatory limit.

## Leverage Ratio

In addition to the system of capital requirements aimed at covering credit, counterparty, market, operational, CVA and regulatory risks, it is expected that the current regulatory framework will monitor a limit on leverage with a twofold purpose to limit the accumulation of debt within the banking industry so as to avoid destabilizing deleveraging process which may harm the financial system and the economy in general, and to strengthen the system of capital requirements associated with risk with a simple backstop measure that is not based on risk profile.

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

As required by the Regulation EU 62/2015, the Leverage Ratio is calculated as a ratio between Tier1 and a denominator that is based on the non-risk weighted assets (including off-balance sheet exposures) 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. 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 for by Commission Implementing Regulation (EU) 2016/200 of 15 February 2016, banks

[1] The comparative figure relating to the LCR index as of 31 December 2018 was restated to take into account a specific interpretative clarification provided by the Supervisory Authority.

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 5.91% as of 30 June 2019. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 5.00%.

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

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 of 30 June 2019. The figures shown relate to the calculation of the leverage ratio according to applicable transitional provisions for reporting purposes.

**Tab. 4.9 – Leverage Ratio**

| | | Jun-19 | Dec-18 |
|---|---|---|---|
| **Capital and total exposures** | | | |
| 20 | Tier 1 capital | 8,222,985 | 8,020,457 |
| 21 | Total exposures | 139,206,895 | 145,308,685 |
| **Leverage ratio** | | | |
| 22 | Basel III leverage ratio | 5.91% | 5.52% |

**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 2019. As of 30 June 2019, the Group recorded a slight increase in the financial leverage indicator linked to the decrease in Total exposures and to the increase in Tier1 capital compared to 31/12/2018.

# 5. Credit Risk

## 5.1 Credit Risk: general disclosure

The MPS group gives special attention to the management and the measurement of Credit Risk, which represents the greatest risk to which the Group is exposed, accounting for approximately 78% 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.

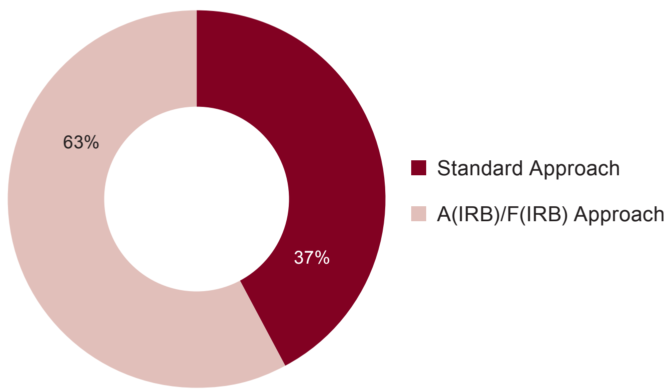
In addition, operational guidelines are structured into quantitative and qualitative objectives to develop and reclassify the loan portfolio, according to business sector and regional units. The Credit Risk Management function is also involved in the monitoring phase and verifies that the Network Structures 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, please refer to Chapter 1 of the Pillar 3 Report as of 31 December 2018.

As concerns capital requirements, for credit risks the Group uses the Advanced Internal

Rating Based (AIRB) method with reference to the "Retail exposures" and "Exposures to corporates" 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.

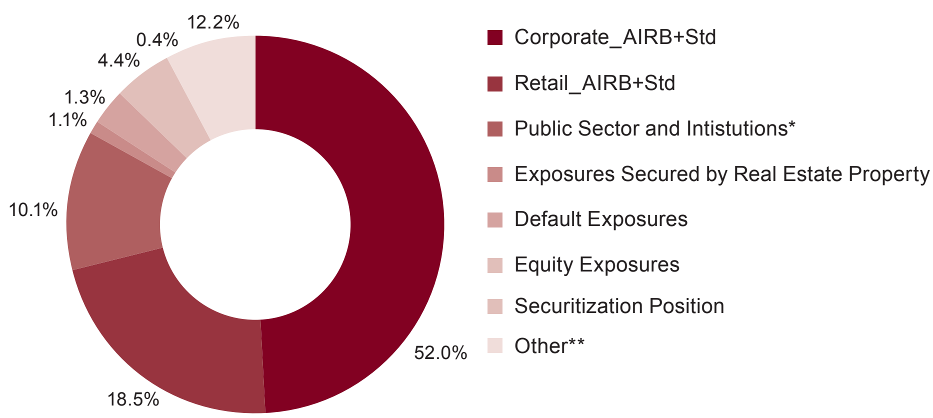
RWAs by credit risk show a prevalence of exposures treated under the advanced approach (63%) over those subject to the Standard Approach (37%).

**Credit risk's RWA by approach**




An analysis by type of exposure reveals that 70.5% of Credit Risk refers to the Corporate and Retail portfolios. The remaining 29.5% is mainly concentrated in the Public Sector and Institutions (10.1%).

**RWA by type of exposure**




* *Includes the following portfolios: Central Governments or Central Banks, Regional Governments or Local Authorities, Public sector entities, Multilateral Development Banks, International Organisations, and Institutions.*

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

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

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

| | Jun-19 | | Dec-18 | | | |
|---|---|---|---|---|---|---|
| | EAD | RWA | EAD | RWA | Δ EAD | Δ RWA |
| **Standard Approach** | | | | | | |
| **Standard Approach Total** | **54,265,743** | **17,097,050** | **55,782,149** | **17,247,482** | **-1,516,407** | **-150,432** |
| *of which: Counterparty Risk* | *4,115,847* | *1,265,531* | *4,440,817* | *1,276,020* | *-324,970* | *-10,489* |
| **IRB Approach** | | | | | | |
| **IRB Approach Total** | **78,908,506** | **28,543,620** | **78,441,822** | **28,677,923** | **466,684** | **-134,303** |
| *of which: Counterparty Risk* | *546,617* | *317,366* | *731,471* | *300,680* | *-184,854* | *16,686* |
| **Total** | **133,174,249** | **45,640,670** | **134,223,971** | **45,925,406** | **-1,049,722** | **-284,735** |
| *of which: Counterparty Risk* | *4,662,464* | *1,582,897* | *5,172,288* | *1,576,700* | *-509,824* | *6,197* |

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-19 | | Dec-18 | |
|---|---|---|---|---|
| Regulatory portfolios | EAD | RWA | EAD | RWA |
| Exposures to central governments or central banks | 28,524,377 | 1,899,400 | 29,593,805 | 1,986,993 |
| Exposures to regional governments or local authorities | 1,716,745 | 343,035 | 1,697,018 | 340,362 |
| Exposures to public sector entities | 474,513 | 398,746 | 438,595 | 389,414 |
| Exposures to multilateral development banks | 110,171 | - | 103,787 | - |
| Exposures to International Organisations | - | - | - | - |
| Exposures to institutions | 8,922,969 | 1,964,945 | 9,109,900 | 2,066,599 |
| Exposures to Corporates | 3,209,130 | 3,103,348 | 3,884,165 | 3,828,461 |
| Retail Exposures | 989,508 | 681,464 | 1,143,632 | 794,527 |
| Exposures secured by mortgages on immovable property | 1,335,812 | 502,300 | 1,498,839 | 565,747 |
| Exposures in Default | 536,495 | 600,412 | 589,509 | 654,617 |
| Exposures associated with high-risk | 509,761 | 764,642 | 627,127 | 940,690 |
| Exposures in the form of covered bonds | 706,865 | 84,367 | 720,835 | 87,741 |
| Exposures to institutions and corporates with a short-term credit assessment | - | - | - | - |
| Exposures to UCIs | 226,445 | 226,445 | 226,772 | 226,772 |
| Equity Exposures | 1,028,239 | 2,002,710 | 1,008,960 | 1,872,189 |
| Other Exposures | 5,964,762 | 4,508,158 | 5,139,204 | 3,481,757 |
| Securitization positions | 9,950 | 9,950 | - | - |
| Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund | - | 7,128 | - | 11,614 |
| **Standard Approach Total** | **54,265,743** | **17,097,050** | **55,782,149** | **17,247,482** |
| **AIRB Approach** | | | | |
| Exposures to or secured by corporates: | 34,057,933 | 20,639,776 | 33,324,171 | 20,450,103 |
| - SMEs | 19,068,243 | 10,097,746 | 18,921,695 | 10,219,492 |
| - Other companies | 13,235,975 | 9,174,499 | 12,595,157 | 8,811,667 |
| - Specialized lending | 1,753,715 | 1,367,531 | 1,807,318 | 1,418,943 |
| Retail exposures: | 44,724,307 | 7,739,618 | 44,974,350 | 8,071,795 |
| - secured by real estate: SMEs | 5,323,404 | 1,796,435 | 5,466,283 | 1,858,045 |
| - secured by real estate: Individuals | 26,267,116 | 2,547,818 | 25,957,497 | 2,579,577 |
| - Qualifying revolving | 82,688 | 7,102 | 91,966 | 8,148 |
| - Other retail exposures: SMEs | 9,962,025 | 3,074,756 | 10,375,638 | 3,286,005 |
| - Other retail exposures: Individuals | 3,089,074 | 313,506 | 3,082,967 | 340,019 |
| - Securitization positions | 126,266 | 164,226 | 143,301 | 156,025 |
| **AIRB Approach Total** | **78,908,506** | **28,543,620** | **78,441,822** | **28,677,923** |
| **Credit and Counterparty Risk Total** | **133,174,249** | **45,640,670** | **134,223,971** | **45,925,406** |

## 5.2 Credit Risk: Standard approach

### Quantitative disclosure

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

The quantitative disclosures in this Section complement those provided in section 5.5 on Risk mitigation techniques. In fact, each regulatory portfolio provided for by regulations under the standard approach is broken down as follows:

- amount of on- and off-balance exposures, "without" the risk mitigation (Exposure before CRM), which does not take into account the decrease in exposure arising from the application of collateral and guarantees; in the case of guarantees, which transfer risk in respect of the guaranteed portion, reference is made to the guarantor's regulatory portfolios and weightings, while as to the residual exposure, reference is made to the guaranteed party's information;
- amount of the same exposures "with" the risk mitigation effect (Exposure after CRM), i.e. net of the guarantees mentioned in the previous point, thus the difference between exposures "with" and "without" credit risk mitigation represents the amount of approved collateral, disclosed also in section 5.5 on Risk mitigation techniques.

