Pillar 3 Disclosure

Update as at
30 June 2018

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Pillar 3 Disclosure

Update as at
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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 Siena Company Register – Registration no. and tax code 00884060526
Member of the Italian Interbank Deposit Protection Fund. Bank Register no. 5274
Parent Company of the Monte dei Paschi di Siena Banking Group, registered with the Banking Groups Register

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Introduction

The New Regulations for the Prudential Supervision of banks and banking groups entered into force as of 1 January 2014. The regulations aim to align national requirements with the changes introduced to the International regulatory framework, following reforms in the Basel Committee agreements (Basel 3), particularly the European Union's New Regulatory and Institutional Framework for Banking Supervision.

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

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

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

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

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

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

The Basel Committee has maintained a

three Pillars-based approach which was at the basis of the previous capital accord known as “Basel 2”, but has integrated and strengthened it to increase the quantity and quality of banks’ capital base and introduce countercyclical supervisory tools as well as new standards for liquidity risk management and financial deleveraging.

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

Pillar 3, therefore, aims to complement the minimum capital requirements (Pillar 1) and supervisory review process (Pillar 2) by developing a set of transparent disclosure requirements which will allow market participants to have access to key, fully comprehensive and reliable information on capital adequacy, risk exposures and risk identification, measurement and management processes.

Public Disclosure (Pillar3) is now governed directly by European Regulation no. 575/2013 of 26 June 2013 of the European Parliament and Council, Part 8 and Part 10, Title I, Chapter 3 (hereinafter referred to as “The Regulations” or “CRR”).

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

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

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

The current document, therefore, provides an update as at 30 June 2018 of quantitative information deemed most significant by the Group and, in particular, the quantitative information on Own Funds, Capital requirements, the Leverage Ratio, Credit risk's exposures and the use of risk mitigation techniques.

For additional information not contained in this document, particularly regarding the general, organizational and methodological aspects relating to the different types of risk, please refer to the Annual Report as at 31 December 2017. Further information on the Group's risk profile, pursuant to Art. 434 of the CRR, is also published in the Consolidated Half-year Report as at 30 June 2018, the Report on Corporate Governance and the Compensation Report.

The current update introduces the information templates required by the Basel 3 framework and also reports values as at 31 December 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 MPS Group's capital requirements for 30 June 2018 and 31 December 2017 and related differences are summarized in the table below.

Own Funds and Capital Requirements Summary

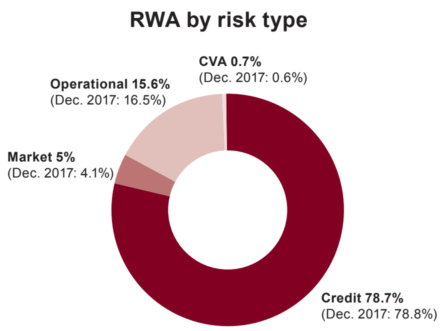
Data in thousands of Euro

			Delta vs. 31-12-2017	
Own Funds	**jun-18**	**dec-17**	**Absolute**	**%**
Common Equity Tier 1	8,372,975	8,951,233	-578,257	-6.5%
Additional Tier 1	-	-	n/a	-
Tier 2	870,839	112,487	758,352	674.2%
Own Funds	**9,243,815**	**9,063,719**	**180,095**	**2.0%**
↳ *of which Delta EL**	*185,189*	*162,039*	*23,150*	*14.3%*
Regulatory Capital Requirements				
Credit and Counterparty Risk	4,047,160	3,817,017	230,143	6.0%
↳ *of which Standard*	*1,565,519*	*1,655,880*	*-90,362*	*-5.5%*
↳ *of which AIRB*	*2,481,642*	*2,161,137*	*320,504*	*14.8%*
Market Risk	255,803	199,411	56,392	28.3%
↳ *of which Standard*	*255,803*	*199,411*	*56,392*	*28.3%*
↳ *of which Internal Model*	-	-	*n/a*	-
Operational Risk	802,930	800,923	2,007	0.3%
↳ *of which Foundation Approach*	*11,936*	*11,936*	-	-
↳ *of which Standardised Approach*	-	-	*n/a*	-
↳ *of which Advanced Approach*	*790,994*	*788,987*	*2,007*	*0.3%*
CVA Risk	36,064	27,650	8,414	30.4%
Concentration Risk	-	-	-	-
Settlement Risk	-	-	-	-
Regulatory Capital Requirements	**5,141,958**	**4,845,001**	**296,957**	**6.1%**
Risk Weighted Assets	**64,274,470**	**60,562,512**	**3,711,958**	**6.1%**
of which Credit and Couterparty Risk	*50,589,501*	*47,712,717*	*2,876,784*	*6.0%*
of which Market Risk	*3,197,537*	*2,492,636*	*704,901*	*28.3%*
of which Operational Risk	*10,036,631*	*10,011,539*	*25,092*	*0.3%*
of which CVA Risk	*450,801*	*345,620*	*105,181*	*30.4%*

