Pillar 3 Disclosure

Update as at
31 March 2018

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Pillar 3 Disclosure

Update as at 31 March 2018

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

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Introduction

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

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

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

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

The 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").

Under the new regulations, the CRR requires banks to publish information at least on an annual basis along with their financial statements and to evaluate the need to publish some or all disclosures more frequently than once a year depending on their specific activities. Institutions are to assess the possible need for more frequent disclosure of items of information laid down in Article 437 (Own Funds), and Article 438 (Capital Requirements), and information on risk exposure and other items prone to rapid change.

The EBA (European Banking Authority) subsequently issued its guidelines (EBA/GL/2014/14 of 23-12-2014), pursuant to 16 of EU Regulation no.1093/2010, on the need to publish information more frequently than once a year.

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. This document was supplemented with the information schemes of such Guidelines, the placement of which within the document is summarised in Appendix 2.

The EBA has also integrated the outcomes as expected from the aforementioned guidelines, by issuing the LCR Guidelines from art. 435, CRR of January 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 disclosure requirements.

The current document, therefore, provides an update as at 31 March 2018 of quantitative information deemed most significant by the Group and, in particular, the quantitative information on Own Funds, Capital requirements, the Leverage Ratio.

For additional information not contained in this document, particularly regarding the general, organizational and methodological aspects relating to the different types of risk, please refer to the Annual Report as at 31 December 2017.

Further information on the Group's risk profile, pursuant to art. 434 of the CRR, is also published in the Consolidated Interim Report as at 31 March 2018, the Report on Corporate Governance and the Compensation Report. The current update introduces the new information templates required by the Basel 3 framework and also reports values as at 31 December 2017.

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 following table summarizes the MPS Group's capital requirements for the first quarter of 2018 and for 2017 along with the respective changes.

Own Funds and Capital Requirements Summary

Data in thousands of Euro

			Delta vs. 31-12-2017	
Own Funds	**mar-18**	**dec-17**	**Absolute**	**%**
Common Equity Tier 1	8,876,239	8,951,233	-74,993	-0.8%
Additional Tier 1	-	-	-	-
Tier 2	851,201	112,487	738,714	656.6%
Own Funds	**9,727,440**	**9,063,720**	**663,720**	**7.3%**
↳ *of which Delta EL**	*165,619*	*162,039*	*3,580*	*2.2%*
Regulatory Capital Requirements				
Credit and Counterparty Risk	3,837,001	3,817,017	19,983	0.5%
↳ *of which Standard*	*1,627,575*	*1,655,880*	*-28,306*	*-1.7%*
↳ *of which AIRB*	*2,209,426*	*2,161,137*	*48,289*	*2.2%*
Market Risk	290,270	199,411	90,860	45.6%
↳ *of which Standard*	*290,270*	*199,411*	*90,860*	*45.6%*
↳ *of which Internal Model*	-	-	-	-
Operational Risk	785,276	800,923	-15,647	-2.0%
↳ *of which Foundation Approach*	*11,936*	*11,936*	-	-
↳ *of which Standardised Approach*	-	-	-	-
↳ *of which Advanced Approach*	*773,340*	*788,987*	*-15,647*	*-2.0%*
CVA Risk	29,967	27,650	2,317	8.4%
Concentration Risk	-	-	-	-
Settlement Risk	-	-	-	-
Regulatory Capital Requirements	**4,942,513**	**4,845,001**	**97,513**	**2.0%**
Risk Weighted Assets	**61,781,418**	**60,562,512**	**1,218,906**	**2.0%**
of which Credit and Counterparty Risk	*47,962,506*	*47,712,717*	*249,789*	*0.5%*
of which Market Risk	*3,628,381*	*2,492,636*	*1,135,744*	*45.6%*
of which Operational Risk	*9,815,947*	*10,011,539*	*-195,592*	*-2.0%*
of which CVA Risk	*374,584*	*345,620*	*28,965*	*8.4%*
			Delta vs. 31-12-2017	
Capital ratios			**in bp**	**in %**
CET1 Capital Ratio	**14.37%**	**14.78%**	**-41**	**-0.41%**
Tier1 Capital Ratio	**14.37%**	**14.78%**	**-41**	**-0.41%**
Total Capital Ratio	**15.75%**	**14.97%**	**78**	**0.78%**