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

| | Jun-19 | | | Dec-18 | | |
|---|---|---|---|---|---|---|
| Regulatory Portfolio (Standard Approach) | Ante CRM Exposure | Post CRM Exposure | Credit Risk Mitigation Techniques | Ante CRM Exposure | Post CRM Exposure | Credit Risk Mitigation Techniques |
| Exposures to central governments or central banks | 28,654,778 | 28,654,778 | - | 29,713,332 | 29,713,332 | - |
| Exposures to regional governments or local authorities | 2,807,630 | 2,807,630 | - | 2,850,392 | 2,850,392 | - |
| Exposures to public sector entities | 691,317 | 676,466 | -14,851 | 721,429 | 706,576 | -14,853 |
| Exposures to multilateral development banks | 155,171 | 155,171 | - | 148,787 | 148,787 | - |
| Exposures to International Organisations | - | - | - | - | - | - |
| Exposures to Institutions | 39,374,162 | 11,716,053 | -27,658,109 | 52,291,775 | 14,472,631 | -37,819,144 |
| Exposures to Corporates | 6,069,385 | 5,194,644 | -874,741 | 7,162,617 | 6,179,496 | -983,121 |
| Retail Exposures | 2,258,249 | 2,222,220 | -36,029 | 2,283,596 | 2,258,302 | -25,294 |
| Exposures secured by mortgages on immovable property | 1,342,704 | 1,342,473 | -231 | 1,502,687 | 1,501,254 | -1,433 |
| Exposures in Default | 777,289 | 770,078 | -7,211 | 823,301 | 818,604 | -4,696 |
| Exposures associated with particularly high-risk | 581,433 | 579,006 | -2,427 | 691,306 | 689,064 | -2,242 |
| Exposures in the form of covered bonds | 706,865 | 706,865 | - | 720,835 | 720,835 | - |
| Exposures to institutions and corporates with a short-term credit assessment | - | - | - | - | - | - |
| Exposures to UCIs | 365,806 | 303,875 | -61,931 | 270,428 | 269,153 | -1,275 |
| Equity Exposures | 1,028,239 | 1,028,239 | - | 1,008,960 | 1,008,960 | - |
| Other Exposures | 5,964,762 | 5,964,762 | - | 5,139,222 | 5,139,222 | - |
| Items representing securitization positions | 9,950 | 9,950 | - | - | - | - |
| Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund | - | - | - | - | - | - |
| **Standard Approach Total** | **90,787,740** | **62,132,209** | **-28,655,531** | **105,328,666** | **66,476,608** | **-38,852,058** |

*The table shows the 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).*

As of 30 June 2019, the total amount of exposures deducted from Funds came to EUR 1,945.0 million. 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 regulations. The off-balance sheet exposures in relation to guarantees and commitments are disclosed side by side with the counterparty weighting factor. The exposure value shown in the tables of this section is stated net of adjustments in accordance with the prudential regulations.

Reported below are the Post CRM exposures broken down by weighting factor.

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

| | Classes of credit worthiness (Weighting Factors) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Regulatory Portfolio (Standard Approach) | 0% | Until 20% | 35% | 50% | 70% - 100% | 150% | 225% - 250% | 370% | 1250% | Total |
| Exposures to central governments or central banks | 27,269,162 | 17 | - | 25,579 | 791,445 | - | 438,174 | - | - | 28,524,377 |
| Exposures to regional governments or local authorities | - | 1,716,745 | - | - | - | - | - | - | - | 1,716,745 |
| Exposures to public sector entities | 2,754 | 91,266 | - | - | 380,491 | 1 | - | - | - | 474,513 |
| Exposures to multilateral development banks | 110,171 | - | - | - | - | - | - | - | - | 110,171 |
| Exposures to International Organisations | - | - | - | - | - | - | - | - | - | - |
| Exposures to Institutions | 43,274 | 6,792,610 | - | 1,894,432 | 192,588 | 67 | - | - | - | 8,922,969 |
| Exposures to Corporates | - | 24,308 | - | 43,427 | 3,113,672 | 27,723 | - | - | - | 3,209,130 |
| Retail Exposures | - | - | - | - | 989,508 | - | - | - | - | 989,508 |
| Exposures secured by mortgages on immovable property | - | - | 919,894 | 415,918 | - | - | - | - | - | 1,335,812 |
| Exposures in Default | - | - | - | - | 408,661 | 127,834 | - | - | - | 536,495 |
| Exposures associated with particularly high-risk | - | - | - | - | - | 509,761 | - | - | - | 509,761 |
| Exposures in the form of covered bonds | - | 706,865 | - | - | - | - | - | - | - | 706,865 |
| Exposures to institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - |
| Exposures to UCIs | - | - | - | - | 226,445 | - | - | - | - | 226,445 |
| Equity Exposures | - | - | - | - | 378,592 | - | 649,647 | - | - | 1,028,239 |
| Other Exposures | 700,522 | 947,530 | - | 478 | 4,311,869 | 4,363 | - | - | - | 5,964,762 |
| Items representing securitization positions | - | - | - | - | 9,950 | - | - | - | - | 9,950 |
| Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund | - | - | - | - | - | - | - | - | - | - |
| **Total as at 30/06/2019** | **28,125,883** | **10,279,342** | **919,894** | **2,379,833** | **10,803,221** | **669,749** | **1,087,821** | **-** | **-** | **54,265,743** |
| **Total as at 31/12/2018** | **29,416,632** | **10,262,926** | **1,029,098** | **2,544,282** | **10,677,282** | **811,909** | **1,040,020** | **-** | **-** | **55,782,149** |

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

## Tab. 5.2.3 (EU CR5) – Standard approach

| | Exposure classes | Risk weight | | | | | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 225 - 250% | 370% | 1250% | Deducted | | |
| 1 | Exposures to central governments or central banks | 27,268,866 | - | - | - | 17 | - | 25,579 | - | - | 789,967 | - | 438,174 | - | - | 1,580,177 | **28,522,603** | - |
| 2 | Exposures to regional governments or local authorities | - | - | - | - | 1,702,511 | - | - | - | - | - | - | - | - | - | - | **1,702,511** | - |
| 3 | Exposures to public sector entities | 2,754 | - | - | - | 91,266 | - | - | - | - | 373,468 | - | - | - | - | - | **467,489** | - |
| 4 | Exposures to multilateral development banks | 110,171 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **110,171** | - |
| 5 | Exposures to Internatio-nal Organisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 6 | Exposures to Institutions | 43,274 | 1,259,308 | 130,418 | - | 3,199,864 | - | 311,939 | - | - | 180,051 | 67 | - | - | - | - | **5,124,921** | - |
| 7 | Exposures to Corporates | - | - | - | - | 24,308 | - | 43,427 | - | - | 2,840,293 | 27,723 | - | - | - | - | **2,935,752** | - |
| 8 | Retail Exposures | - | - | - | - | - | - | - | - | 989,464 | - | - | - | - | - | - | **989,464** | - |
| 9 | Exposures secured by mortgages on immovable property | - | - | - | - | - | 919,894 | 415,918 | - | - | - | - | - | - | - | - | **1,335,812** | - |
| 10 | Exposures in Default | - | - | - | - | - | - | - | - | - | 408,624 | 127,829 | - | - | - | - | **536,452** | - |
| 11 | Exposures associated with particularly high-risk | - | - | - | - | - | - | - | - | - | - | 509,638 | - | - | - | - | **509,638** | - |
| 12 | Exposures in the form of covered bonds | - | - | - | 570,056 | 136,809 | - | - | - | - | - | - | - | - | - | - | **706,865** | - |
| 13 | Exposures to institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Exposures to CIUs | - | - | - | - | - | - | - | - | - | 205,268 | - | - | - | - | - | **205,268** | - |
| 15 | Equity Exposures | - | - | - | - | - | - | - | - | - | 378,592 | - | 649,647 | - | - | -301,031 | **1,028,239** | - |
| 16 | Other Exposures | 700,522 | - | - | - | 947,530 | - | 478 | - | - | 4,311,869 | 4,363 | - | - | - | | **5,964,762** | - |
| 17 | **Total as at 30/06/2019** | **28,125,587** | **1,259,308** | **130,418** | **570,056** | **6,102,306** | **919,894** | **797,340** | - | **989,464** | **9,488,132** | **669,619** | **1,087,821** | - | - | **1,279,146** | **50,139,946** | - |
| 18 | **Total as at 31/12/2018** | **29,416,632** | **782,085** | **161,266** | **564,264** | **6,246,782** | **1,029,098** | **879,869** | - | **1,143,632** | **9,266,392** | **811,909** | **1,040,020** | - | - | **1,849,039** | **51,341,332** | - |

*The exposure shown in the table does not include the counterparty credit risk (CCR). The deducted items include exposures required to be deducted in accordance with Part Two of the CRR.*

## 5.3 Credit Risk: use of the AIRB approach

**AIRB Authorization**

With decree no. 647555 of 12 June 2008, the bank of Italy authorisee Montepaschi Group to useaAdvancediInternal ratings based (AIRB) systems to calculate the capital requirements for credit Risk 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 of 30 June 2019 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 equivalen. Following are the values of Risk Weighted Assets (RWAs), Expected Losses (EL), and and Actual Losses (AL) as at the end of June 2019. 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 in those that follog shos the exposure value before applying the credit conversion factor.

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

| | Jun-19 | | | |
|---|---|---|---|---|
| Regulatory Portfolio | EAD | RWA | EL | AL |
| Exposures to or secured by corporates: | 34,057,933 | 20,639,776 | 4,707,355 | 5,369,042 |
| - SMEs | 19,068,243 | 10,097,746 | 3,400,394 | 4,041,352 |
| - Other companies | 13,235,975 | 9,174,499 | 1,147,886 | 1,167,271 |
| - Specialized lending | 1,753,715 | 1,367,531 | 159,074 | 160,419 |
| Retail exposures: | 44,724,307 | 7,739,618 | 3,105,676 | 3,496,261 |
| - Secured by real estate: SMEs | 5,323,404 | 1,796,435 | 319,181 | 342,692 |
| - Secured by real estate: Individuals | 26,267,116 | 2,547,818 | 117,632 | 147,136 |
| - Qualifying revolving | 82,688 | 7,102 | 370 | 645 |
| - Other retail exposures: SMEs | 9,962,025 | 3,074,756 | 1,957,549 | 2,227,051 |
| - Other retail exposures: Individuals | 3,089,074 | 313,506 | 710,945 | 778,735 |
| Securitization positions | 126,266 | 164,226 | - | 2,994 |
| **Total as at 30/06/2019** | **78,908,506** | **28,543,620** | **7,813,031** | **8,868,296** |
| **Total as at 31/12/2018** | **78,441,822** | **28,677,923** | **8,174,377** | **9,300,183** |