			Delta vs. 31-12-2017	
Capital ratios			**in bp**	**in %**
CET1 Capital Ratio	**13.03%**	**14.78%**	**-175**	**-1.75%**
Tier1 Capital Ratio	**13.03%**	**14.78%**	**-175**	**-1.75%**
Total Capital Ratio	**14.38%**	**14.97%**	**-59**	**-0.59%**

* *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 2,028,542 €/thousand (7,119,971 €/thousand as at December 2017)*

Compared to 31 December 2017, CET1 recorded an overall reduction of EUR 578 mln, essentially due to the deterioration of the OCI Reserve for EUR 246 mln, higher deductions for DTAs and significant investments, partially offset by the increase deriving from the transitory effect of the first-time application of IFRS 9 and the share of profit for the period calculated in CET1. Tier 2 showed a rise of EUR 758.3 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 in own funds of EUR 180 mln.



The RWAs record an overall increase of EUR 3,712 mln, essentially attributable to the increase in the RWAs relating to the "credit and counterpart risk" (EUR 2,877 mln), mainly due to the application of the specific requirements on non-performing exposures, until obtaining the authorisation from the same ECB for the implementation of the specific models for the calculation of the LGD and ELBE with reference to the non-performing exposures (as communicated by ECB on 14 June 2018); such increase is partly offset by the reduction in the RWAs from capital due to the effect of the reduction in the CET1 deductibles and the transformation of "transformable DTAs" into tax receivables. An increase in the half year in the RWAs relative to the "market risk" of around EUR 705 mln is also recorded. The RWA component linked to the operational risk proves to be essentially stable.

As at 30 June 2018, the CET 1 ratio of 13.03%, is higher than the minimun coefficient set forth in art. 92 of the CRR, as well as the *Total SREP Capital Requirement* set by BCE and the *Overall Capital Requirement* (likewise, the Tier 1 ratio and the Total Capital ratio equal to 13.03% and 14.38%, respectively, are higher than the regulatory requirements) as reported in the table.

Capital adequacy indicators **as of 1 January 2018**	TSCR requirements (Pillar I + Pillar II)	OCR (TSCR + CBR)	OCR + P2G	Regulatory capital ratios 30/06/2018
CET 1 Ratio	*7.50%*	*9.44%*	*10.94%*	*13.03%*
Tier 1 Capital Ratio	*9.00%*	*10.94%*	*10.94%*	*13.03%*
Total Capital Ratio	*11.00%*	*12.94%*	*12.94%*	*14.38%*

TSCR - Total Srep Capital Requirement

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

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

3. Own Funds

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

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

Own funds are made up of 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 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	jun-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	-989,512	1,480,953
3	Accumulated other comprehensive income (and other reserves, to include unrealised gain and losses under the applicable accounting standards)	-319,370	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**	**9,207,242**	**14,245,145**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-48,265	-43,926
8	Intangible assets (net of related tax liability) (negative amount)	-296,487	-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)	-1,122,440	-764,514
11	Fair value reserves related to gains or losses on cash flow hedges	258	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	-35,762	-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)	-35,940	-
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)	-6,793	-
22	Amount exceeding the 15% threshold (negative amount)	-431,998	-81,327
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*	*-215,999*	*-46,315*
25	*of which: deferred tax assets arising from temporary differences*	*-215,999*	*-35,013*
25a	Losses for the current financial year (negative amount)	-	-2,801,871
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	1,456,871	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)**	**-834,266**	**-5,293,912**
29	**Common Equity Tier 1 (CET1) Capital**	**8,372,975**	**8,951,233**

[1] Such item includes tax realignment for -172,201 €/thousands, IFRS 9 transitional adjustments for 1,370,173 €/thousands, IAS 19 transitional adjustments for 12,180 €/thousands and others deductions with 17.65% thresholds for 246,719 €/thousands.