**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 8,427,948 €/thousands (7,119,971 €/thousands as at 31 December 2017).*

Compared to 31 December 2017, CET1 recorded an overall reduction of EUR -75 mln, essentially due to the transitional regime impact (5%) for EUR -78mln, higher deductions for DTAs and significant investments, partially related to the application of the phasing-in in 2018, which more than offset the increase resulting from the profit for the period. Tier 2 showed a rise of EUR 738.7 mln, mainly due to the issue of a subordinated Tier 2 bond, finalised in January 2018, for the amount of EUR 750 mln. The Total Capital Ratio therefore shows an overall increase of EUR 664 mln.

RWA recorded an overall rise of EUR 1,219 mln, mainly represented by the increase of market risk (EUR +1,136 mln) and credit risk (EUR +250 mln) resulting from the increase due to new credit disbursements, partially offset by the lower contribution of RWA from capital. The RWA component linked to the operational risk proves to be substantially stable compared to 31 December 2017; the small reduction of about EUR -196 mln is mainly due to the stabilisation of the operational losses linked to operations with clients.

3. Own Funds

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

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

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

For a detailed description of the items included in Own Funds (CET1, AT1, T2) whether relating to transitional or final requirements, please refer to the Annual Financial Report as at 31 December 2017 - Notes to Part F – Information on consolidated shareholders' equity – Section 2.2.

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. On 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 primary capital of class 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 31/12/2017 is brought according to the rules in force on 31/12/2017. The Group has availed itself of the option of not determining the comparative data on homogenous bases in the exercise of the IFRS 9 application, therefore the data as at 31/12/2017 do not include any effect of the IFRS 9.

Quantitative information

Tab. 3.1.1 - Own funds disclosure template

	Common Equity Tier 1: instruments and reserves	mar-2018	dec-2017
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	-978,678	1,480,953
3	Accumulated other comprehensive income (and other reserves, to include unrealised gain and losses under the applicable accounting standards)	74,543	2,435,574
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	187,505	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**9,611,987**	**14,245,145**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-36,004	-43,926
8	Intangible assets (net of related tax liability) (negative amount)	-319,904	-332,347
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)	-1,071,618	-764,514
11	Fair value reserves related to gains or losses on cash flow hedges	168	222
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	-33,443	-36,533
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)	-175,071	-
20	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)		-
21	Amount exceeding the 15% threshold (negative amount)	-326,410	-81,327
22	*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*	*-178,379*	*-46,315*
23	*of which: deferred tax assets arising from temporary differences*	*-148,031*	*-35,013*
25	Losses for the current financial year (negative amount)	-	-2,801,871
25a	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	1,540,244	29,489
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-706,062
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**-735,748**	**-5,293,912**
29	**Common Equity Tier 1 (CET1) Capital**	**8,876,239**	**8,951,233**

[1] *Such item includes tax realignment for -218,123 €/thousands, IFRS 9 transitional adjustments for 1,479,130 €/thousands, IAS 19 transitional adjustments for 12,808 €/thousands and others deductions with 17.65% thresholds for 266,430 €/thousands.*

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

	Additional Tier 1 (AT1) capital: instruments	mar-2018	dec-2017
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)**	**8,876,239**	**8,951,233**

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

	Tier 2 (T2) capital: instruments and provisions	mar-2018	dec-2017
46	Capital instruments and the realted share premium accounts	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	165,619	162,039
51	**Tier 2 (T2) capital before regulatory adjustments**	**915,619**	**162,039**
	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)	-64,418	-62,214
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	-	-5,594
	of whichi: Losses for the current year	-	-
	of which: Significant financial instruments	-	*-5,594*
	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	-	18,256
	of which: unrealised gains	-	*18,256*
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-64,418**	**-49,552**
58	**Tier 2 (T2) capital**	**851,201**	**112,487**
59	**Total Capital (TC= T1+T2)**	**9,727,440**	**9,063,720**