Reported below is 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)**

| | Jun-19 | | | | |
|---|---|---|---|---|---|
| Classes of creditworthiness | Corporates Exposure | Retail Exposure | AIRB Total Exposures | AIRB Total EL | AIRB Total AL |
| Class 01 | - | - | - | - | - |
| Class 02 | 166,100 | 20,896 | 186,996 | 24 | 195 |
| Class 03 | 214,065 | 73,979 | 288,044 | 59 | 175 |
| Class 04 | 418,585 | 132,668 | 551,253 | 194 | 384 |
| Class 05 | 798,795 | 7,083,318 | 7,882,113 | 1,594 | 1,345 |
| Class 06 | 1,069,675 | 4,938,279 | 6,007,954 | 2,280 | 2,226 |
| Class 07 | 2,748,537 | 3,980,853 | 6,729,389 | 5,276 | 4,646 |
| Class 08 | 2,743,577 | 3,258,362 | 6,001,940 | 7,693 | 5,661 |
| Class 09 | 2,680,341 | 4,622,784 | 7,303,125 | 12,539 | 9,042 |
| Class 10 | 3,784,231 | 4,945,028 | 8,729,259 | 25,068 | 17,938 |
| Class 11 | 2,513,447 | 2,606,221 | 5,119,668 | 25,277 | 21,762 |
| Class 12 | 1,985,417 | 2,164,597 | 4,150,013 | 31,785 | 32,664 |
| Class 13 | 2,074,757 | 2,143,216 | 4,217,973 | 51,230 | 106,988 |
| Class 14 | 1,125,456 | 1,092,373 | 2,217,829 | 41,398 | 77,348 |
| Class 15 | 656,371 | 541,703 | 1,198,074 | 34,555 | 59,193 |
| Class 16 | 291,175 | 354,440 | 645,615 | 30,586 | 46,090 |
| Class 17 | 126,598 | 163,333 | 289,931 | 16,753 | 21,475 |
| Class 18 | 117,547 | 138,853 | 256,400 | 20,911 | 23,408 |
| Class 19 | 59,330 | 96,147 | 155,477 | 16,179 | 13,347 |
| Class 20 | 8,730,215 | 6,367,257 | 15,097,471 | 7,330,555 | 8,260,996 |
| **Total as at 30/06/2019** | **32,304,218** | **44,724,307** | **77,028,525** | **7,653,956** | **8,704,883** |
| **Total as at 31/12/2018** | **31,516,852** | **44,974,350** | **76,491,202** | **7,983,504** | **9,051,731** |

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

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

**Tab. 5.3.3 – EU CR10 – IRB (Specialized lending and equities)**

| Rating Class | Nominal Value | EAD | Off-balance-sheet amount | RWA | Value adjustments | Expected Loss |
|---|---|---|---|---|---|---|
| Category 1 - 50% | 23,300 | - | 23,300 | - | - | - |
| Category 1 - 70% equal to or greater than 2.5 years | 50,008 | 50,008 | - | 35,006 | 79 | 200 |
| Category 2 -70% less than 2.5 years | 200,479 | 137,497 | 77,993 | 96,248 | 227 | 550 |
| Category 2 - 90% | 1,186,446 | 1,128,378 | 116,136 | 1,015,540 | 3,251 | 9,027 |
| Category 3 - 115% | 137,915 | 134,328 | 7,175 | 154,477 | 9,242 | 3,761 |
| Category 4 - 250% | 26,504 | 26,504 | - | 66,260 | 1,403 | 2,120 |
| Category 5 - 0% | 277,005 | 277,000 | 10 | - | 146,217 | 143,416 |
| **Total as at 30/06/2019** | **1,901,657** | **1,753,715** | **224,613** | **1,367,531** | **160,419** | **159,074** |
| **Total as at 31/12/2018** | **2,002,354** | **1,807,318** | **348,488** | **1,418,943** | **245,762** | **190,873** |

## Tab. 5.3.4 (EU CR6) – IRB approach: Exposures to or secured by corporates - SMEs

| Rating Class | On-balance-sheet gross exposures | Nominal Value | Exposure Value | CCF% (Average) | Number of obligors | Weighted Average PD (%) | Weighted Average LGD (%) | Average maturity | Average Risk Weight % (RW%) | Value adjustments | Expected Loss | RWA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Class 01 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 02 | 163,387 | 161,083 | 38,778 | 3.06% | 112 | 0.03% | 39.89% | 3,28 | 12.97% | 31 | 5 | 5,028 |
| Class 03 | 396,101 | 386,197 | 128,141 | 6.28% | 319 | 0.05% | 39.63% | 2,62 | 14.21% | 74 | 25 | 18,212 |
| Class 04 | 604,762 | 590,686 | 231,439 | 7.87% | 569 | 0.09% | 38.80% | 2,75 | 20.04% | 178 | 81 | 46,379 |
| Class 05 | 781,531 | 758,816 | 354,718 | 7.32% | 641 | 0.13% | 38.89% | 2,78 | 25.25% | 318 | 179 | 89,557 |
| Class 06 | 1,121,420 | 1,091,802 | 543,482 | 8.00% | 846 | 0.20% | 38.18% | 2,58 | 29.90% | 862 | 415 | 162,497 |
| Class 07 | 1,864,321 | 1,807,034 | 1,051,411 | 10.22% | 1,322 | 0.30% | 38.06% | 2,57 | 37.21% | 1,776 | 1,201 | 391,220 |
| Class 08 | 1,687,815 | 1,631,847 | 1,028,558 | 10.57% | 1,335 | 0.46% | 36.87% | 2,70 | 44.42% | 1,763 | 1,745 | 456,885 |
| Class 09 | 2,018,324 | 1,949,541 | 1,345,978 | 8.69% | 1,647 | 0.69% | 34.19% | 2,95 | 50.85% | 2,927 | 3,176 | 684,421 |
| Class 10 | 2,276,841 | 2,196,769 | 1,613,988 | 13.00% | 1,884 | 1.05% | 35.57% | 2,93 | 61.28% | 6,073 | 6,027 | 989,052 |
| Class 11 | 2,120,959 | 2,032,606 | 1,608,357 | 12.39% | 1,861 | 1.59% | 33.89% | 3,28 | 69.71% | 8,401 | 8,666 | 1,121,169 |
| Class 12 | 1,670,591 | 1,610,203 | 1,348,506 | 12.57% | 1,548 | 2.42% | 31.54% | 3,34 | 71.12% | 11,028 | 10,292 | 959,026 |
| Class 13 | 1,617,960 | 1,570,795 | 1,345,977 | 17.03% | 1,435 | 3.99% | 31.29% | 3,36 | 80.25% | 38,796 | 16,805 | 1,080,088 |
| Class 14 | 945,667 | 915,511 | 810,813 | 26.37% | 829 | 6.31% | 31.82% | 3,58 | 95.63% | 30,481 | 16,279 | 775,419 |
| Class 15 | 575,642 | 563,050 | 523,456 | 26.42% | 432 | 9.95% | 27.52% | 3,64 | 95.82% | 22,405 | 14,333 | 501,554 |
| Class 16 | 276,260 | 271,166 | 247,497 | 19.14% | 255 | 16.03% | 33.61% | 2,97 | 143.02% | 20,346 | 13,334 | 353,979 |
| Class 17 | 130,175 | 125,743 | 118,313 | 13.16% | 101 | 22.12% | 28.46% | 3,84 | 132.96% | 9,454 | 7,447 | 157,310 |
| Class 18 | 109,064 | 107,658 | 104,901 | 0.64% | 70 | 31.63% | 30.87% | 4,22 | 162.85% | 13,492 | 10,243 | 170,833 |
| Class 19 | 59,501 | 59,420 | 56,797 | 35.23% | 53 | 45.00% | 25.50% | 4,55 | 121.99% | 5,538 | 6,517 | 69,286 |
| Class 20 | 6,950,684 | 6,818,146 | 6,567,133 | 33.81% | 3,446 | 100.00% | 49.31% | 2,19 | 31.46% | 3,867,410 | 3,283,625 | 2,065,834 |
| **Total as at 30/06/2019** | **25,371,006** | **24,648,072** | **19,068,243** | **10.68%** | **18,705** | **3.01%** | **34.18%** | **2,78** | **-** | **4,041,352** | **3,400,394** | **10,097,746** |
| **Total as at 31/12/2018** | **25,125,450** | **24,476,897** | **18,921,695** | **10.51%** | **18,733** | **3.11%** | **34.12%** | **2,85** | **-** | **4,167,935** | **3,589,184** | **10,219,492** |

*For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds The weighted average PD (%) and weighted average LDG (%) under Total does not include class 20*