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

	Additional Tier 1 (AT1) capital: instruments	jun-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)**	**8,372,975**	**8,951,233**

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

	Tier 2 (T2) capital: instruments and provisions	jun-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	185,189	162,039
51	**Tier 2 (T2) capital before regulatory adjustments**	**935,189**	**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)	-64,350	-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**	**-64,350**	**-49,552**
58	**Tier 2 (T2) capital**	**870,839**	**112,487**
59	**Total Capital (TC= T1+T2)**	**9,243,815**	**9,063,720**

Tab. 3.1.4 - Own Funds: Capital ratios and buffers

	Capital ratios and buffer	jun-2018	dec-2017
60	**Total Risk Weighted Assets**	**64,274,470**	**60,562,512**
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.03%	14.78%
62	Tier 1 (as a percentage of risk exposure amount)	13.03%	14.78%
63	Total capital (as a percentage of risk exposure amount)	14.38%	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*	*1.875%*	*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]	6.38%	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)	559,394	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)	757,803	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)	728,656	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)	2,028,542	7,119,971
79	Cap on inclusion of credit risk adjustments in T2 under IRB approach	185,189	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	jun-2018	dec-2017
Group Equity	8,994,538	10,429,096
Minority Equity	2,194	2,279
Net Assets of the Balance Sheet	**8,996,732**	**10,431,375**
Net Assets after distribution to shareholders	**8,996,732**	**10,431,375**
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-	-
- Minority interests computable	-2,194	-2,279
- Own shares included in the regulatory adjustments	-313,710	-313,710
- Other components non computable in regime	258	222
Common Equity Tier 1 (CET1) before the regulatory adjustments	**8,994,796**	**10,429,318**
Regulatory adjustments (including adjustments of the transitional period)	-621,821	-1,478,085
Common Equity Tier 1 (CET1) net of regulatory adjustments	**8,372,975**	**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 "Own funds disclosure template"
Assets					
70 Equity investments	896,763	989,722	92,959	-301,050	8, 18, 19, 23
of which: implicit goodwill	*49,112*	*49,112*	-	*-49,112*	*8*
100 Intangible assets	247,376	247,376	-	-247,376	8
of which: goodwill	*7,900*	*7,900*	-	*-7,900*	*8*
of which: other intangible assets	*239,476*	*239,476*	-	*-239,476*	*8*
110 Tax assets	3,749,723	3,749,723	-	-1,345,231	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	*1,122,440*	*1,122,440*	-	*-1,122,440*	*10*
Liabilities and Shareholders' Equity					
10 Debt securities issued	13,747,170	13,747,170	-	750,000	32, 33, 46, 52
30 Financial liabilities designated at fair value	283,540	283,540	-	-	33
120 Valuation reserves	-194,023	-194,023	-	-194,024	3, 11
of which: FVOCI	*-127,141*	*-127,141*	-	*-203,334*	*3 (FVOCI)*
of which: CFH	*-258*	*-258*	-	*258*	*3(CFH),11*
of which: legally-required revaluations	*9,053*	*9,053*	-	*9,053*	*3 (reval)*
of which: other	*-75,677*	*-75,677*	-	*-*	*3 (other)*
150 Reserves	-1,114,858	-1,114,858	-	-1,114,600	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	288,511	288,511	-	187,505	5a, 25a
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-	-	-	-35,762	14
Value adjustments due to the requirements for prudent valuation	-	-	-	-48,265	7
IRB Shortfall of credit risk adjustments to expected losses	-	-	-	-	12
IRB Excess of provisions over expected losses eligible	-	-	-	185,189	50
Filter on double tax realignment	-	-	-	-172,201	26b
Filter for IAS 19 and IFRS 9	-	-		1,629,072	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	-	-	-	-64,350	54, 55
Indirect investments	-	-	-	-	-
Total Own Funds	**-**	**-**	**-**	**9,243,815**	**-**

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:

- a capital conservation buffer of 2.5% from 1st January 2014 to 31 December 2016. The Bank of Italy recently modified the capital conservation buffer requirement, reviewing the choice made when it transposed the CRD IV to fully implement the buffer early and, instead, deciding to adopt the transitional arrangement provided for in the CRD IV, which entails the gradual phase-in of the buffer. Banks, on both a stand-alone and consolidated basis, will therefore be required to maintain a minimum capital conservation buffer of:
  - 1.25% from 1 January 2017 to 31 December 2017;
  - 1.875% from 1 January 2018 to 31 December 2018;
  - 2.5% starting from 1st January 2019;
- As of 2016, a specific countercyclical capital buffer for the bank in periods of excessive growth in loans. This capital

buffer is equal to the Bank's total risk-weighted exposure (RWA) multiplied by the countercyclical capital buffer rate. The latter is equal to the weighted average of the countercyclical rates applied in the various countries where the Bank has significant credit exposures. In particular, the Bank of Italy has set the countercyclical rate of exposures to Italian counterparties at 0% for the second quarter of 2018. For the other credit exposures, the Bank uses the countercyclical rate set by the relevant State authorities, in accordance with applicable regulations;

- A *G-SII* capital buffer (1% – 3.5%; as of 2016) and a *O-SII* capital buffer (0% – 2%). The Montepaschi Group falls under the group of Other Systemically Important Institutions (O-SII), for which the Bank of Italy has established a buffer of 0.06% for 2018, 0.13% for 2019, 0.19% for 2020 and 0.25% for 2021.
- 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.