Tab. 3.1.4 - Own Funds: Capital ratios and buffers

	Capital ratios and buffer	mar-2018	dec-2017
60	**Total Risk Weighted Assets**	**61,781,418**	**60,562,512**
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.37%	14.78%
62	Tier 1 (as a percentage of risk exposure amount)	14.37%	14.78%
63	Total capital (as a percentage of risk exposure amount)	15.75%	14.97%
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)	6.44%	5.75%
65	*of which: capital conservation buffer requirement*	*1.88%*	*1.25%*
66	*of which: countercyclical buffer requirement*	*0.001%*	*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]	7.74%	6.97%
	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)	590,001	641,235
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)	911,129	877,780
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)	632,307	686,162
	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)	8,427,948	7,119,971
79	Cap on inclusion of credit risk adjustments in T2 under IRB approach	165,619	162,039
	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	-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	Current cap on T2 instruments subject to phase out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

[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	mar-2018	dec-2017
Group Equity	9,298,278	10,429,096
Minority Equity	2,279	2,279
Net Assets of the Balance Sheet	**9,300,557**	**10,431,375**
Net Assets after distribution to shareholders	**9,300,557**	**10,431,375**
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-	-
- Minority interests computable	-2,279	-2,279
- Own shares included in the regulatory adjustments	**-313,710**	**-313,710**
- Other components non computable in regime	168	222
Common Equity Tier 1 (CET1) before the regulatory adjustments	**9,298,445**	**10,429,318**
Regulatory adjustments (including adjustments of the transitional period)	-422,206	-1,478,085
Common Equity Tier 1 (CET1) net of regulatory adjustments	**8,876,239**	**8,951,233**

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

Items (Euro mln)	Financial Statement	Prudential Statement	Information about differences	Relevant amount for the purpose of Own Funds	See Table "Transitional Disclosure Template"
Assets					
100. Equity investments	1,075,825	1,168,814	92,989	-253,368	8, 18, 19, 23
of which: implicit goodwill	*49,112*	*49,112*		*-49,112*	*8*
130. Intangible assets	262,893	262,893	-	-262,893	8
of which: goodwill	*7,900*	*7,900*		*-7,900*	*8*
of which: other intangible assets	*254,993*	*254,993*	-	*-254,993*	*8*
140. Tax assets	3,867,344	3,867,344	-	-1,102,413	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	*1,071,618*	*1,071,618*		*-1,071,618*	*10*
Liabilities and Shareholders' Equity					
30. Debt securities issued	15,916,220	15,916,220		750,000	32, 33, 46, 52
50. Financial liabilities designated at fair value	295,525	295,525		-	33
140. Valuation reserves	196,705	196,705		196,705	3, 11
of which: FVOCI	*270,902*	*270,902*		*-*	*3 (FVOCI)*
of which: CFH	*-168*	*-168*		*168*	*3 (CFH),11*
of which: legally-required revaluations	*9,053*	*9,053*		*9,053*	*3 (reval)*
of which: other	*-83,082*	*-83,082*		*187,484*	*3 (other)*
170. Reserves	-1,100,841	-1,100,841		-1,108,573	2, 3
180. Share premium reserve	-	-		-	-
190. Share Capital	10,328,618	10,328,618		10,328,618	1, 2, 31
200. Treasury shares	313,710	313,710		-313,710	16
220. Profit/loss for the period	187,505	187,505		187,505	5a, 25a
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities				-33,443	14
Value adjustments due to the requirements for prudent valuation				-36,004	7
IRB Shortfall of credit risk adjustments to expected losses				-	12
IRB Excess of provisions over expected losses eligible				165,619	50
Filter on double tax realignment				-218,123	25a
Filter for IAS 19 and IFRS 9				1,491,937	25a
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				-64,418	54, 55
Indirect investments					
Total Own Funds				**9,727,440**	

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

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

Following the implementation of the "Basel 3" regulatory framework, Pillar 1 which governs the requirements used to reflect the potential riskiness of activities as well as capital requirements, was strengthened through a more harmonised definition of capital as well as higher capital requirements.

