Pillar 3 Disclosure

Update as at
30 September 2019

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

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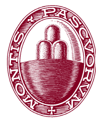
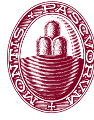


Banca Monte dei Paschi di Siena SpA
Company Head Office in Siena, Piazza Salimbeni 3, www.mps.it
Recorded in the Arezzo-Siena Company Register – Registration no. and tax code 00884060526
Member of the Italian Interbank Deposit Protection Fund. Bank Register no. 5274
Parent Company of the Monte dei Paschi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



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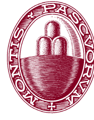


Introduction

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) No 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.

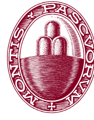
The current regulatory package includes application criteria, set out in the Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) adopted by the European Commission, upon the proposal of the European Supervisory Authorities.

At national level, the new harmonized framework has been implemented by Bank of Italy with:

- ✓ Circular No 285 of 17 December 2013 and subsequent updates – Supervisory Provisions for Banks;
- ✓ Circular No 286 of 17 December 2013 and subsequent updates – Instructions for Prudential reporting for banks and securities' firm;
- ✓ Circular No 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 considering 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 (Pillar 3) is now governed directly by Regulation (EU) 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 Regulation" or "CRR").

The previous Regulations (Bank of Italy Circular No 263/06, Paragraph IV) along with the reporting templates and rules provided therein are to be considered no longer applicable.

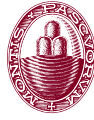
Under the new regulations, the CRR requires banks to publish information at least on an annual basis along with their financial statements and to evaluate the need to publish some or all disclosures more frequently than once a year depending on their specific activities. Institutions are to assess the 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 European Banking Authority (EBA) subsequently issued its guidelines (EBA/GL/2014/14 of 23 December 2014), on the need to publish information more frequently than once a year.

In the 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 report.

In December 2016, the European Banking Association (EBA) published its Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013, subsequently updated in June 2017, 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 Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 (EBA/GL/2017/01) of June 2017 as well as guidelines in accordance with the law of



Article 473a of the 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.

Subsequent to the public consultation process launched in April, in December 2018 the EBA published the final version of the document “Guidelines on disclosures of non-performing and forborne exposures” (EBA/GL/2018/10), effective as of 31 December 2019 (in line with the “Guidelines for banks on non-performing loans”, published by the ECB in March 2017) and aimed at promoting consistency in NPL disclosure requirements.

The current document, therefore, provides an update as at 30 September 2019 of quantitative information deemed most significant by the Group on Own Funds, Capital requirements and the Leverage ratio.

For additional information not contained in this document, particularly regarding the general, organizational and methodological aspects relating to the different types of risk, please refer to the Annual Report as at 31 December 2018.

Further information on the Group’s risk profile, pursuant to Article 434 of the CRR, is also published in the Consolidated Interim Report as at 30 September 2019, the Report on Corporate Governance and the Compensation Report.

The current update introduces the information templates required by the Basel 3 framework and 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 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. 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.

From 1 January 2019, all banks have to hold a capital conservation buffer of the highest quality of its capital (Common Equity Tier 1 capital) equal to 2.5 % of a bank's total risk exposure. The following table shows the minimum capital requirements which Group must respect.

Capital adequacy indicators as of 1 March 2019	CET 1 Ratio	Tier 1 Ratio	Total Capital Ratio
OCR (TSCR + CBR)	*10.00%*	*11.50%*	*13.50%*
Pillar II Capital Guidance (P2G)	*1.30%*	*-*	*-*
OCR + P2G	***11.30%***	***11.50%***	***13.50%***

TSCR - Total SREP Capital Requirement

CBR - Combined Buffer Requirement

OCR - Overall Capital Requirement. It includes, in addition to P2R, 2.5% for the Capital Conservation Buffer.

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. For more insights on the new SREP decision, see also the following Chapter 4.

As of 30 September 2019, the Bank had a CET 1 ratio of 14.77%, 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 14.77% and 16.75%, respectively, are higher than the requirements established by Article 92 of the CRR as reported in the table below.