Buffers are calculated by Member States (Bank of Italy) on the basis of the new regulatory framework (Bank of Italy) and are to be added to Common Equity Tier 1 capital. The amount of Core Equity Tier 1 necessary to comply with the requirement for each buffer determines the *Combined Buffer Requirement (CBR).*

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 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**	Minimum 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 Srep 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
CET 1 Ratio	*9.44%*	*1.50%*	*10.94%*
Tier 1 Capital Ratio	*10.94%*	-	*10.94%*
Total Capital Ratio	*12.94%*	-	*12.94%*

TSCR - Total Srep Capital Requirement

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 30 June 2018 draws attention to a CET 1 ratio of 13.03%, higher than the minimum coefficient as expected from art. 92 CRR, to the *Total SREP Capital Requiremento* established by the ECB and the Overall Capital Requirement (analogously larger than the aforementioned regulatory requirements, Tier 1 ratio and Total Capital ratio, respectively 13.03% and 14.38%).

Capital adequacy indicators **as of 1 January 2018**	TSCR requirements (Pillar I + Pillar II)	OCR (TSCR + CBR)	OCR + P2G	Regulatory capital ratios 30/06/2018
CET 1 Ratio	*7.50%*	*9.44%*	*10.94%*	*13.03%*
Tier 1 Capital Ratio	*9.00%*	*10.94%*	*10.94%*	*13.03%*
Total Capital Ratio	*11.00%*	*12.94%*	*12.94%*	*14.38%*

TSCR - Total Srep 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 Montepaschi Group uses the standard approach ratios for Exposure at default (EAD) pending validation by the Supervisory Authorities, the Group is instead authorised to use:

- Internal Probability of Default (PD) estimates, for the portfolio of exposures to corporates and retail exposures;
- internal Loss Given Default (LGD) estimates for the portfolio of exposures to corporates and retail exposures. For portfolios other than those mentioned above, the standard approach will be used and applied according to the roll-out plan submitted to the Supervisory authorities.

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 30 June 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	jun-18	dec-17
Credit and Counterparty Risk	**4,047,160**	**3,817,017**
Standard Approach	1,565,519	1,655,880
Advanced IRB Approach	2,481,642	2,161,137
Market Risks	**255,803**	**199,411**
Standardised Approach	255,803	199,411
Internal Models	-	-
Operational Risk	**802,930**	**800,923**
Foundation Approach	11,936	11,936
Standardised Approach	-	-
Advanced Approach	790,994	788,987
CVA Risk	**36,064**	**27,650**
Originary Exposure Method (OEM)	-	-
Standardised Approach	36,064	27,650
Advanced Approach	-	-
Concentration Risk	-	-
Settlement Risk	-	-
Regulatory Capital Requirements	**5,141,958**	**4,845,001**

Risk-weighted assets	**64,274,470**	**60,562,512**
CET1 Capital Ratio	**13.03%**	**14.78%**
Tier1 Capital Ratio	**13.03%**	**14.78%**
Total Capital Ratio	**14.38%**	**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