Therefore, alongside the minimum levels of capital required to face credit, counterparty, market and operational risks, a definition of higher quality capital has been added to own resources, essentially focused on common equity.

Also added are capital reserves which have the function of preserving primary capital, providing counter-cyclical buffers and hedging against greater losses for systemically important financial institutions.

These reserves are determined by the Member States (Bank of Italy) in accordance with the new framework, and are to be added to Core Equity Tier 1.

In addition to the system of minimum capital requirements and reserves, there is now a plan to introduce leverage caps (including off-balance sheet exposures) as a backstop to capital requirements based on risk and to reduce excessive leverage across the system. The new regulatory framework also introduces new liquidity risk monitoring requirements and tools which focus on shortterm liquidity resilience (Liquidity Coverage Ratio - LCR) and longer term structural balance (Net Stable Funding Ratio - NSFR) as well as providing standards for liquidity risk management and monitoring at both individual and system-wide level.

Regulatory Capital Adequacy Requirements

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

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

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

- *capital conservation buffer* - aimed at conserving the minimum level of regulatory capital during difficult periods in the market, through the allocation of high quality capital in periods in which there are no market tensions. This reserve is mandatory and must be at least 1.875% from 1° January 2018 to 31 December 2018; 2.5% from 1° January 2019;
- *countercyclical capital buffer* - aimed at protecting the banking sector in phases of excessive growth in loans. The buffer provides for the accumulation of CET1 capital during phases of rapid growth in the credit cycle, which can then be used to absorb losses in the downward phase of the cycle. As opposed to the capital conservation buffer, the countercyclical buffer is imposed only during periods of loan growth and is calculated according to CRD IV provisions by the competent

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

- the systemic risk buffer, aimed at dealing with long-term non-cyclical systemic risk in the financial sector, is to be established by the Member States and currently, has not yet been determined by the Bank of Italy;
- G-SII buffer for global systemically important banks and O-SII buffer for other systemically important institutions - impose higher capital requirements on those entities based on their systemic relevance, at a global or national level, which pose greater risks for the financial system and for which a crisis could have impacts on contributors. The Group is not a Global Systemically Important Institution (G-SII) but is classed as an Other Systematically Important Institution (O-SII), as defined by the Bank of Italy. For each bank or banking group, this identification took into consideration the four characteristics (size, relevance for the Italian economy, complexity and interconnection with the financial system) specified in the EBA guidelines to establish the systematic relevance of each entity at the level of individual jurisdiction. The Bank of Italy's decision established an O-SII buffer of 0,06% for 2018, 0,13% for 2019, 0,19% for 2020 and 0,25% starting from 2021.

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

Capital adequacy

On 19 June 2017 the ECB informed the Parent Company of the results of the Supervisory Review and Evaluation Process (SREP). In this document, the ECB ordered the Bank to maintain as of 1 January 2018:

- a Total SREP Capital Requirement ratio (TSCR) of 11% at consolidated level (which includes a minimum Pillar 1 requirement of 8% and an additional Pillar 2 requirement of 3% (P2R), entirely in terms of Common Equity Tier 1 capital) and
- an *Overall Capital Requirement – OCR,* including, besides the TSCR, also the combined capital requirement. The following table shows the minimum capital requirements on a consolidated basis starting from 1 January 2018 (*phase-in*).

Capital adequacy indicators **as of 1° January 2018**	Minimun equity requirements (art. 92 CRR, Pillar I)	TSCR Requirements (Pillar I + Pillar II)	Combined Buffer Requirement	OCR (TSCR +CBR)
CET 1 Ratio	*4.50%*	*7.50%*	*1.94%*	*9.44%*
Tier 1 Capital Ratio	*6.00%*	*9.00%*	*1.94%*	*10.94%*
Total Capital Ratio	*8.00%*	*11.00%*	*1.94%*	*12.94%*

TSCR - Total Step Capital Requirement.