## Tab. 5.3.5 (EU CR6) – IRB approach: Exposures to or secured by corporates - Other companies

| Rating Class | On-balance-sheet gross exposures | Nominal Value | Exposure Value | CCF% (Average) | Number of obligors | Weighted Average PD (%) | Weighted Average LGD (%) | Average maturity | Average Risk Weight % (RW%) | Value adjustments | Expected Loss | RWA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Class 01 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 02 | 524,890 | 524,890 | 127,322 | 21.99% | 34 | 0.03% | 44.15% | 3,04 | 17.52% | 142 | 17 | 22,302 |
| Class 03 | 270,404 | 270,404 | 85,924 | 10.24% | 72 | 0.05% | 44.30% | 2,58 | 20.82% | 49 | 19 | 17,886 |
| Class 04 | 658,157 | 657,427 | 187,146 | 7.99% | 137 | 0.09% | 39.71% | 2,68 | 25.19% | 99 | 67 | 47,134 |
| Class 05 | 1,440,548 | 1,440,415 | 444,077 | 14.57% | 226 | 0.13% | 43.71% | 2,07 | 31.68% | 422 | 252 | 140,671 |
| Class 06 | 1,580,701 | 1,578,354 | 526,194 | 9.74% | 272 | 0.20% | 43.58% | 2,61 | 45.64% | 497 | 459 | 240,145 |
| Class 07 | 3,637,928 | 3,637,284 | 1,697,126 | 10.64% | 495 | 0.30% | 42.63% | 2,56 | 54.40% | 1,654 | 2,170 | 923,262 |
| Class 08 | 3,406,916 | 3,401,811 | 1,715,020 | 17.52% | 406 | 0.46% | 41.80% | 2,41 | 62.80% | 2,155 | 3,298 | 1,076,953 |
| Class 09 | 2,419,903 | 2,418,305 | 1,334,362 | 10.72% | 469 | 0.69% | 42.45% | 2,21 | 75.65% | 2,396 | 3,909 | 1,009,469 |
| Class 10 | 3,476,916 | 3,465,740 | 2,170,243 | 18.70% | 571 | 1.05% | 42.83% | 2,19 | 89.89% | 5,153 | 9,760 | 1,950,854 |
| Class 11 | 1,386,503 | 1,381,287 | 905,090 | 17.23% | 348 | 1.59% | 41.98% | 1,82 | 95.14% | 3,097 | 6,041 | 861,078 |
| Class 12 | 889,400 | 879,546 | 636,911 | 19.14% | 265 | 2.42% | 42.54% | 2,02 | 114.25% | 4,041 | 6,557 | 727,659 |
| Class 13 | 956,309 | 955,004 | 728,780 | 19.86% | 243 | 3.99% | 40.55% | 2,29 | 128.99% | 14,673 | 11,792 | 940,018 |
| Class 14 | 459,020 | 454,311 | 314,643 | 17.13% | 125 | 6.31% | 26.91% | 1,30 | 95.55% | 5,529 | 5,342 | 300,647 |
| Class 15 | 164,780 | 163,859 | 132,916 | 14.31% | 53 | 9.95% | 40.31% | 1,96 | 175.91% | 8,412 | 5,330 | 233,810 |
| Class 16 | 52,617 | 52,497 | 43,677 | 7.90% | 23 | 16.03% | 39.93% | 2,37 | 211.03% | 4,671 | 2,796 | 92,172 |
| Class 17 | 10,513 | 10,513 | 8,285 | 37.55% | 16 | 22.12% | 40.77% | 1,19 | 218.18% | 483 | 747 | 18,076 |
| Class 18 | 13,138 | 12,951 | 12,646 | 0.00% | 5 | 31.63% | 42.40% | 4,19 | 252.54% | 270 | 1,696 | 31,935 |
| Class 19 | 2,545 | 2,545 | 2,533 | 0.00% | 3 | 45.00% | 37.48% | 3,16 | 207.23% | 195 | 427 | 5,248 |
| Class 20 | 2,928,208 | 2,925,344 | 2,163,082 | 20.94% | 411 | 100.00% | 50.12% | 2,09 | 24.74% | 1,113,331 | 1,087,208 | 535,179 |
| **Total as at 30/06/2019** | **24,279,396** | **24,232,485** | **13,235,975** | **14.41%** | **4,174** | **1.38%** | **41.90%** | **2,23** | **-** | **1,167,271** | **1,147,886** | **9,174,499** |
| **Total as at 31/12/2018** | **24,417,824** | **24,365,220** | **12,595,157** | **14.35%** | **4,193** | **1.62%** | **41.03%** | **2,29** | **-** | **1,278,004** | **1,224,948** | **8,811,667** |

*For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds The weighted average PD (%) and weighted average LDG (%) under Total does not include class 20*

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

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

**Tab. 5.3.6 (EU CR6) – IRB approach: Retail Exposures Secured by real estate - SMEs**

| Rating Class | On-balance-sheet gross exposures | Nominal Value | Exposure Value | CCF% (Average) | Number of obligors | Weighted Average PD (%) | Weighted Average LGD (%) | Average maturity | Average Risk Weight % (RW%) | Value adjustments | Expected Loss | RWA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Class 01 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 02 | 4,467 | 4,467 | 4,467 | 0.00% | 16 | 0.03% | 20.65% | - | 1.54% | 2 | - | 69 |
| Class 03 | 9,434 | 9,434 | 9,434 | 0.00% | 52 | 0.05% | 18.63% | - | 2.10% | 4 | 1 | 198 |
| Class 04 | 23,956 | 23,956 | 22,287 | 50.00% | 164 | 0.09% | 17.84% | - | 3.20% | 11 | 4 | 712 |
| Class 05 | 41,322 | 40,945 | 40,834 | 50.00% | 303 | 0.13% | 19.42% | - | 4.59% | 21 | 10 | 1,875 |
| Class 06 | 102,372 | 101,764 | 101,471 | 43.05% | 657 | 0.20% | 19.58% | - | 6.41% | 54 | 40 | 6,507 |
| Class 07 | 175,593 | 173,647 | 172,855 | 31.81% | 1,302 | 0.30% | 19.71% | - | 8.78% | 124 | 102 | 15,168 |
| Class 08 | 289,303 | 287,933 | 285,810 | 28.08% | 2,000 | 0.46% | 19.84% | - | 12.14% | 333 | 261 | 34,691 |
| Class 09 | 480,572 | 478,673 | 474,915 | 49.14% | 3,232 | 0.69% | 19.74% | - | 16.07% | 754 | 647 | 76,314 |
| Class 10 | 676,671 | 673,939 | 672,913 | 39.07% | 4,521 | 1.05% | 20.04% | - | 21.62% | 1,643 | 1,416 | 145,490 |
| Class 11 | 733,861 | 731,730 | 730,031 | 45.76% | 4,979 | 1.59% | 19.81% | - | 27.84% | 2,565 | 2,300 | 203,219 |
| Class 12 | 688,102 | 682,054 | 678,746 | 29.50% | 4,386 | 2.42% | 20.09% | - | 36.64% | 4,541 | 3,300 | 248,704 |
| Class 13 | 583,698 | 581,919 | 579,919 | 30.41% | 3,131 | 3.99% | 20.03% | - | 48.26% | 13,005 | 4,635 | 279,891 |
| Class 14 | 335,440 | 331,436 | 331,189 | 46.66% | 1,665 | 6.31% | 20.06% | - | 61.62% | 10,500 | 4,191 | 204,082 |
| Class 15 | 154,780 | 153,798 | 153,577 | 49.99% | 808 | 9.95% | 19.93% | - | 74.62% | 6,291 | 3,045 | 114,595 |
| Class 16 | 115,133 | 114,708 | 113,435 | 1.26% | 569 | 16.03% | 20.40% | - | 89.65% | 5,937 | 3,709 | 101,695 |
| Class 17 | 50,963 | 50,527 | 50,522 | 50.00% | 273 | 22.12% | 20.16% | - | 94.59% | 3,200 | 2,252 | 47,790 |
| Class 18 | 32,346 | 32,281 | 32,131 | 50.00% | 150 | 31.63% | 20.56% | - | 100.56% | 2,183 | 2,089 | 32,312 |
| Class 19 | 33,969 | 33,969 | 33,969 | 0.00% | 179 | 45.00% | 19.50% | - | 85.36% | 2,459 | 2,981 | 28,996 |
| Class 20 | 848,410 | 841,861 | 834,898 | 35.81% | 2,940 | 100.00% | 33.63% | - | 30.44% | 289,066 | 288,198 | 254,127 |
| **Total as at 30/06/2019** | **5,380,392** | **5,349,041** | **5,323,404** | **38.70%** | **31,327** | **3.44%** | **19.93%** | **-** | **-** | **342,692** | **319,181** | **1,796,435** |
| **Total as at 31/12/2018** | **5,529,427** | **5,505,381** | **5,466,283** | **42.17%** | **31,805** | **3.33%** | **19.99%** | **-** | **-** | **392,908** | **342,975** | **1,858,045** |

*For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds The weighted average PD (%) and weighted average LDG (%) under Total does not include class 20*

## Tab. 5.3.7 (EU CR6) – IRB approach: Retail Exposures Secured by real estate - Individuals

| Rating Class | On-balance-sheet gross exposures | Nominal Value | Exposure Value | CCF% (Average) | Number of obligors | Weighted Average PD (%) | Weighted Average LGD (%) | Average maturity | Average Risk Weight % (RW%) | Value adjustments | Expected Loss | RWA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Class 01 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 02 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 03 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 04 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 05 | 6,990,820 | 6,797,253 | 6,795,647 | 50.00% | 82,088 | 0.13% | 11.83% | - | 3.64% | 443 | 1,045 | 247,413 |
| Class 06 | 4,869,281 | 4,475,006 | 4,474,692 | 50.00% | 56,955 | 0.20% | 12.27% | - | 5.22% | 468 | 1,098 | 233,568 |
| Class 07 | 3,424,455 | 3,234,544 | 3,234,415 | 44.54% | 40,297 | 0.30% | 11.94% | - | 6.84% | 532 | 1,159 | 221,387 |
| Class 08 | 2,428,952 | 2,324,917 | 2,324,082 | 48.04% | 30,418 | 0.46% | 11.85% | - | 9.23% | 606 | 1,267 | 214,522 |
| Class 09 | 3,348,223 | 3,273,965 | 3,273,234 | 35.21% | 43,771 | 0.69% | 11.02% | - | 11.39% | 1,370 | 2,489 | 372,934 |
| Class 10 | 3,256,438 | 3,221,174 | 3,220,787 | 44.48% | 41,756 | 1.05% | 10.75% | - | 14.75% | 1,845 | 3,635 | 475,000 |
| Class 11 | 778,044 | 763,413 | 763,004 | 43.41% | 10,822 | 1.59% | 11.45% | - | 20.55% | 1,669 | 1,389 | 156,772 |
| Class 12 | 388,236 | 382,357 | 382,233 | 50.00% | 5,261 | 2.42% | 11.48% | - | 26.68% | 2,288 | 1,062 | 101,995 |
| Class 13 | 611,331 | 607,576 | 607,009 | 3.15% | 7,182 | 3.99% | 11.52% | - | 35.68% | 13,876 | 2,791 | 216,590 |
| Class 14 | 193,569 | 192,173 | 192,172 | 20.05% | 2,391 | 6.31% | 11.32% | - | 44.43% | 5,056 | 1,373 | 85,384 |
| Class 15 | 120,098 | 119,607 | 119,607 | 49.94% | 1,451 | 9.95% | 10.84% | - | 52.09% | 3,608 | 1,290 | 62,304 |
| Class 16 | 93,054 | 92,380 | 92,380 | 20.69% | 1,139 | 16.03% | 10.70% | - | 60.58% | 2,969 | 1,585 | 55,960 |
| Class 17 | 55,162 | 54,914 | 54,884 | 0.00% | 645 | 22.12% | 10.55% | - | 64.02% | 1,962 | 1,281 | 35,139 |
| Class 18 | 70,801 | 70,387 | 70,383 | 50.00% | 779 | 31.63% | 11.54% | - | 71.22% | 2,837 | 2,568 | 50,127 |
| Class 19 | 32,854 | 32,854 | 32,854 | 0.00% | 462 | 45.00% | 10.07% | - | 56.99% | 1,088 | 1,488 | 18,724 |
| Class 20 | 636,794 | 635,362 | 629,732 | 0.71% | 7,146 | 100.00% | 14.23% | - | 0.00% | 106,519 | 92,112 | - |
| **Total as at 30/06/2019** | **27,298,112** | **26,277,882** | **26,267,116** | **43.55%** | **332,563** | **0.89%** | **11.64%** | **-** | **-** | **147,136** | **117,632** | **2,547,818** |
| **Total as at 31/12/2018** | **26,763,559** | **25,968,946** | **25,957,497** | **37.29%** | **319,942** | **0.92%** | **11.63%** | **-** | **-** | **204,642** | **131,639** | **2,579,577** |