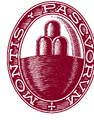
Capital adequacy indicators as of 1 March 2019	CET 1 Ratio	Tier 1 Ratio	Total Capital Ratio
Pillar I minimun Requirements (Art. 92 CRR, Pillar I)	*4.50%*	*6.00%*	*8.00%*
TSCR (Pillar I + Pillar II)	*7.50%*	*9.00%*	*11.00%*
OCR (TSCR+CBR)	*10.00%*	*11.50%*	*13.50%*
OCR + P2G	***11.30%***	***11.50%***	***13.50%***
Capital Ratio at 30 September 2019	***14.77%***	***14.77%***	***16.75%***

TSCR - Total SREP Capital Requirement

CBR - Combined Buffer Requirement

OCR - Overall Capital Requirement. It includes, in addition to P2R, 2.5% for the Capital Conservation Buffer.

P2G - Pillar 2 Guidance



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

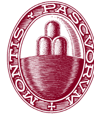
Own Funds and Capital Requirements Summary

Data in thousands of Euro

			Delta vs. 31-12-2018	
Own Funds	**sep-19**	**dec-18**	**Absolute**	**%**
Common Equity Tier 1	8,596,789	8,020,457	576,333	7.2%
Additional Tier 1	-	-	-	-
Tier 2	1,154,223	857,482	296,741	34.6%
Own Funds	**9,751,013**	**8,877,939**	**873,074**	**9.8%**
↳ *of which Delta EL**	*168,091*	*171,131*	*-3,041*	*-1.8%*
Regulatory Capital Requirements				
Credit and Counterparty Risk	3,628,541	3,674,032	-45,491	-1.2%
↳ *of which Standard*	*1,373,991*	*1,379,799*	*-5,808*	*-0.4%*
↳ *of which AIRB*	*2,254,551*	*2,294,234*	*-39,683*	*-1.7%*
Market Risk	219,493	194,079	25,413	13.1%
↳ *of which Standard*	*219,493*	*194,079*	*25,413*	*13.1%*
↳ *of which Internal Model*	-	-	-	-
Operational Risk	775,847	764,998	10,849	1.4%
↳ *of which Foundation Approach*	*8,165*	*11,734*	*-3,569*	*-30.4%*
↳ *of which Standardised Approach*	-	-	-	-
↳ *of which Advanced Approach*	*767,682*	*753,264*	*14,419*	*1.9%*
CVA Risk	33,511	36,615	-3,104	-8.5%
Concentration Risk	-	-	-	-
Settlement Risk	-	-	-	-
Regulatory Capital Requirements	**4,657,392**	**4,669,725**	**-12,332**	**-0.3%**
Risk Weighted Assets	**58,217,402**	**58,371,557**	**-154,155**	**-0.3%**
of which Credit and Counterparty Risk	*45,356,765*	*45,925,406*	*-568,641*	*-1.2%*
of which Market Risk	*2,743,657*	*2,425,993*	*317,665*	*13.1%*
of which Operational Risk	*9,698,090*	*9,562,475*	*135,615*	*1.4%*
of which CVA Risk	*418,890*	*457,684*	*-38,794*	*-8.5%*

			Delta vs. 31-12-2018	
Capital ratios			**in bp**	**in %**
CET1 Capital Ratio	**14.77%**	**13.74%**	**103**	**1.03%**
Tier 1 Capital Ratio	**14.77%**	**13.74%**	**103**	**1.03%**
Total Capital Ratio	**16.75%**	**15.21%**	**154**	**1.54%**

** 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 EUR 806,409 thousand (EUR 1,123,116 thousand as at December 2018)*



Compared to 31 December 2018, the CET1 rose by a total of EUR 576 mln, essentially due to the following positive phenomena:

- ✓ improvement in the balance of the OCI Reserve, for EUR 330 mln, and other reserves for EUR 90 mln (primarily due to the elimination of the indemnity issued to Bank of NY in relation to FRESH 2008, amounting to EUR 76 mln, after the ten-year time limit was reached);
- ✓ inclusion of the profit accrued in the first half of 2019, equal to EUR 93 mln (while the profit accrued in the third quarter was not calculated);
- ✓ cancellation of the filter on multiple tax deduction of the same goodwill, set forth in the 29th update of Circ. 285 of the Bank of Italy, for EUR 192 mln;
- ✓ decline in deductions linked to prudential filters (particularly the prudent valuation), intangible assets, DTAs and qualified financial investments (overall for EUR 36 mln);

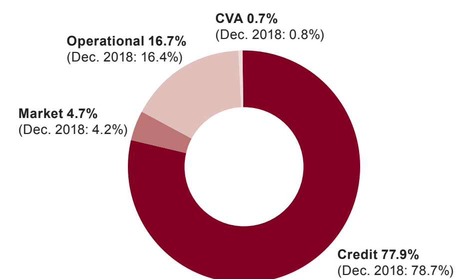
partially offset:

- ✓ by the decline in the neutralisation of the impact of IFRS 9 connected to the first-time adoption of the accounting standard as set forth in Regulation (EU) 2017/2935 (inclusive of the positive effect of the relative DTAs), equal to a total of EUR -151 mln and the negative effects of the end of the transition period for EUR -14 mln.

Note that in compliance with regulatory rules, the values of the higher deductions for DTAs and qualified investments which contributed towards the calculation of CET1 are updated at the reporting date although, as already noted above, it does not include the share of the result for the period of 3Q2019.

Tier 2 marked an increase of EUR 297 mln compared to the end of December 2018, substantially due to the issue in July 2019 of subordinated T2 bond for EUR 300 mln. The Total Capital Ratio therefore reflects an overall increase in own funds of EUR 873 mln.

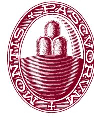
Breakdown of RWAs by risk type



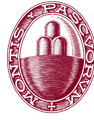
RWAs recorded an overall decrease of EUR 154 mln, due to lower RWAs relating to credit and counterparty risk (EUR 607 mln) and higher RWAs relating to market risks (EUR 318 mln) and operational risk (EUR 135 mln).

For the 2019 SREP, the Bank received the 2019 SREP Draft Decision on 26 September 2019.

The 2019 SREP Draft Decision does not currently contain significant amendments



to the requirements and quantitative prudential policies of the 2018 SREP Decision. On 11 October 2019, the Bank sent the ECB a response letter with its own counterarguments. The 2019 SREP Final Decision is expected to be formalised by the end of this year.



3. Own Funds

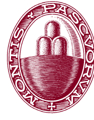
Own funds, an element of Pillar 1, are calculated according to Basel 3 rules implemented in Europe throug a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation No. 575/2013, and related integrations, by the Capital Requirements Directive (CRD 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 Tier 1 capital (T1), in turn consisting of Common Equity Tier 1 (CET1) and of Additional Tier 1 (AT1), and of 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 at 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, under Article 473a, 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 IFRS 9, 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% during the period from 1 January 2018 to 31 December 2018
- ✓ 85% during the period from 1 January 2019 to 31 December 2019
- ✓ 70% during the period from 1 January 2020 to 31 December 2020
- ✓ 50% during the period from 1 January 2021 to 31 December 2021
- ✓ 25% during the period from 1 January 2022 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	sep-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	-732,833	-999,458
3	Accumulated other comprehensive income (and other reserves, to include unrealised gain and losses under the applicable accounting standards)	117,980	-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**	**9,806,829**	**9,305,669**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-40,197	-53,286
8	Intangible assets (net of related tax liability) (negative amount)	-224,134	-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)	-1,330,004	-1,181,817
11	Fair value reserves related to gains or losses on cash flow hedges	-1,638	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	-42,188	-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)	-109,149	-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)	-	-134,089
22	Amount exceeding the 15% threshold (negative amount)	-421,327	-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*	*-217,709*	*-231,216*
25	*of which: deferred tax assets arising from temporary differences*	*-203,619*	*-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]	1,272,308	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)**	**-1,210,039**	**-1,285,212**
29	**Common Equity Tier 1 (CET1) Capital**	**8,596,789**	**8,020,457**

[1] Such item includes IFRS 9 transitional adjustments for EUR 1,268,882 thousand (EUR 1,098,381 thousand as of 31/12/2018), and others deductions with 17.65% thresholds for EUR 3,426 thousand (EUR 2,564 thousand as of 31/12/2018). The figure at December 2018 also includes IAS 19 transitional adjustments for EUR 11,563 thousand and tax realignment for EUR -192,281 thousand.