CBR - the Combined Buffer Requirement includes Capital Conservation Buffer, Countercyclical Capital Buffer and O-SII Buffer.

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

January 2018:

- CET1 Ratio of 9.44% on a transitional basis,
- Total Capital Ratio of 12.94% on a transitional basis including, aside from the P2R, 1.875% for the Capital Conservation Buffer and 0.06% for the O-SII Buffer (Other Systemically Important Institutions Buffer).

Furthermore, the ECB notified to the Bank the expectation for the Group to comply with an additional 1.5% threshold (the so called "Pillar 2 capital guidance") to be fully satisfied with Common Equity Tier 1. The following table shows the minimum capital requirements which Group must respect.

Capital adequacy indicators **as of 1° January 2018**	OCR (TSCR + CBR)	Pillar II capital guidance (P2G)	OCR +P2G Requirements
CET 1 Ratio	*9.44%*	*1.50%*	*10.94%*
Tier 1 Capital Ratio	*10.94%*	*-*	*10.94%*
Total Capital Ratio	*12.94%*	*-*	*12.94%*

CBR: the Combined Buffer Requirement includes Capital Conservation Buffer, Countercyclical Capital Buffer and O-SII Buffer.

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.

The Group as at 31 March 2018 draws attention to a CET 1 ratio of 14.37%, higher than the minimum coefficient as expected from art. 92 CRR, to the target SREP ratio established by the ECB and the Overall Capital Requirement (analogously larger than the aforementioned regulatory requirements, Tier 1 ratio and Total Capital ratio, respectively 14.37% and 15.75%).

Capital adequacy indicators **as of 1° January 2018**	TSCR requirements (Pillar I + Pillar II)	OCR (TSCR+ CBR)	OCR +P2G	Regulatory capital ratios 31/03/2018
CET 1 Ratio	*7.50%*	*9.44%*	*10.94%*	*14.37%*
Tier 1 Capital Ratio	*9.00%*	*10.94%*	*10.94%*	*14.37%*
Total Capital Ratio	*11.00%*	*12.94%*	*12.94%*	*15.75%*

TSCR - Total Step Capital Requirement.

CBR - the Combined Buffer Requirement includes Capital Conservation Buffer, Countercyclical Capital Buffer and O-SII Buffer.

Quantitative information

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

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

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

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

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

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

In the following tables, the details of the Group property requirements are exposed as at 31 March 2018, according to the application of the transitional regime IFRS 9 and of the other transitional arrangements in force. The Group opted not to restate the comparative figures on a like-for-like basis in the year of first-time application of IFRS 9; therefore the amounts for 2017 are not fully comparable.

Tab. 4a – Capital requirements and Regulatory capital ratios

Regulatory Capital Requirements	mar-18	dec-17
Credit and Counterparty Risk	**3,837,001**	**3,817,017**
Standard Approach	1,627,575	1,655,880
Advanced IRB Approach	2,209,426	2,161,137
Market Risks	**290,270**	**199,411**
Standardised Approach	290,270	199,411
Internal Models	-	-
Operational Risk	**785,276**	**800,923**
Foundation Approach	11,936	11,936
Standardised Approach	-	-
Advanced Approach	773,340	788,987
CVA Risk	**29,967**	**27,650**
Originary Exposure Method (OEM)	-	-
Standardised Approach	29,967	27,650
Advanced Approach	-	-
Concentration Risk	**-**	**-**
Settlement Risk	**-**	**-**
Regulatory Capital Requirements	**4,942,513**	**4,845,001**
Risk-weighted assets	**61,781,418**	**60,562,512**
CET1 Capital Ratio	**14.37%**	**14.78%**
Tier1 Capital Ratio	**14.37%**	**14.78%**
Total Capital Ratio	**15.75%**	**14.97%**

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 IFRS 9 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 IFRS 9.