		jun-18	mar-18
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	8,372,975	8,876,239
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,763,590	7,134,694
3	Tier 1 capital	8,372,975	8,876,239
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,763,590	7,134,694
5	Total capital	9,243,815	9,727,440
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,634,429	7,985,895
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	64,274,470	61,781,418
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	63,589,518	60,994,658
	Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.03%	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	10.64%	11.70%
11	Tier 1 (as a percentage of risk exposure amount)	13.03%	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	10.64%	11.70%
13	Total capital (as a percentage of risk exposure amount)	14.38%	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	12.01%	13.09%
	Leverage ratio		
15	Leverage ratio total exposure measure	150,802,982	156,629,183
16	Leverage ratio	5.55%	5.67%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4.50%	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 239 bp and 238 bp, respectively of CET1 ratio and total capital ratio. Such coefficients would have resulted in 10.64% (instead of 13.03% transitional arrangements) and 12.01% (instead of 14.38%). IFRS 9 fully-loaded application would have entailed a total CET1 decrease of about 1.6 bn euro (only 5% of which, equal to 72 mln/euro, has been included into CET 1 transitional regime, as at 30 June 2018) 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	
			jun-18	mar-18	jun-18	mar-18
	1	**Credit risk (excluding CCR)**	**47,890,693**	**45,239,701**	**3,831,255**	**3,619,177**
Article 438 (c) (d)	2	Of which the standardised approach	17,542,473	17,999,124	1,403,398	1,439,930
Article 438, (c) (d)	3	Of which the foundation IRB (FIRB) approach	-	-	-	-
Article 438 (c) (d)	4	Of which the advanced IRB (AIRB) approach	30,348,220	27,240,577	2,427,858	2,179,247
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**	**1,738,231**	**1,751,500**	**139,058**	**140,120**
Article 438(c) (d)	7	Of which mark to market	857,155	878,884	68,572	70,311
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	3,633	6,939	291	555
Article 438 (c) (d)	12	Of which CVA	450,801	374,584	36,064	29,967
Article 438 (e)	13	**Settlement risk**	**-**	**-**	**-**	**-**
Article 449 (o) (i)	14	**Seecuritisation exposures in the banking book (after the cap)**	**155,664**	**14,730**	**12,453**	**1,178**
	15	Of which IRB approach	155,664	14,730	12,453	1,178
	16	Of which IRB supervisory formula approach (SFA)	-	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-	-
	18	Of which standardised approach	-	-	-	-
Article 438 (e)	19	**Market risk**	**3,197,537**	**3,628,381**	**255,803**	**290,270**
	20	Of which the standardised approach	3,197,537	3,628,381	255,803	290,270
	21	Of which IMA	-	-	-	-
Article 438 (e)	22	**Large exposures**	**-**	**-**	**-**	**-**
Article 438 (f)	23	**Operational risk**	**10,036,631**	**9,815,947**	**802,930**	**785,276**
	24	Of which basic indicator approach	149,202	149,202	11,936	11,936
	25	Of which standardised approach	-	-	-	-
	26	Of which advanced measurement approach	9,887,429	9,666,745	790,994	773,340
Article 437(2), Article 48 and 60	27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**1,255,714**	**1,331,159**	**100,457**	**106,493**
Article 500	28	Floor adjustment	-	-	-	-
	29	**Total**	**64,274,470**	**61,781,418**	**5,141,958**	**4,942,513**

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 RWAs as at 30 June 2018, compared to the previous quarter, record an overall increase of EUR 2,493 mln, essentially attributable to the increase in the RWAs relating to the credit risk, AIRB approach, (EUR 3,249 mln), mainly due to the application of the specific requirements on non-performing exposures, and to higher exposures to securitisations linked to the senior/ junior/mezzanine notes, that entered in the balance sheet, deriving from the securitization transaction of the bad loans portfolio, envisaged in the 2017-2021 Restructuring Plan, approved on 4 July 2017 by the European Commission. This transaction allowed the securitized loan portfolio to be deconsolidated also for prudential purposes, since the ECB authorized to the Parent Company the recognition of the Significant Risk Transfer. In this context the Parent Company has also obtained the LGD waiver by ECB, which forms the basis of the projections of capital adequacy of the Restructuring Plan and which would make it possible not to include in the LGD estimate process a large part of the effects of the derecognition of the securitised portfolio.

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

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

Tab. 4.1 – Capital requirements for Credit and Counterparty Risk

	jun-18	dec-17
	Requirements	Requirements
Standard Approach		
Standard Approach Total	1,565,519	1,655,880
of which: Counterparty Risk	*72,652*	*85,731*
IRB Approach		
IRB Approach Total	2,481,642	2,161,137
of which: Counterparty Risk	*30,052*	*28,551*
Total	**4,047,160**	**3,817,017**
of which: Counterparty Risk	***102,704***	***114,281***

The Capital Requirement for Counterparty Risk amounts to 102,704 €/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 Apporach and the AIRB Approach in talbe 4.2.

Tab. 4.2 – Capital requirements for Credit and Counterparty Risk

Standard Approach	jun-18	dec-17
Exposures to central governments and central banks	190,818	217,601
Exposures to regional governments and local authorities	29,271	31,705
Exposures to public sector entities	35,466	34,592
Exposures to Multi-lateral development banks	-	-
Exposures to International Organisations	-	-
Exposures to Supervised institutions	154,927	176,025
Exposures to Corporates	404,608	407,640
Retail Exposures	69,833	75,457
Exposures secured by mortgages on immovable property	48,037	43,176
Exposures in Default	75,503	90,247
Exposures associated with high-risk	16,020	11,232
Exposures in the form of covered bonds	11,026	11,024
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to UCITs	34,117	36,593
Equity Exposures	200,441	242,245
Other Exposures	295,161	277,321
Securitization positions	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	291	1,023
Standard Approach Total	**1,565,519**	**1,655,880**
AIRB Approach		
Exposures to or secured by corporates:	1,764,032	1,474,882
- SMEs	849,497	686,016
- Other companies	800,375	666,005
- Specialized lending	114,160	122,861
Retail exposures:	705,156	685,634
- secured by real estate: SMEs	166,380	153,857
- secured by real estate: Individuals	243,979	242,241
- Qualifying revolving	650	741
- Other retail exposures: SMEs	265,071	258,486
- Other retail exposures: Individuals	29,075	30,309
Securitization positions	12,453	621
AIRB Approach Total	**2,481,642**	**2,161,137**
Credit and Counterparty Risk Total	**4,047,160**	**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	jun-18	dec-17
Category 1 - 50%	107	50
Category 1 - 70% equal to or greater than 2.5 years	2,306	2,048
Category 2 -70% less than 2.5 years	7,910	5,201
Category 2 - 90%	65,327	68,015
Category 3 - 115%	33,404	33,634
Category 4 - 250%	5,106	13,914
Category 5 - 0%	-	-
Total	**114,160**	**122,861**