*For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds The weighted average PD (%) and weighted average LDG (%) under Total does not include class 20*

## Tab. 5.3.8 (EU CR6) – IRB approach: Qualifying revolving Retail Exposures

| Rating Class | On-balance-sheet gross exposures | Nominal Value | Exposure Value | CCF% (Average) | Number of obligors | Weighted Average PD (%) | Weighted Average LGD (%) | Average maturity | Average Risk Weight % (RW%) | Value adjustments | Expected Loss | RWA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Class 01 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 02 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 03 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 04 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 05 | 47,170 | 47,170 | 19,088 | - | 34,363 | 0.13% | 21.85% | - | 1.73% | 8 | 5 | 331 |
| Class 06 | 20,741 | 20,741 | 8,525 | - | 14,309 | 0.20% | 27.35% | - | 3.09% | 4 | 5 | 264 |
| Class 07 | 28,421 | 28,421 | 10,761 | - | 16,854 | 0.30% | 23.11% | - | 3.63% | 8 | 7 | 391 |
| Class 08 | 15,480 | 15,480 | 6,172 | - | 8,403 | 0.46% | 25.80% | - | 5.71% | 6 | 7 | 353 |
| Class 09 | 16,282 | 16,282 | 7,819 | - | 10,172 | 0.69% | 22.82% | - | 6.95% | 14 | 12 | 544 |
| Class 10 | 15,495 | 15,495 | 9,018 | - | 10,853 | 1.05% | 21.80% | - | 9.18% | 32 | 21 | 828 |
| Class 11 | 9,415 | 9,415 | 5,987 | - | 7,063 | 1.59% | 22.71% | - | 13.07% | 39 | 22 | 783 |
| Class 12 | 7,383 | 7,383 | 4,879 | - | 5,610 | 2.42% | 22.88% | - | 17.89% | 48 | 27 | 873 |
| Class 13 | 3,995 | 3,995 | 2,737 | - | 3,177 | 3.99% | 24.27% | - | 26.91% | 41 | 27 | 737 |
| Class 14 | 6,560 | 6,560 | 5,917 | - | 6,283 | 6.31% | 15.38% | - | 23.04% | 127 | 57 | 1,363 |
| Class 15 | 836 | 836 | 517 | - | 618 | 9.95% | 23.19% | - | 45.70% | 20 | 12 | 236 |
| Class 16 | 508 | 508 | 243 | - | 322 | 16.03% | 23.83% | - | 60.18% | 12 | 9 | 146 |
| Class 17 | 262 | 262 | 74 | - | 144 | 22.12% | 24.32% | - | 70.24% | 5 | 4 | 52 |
| Class 18 | 271 | 271 | 224 | - | 313 | 31.63% | 17.90% | - | 57.04% | 20 | 13 | 128 |
| Class 19 | 368 | 368 | 158 | - | 334 | 45.00% | 14.75% | - | 47.36% | 18 | 11 | 75 |
| Class 20 | 1,130 | 1,130 | 568 | - | 1,006 | 100.00% | 23.06% | - | 0.00% | 242 | 131 | - |
| **Total as at 30/06/2019** | **174,318** | **174,318** | **82,688** | **-** | **119,824** | **1.46%** | **22.70%** | **-** | **-** | **645** | **370** | **7,102** |
| **Total as at 31/12/2018** | **188,311** | **188,311** | **91,966** | **-** | **122,858** | **1.50%** | **22.84%** | **-** | **-** | **385** | **407** | **8,148** |

*For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds The weighted average PD (%) and weighted average LDG (%) under Total does not include class 20*

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

| Rating Class | On-balance-sheet gross exposures | Nominal Value | Exposure Value | CCF% (Average) | Number of obligors | Weighted Average PD (%) | Weighted Average LGD (%) | Average maturity | Average Risk Weight % (RW%) | Value adjustments | Expected Loss | RWA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Class 01 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 02 | 53,739 | 52,932 | 16,429 | 5.20% | 311 | 0.03% | 43.72% | - | 3.53% | 20 | 2 | 580 |
| Class 03 | 196,100 | 190,208 | 64,545 | 6.55% | 748 | 0.05% | 43.48% | - | 5.18% | 49 | 14 | 3,345 |
| Class 04 | 692,220 | 681,732 | 110,381 | 3.60% | 10,296 | 0.09% | 43.49% | - | 8.08% | 96 | 43 | 8,916 |
| Class 05 | 396,065 | 378,203 | 134,326 | 4.89% | 2,490 | 0.13% | 43.39% | - | 10.52% | 108 | 76 | 14,137 |
| Class 06 | 675,442 | 643,907 | 253,756 | 7.94% | 4,611 | 0.20% | 43.06% | - | 14.11% | 299 | 219 | 35,813 |
| Class 07 | 952,790 | 910,716 | 417,264 | 6.67% | 7,707 | 0.30% | 42.86% | - | 18.35% | 459 | 536 | 76,552 |
| Class 08 | 990,023 | 931,795 | 476,423 | 7.38% | 9,713 | 0.46% | 42.79% | - | 23.80% | 648 | 938 | 113,397 |
| Class 09 | 1,326,256 | 1,246,765 | 694,556 | 10.69% | 13,757 | 0.69% | 42.68% | - | 29.63% | 1,282 | 2,045 | 205,803 |
| Class 10 | 1,522,004 | 1,416,112 | 848,312 | 8.42% | 18,637 | 1.05% | 42.02% | - | 35.56% | 2,381 | 3,742 | 301,657 |
| Class 11 | 1,633,536 | 1,517,511 | 932,995 | 8.49% | 22,239 | 1.59% | 42.02% | - | 41.31% | 4,464 | 6,234 | 385,458 |
| Class 12 | 1,597,695 | 1,474,277 | 968,925 | 8.15% | 23,296 | 2.42% | 41.96% | - | 45.99% | 8,879 | 9,839 | 445,633 |
| Class 13 | 1,307,195 | 1,216,470 | 859,579 | 7.96% | 20,785 | 3.99% | 41.72% | - | 48.98% | 23,563 | 14,310 | 421,046 |
| Class 14 | 734,090 | 675,305 | 512,908 | 11.54% | 16,786 | 6.31% | 41.54% | - | 51.09% | 23,587 | 13,444 | 262,067 |
| Class 15 | 340,549 | 311,881 | 247,011 | 8.91% | 6,032 | 9.95% | 40.91% | - | 55.76% | 17,246 | 10,054 | 137,721 |
| Class 16 | 171,410 | 157,160 | 132,945 | 20.29% | 3,385 | 16.03% | 40.29% | - | 66.41% | 11,254 | 8,587 | 88,285 |
| Class 17 | 67,175 | 60,450 | 52,265 | 8.87% | 1,307 | 22.12% | 41.01% | - | 77.27% | 5,974 | 4,741 | 40,384 |
| Class 18 | 43,307 | 39,697 | 32,143 | 8.51% | 1,879 | 31.63% | 39.71% | - | 83.34% | 4,239 | 4,037 | 26,787 |
| Class 19 | 35,688 | 32,479 | 25,779 | 29.04% | 3,822 | 45.00% | 38.40% | - | 82.51% | 3,652 | 4,454 | 21,270 |
| Class 20 | 3,455,423 | 3,311,310 | 3,181,483 | 28.79% | 71,806 | 100.00% | 57.92% | - | 15.27% | 2,118,851 | 1,874,234 | 485,905 |
| **Total as at 30/06/2019** | **16,190,708** | **15,248,911** | **9,962,025** | **7.80%** | **239,607** | **2.98%** | **42.11%** | **-** | **-** | **2,227,051** | **1,957,549** | **3,074,756** |
| **Total as at 31/12/2018** | **16,671,960** | **15,775,475** | **10,375,638** | **7.68%** | **242,347** | **2.99%** | **42.12%** | **-** | **-** | **2,252,976** | **2,035,345** | **3,286,005** |

*For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds The weighted average PD (%) and weighted average LDG (%) under Total does not include class 20*

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

| Rating Class | On-balance-sheet gross exposures | Nominal Value | Exposure Value | CCF% (Average) | Number of obligors | Weighted Average PD (%) | Weighted Average LGD (%) | Average maturity | Average Risk Weight % (RW%) | Value adjustments | Expected Loss | RWA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Class 01 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 02 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 03 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 04 | - | - | - | - | - | - | - | - | - | - | - | - |
| Class 05 | 517,408 | 517,388 | 93,422 | 2.82% | 79,679 | 0.13% | 21.06% | - | 6.70% | 26 | 26 | 6,255 |
| Class 06 | 210,068 | 209,959 | 99,834 | 9.34% | 15,894 | 0.20% | 22.65% | - | 9.72% | 41 | 45 | 9,706 |
| Class 07 | 291,915 | 291,694 | 145,558 | 11.33% | 27,919 | 0.30% | 22.92% | - | 12.85% | 93 | 100 | 18,702 |
| Class 08 | 283,375 | 283,167 | 165,874 | 14.97% | 18,243 | 0.46% | 23.43% | - | 17.03% | 149 | 179 | 28,251 |
| Class 09 | 325,649 | 325,391 | 172,260 | 10.15% | 26,073 | 0.69% | 21.95% | - | 19.89% | 298 | 261 | 34,258 |
| Class 10 | 324,276 | 323,715 | 193,998 | 11.51% | 28,640 | 1.05% | 22.91% | - | 25.21% | 811 | 467 | 48,912 |
| Class 11 | 271,788 | 271,498 | 174,203 | 12.59% | 24,919 | 1.59% | 22.62% | - | 28.97% | 1,526 | 626 | 50,464 |
| Class 12 | 197,780 | 197,454 | 129,813 | 7.54% | 22,258 | 2.42% | 22.60% | - | 32.21% | 1,840 | 710 | 41,813 |
| Class 13 | 113,990 | 113,934 | 93,972 | 10.04% | 13,339 | 3.99% | 23.24% | - | 35.57% | 3,034 | 871 | 33,429 |
| Class 14 | 59,722 | 59,601 | 50,187 | 11.37% | 22,504 | 6.31% | 22.45% | - | 36.06% | 2,068 | 711 | 18,095 |
| Class 15 | 23,491 | 23,486 | 20,992 | 16.58% | 4,084 | 9.95% | 23.48% | - | 41.71% | 1,209 | 490 | 8,755 |
| Class 16 | 16,578 | 16,575 | 15,438 | 8.72% | 2,679 | 16.03% | 22.88% | - | 49.16% | 900 | 566 | 7,590 |
| Class 17 | 6,340 | 6,336 | 5,588 | 38.70% | 1,297 | 22.12% | 22.68% | - | 55.75% | 397 | 280 | 3,115 |
| Class 18 | 4,184 | 4,184 | 3,972 | 39.19% | 5,243 | 31.63% | 21.07% | - | 57.73% | 368 | 265 | 2,293 |
| Class 19 | 3,711 | 3,708 | 3,387 | 16.83% | 13,037 | 45.00% | 19.70% | - | 55.14% | 397 | 300 | 1,867 |
| Class 20 | 1,732,266 | 1,730,718 | 1,720,576 | 14.88% | 130,850 | 100.00% | 37.21% | - | 0.00% | 765,577 | 705,047 | - |
| **Total as at 30/06/2019** | **4,382,540** | **4,378,808** | **3,089,074** | **8.67%** | **436,658** | **1.91%** | **22.64%** | **-** | **-** | **778,735** | **710,945** | **313,506** |
| **Total as at 31/12/2018** | **4,324,540** | **4,320,280** | **3,082,967** | **7.43%** | **432,879** | **2.12%** | **22.85%** | **-** | **-** | **754,880** | **659,005** | **378,864** |