IFRS 9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

		mar-18
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1) capital	8,876,239
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,134,694
3	Tier 1 capital	8,876,239
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,134,694
5	Total capital	9,727,440
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,985,895
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	61,781,418
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	60,994,658
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.37%
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	11.70%
11	Tier 1 (as a percentage of risk exposure amount)	14.37%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.70%
13	Total capital (as a percentage of risk exposure amount)	15.75%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.09%
	Leverage ratio	
15	Leverage ratio total exposure measure	156,629,183
16	Leverage ratio	5.67%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4.61%

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 267 bp and 266 bp, respectively of CET1 ratio and total capital ratio. Such coefficients would have resulted in 11.70% (instead of 14.37%

transitional arrangements) and 13.09% (instead of 15.75%). IFRS 9 fully-loaded application would have entailed a total CET1 decrease of about 1.6 bln euro (only 5% of which, equal to 78 mln/euro, has been included into CET 1 transitional regime, as at 31 March 2018) linked to major provisions implemented during FTA on IRB credit exposure. The major provisions are attributable to performing loans impairment (stage 2) for -0.4 bln euro and to non-performing loans impairment for -1.2 bln euro (stage 3). It is stated that about 1 bln euro among the major provisions on NPEs (stage 3) is linked to the transfer, expected in the Restructuring Plan, of unlikely-to-pay and bad loans.

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

Tab. 4b (EU OV1) – Overview of RWAs

			RWAs		Minimum capital requirements	
			mar-18	dec-17	mar-18	dec-17
	1	**Credit risk (excluding CCR)**	**45,254,431**	**44,810,625**	**3,620,355**	**3,584,850**
Article 438 (c) (d)	2	Of which the standardised approach	17,999,124	18,153,295	1,439,930	1,452,264
Article 438 (c) (d)	4	Of which the advanced IRB (AIRB)approach	27,255,307	26,657,330	2,180,425	2,132,586
Article 107, Article 438 (c) (d)	6	**CCR**	**1,751,500**	**1,786,918**	**140,120**	**142,953**
Article 438 (c) (d)	7	*Of which mark to market*	*878,884*	*857,155*	*70,311*	*68,572*
	11	*Of which risk exposure amount for contributions to the default fund of a CCP*	*6,939*	*12,782*	*555*	*1,023*
Article 438 (c) (d)	12	*Of which CVA*	*374,584*	*345,620*	*29,967*	*27,650*
Article 438 (e)	13	**Settlement risk**	-	-	-	-
Article 438 (e)	19	**Market risk**	**3,628,381**	**2,492,636**	**290,270**	**199,411**
	20	Of which the standardised approach	3,628,381	2,492,636	290,270	199,411
	21	Of which IMA	-	-	-	-
Article 438 (f)	23	**Operational risk**	**9,815,947**	**10,011,539**	**785,276**	**800,923**
	24	Of which basic indicator approach	149,202	149,202	11,936	11,936
	26	Of which advanced measurement approach	9,666,745	9,862,337	773,340	788,987
Article 437(2), Article 48 and 60	27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**1,331,159**	**1,460,793**	**106,493**	**116,863**
Article 500	28	Floor adjustment	-	-	-	-
	29	**Total**	**61,781,418**	**60,562,512**	**4,942,513**	**4,845,001**

The sum of rows 1.6 (excluding row 12) and 27 is consistent with the item of total credit and counterparty risk of tables 4.1 and 4.2.

The tables below provide details on the Group's different capital requirements as at 31 March 2018. The Capital Requirement for Counterparty Risk amounts to EUR 109,598 thousands (EUR 114,281 thousands as at 31 December 2017) and has been calculated on both the Trading Portfolio and the Banking Book. The requirement, summarised by methodology in table 4.1, is reported in the individual regulatory portfolios of the Standard Approach and the AIRB Approach in table 4.2.