Tab. 4.4 – Capital Requirements for Market Risk

Standardised Approach	jun-18	dec-17
Position risk on debt instruments	176,868	126,299
Position risk on equity	42,293	41,428
Foreign exchange risk	12,679	16,676
Commodities risk	12,445	13,190
CIU Risk	11,517	1,817
Total Standardised Approach	**255,803**	**199,411**
Internal models		
Total Internal models	**-**	**-**
Total Market Risks	**255,803**	**199,411**

Tab. 4.5 – Capital requirements for Operational Risk

Requirements by Approach	jun-18	dec-17
Foundation Approach	11,936	11,936
Standardised Approach	-	-
Advanced Measurement Approach	790,994	788,987
Total Operational Risk	**802,930**	**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 RWA amounts	b Capital requirements
1	**RWAs as of 31/03/2018**	**27,255,307**	**2,180,425**
9	**RWAs as of 30/06/2018**	**30,644,870**	**2,451,590**

The growth of 3.4 billion of the RWA of credit risk exposures under the IRB approach is mainly due to the application of the specific requirements on non-performing exposures, as well as the effect of the new disbursements. The amounts are net of the counterparty risk component.

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

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

	jun-18
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	757,803
Total RWAs	**1,600,421**

Countercyclical Capital Buffer

As of 30 June 2018, the Montepaschi Group is required to hold a countercyclical capital buffer of 642.7 EUR 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 30 June 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 94.63% of relevant exposures to Italy, which has a 0% rate, for the purpose of calculating the countercyclical buffer. Reported below are the main items of calculation of the countercyclical capital buffer, presented in the standard format shown in table 2, Attachment I of Commission Delegated Regulation (EU) 1555/2015.

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

		jun-18
10	Total risk exposure amount	64,274,470
20	Institution specific countercyclical buffer rate	0.001%
30	Institution specific countercyclical buffer requirement	642.7

Liquidity Ratios and Leverage Ratio

With reference to the liquidity indicators, Liquidity Coverage Ratio and the Net Stable Funding Ratio, the observation period by the Supervisory Authorities began in March 2014. As of October 2015, the minimum obligatory requirement for the Liquidity Coverage Ratio came into force, with a level that gradually increases over the years: 60% in 2015; 70% in 2016; 80% in 2017 and 100% in 2018. The Liquidity Cover Ratio was 178% as at 30 June 2018, well above the minimum of 100% required for the year 2018.

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 5.55% as at 30 June 2018. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 4.48%. 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 at 30 June 2018. The figures shown relate to the calculation of the leverage ratio according to applicable transitional provisions for reporting purposes.

Tab. 4.9 – Leverage Ratio

		jun-18	dec-17
Capital and total exposures			
20	Tier 1 capital	8,372,975	8,951,233
21	Total exposures	150,802,982	149,831,148
Leverage ratio			
22	Basel III leverage ratio	5.55%	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 30 june 2018, the Group recorded a slight reduction in the financial leverage indicator linked to the decrease in Tier 1 and the increase in total exposures, respect to 31/12/2017.