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

	Additional Tier 1 (AT1) capital: instruments	sep-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)**	**8,596,789**	**8,020,457**

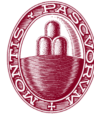
Tab. 3.1.3 - Own Funds: Tier 2 (T2) capital

	Tier 2 (T2) capital: instruments and provisions	sep-2019	dec-2018
46	Capital instruments and the realted share premium accounts	1,050,000	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	168,091	171,131
51	**Tier 2 (T2) capital before regulatory adjustments**	**1,218,091**	**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)	-63,867	-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**	**-63,867**	**-63,649**
58	**Tier 2 (T2) capital**	**1,154,223**	**857,482**
59	**Total Capital (TC= T1+T2)**	**9,751,013**	**8,877,939**

Tab. 3.1.4 - Own Funds: Capital ratios and buffers

	Capital ratios and buffer	sep-2019	dec-2018
60	**Total Risk Weighted Assets**	**58,217,402**	**58,371,557**
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.77%	13.74%
62	Tier 1 (as a percentage of risk exposure amount)	14.77%	13.74%
63	Total capital (as a percentage of risk exposure amount)	16.75%	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)	7.01%	6.44%
65	*of which: capital conservation buffer requirement*	*2.500%*	*1.875%*
66	*of which: countercyclical buffer requirement*	*0.012%*	*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]	8.75%	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)	113,234	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)	785,496	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)	734,659	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)	806,409	1,123,116
79	Cap on inclusion of credit risk adjustments in T2 under IRB approach	168,091	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.



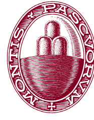
Tab. 3.2 – Reconciliation of shareholders' equity and the Common Equity Tier 1

Items	sep-2019	dec-2018
Group Equity	9,586,963	8,991,959
Minority Equity	1,864	2,242
Net Assets of the Balance Sheet	**9,588,827**	**8,994,200**
Net Assets after distribution to shareholders	**9,588,827**	**8,994,200**
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-	-
- Minority interests computable	-1,864	-2,242
- Own shares included in the regulatory adjustments	-313,710	-313,710
- Other components non computable in regime	-1,638	8
Common Equity Tier 1 (CET1) before the regulatory adjustments	**9,585,325**	**8,991,966**
Regulatory adjustments (including adjustments of the transitional period)	-988,536	-971,510
Common Equity Tier 1 (CET1) net of regulatory adjustments	**8,596,789**	**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	1,053,353	1,144,217	90,864	-375,970	8, 18, 19, 23
of which: implicit goodwill	*49,112*	*49,112*	-	*-49,112*	*8*
100 Intangible assets	175,023	175,023	-	-175,023	8
of which: goodwill	*7,900*	*7,900*	-	*-7,900*	*8*
of which: other intangible assets	*167,123*	*167,123*	-	*-167,123*	*8*
110 Tax assets	3,913,600	3,913,600	-	-1,533,623	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	*1,365,181*	*1,365,181*	-	*-1,330,004*	*10*
Liabilities and Shareholders' Equity					
10 Financial liabilities measured at amortised cost - c) debts securities issued	16,239,899	16,239,899	-	1,050,000	32, 33, 46, 52
30 Financial liabilities designated at fair value	258,011	258,011	-	-	33
120 Valuation reserves	152,963	152,963	-	151,326	3, 11
of which: FVOCI	*217,867*	*217,867*	-	*143,910*	*3 (FVOCI)*
of which: CFH	*1,446*	*1,446*	-	*-1,638*	*3(CFH),11*
of which: legally-required revaluations	*9,053*	*9,053*	-	*9,053*	*3(reval)*
of which: other	*-75,403*	*-75,403*	-	-	*3(other)*
150 Reserves	-767,816	-767,816	-	-767,816	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	186,907	186,907	-	93,063	5a, 25a
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-	-	-	-42,188	14
Value adjustments due to the requirements for prudent valuation	-	-	-	-40,197	7
IRB Shortfall of credit risk adjustments to expected losses	-	-	-	-	12
IRB Excess of provisions over expected losses eligible	-	-	-	168,091	50
Filter on double tax realignment	-	-	-	-	26b
Filter for IAS 19 and IFRS 9	-	-	-	1,272,308	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	-	-	-	-63,867	54, 55
Indirect investments	-	-	-	-	-
Total Own Funds	**-**	**-**	**-**	**9,751,013**	**-**