Tab. 4.1 – Capital requirements for Credit and Counterparty Risk

	mar-18	dec-17
	Requirements	Requirements
Standard Approach		
Standard Approach Total	1,627,575	1,655,880
of which: Counterparty Risk	*80,597*	*85,731*
IRB Approach		
IRB Approach Total	2,209,426	2,161,137
of which: Counterparty Risk	*29,001*	*28,551*
Total	**3,837,001**	**3,817,017**
of which: Counterparty Risk	***109,598***	***114,281***

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

Tab. 4.2 – Capital requirements for Credit and Counterparty Risk

Standard Approach	mar-18	dec-17
Exposures to central governments and central banks	181,403	217,601
Exposures to regional governments and local authorities	29,426	31,705
Exposures to public sector entities	38,649	34,592
Exposures to Multi-lateral development banks	-	-
Exposures to International Organisations	-	-
Exposures to Supervised institutions	157,118	176,025
Exposures to Corporates	418,001	407,640
Retail Exposures	77,461	75,457
Exposures secured by mortgages on immovable property	48,739	43,176
Exposures in Default	88,423	90,247
Exposures associated with high-risk	16,298	11,232
Exposures in the form of covered bonds	10,703	11,024
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to UCITs	34,813	36,593
Equity Exposures	230,835	242,245
Other Exposures	295,151	277,321
Securitization positions	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	555	1,023
Standard Approach Total	**1,627,575**	**1,655,880**
AIRB Approach		
Exposures to or secured by corporates:	1,537,353	1,474,882
- SMEs	685,059	686,016
- Other companies	730,441	666,005
- Specialized lending	121,852	122,861
Retail exposures:	670,895	685,634
- secured by real estate: SMEs	144,200	153,857
- secured by real estate: Individuals	244,754	242,241
- Qualifying revolving	666	741
- Other retail exposures: SMEs	251,135	258,486
- Other retail exposures: Individuals	30,139	30,309
Securitization positions	1,178	621
AIRB Approach Total	**2,209,426**	**2,161,137**
Credit and Counterparty Risk Total	**3,837,001**	**3,817,017**

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

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

Risk weight	mar-18	dec-17
Category 1 - 50%	103	50
Category 1 - 70% equal to or greater than 2.5 years	2,718	2,048
Category 2 - 70% less than 2.5 years	4,403	5,201
Category 2 - 90%	71,835	68,015
Category 3 - 115%	37,783	33,634
Category 4 - 250%	5,011	13,914
Category 5 - 0%	-	-
Total	**121,852**	**122,861**

Tab. 4.4 – Capital Requirements for Market Risk

Standardised Approach	mar-18	dec-17
Position risk on debt instruments	211,949	126,299
Position risk on equity	54,512	41,428
Foreign exchange risk	9,914	16,676
Commodities risk	11,321	13,190
CIU Risk	2,574	1,817
Total Standardised Approach	**290,270**	**199,411**
Internal models		
Total Internal models	**-**	**-**
Total Market Risks	**290,270**	**199,411**

Tab. 4.5 – Capital requirements for Operational Risk

Requirements by Approach	mar-18	dec-17
Foundation Approach	11,936	11,936
Standardised Approach	-	-
Advanced Measurement Approach	773,340	788,987
Total Operational Risk	**785,276**	**800,923**

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 at the 31/12/2017**	**26,657,330**	**2,132,586**
9	**RWAs as at the 31/03/2018**	**27,255,307**	**2,180,425**

The growth of 0.6 billion of the RWA of credit risk exposures under the IRB approach is mainly due to a growth in exposure in terms of asset size (performing portfolio). The amounts are net of the counterparty risk component.