*For reporting purposes, Unused Margin refer to issued guarantees and revocable and irrevocable commitments to disburse funds The weighted average PD (%) and weighted average LDG (%) under Total does not include class 20*

**Exposures subject to the AIRB approach broken down by geographical location**

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

For the purposes of this disclosure and in accordance with Article 452 of the CRR, the relevant geographical location of credit exposures means exposures in the Member States in which the institution has been 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 (Corporats 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) adopt standard models and their exposures are included among those subject to credit risk – 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% 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 | RWA | EL | AL |
|---|---|---|---|---|---|---|---|---|
| Exposures to or secured by corporates | Italy | 23,574,003 | 100.00% | 2.24% | 37.81% | 16,671,233 | 177,447 | 227,882 |
| | Other EU Countries | - | - | - | - | - | - | - |
| | Other not EU Countries | - | - | - | - | - | - | - |
| | **Total as at 30/06/2019** | **23,574,003** | **100.00%** | **2.24%** | **37.81%** | **16,671,233** | **177,447** | **227,882** |
| | **Total as at 31/12/2018** | **22,255,552** | **100.00%** | **2.42%** | **37.32%** | **16,177,128** | **182,268** | **258,658** |

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

| | | EAD | Incidence | Weighted Average PD | Weighted Average LGD | RWA | EL | AL |
|---|---|---|---|---|---|---|---|---|
| Retail exposures | Italy | 37,634,560 | 100.00% | 1.62% | 18.77% | 6,999,586 | 145,954 | 216,006 |
| | Other EU Countries | - | - | - | - | - | - | - |
| | Other not EU Countries | - | - | - | - | - | - | - |
| | **Total as at 30/06/2019** | **37,634,560** | **100.00%** | **1.62%** | **18.77%** | **6,999,586** | **145,954** | **216,006** |
| | **Total as at 31/12/2018** | **38,392,960** | **100.00%** | **1.64%** | **18.67%** | **7,251,594** | **151,244** | **267,399** |

# 5.4 Credit Risk:scredit quality

## Quantitative information

The following table provide a comprehensive picture of the credit quality of the Grout.

### Tab. 5.4.1 (EU CR1-A) – Credit quality of exposures by exposure class and instrument

| | | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|---|
| | | Gross carrying values of: | | | | | | |
| | | Defaulted exposures | Non-defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net Values (a+b-c-d) |
| 1 | Central governments or central banks | - | - | - | - | - | - | - |
| 2 | Institutions | - | - | - | - | - | - | - |
| 3 | Corporates | 4,438,227 | 45,212,176 | 5,208,623 | - | - | - | 44,441,780 |
| *4* | *of which: SMEs* | *2,018,324* | *23,352,683* | *4,041,352* | - | - | - | *21,329,654* |
| *5* | *of which: Other companies* | *2,419,903* | *21,859,493* | *1,167,271* | - | - | - | *23,112,126* |
| **6** | **Retail** | **5,496,982** | **47,929,087** | **3,496,261** | **-** | **-** | **-** | **49,929,808** |
| 7 | Secured by real estate property | 3,828,795 | 28,849,709 | 489,829 | - | - | - | 32,188,675 |
| *8* | *SMEs* | *480,572* | *4,899,820* | *342,692* | - | - | - | *5,037,700* |
| *9* | *Non SMEs* | *3,348,223* | *23,949,889* | *147,136* | - | - | - | *27,150,975* |
| 10 | Qualifying revolving | 16,282 | 158,036 | 645 | - | - | - | 173,672 |
| 11 | Other retail | 1,651,905 | 18,921,342 | 3,005,787 | - | - | - | 17,567,461 |
| *12* | *SMEs* | *1,326,256* | *14,864,452* | *2,227,051* | - | - | - | *13,963,657* |
| *13* | *Non SMEs* | *325,649* | *4,056,891* | *778,735* | - | - | - | *3,603,804* |
| 14 | Equity | | | | - | - | - | - |
| **15** | **Total AIRB Approach** | **9,935,209** | **93,141,263** | **8,704,883** | **-** | **-** | **-** | **94,371,588** |
| 16 | Central governments or central banks | - | 23,329,536 | - | 30,008 | - | - | 23,299,528 |
| 17 | Regional dovernments or local authorities | - | 2,776,347 | - | 2,488 | - | - | 2,773,859 |
| 18 | Public sector entities | - | 733,081 | - | 740 | - | - | 732,341 |
| 19 | Multilateral development banks | - | 155,175 | - | 4 | - | - | 155,171 |
| 20 | International organisations | - | - | - | - | - | - | - |
| 21 | Institutions | - | 38,505,915 | - | 3,090 | - | - | 38,502,825 |
| 22 | Corporates | - | 6,211,420 | - | 13,808 | - | - | 6,197,612 |
| *23* | *of which: SMEs* | | *1,548,624* | - | *4,821* | - | - | *1,543,803* |
| 24 | Retail | - | 2,333,576 | - | 7,832 | - | - | 2,325,743 |
| *25* | *of which: SMEs* | | *1,046,243* | - | *2,686* | - | - | *1,043,557* |
| 26 | Secured by mortgages on immovable property | - | 1,418,790 | - | 3,757 | - | - | 1,415,034 |
| *27* | *of which: SMEs* | | *388,875* | - | *2,821* | - | - | *386,055* |
| 28 | Exposures in default | 1,510,720 | - | - | 729,712 | - | - | 781,008 |
| 29 | Items associated with particularly high risk | 210,534 | 480,091 | - | 108,815 | - | - | 581,810 |
| 30 | Covered bonds | - | 707,289 | - | 424 | - | - | 706,865 |
| 31 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - |
| 32 | Collective investments undertakings | - | 366,291 | - | 485 | - | - | 365,806 |
| 33 | Equity exposures | 10,073 | 1,018,165 | - | - | - | - | 1,028,239 |
| 34 | Other exposures | - | 5,964,364 | - | 15,674 | - | - | 5,948,690 |
| **35** | **Total standardised approach** | **1,731,327** | **84,000,041** | **-** | **916,838** | **-** | **-** | **84,814,530** |
| **36** | **Total as at 30/06/2019** | **11,666,536** | **177,141,304** | **8,704,883** | **916,838** | **-** | **-** | **179,186,119** |
| *37* | *of which: Loans* | | *122,225,431* | *8,631,645* | *909,371* | | | *112,684,415* |
| *38* | *of which: Debt securities* | | *29,606,977* | *38,478* | *1,323* | | | *29,567,176* |
| *39* | *of which: Off-balance-sheet exposures* | | *38,877,089* | *195,179* | *6,144* | | | *38,675,766* |

*The figures shown in the table under IRB approach do not include specialised lending-slotting criteria.*

## 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 counterparty risk with institutional counterparties, by entering into netting agreements according to the international ISDA and ISMA standards and related collateral agreements in relation to derivatives.

**Management of collateral**

The Montepaschi Group has fulfilled the obligations set out by EU Regulations (CRR 575/2013) 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 follows, 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-19 | | | Dec-18 | | |
|---|---|---|---|---|---|---|
| | 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 | 14,851 | 41,650 | - | 14,853 | 23,800 | - |
| Exposures to Multi-lateral development banks | - | - | - | - | - | - |
| Exposures to International Organisations | - | - | - | - | - | - |
| Exposures to Supervised institutions | 27,658,109 | - | - | 37,819,144 | - | - |
| Exposures to Corporates | 874,741 | 174,767 | - | 983,121 | 187,183 | - |
| Retail Exposures | 36,029 | 67,495 | - | 25,294 | 74,832 | - |
| Exposures secured by mortgages on immovable property | 231 | 72,329 | - | 1,433 | 128,201 | - |
| Exposures in Default | 7,211 | 3,719 | - | 4,696 | 4,300 | - |
| Exposures associated with high-risk | 2,427 | 377 | - | 2,242 | 202 | - |
| Exposures in the form of covered bonds | - | - | - | - | - | - |
| Exposures to institutions and corporates with a short-term credit assessment | - | - | - | - | - | - |
| Exposures to UCITs | 61,931 | - | - | 1,275 | - | - |
| Equity Exposures | - | - | - | - | - | - |
| Other Exposures | - | - | - | - | - | - |
| Securitization positions | - | - | - | - | - | - |
| Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund | - | - | - | - | - | - |
| **Standard Approach Total** | **28,655,531** | **360,354** | **-** | **38,852,058** | **418,536** | **-** |

The column Financial Guarantees in the table above is a supplement to the Post CRM exposure reported in table 5.2.1 (values of exposures pre and post CRM), which shows the portion of exposure outstanding not covered by these collaterals. Please note that, pursuant to regulations, if the line-by-line method is applied, the collateral reduces risk exposure, whereas personal guarantees (simplified approach) transfer the related risk to the regulatory portfolio of the guarantor; thus the representation of personal guarantees in table 5.5.1 is 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 (IRB Approach) | Jun-19 | | | Dec-18 | | |
|---|---|---|---|---|---|---|
| | Financial Collaterals | Guarantees and Credit Derivatives | Other Guarantees | Financial Collaterals | Guarantees and Credit Derivatives | Other Guarantees |
| Exposures to or secured by corporates: | 378,241 | 2,535,564 | - | 554,689 | 2,470,518 | - |
| - SMEs | 121,406 | 1,613,338 | - | 117,666 | 1,536,092 | - |
| - Other companies | 256,835 | 922,226 | - | 437,022 | 934,426 | - |
| - Specialized Lending | - | - | - | - | - | - |
| Retail exposures: | 282,914 | 2,945,547 | - | 297,527 | 2,718,587 | - |
| - secured by real estate: SMEs | 3,769 | 77,537 | - | 3,962 | 72,391 | - |
| - secured by real estate: Individuals | 3,544 | 1,021,256 | - | 3,453 | 795,358 | - |
| - Qualifying revolving | - | - | - | - | - | - |
| - Other retail exposures: SMEs | 166,902 | 1,818,839 | - | 175,507 | 1,819,507 | - |
| - Other retail exposures: Individuals | 108,698 | 27,915 | - | 114,606 | 31,330 | - |
| Securitization positions | - | - | - | - | - | - |
| **IRB Approach Total** | **661,155** | **5,481,111** | **-** | **852,216** | **5,189,105** | **-** |

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.