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 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.

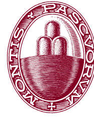
Following the implementation of the regulatory framework, Pillar 1, which governs the requirements used to reflect the potential risk of activities as well as capital requirements, was strengthened through a more harmonised definition of capital as well as higher capital requirements. Therefore, alongside 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:

- Capital conservation buffer ("CCB") 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 ("CCB") 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 it is calculated according to CRD IV provisions by the competent national authorities; the Bank of Italy has set the countercyclical rate of exposures to Italian counterparties at 0% for the third quarter of 2019. For the other credit exposures, the Group uses the countercyclical rate set by counterparty's Member State authorities in accordance with applicable regulations;

- A G-SII capital buffer for global systematically important banks and a O-SII capital buffer for other systematically important institutions – impose higher capital requirements on those entities based on their systematic 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. For each bank or banking group, this identification took into consideration the four characteristics (that is, 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 Group is not a *Global Systematically Important Institutions* (G-SII) but, until the end of 2018, it was classified as an *Other Systematically Important Institutions* (O-SII), as defined by the Bank of Italy (The Bank of Italy's decision established an O-SII buffer of 0.06% for 2018);
- a non-cyclical systemic risk or macroprudential buffer to be set by the Member States and currently not yet determined by the Bank of Italy.

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.

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.

From 1 January 2019, all banks have to hold a capital conservation buffer of the highest quality of its capital (Common Equity Tier

1 capital) equal to 2.5 % of a bank's total risk exposure. The following table shows the minimum capital requirements which Group must respect.

Capital adequacy indicators as of 1 March 2019	CET 1 Ratio	Tier 1 Ratio	Total Capital Ratio
Pillar I minimum 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%
OCR (TSCR+CBR)	***10.00%***	***11.50%***	***13.50%***

TSCR - Total SREP Capital Requirement

CBR - Combined Buffer Requirement

OCR - Overall Capital Requirement. It includes, in addition to P2R, 2.5% for the Capital Conservation Buffer.

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 September 2019, the Bank had a CET 1 ratio of 14.77%, 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 14.77% and 16.75%, respectively, are higher than the requirements established by Article 92 of the CRR as reported in the table below.

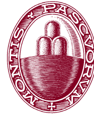
Capital adequacy indicators as of 1 March 2019	CET 1 Ratio	Tier 1 Ratio	Total Capital Ratio
Pillar I minimum Requirements (Art. 92 CRR, Pillar I)	4.50%	6.00%	8.00%
TSCR (Pillar I + Pillar II)	7.50%	9.00%	11.00%
OCR (TSCR+CBR)	10.00%	11.50%	13.50%
OCR + P2G	***11.30%***	***11.50%***	***13.50%***
Capital Ratio at 30 September 2019	***14.77%***	***14.77%***	***16.75%***

TSCR - Total SREP Capital Requirement

CBR - Combined Buffer Requirement

OCR - Overall Capital Requirement. It includes, in addition to P2R, 2.5% for the Capital Conservation Buffer.

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".

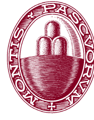
For the remaining portfolios and Group entities, capital requirements against Credit risk are calculated using the standard approach. Capital requirements against Counterparty risk are calculated independently of the portfolio. More specifically, the market value method is applied for OTC derivatives 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 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 30 September 2019.