5. Credit Risk

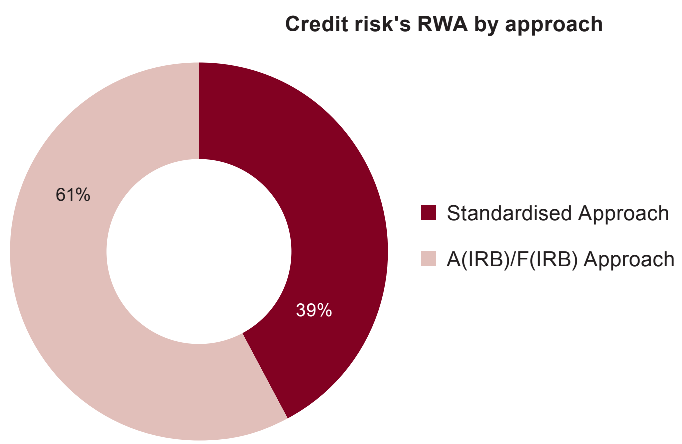
5.1 Credit Risk: general disclosure

The MPS group gives special attention to the management and the measurement of Credit Risk, which represents the greatest risk to which the Group is exposed, accounting for approximately 79% of total capital requirements. The main objective of the Credit Risk Management function is to promote a culture of "responsible lending" within the Group and pursue a sustainable growth in lending transactions that is in line with risk appetite and value creation. The Group's strategies in the area of risk management are aimed at limiting the economic impact from defaulting loans and containing the cost of credit. The credit risk management function is involved in defining credit policy guidelines by identifying the customer segments with greater opportunities from risk-return perspective, promoting risk diversification, limiting the concentration of risk exposure in single business groups/sectors and geographical areas. The function also defines the supports available to Credit disbursement strategies. The use and allocation of ratings is crucial, since they are the synthetic measurement of a customer's creditworthiness both during the loan disbursement and monitoring processes. This forms the basis of the preliminary procedure that is followed as a loan proposal is processed and then subsequently monitored. The assignment of a rating to each borrower means that borrowers can be classified into actual levels of risk and that both an overall or broken-down objective assessment of risk components may be made; this system, therefore, provides the basis of information for supporting both strategic decisions and the ordinary management of risk positions. Credit policy guidelines are thus provided by the sales network according to customer segments, rating categories, business sector, Regional Area, loan type and types of collateral used.

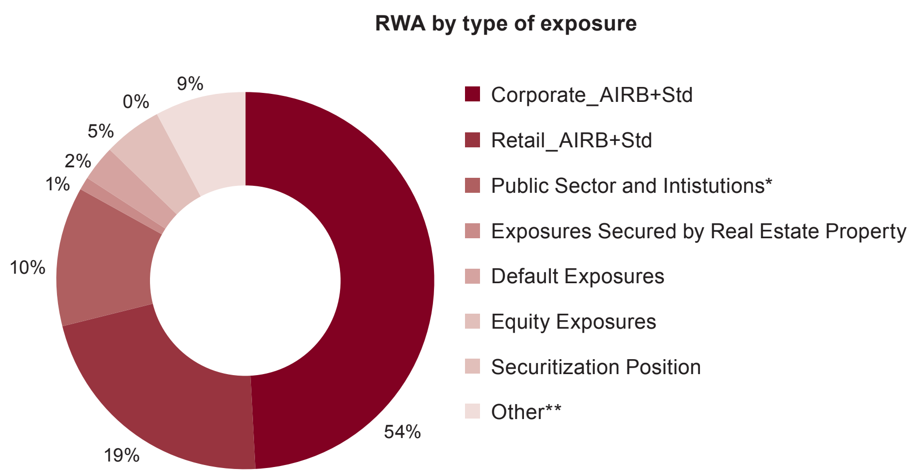
In addition, operational guidelines are structured into quantitative and qualitative objectives to develop and reclassify the loan portfolio, according to business sector and regional units. The Credit Risk Management function is also involved in the monitoring phase and verifies that the Network Structures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

As concerns capital requirements, for credit risks the Group uses the Advanced Internal Rating Based (AIRB) method with reference to the "Credit Exposures to Retail" and "Credit Exposures to Entities" regulatory portfolios. The scope of application of the AIRB method currently includes the Parent Company Banca MPS, MPS Capital Services Banca per le Imprese and MPS Leasing & Factoring. For the remaining portfolios and Group entities, capital requirements relative to credit risks are calculated according to the standard method.

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



An analysis by type of exposure reveals that 73% of Credit Risk refers to the Corporate and Retail portfolios. The remaining 27% is mainly concentrated in the Public Sector and Institutions (10%).



* *Includes the following portfolios: Central Governments and Central Banks, Regional Governments and Local Authorities, Public sector entities, Multi-lateral Development Banks, International Organisations, Supervised institutions.*

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

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

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

	jun-18		dec-17			
	EAD	RWA	EAD	RWA	Δ EAD	Δ RWA
Standard Approach						
Standard Approach Total	**50,920,957**	**19,568,982**	**54,711,232**	**20,698,503**	**-3,790,275**	**-1,129,521**
of which: Counterparty Risk	*3,547,674*	*908,148*	*3,362,646*	*1,071,633*	*185,028*	*-163,485*
IRB Approach						
IRB Approach Total	**87,345,691**	**31,020,519**	**106,235,730**	**27,014,214**	**-18,890,039**	**4,006,306**
of which: Counterparty Risk	*716,167*	*375,649*	*482,461*	*356,884*	*233,706*	*18,765*
Total	**138,266,648**	**50,589,501**	**160,946,962**	**47,712,717**	**-22,680,314**	**2,876,784**
of which: Counterparty Risk	*4,263,841*	*1,283,797*	*3,845,107*	*1,428,516*	*418,735*	*-144,720*

The following table shows a breakdown of exposures and RWAs by approach (Standard/ AIRB) and by regulatory portfolio.