The following table provides the extent of the use of CRM techniques; it shows all collateral, financial guarantees and credit derivatives used as credit risk mitigants for all secured exposures, irrespective of whether the standard approach or the IRB approach is used for RWA calculation.

## Tab. 5.5.3 (EU CR3) – CRM Techniques – Overview

| | | a<br>Exposures unsecured Carrying amount | b<br>Exposures secured Carrying amount | c<br>Exposures secured by collateral | d<br>Exposures secured by financial guarantees | e<br>Exposures secured by credit derivatives |
|---|---|---|---|---|---|---|
| 1 | **Total loans** | | | | | |
| 2 | **Total debt securities** | | | | | |
| 3 | **Total Exposures as at 30/06/2019** | **144,027,969** | **35,158,149** | **29,316,685** | **5,841,464** | |
| 4 | *Of which defaulted* | *10,869,048* | *576,881* | *66,441* | *510,440* | |
| 5 | **Total as at 31/12/2018** | **146,943,198** | **45,311,915** | **39,704,274** | **5,607,641** | |

The following table shows the effect of all CRM techniques applied in accordance with Part Three, Title II, Chapter 4 of the CRR, including the financial collateral simple method and the financial collateral comprehensive method in the application of Article 222 and Article 223 of the same regulation on standard approach capital requirements' calculations.

## Tab.5.5.4 (EU CR4) – Standard approach – Credit Risk Exposure and CRM effects

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
| | Exposures class | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| 1 | Exposures to central governments or central banks | 23,230,709 | 67,045 | 28,462,126 | 60,477 | 1,897,922 | 6.65% |
| 2 | Exposures to regional governments or local authorities | 1,458,190 | 1,301,434 | 1,491,651 | 210,860 | 340,188 | 19.98% |
| 3 | Exposures to public sector entities | 421,434 | 303,883 | 394,603 | 72,886 | 391,721 | 83.79% |
| 4 | Exposures to multilateral development banks | 110,171 | 45,000 | 110,171 | - | - | 0,00% |
| 5 | Exposures to International Organisations | - | - | - | - | - | 0,00% |
| 6 | Exposures to Institutions | 4,719,459 | 5,960,897 | 4,831,481 | 293,440 | 1,004,038 | 19.59% |
| 7 | Exposures to Corporates | 2,618,315 | 2,447,803 | 2,502,627 | 433,124 | 2,831,505 | 96.45% |
| 8 | Retail exposures | 961,376 | 1,364,323 | 885,322 | 104,142 | 681,438 | 68.87% |
| 9 | Exposures secured by mortgages on immovable property | 1,405,852 | 9,182 | 1,333,291 | 2,520 | 502,300 | 37.60% |
| 10 | Exposures in default | 538,529 | 242,436 | 528,253 | 8,199 | 600,367 | 111.91% |
| 11 | Exposures associated with particularly high risk | 464,037 | 117,650 | 461,264 | 48,374 | 764,457 | 150.00% |
| 12 | Exposures in the form of covered bonds | 706,865 | - | 706,865 | - | 84,367 | 11.94% |
| 13 | Exposures to institutions and corporates with a short-term credit assessment | - | - | - | - | - | 0,00% |
| 14 | Exposures to CIUs | 198,269 | 85,705 | 198,269 | 7,000 | 205,268 | 100.00% |
| 15 | Equity exposures | 1,028,239 | - | 1,028,239 | - | 2,002,710 | 194.77% |
| 16 | Other exposures | 5,948,690 | - | 5,962,577 | 2,186 | 4,508,158 | 75.58% |
| 17 | **Total as of 30/06/2019** | **43,810,135** | **11,945,358** | **48,896,740** | **1,243,206** | **15,814,440** | **31.54%** |
| | **Total on-balance sheet and off-balance sheet amount** | **55,755,493** | | **50,139,946** | | | |
| 18 | **Total as of 31/12/2018** | **45,153,993** | **17,721,046** | **50,151,056** | **1,190,276** | **15,959,848** | **31.09%** |

# 6. Counterparty Risk

### Quantitative information

The following table provide a comprehensive view of the methods used to calculate CCR regulatory requirements and the main parameters used within each method.

## Tab. 6.2.1 (EU CCR1) – Analysis of CCR exposure by approach

| | | a<br>Notional | b<br>Replacement cost/current market value | c<br>Potential future credit exposure | d<br>EEPE | e<br>Multiplier | f<br>EAD post CRM | g<br>RWAs |
|---|---|---|---|---|---|---|---|---|
| 1 | Market value method | x | 2,139,832 | 1,724,736 | x | x | 2,254,031 | 848,023 |
| 9 | Financial collateral comprehensive method (for SFTs) | x | x | x | x | x | 2,408,432 | 734,874 |
| 11 | **Total as at 30/06/2019** | **x** | **2,139,832** | **1,724,736** | **x** | **x** | **4,662,464** | **1,582,897** |

The following table provide CVA regulatory calculations (with a breakdown by standard and advanced approaches).

## Tab. 6.2.2 (EU CCR2) – CVA capital charge

| | Exposure value | RWAs |
|---|---|---|
| **Total portfolios subject to the advanced method** | - | - |
| (i) VaR component (including the 3× multiplier) | | - |
| (ii) SVaR component (including the 3× multiplier) | | - |
| **All portfolios subject to the standardised method** | **696,773** | **530,361** |
| Based on the original exposure method | - | - |
| **Total subject to the CVA capital charge** | **696,773** | **530,361** |

The following table provide a breakdown of CCR exposures by portfolio (type of counterparties) and by risk weight (riskiness attributed according to the standard approach).

## Tab. 6.2.3 (EU CCR3) – Standard approach – CCR exposures by regulatory portfolio and risk

| | Exposures classes | Classes of credit worthiness (Weighting Factors) | | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | Altre | | |
| 1 | Exposures to central governments or central banks | 296 | - | - | - | - | - | - | - | - | 1,478 | - | - | **1,774** | - |
| 2 | Exposures to regional governments or local authorities | - | - | - | - | 14,235 | - | - | - | - | - | - | - | **14,235** | - |
| 3 | Exposures to public sector entities | - | - | - | - | - | - | - | - | - | 7,023 | 1 | - | **7,024** | - |
| 4 | Exposures to multilateral development banks | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 5 | Exposures to International Organisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 6 | Exposures to Institutions | - | 1,114,590 | 517,841 | - | 570,587 | - | 1,582,493 | - | - | 12,537 | - | - | **3,798,049** | - |
| 7 | Exposures to Corporates | - | - | - | - | - | - | - | - | - | 273,378 | - | - | **273,378** | - |
| 8 | Retail Exposures | - | - | - | - | - | - | - | - | 44 | - | - | - | **44** | - |
| 9 | Exposures secured by mortgages on immovable property | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 10 | Exposures in Default | - | - | - | - | - | - | - | - | - | 37 | 5 | - | **42** | - |
| 11 | Exposures associated with particularly high-risk | - | - | - | - | - | - | - | - | - | - | 123 | - | **123** | - |
| 12 | Exposures in the form of covered bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 13 | Exposures to institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Exposures to CIUs | - | - | - | - | - | - | - | - | 21,177 | - | - | - | **21,177** | - |
| 15 | Equity Exposures | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 16 | Other Exposures | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **17** | **Total as at 30/06/2019** | **296** | **1,114,590** | **517,841** | **-** | **584,822** | **-** | **1,582,493** | **-** | **44** | **315,631** | **130** | **-** | **4,115,847** | **-** |
| **18** | **Total as at 31/12/2018** | **609** | **1,408,943** | **438,178** | **-** | **661,408** | **-** | **1,664,413** | **-** | **-** | **267,257** | **9** | **-** | **4,440,817** | **-** |

Table 6.2.4 shows the gross positive fair of the contracts, the advantages resulting from the netting agreements, the netted fair value and the net credit exposure of the Group to counterparty risk for derivative instruments. All the financial and credit derivatives traded over the counter (OTC) with any counterparty institutional, corporate, retail counterparties etc.) are included in the table irrespective of the regulatory (trading and banking) portfolio they belong to. In particular, the "gross positive fair value" corresponds to the book value of the above-mentioned contracts and is therefore inclusive of the netting agreements. The Nettings represent the gross positive fair value amount, which as a result of the agreements executed with the counterparties, is offset with negative value transactions. The net "netted fair value" indicates the positive fair value amount remaining after the nettings.

**Tab. 6.2.4 (EU CCR5-A) – Impact of netting and collateral held on exposure values**

| | | a<br>Gross positive fair value or net carrying amount | b<br>Netting benefits | c<br>Netted current credit exposure | d<br>Collateral held | e<br>Net credit exposure |
|---|---|---|---|---|---|---|
| 1 | Derivatives | 6,137,555 | 2,933,814 | 3,203,741 | 2,973,284 | 230,457 |
| **4** | **Total as at 30/06/2019** | **6,137,555** | **2,933,814** | **3,203,741** | **2,973,284** | **230,457** |

*The figures shown in the table are represented only by derivatives with netting agreements.*

The following table provide a breakdown of all types of collateral (cash, sovereign debt, corporate bonds, etc.) used by banks to support or reduce CCR exposures related to derivative transactions or to SFTs.

**Tab. 6.2.5 (EU CCR5-B) – Composition of collateral for exposures to CCR**

| | Jun-2019 | | Dec-2018 | |
|---|---|---|---|---|
| | Collateral used in derivative transactions | Collateral used in SFTs | Collateral used in derivative transactions | Collateral used in SFTs |
| **Standard Approach** | | | | |
| Comprehensive method | 1,610,536 | 24,074,080 | 1,721,628 | 31,166,387 |
| Simple method | - | - | - | - |
| **Standard Approach Total** | **1,610,536** | **24,074,080** | **1,721,628** | **31,166,387** |
| **IRB Approach** | - | - | - | - |
| **IRB Approach Total** | - | - | - | - |
| **Totale** | **1,610,536** | **24,074,080** | **1,721,628** | **31,166,387** |

The table 6.2.6 shows the notional values of credit derivative contracts, by portfolio (banking and trading book) and the role played by the Montepaschi Group (buyer/seller of protection). It should be noted that as at the date of this document, the Group did not have any transactions in credit derivatives hedging loan book exposures.