Tab. 4 – Capital requirements and Regulatory capital ratios

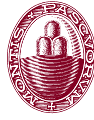
Regulatory Capital Requirements	sep-19	dec-18
Credit and Counterparty Risk	**3,628,541**	**3,674,032**
Standardised Approach	1,373,991	1,379,799
Advanced IRB Approach	2,254,551	2,294,234
Market Risks	**219,493**	**194,079**
Standardised Approach	219,493	194,079
Internal Models	-	-
Operational Risk	**775,847**	**764,998**
Foundation Approach	8,165	11,734
Standardised Approach	-	-
Advanced Approach	767,682	753,264
CVA Risk	**33,511**	**36,615**
Originary Exposure Method (OEM)	-	-
Standardised Approach	33,511	36,615
Advanced Approach	-	-
Concentration Risk	**-**	**-**
Settlement Risk	**-**	**-**
Regulatory Capital Requirements	**4,657,392**	**4,669,725**

Risk Weighted Assets	**58,217,402**	**58,371,557**
CET1 Capital Ratio	**14.77%**	**13.74%**
Tier1 Capital Ratio	**14.77%**	**13.74%**
Total Capital Ratio	**16.75%**	**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 IFRS 9 transitional arrangements or equal losses on credits.

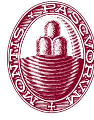
Here follows the required information, according to the specified informative model in the Annex I of EBA Guidelines GL/2018/01 on uniform disclosure requirements of IFRS 9.



Tab. 4a - (EU IFRS9-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

		sep-19	jun-19	mar-19	dec-18
	Available capital (amounts)				
1	Common Equity Tier 1 (CET1) capital	8,596,789	8,222,985	7,953,631	8,020,457
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,327,907	6,954,205	6,685,108	6,603,686
3	Tier 1 capital	8,596,789	8,222,985	7,953,631	8,020,457
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,327,907	6,954,205	6,685,108	6,603,686
5	Total capital	9,751,013	9,079,513	8,813,312	8,877,939
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8,482,131	7,810,734	7,544,789	7,461,168
	Risk-weighted assets (amounts)				
7	Total risk-weighted assets	58,217,402	58,532,990	59,880,217	58,371,557
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	58,041,854	58,349,004	59,698,605	58,166,722
	Capital Ratios				
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.77%	14.05%	13.28%	13.74%
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	12.63%	11.92%	11.20%	11.35%
11	Tier 1 (as a percentage of risk exposure amount)	14.77%	14.05%	13.28%	13.74%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.63%	11.92%	11.20%	11.35%
13	Total capital (as a percentage of risk exposure amount)	16.75%	15.51%	14.72%	15.21%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.61%	13.39%	12.64%	12.83%
	Leverage ratio				
15	Leverage ratio total exposure measure	140,573,131	139,206,895	141,650,938	145,308,685
16	Leverage ratio	6.12%	5.91%	5.62%	5.52%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.23%	5.01%	4.73%	4.56%

The application of the IFRS 9 fully loaded without considering the impact deriving from the cohesion with the transitional regime expected from 2018, would have entailed a reduction of 214bp respectively of CET1 ratio and total capital ratio. Such coefficients would have resulted in 12.63% (instead of 14.77% transitional arrangements) and 14.61% (instead of 16.75%). 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.

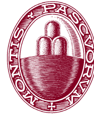


The following table provides a general overview of the total RWAs and capital requirements.