Countercyclical Capital Buffer

As of 31 March 2018, the Montepaschi Group is required to hold a countercyclical capital buffer of EUR 617.8 thousands. 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 0.001%. 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 2017 and the first quarter of 2018. 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 31 March 2018, only the competent authorities of Hong Kong, Sweden, Norway, Czech Republic, Slovak Republic and Iceland 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. As shown in the following tables, the Montepaschi Group holds 93.95% 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. 4.7 – Amount of institution-specific countercyclical capital buffer

		mar-18
10	Total risk exposure amount	61,781,418
20	Institution specific countercyclical buffer rate	0.001%
30	Institution specific countercyclical buffer requirement	617.8

Liquidity Ratios and Leverage Ratio

With reference to the liquidity indicators, Liquidity Coverage Ratio and the Net Stable Funding Ratio, the observation period by the Supervisory Authorities began in March 2014. As of October 2015, the minimum obligatory requirement for the Liquidity Coverage Ratio came into force, with a level that gradually increases over the years: 60% in 2015; 70% in 2016; 80% in 2017; 90% in 2018 and 100% in 2019. The Liquidity Cover Ratio was 195.59% as at 31 March 2018 (199.51% as at 31 December 2017), well above the minimum required for 2018.

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

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 introduce a limit on leverage (including off-balance sheet exposures) with a twofold purpose to limit the accumulation of debt within the banking industry so as to avoid destabilizing the deleveraging process which may harm the financial system and the economy in general, and strengthen the system of capital requirements associated with risk with a simple backstop measure that is not based on risk profile.

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

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

The Group's leverage ratio was 5.67% as at

31 March 2018. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 4.60%. In accordance with public disclosure requirements, the basic data necessary for its calculation is provided below.

The information is provided via the application of the current Leverage Ratio calculation rules for reporting purposes. The templates used to report the information are those provided for by the ITS on Disclosure (*see* "EBA FINAL draft Implementing Technical Standards on disclosure of the leverage ratio under Article 451(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) - Second submission following the EC's Delegated Act specifying the LR" - link) published by the EBA on 15/06/2015 and included in the Commission Implementing Regulation (EU) 2016/200 of 15 February 2016.

The tables below show the financial leverage ratio as at 31 March 2018.

Tab. 4.8 – Leverage Ratio

		mar-18	dec-17
	Capital and total exposures		
20	Tier 1 capital	8,876,239	8,951,233
21	Total exposures	156,629,183	149,831,148
	Leverage ratio		
22	Basel III leverage ratio	5.67%	5.97%

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 2018.

As at 31 March 2018, the Group recorded a slight reduction in the financial leverage indicator linked to the reduction in Tier 1 and the increase in total exposures. Exposures are up by around EUR 6.9 billion due to the increase registered in off-balance exposures.

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, 10 May 2018

Nicola Massimo Clarelli

Financial Reporting Officer

Nicola Massimo Clarelli

List of Tables

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

CRR Article		*Pillar 3 Report Location*
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 disclosures*		**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	**Chapter 3** - Own Funds Reference to the section F of Notes - Financial Statement
Art. 438- *Capital requirement*	*Par. a,b,c,d*	**Chapter 4** - Capital requirements, liquidity ratios and leverage
	Par. e; f	**Chapter 4 -** Capital requirements, liquidity ratios and leverage (Tab. 4a)
	Slotting criteria	**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4.3)
Art. 440 - *Capital buffers*	*Par. a;*	**Chapter 4** - Capital requirements, liquidity ratios and leverage
	Par. b;	**Chapter 4** - Section countercyclical capital buffer: (Tab. 4.7)
Art. 445 - *Exposure to market risk*		**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4; Tab.4.4)
Art. 450 - *Remuneration Policy*		**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. 4.8)

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

Guidelines on disclosure requirements EBA/GL/2016/11		*Pillar 3 Report Location*
EU OV1	*Overview of RWAs*	**Chapter 4** - Capital requirements, liquidity ratios and leverage (tab.4b)
EU CR8	*RWA flow statements of credit risk exposures under the IRB approach*	**Chapter 4** - Capital requirements, liquidity ratios and leverage (tab. 4.6)

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

Guidelines on disclosure requirements EBA/GL/2018/01		*Pillar 3 Report Location*
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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