**Tab. 6.2.6 (EU CCR6) – Credit derivatives exposures**

| | a | b | c |
|---|---|---|---|
| | Credit derivative hedge | | Other Credit derivatives |
| **Notionals** | Protection purchases | Protection sales | |
| Credit default products | - | - | 3,964,077 |
| Total rate of return swaps | - | - | |
| **Total as at 30/06/2019** | **-** | **-** | **3,964,077** |
| **Fair value** | | | |
| ***Positive Fair value*** | - | - | ***16,679*** |
| ***Negative Fair value*** | - | - | ***90,116*** |

The following table provide a comprehensive picture of the institution's exposures to CCPs: in particular, the template includes all types of exposures (due to operations, margins, and contributions to default funds) and related capital requirements.

## Tab. 6.2.7 (EU CCR8) – Exposures to CCPs

| | | Jun-2019 | |
|---|---|---|---|
| | | a | b |
| | | EAD post CRM | RWA |
| **1** | **Exposures to QCCPs (total)** | × | **43.005** |
| 2 | Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which | 1,632,431 | 43,005 |
| 3 | (i) OTC derivatives | - | - |
| 4 | (ii) Exchange-traded derivatives | - | - |
| 5 | (iii) SFTs | 524,724 | 10,494 |
| 6 | (iv) Netting sets where cross-product netting has been approved | 1,107,707 | 32,511 |
| 7 | Segregated initial margin | 466,948 | × |
| 8 | Non-segregated initial margin | - | - |
| 9 | Prefunded default fund contributions | 252,396 | 7,128 |
| 10 | Alternative calculation of own funds requirements for exposures | × | |
| **11** | **Exposures to non-QCCPs (total)** | × | - |
| 12 | Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which | | |
| 13 | (i) OTC derivatives | | |
| 14 | (ii) Exchange-traded derivatives | | |
| 15 | (iii) SFTs | | |
| 16 | (iv) Netting sets where cross-product netting has been approved | | |
| 17 | Segregated initial margin | | × |
| 18 | Non-segregated initial margin | | |
| 19 | Prefunded default fund contributions | | |
| 20 | Unfunded default fund contributions | | |

# 7. Market Risk

### Quantitative information

The following table display the components of own funds requirements under the standard approach for Market Risk.

**Tab. 7 (EU MR1) – Market risk under the standardised approach**

| | | Jun-19 | |
|---|---|---|---|
| | | a | b |
| | | RWAs | Capital requirements |
| | **Outright products** | | |
| 1 | Interest rate risk (general and specific) | 1,386,664 | 110,933 |
| 2 | Equity risk (general and specific) | 654,928 | 52,394 |
| 3 | Foreign exchange risk | 135,541 | 10,843 |
| 4 | Commodity risk | 81,829 | 6,546 |
| | **Options** | | |
| 5 | Simplified approach | - | - |
| 6 | Delta-plus method | 180,959 | 14,477 |
| 7 | Scenario approach | - | - |
| 8 | **Securitisation (specific risk)** | **236,698** | **18,936** |
| 9 | **Total** | **2,676,620** | **214,130** |

# 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, 1 August 2019

**Nicola Massimo Clarelli**

Financial Reporting Officer

# List of Tables

# Appendix 1: Summary of Information published in line with CRR requirements

| *CRR Article* | | *Reference to the present document Pillar III* |
|---|---|---|
| **Art. 431** - *Scope of disclosure requirements* | *Par.1; 2 ;3; 4* | **Introduction** |
| **Art. 432** - *Non-material, proprietary or confidential information* | | **Introduction** |
| **Art. 433** - *Frequency of disclosure* | | **Introduction** |
| **Art. 434** - *Means of disclosure* | | **Introduction** |
| **Art. 435** - *Risk management objectives and policies* | *Par.2* | **Introduction**: reference to the link: https://www.gruppomps.it/en/corporate-governance/corporate-governance-report.html |
| **Art. 437** - *Own funds* | *Par.a* | **Chapter 3** - Own funds - Tab. 3.2; Tab. 3.3 |
| | *Par. d* | **Chapter 3** - Own funds - Tab. 3.1.1/3.1.2/3.1.3/3.1.4 |
| | *Par. e/f* | **1. Chapter 3** - Own funds |
| | | **2. Chapter 3** Reference to the section F of Notes - Financial Statement |
| **Art. 438** - *Capital requirement* | *Par. a* | **Chapter 4** - Capital requirements, liquidity ratios and leverage |
| | *Par. b* | **1. Executive Summary**;<br>**2. Chapter 4** - Capital requirements, liquidity ratios and leverage |
| | *Par. c; d* | **Chapter 4** - Capital requirements, liquidity ratios and leverage |
| | *Par. e; f* | **Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4) |
| | *Slotting criteria* | **Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4.3) |
| **Art. 439** - *Exposure to counterparty credit risk* | *Par. e; f; g; h; i* | **1. Chapter 6** - Counterparty risk; |
| **Art. 440** - *Capital buffers* | *Par. b* | **1. Executive Summary**;<br>**2. Chapter 4** - Section countercyclical capital buffer (Tab.4.8) |
| **Art. 442** - *Credit risk adjustments* | *Par. e* | **Chapter 5.3** - Credit risk: AIRB approach -Tab. 5.3.1 – IRB Approach: Summary of Exposures, RWAs, expected and actual losses |
| **Art. 444** - *Use of ECAIs* | *Par. e* | **Chapter 5.2** - Credit risk: Standard approach (Tab. 5.2.1; Tab. 5.2.2) |
| **Art. 445** - *Exposure to market risk* | | **Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4; Tab. 4.4) |
| **Art. 450** - *Remuneration Policy* | | **Introduction:** Introduction -reference to BMPS websitehttps://www.gruppomps.it/en/corporate-governance/remuneration.html |
| **Art. 451** - *Leverage* | | **Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4.9) |
| **Art. 452** - *Use of the IRB Approach to credit risk* | *Par. a* | **Chapter 5.3** - Credit risk: use of the AIRB approach |
| | *Par. d; e; f;* | **Chapter 5.3** - Tab. 5.3.1; from Tab. 5.3.2 to Tab. 5.3.10 |
| | *Par. j* | **Chapter 5.3** - Section "Exposures subject to the AIRB approach broken down by geographical location" (Tab. 5.3.11 - 5.3.12) |
| **Art. 453** - *Use of credit risk mitigation techniques* | | **Chapter 5.5** - Credit risk: use of risk mitigation techniques (Tab. 5.5.1; 5.5.2) |

# Appendix 2 - Details of Information provided in compliance with EBA Guidelines GL 2016/11

| Guidelines on disclosure requirements EBA/GL/2016/11 | | Reference to the present document Pillar III | |
|---|---|---|---|
| **OV1** | Overview of RWAs | 4. Capital requirements, liquidity ratios and leverage | tab. 4b |
| **INS1** | Non-deducted participations in insurance undertakings | 4. Capital requirements, liquidity ratios and leverage | tab. 4.7 |
| **EU CR1-A** | Credit quality of exposures by exposure class and instrument | 5.4 Credit Risk: credit quality | tab. 5.4.1 |
| **EU CR1-B** | Credit quality of exposures by industry or counterparty types | N/a | |
| **EU CR1-C** | Credit quality of exposures by geography | n.s. | |
| **EU CR2-B** | EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities | table Changes in gross exposure in the Consolidated Financial Statement p.65 | |
| **EU CR3** | CRM techniques – Overview | 5.5 Credit Risk: use of risk mitigation techniques | tab. 5.5.3 |
| **EU CR4** | Standardised approach – Credit risk exposure and CRM effects | 5.5 Credit Risk: use of risk mitigation techniques | tab. 5.5.4 |
| **EU CR5** | Standardised approach | 5.2 Credit Risk: Standard approach | tab. 5.2.3 |
| **EU CR6** | IRB approach – Credit risk exposures by exposure class and PD range | 5.3 Credit Risk: use of the AIRB approach | tab. 5.3.4 - tab. 5.3.10 |
| **EU CR7** | IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques | n.s. | |
| **EU CR8** | RWA flow statements of credit risk exposures under the IRB approach | 4. Capital requirements, liquidity ratios and leverage | tab. 4.6 |
| **EU CR10** | IRB (specialised lending and equities) | 5.3 Credit Risk: use of the AIRB approach | tab. 5.3.3 |
| **EU CCR1** | Analysis of CCR exposure by approach | 6.1 Counterparty Risk: general disclosure | tab. 6.2.1 |
| **EU CCR2** | CVA capital charge | 6.1 Counterparty Risk: general disclosure | tab. 6.2.2 |
| **EU CCR3** | Standardised approach – CCR exposures by regulatory portfolio and risk | 6.1 Counterparty Risk: general disclosure | tab. 6.2.3 |
| **EU CCR4** | IRB approach – CCR exposures by portfolio and PD scale | N/a | |
| **EU CCR5-A** | Impact of netting and collateral held on exposure values | 6.1 Counterparty Risk: general disclosure | tab. 6.2.4 |
| **EU CCR5-B** | Composition of collateral for exposures to CCR | 6.1 Counterparty Risk: general disclosure | tab. 6.2.5 |
| **EU CCR6** | Credit derivatives exposures | 6.1 Counterparty Risk: general disclosure | tab. 6.2.6 |
| **EU CCR7** | RWA flow statements of CCR exposures under the IMM | Na | |
| **EU CCR8** | Exposures to CCPs | 6.1 Counterparty Risk: general disclosure | tab. 6.2.7 |
| **EU MR1** | Market risk under the standardised approach | 7 Market Risk | tab. 7 |
| **EU MR2-A** | Market risk under the IMA | Na | |
| **EU MR2-B** | RWA flow statements of market risk exposures under the IMA | Na | |
| **EU MR3** | IMA values for trading portfolios | Na | |
| **EU MR4** | Comparison of VaR estimates with gains/losses | Na | |

*n.a* *Not applicable as Montepaschi Group adopts the standardized approach to calculate capital requirements for market risk*
*n.s.* *Not significant as Montepaschi Group does not have credit exposures hedged with credit derivatives, which are valid for the purpose of risk mitigation techniques*
*n.d.* *Not available*

# Appendix 3 - Details of Information provided in compliance with EBA Guidelines GL 2018/01

| Guidelines on disclosure requirements EBA/GL/2018/01 | | Reference to the present document Pillar III |
|---|---|---|
| **IFRS 9** | *Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs* | **Chapter 4** - Capital requirements, liquidity ratios and leverage |

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