Tab. 4b (EU OV1) – Overview of RWAs

			RWAs		Minimum capital requirements	
			sep-19	jun-19	sep-19	jun-19
	1	**Credit risk (excluding CCR)**	**42,532,076**	**42,788,647**	**3,402,566**	**3,423,092**
Article 438 (c) (d)	2	Of which the standardised approach	14,818,043	14,726,619	1,185,443	1,178,130
Article 438, (c) (d)	3	Of which the foundation IRB (FIRB) approach	-	-	-	-
Article 438 (c) (d)	4	Of which the advanced IRB (AIRB) approach	27,714,033	28,062,028	2,217,123	2,244,962
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**	**1,929,997**	**2,120,386**	**154,400**	**169,631**
Article 438(c) (d)	7	Of which mark to market	822,640	848,023	65,811	67,842
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	17,746	6,622	1,420	570
Article 438 (c) (d)	12	Of which CVA	418,890	530,361	33,511	42,429
Article 438 (e)	13	**Settlement risk**	**-**	**-**	**-**	**-**
Article 449 (o) (i)	14	**Seecuritisation exposures in the banking book (after the cap)**	**176,286**	**174,176**	**14,103**	**13,934**
	15	Of which IRB approach	166,752	164,226	13,340	13,138
	16	Of which IRB supervisory formula approach (SFA)	-	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-	-
	18	Of which standardised approach	9,533	9,950	763	796
Article 438 (e)	19	**Market risk**	**2,743,657**	**2,676,620**	**219,493**	**214,130**
	20	Of which the standardised approach	2,743,657	2,676,620	219,493	214,130
	21	Of which IMA	-	-	-	-
Article 438 (e)	22	**Large exposures**	**-**	**-**	**-**	**-**
Article 438 (f)	23	**Operational risk**	**9,698,090**	**9,685,339**	**775,847**	**774,827**
	24	Of which basic indicator approach	102,062	102,062	8,165	8,165
	25	Of which standardised approach	-	-	-	-
	26	Of which advanced measurement approach	9,596,028	9,583,277	767,682	766,662
Article 437(2), Article 48 and 60	27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**1,137,296**	**1,087,821**	**90,984**	**87,026**
Article 500	28	Floor adjustment	-	-	-	-
	29	**Total**	**58,217,402**	**58,532,990**	**4,657,392**	**4,682,639**

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 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 670,722 of RWA as at 30/09/2019.



As of 30 September 2019 RWAs recorded a decrease, compared to the previous quarter, mainly attributable to the decrease in RWA related to Credit Risk, due to UTP disposal and the reductions of exposures with high RWA values. The increase in RWAs related to Market Risk is attributable to exhange rate risk due to exposures denominated in US dollars.

Tab. 4.1 – Capital requirements for Credit and Counterparty Risk

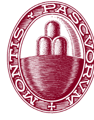
	sep-19	dec-18
	Requirements	Requirements
Standard Approach		
Standard Approach Total	**1,373,991**	**1,379,799**
of which: Counterparty Risk	*95,381*	*102,082*
IRB Approach		
IRB Approach Total	**2,254,551**	**2,294,234**
of which: Counterparty Risk	*24,088*	*24,054*
Total	**3,628,541**	**3,674,032**
of which: Counterparty Risk	*119,469*	*126,136*

The capital requirement for counterparty risk amounts to EUR 119,469 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	sep-19	dec-18
Exposures to central governments or central banks	166,489	158,959
Exposures to regional governments or local authorities	27,827	27,229
Exposures to public sector entities	29,718	31,153
Exposures to multilateral development banks	-	-
Exposures to International organisations	-	-
Exposures to institutions	168,458	165,328
Exposures to Corporates	228,259	306,277
Retail exposures	51,319	63,562
Exposures secured by mortgages on immovable property	43,259	45,260
Exposures in default	47,822	52,369
Exposures associated with high risk	38,589	75,255
Exposures in the form of covered bonds	6,961	7,019
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to collective investments undertaking	17,006	18,142
Equity exposures	168,952	149,775
Other exposures	377,147	278,541
Securitization positions	763	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	1,420	929
Total standardised approach	**1,373,991**	**1,379,799**
AIRB Approach		
Exposures to or secured by corporates:	1,636,864	1,636,008
- SMEs	760,237	817,559
- Other companies	740,919	704,933
- Specialized lending	135,708	113,515
Retail exposures:	604,346	645,744
- secured by real estate: SMEs	138,687	148,644
- secured by real estate: Individuals	201,741	206,366
- Qualifying revolving	553	652
- Other retail exposures: SMEs	238,452	262,880
- Other retail exposures: Individuals	24,914	27,202
Securitization positions	13,340	12,482
Total AIRB approach	**2,254,551**	**2,294,234**
Total Credit and Counterparty Risk	**3,628,541**	**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	sep-19	dec-18
Category 1 - 50%	92	36
Category 1 - 70% equal to or greater than 2.5 years	6,958	1,672
Category 2 -70% less than 2.5 years	8,457	7,769
Category 2 - 90%	92,045	69,520
Category 3 - 115%	19,819	28,288
Category 4 - 250%	8,338	6,230
Category 5 - 0%	-	-
Total	**135,708**	**113,515**

Tab. 4.4 – Capital requirements for Market Risk

Standardised Approach	sep-19	dec-18
Position risk on debt instruments	131,800	126,630
Position risk on equity	36,953	37,680
Foreign exchange risk	24,366	6,210
Commodities risk	6,345	8,402
CIU Risk	20,029	15,157
Total standardised approach	**219,493**	**194,079**
Internal models		
Total internal models	**-**	**-**
Total Market Risks	**219,493**	**194,079**

Tab. 4.5 – Capital requirements for Operational Risk

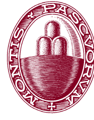
Requirements by approach	sep-19	dec-18
Foundation approach	8,165	11,734
Standardised approach	-	-
Advanced Measurement approach	767,682	753,264
Total Operational Risk	**775,847**	**764,998**

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 30/06/2019**	**28,226,254**	**2,258,100**
9	**RWAs as of 30/09/2019**	**27,880,785**	**2,230,463**

The reduction in RWAs relating to the exposures subject to credit risk measures using advanced aproaches is attributable to UTP disposals and the reduction of expoasures with high RWA values.

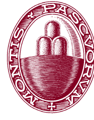


Countercyclical Capital Buffer

As of 30 September 2019, the Montepaschi Group is required to hold a countercyclical capital buffer of EUR 6,986.1 thousand. 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 0.012%. 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 third 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 September 2019, only the competent authorities of United Kingdom, Hong Kong, Sweden, Norway, Czech Republic, Slovak Republic, France, Denmark, Ireland 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 95.58% 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

		sep-19
10	Total risk exposure amount	58,217,402
20	Institution specific countercyclical buffer rate	0.012%
30	Institution specific countercyclical buffer requirement	6,986.1



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 Coverage Ratio was 211% as of 30 September 2019, 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

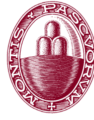
that the current regulatory framework will monitor a limit on leverage with a twofold purpose to limit the accumulation of debt within the banking industry so as to avoid destabilizing deleveraging process which may harm the financial system and the economy in general, and to strengthen the system of 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 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 6.12% as of 30 September 2019. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 5.22%.

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 table below show the financial leverage ratio as of 30 September 2019. The figures shown relate to the calculation of the leverage ratio according to applicable transitional provisions for reporting purposes.

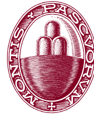
Tab. 4.8 – Leverage Ratio

		sep-19	dec-18
Capital and total exposures			
20	Tier 1 capital	8,596,789	8,020,457
21	Total exposures	140,537,131	145,308,685
Leverage ratio			
22	Basel III leverage ratio	6.12%	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 September 2019, the Group recorded a slight growth in the financial leverage indicator linked to the decrease in total exposures and the increase in Tier 1 respect to 31 December 2018.



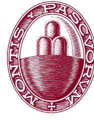
Declaration of the Financial Reporting Officer

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, 6 November 2019

Nicola Massimo Clarelli

Financial Reporting Officer



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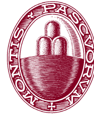

Appendix 1: Summary of Information published in line with CRR requirements

CRR Article		*Reference to the present document Pillar 3*
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	**Chapter 3** - Own funds
Art. 438 - *Capital requirement*	*Par. a*	**Chapter 4** - Capital requirements, liquidity ratios and leverage
	Par. b	**Executive Summary;** **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. 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 website https://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		*Reference to the present document Pillar 3*	
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 uniform disclosure of IFRS 9 transitional arrangements EBA/GL/2018/01		*Reference to the present document Pillar 3*
EU 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*	**Chapter 4** - Capital requirements, liquidity ratios and leverage (tab. 4a)

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