Tab. 5.1.2 – Exposure and RWA Distribution of Credit and Counterparty Risk

Standard Approach	jun-18		dec-17	
Regulatory portfolios	EAD	RWA	EAD	RWA
Exposures to central governments and central banks	23,021,747	2,385,223	25,769,693	2,720,008
Exposures to regional governments and local authorities	1,825,026	365,892	1,982,601	396,316
Exposures to public sector entities	507,706	443,321	484,413	432,403
Exposures to Multi-lateral development banks	101,656	-	42,524	-
Exposures to International Organisations	-	-	-	-
Exposures to Supervised institutions	8,453,387	1,936,586	9,131,917	2,200,306
Exposures to Corporates	5,161,476	5,057,596	5,194,555	5,095,502
Retail Exposures	1,254,538	872,912	1,344,616	943,210
Exposures secured by mortgages on immovable property	1,555,495	600,463	1,395,558	539,700
Exposures in Default	857,705	943,787	1,032,498	1,128,087
Exposures associated with high-risk	133,497	200,245	93,602	140,403
Exposures in the form of covered bonds	696,059	137,829	695,967	137,802
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-
Exposures to UCITs	426,467	426,467	457,412	457,412
Equity Exposures	1,545,265	2,505,518	1,798,231	3,028,061
Other Exposures	5,380,933	3,689,510	5,287,646	3,466,510
Securitization positions	-	-	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	3,633	-	12,782
Standard Approach Total	**50,920,957**	**19,568,982**	**54,711,232**	**20,698,503**
AIRB Approach				
Exposures to or secured by corporates:	36,977,135	22,050,404	48,947,046	18,436,024
- SMEs	21,095,691	10,618,717	32,444,612	8,575,194
- Other companies	13,992,930	10,004,688	14,222,965	8,325,061
- Specialized lending	1,888,513	1,427,000	2,279,469	1,535,769
Retail exposures:	47,298,915	8,814,451	57,209,111	8,570,430
- secured by real estate: SMEs	5,582,071	2,079,747	6,383,214	1,923,208
- secured by real estate: Individuals	26,585,011	3,049,744	26,377,007	3,028,018
- Qualifying revolving	87,262	8,129	93,801	9,266
- Other retail exposures: SMEs	11,501,385	3,313,391	18,269,107	3,231,074
- Other retail exposures: Individuals	3,543,186	363,440	6,085,983	378,864
- Securitization positions	3,069,642	155,664	79,573	7,760
AIRB Approach Total	**87,345,691**	**31,020,519**	**106,235,730**	**27,014,214**
Credit and Counterparty Risk Total	**138,266,648**	**50,589,501**	**160,946,962**	**47,712,717**

The following tables provide a comprehensive picture of the credit quality of the Group, an ageing analysis of accounting on-balance-sheet past-due exposures regardless of their impairment status, an overview of non-performing and forborne exposures and the changes in an institution's stock of general and specific credit risk adjustment held against loans and debt securities that are defaulted or impaired.

Tab. 5.1.3 (EU CR1-A) – Credit quality of exposures by exposure class and instrument

		a	b	c	d	e	f	g
		Gross carrying values of:						
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
1	Central governments or central banks	-	-	-	-	-	-	-
2	Institutions	-	-	-	-	-	-	-
3	Corporates	11,423,008	41,820,544	5,956,628	-	-	-	47,286,924
4	*of which: SMEs*	*8,533,258*	*19,046,567*	*4,688,558*	-	-	-	*22,891,267*
5	*of which: Other companies*	*2,889,750*	*22,773,976*	*1,268,069*	-	-	-	*24,395,657*
6	**Retail**	**8,486,569**	**46,873,708**	**5,165,520**	**-**	**-**	**-**	**50,194,757**
7	Secured by real estate property	2,028,410	30,441,768	811,346	-	-	-	31,658,832
8	*SMEs*	*1,103,621*	*4,524,038*	*488,826*	-	-	-	*5,138,833*
9	*Non SMEs*	*923,249*	*25,702,641*	*321,906*	-	-	-	*26,303,984*
10	Qualifying revolving	1,539	215,089	614	-	-	-	216,014
11	Other retail	6,458,160	16,431,940	4,354,174	-	-	-	18,535,926
12	*SMEs*	*4,375,917*	*13,606,562*	*3,082,370*	-	-	-	*14,900,109*
13	*Non SMEs*	*2,082,243*	*2,825,378*	*1,271,803*	-	-	-	*3,635,817*
14	Equity	-	-	-	-	-	-	-
15	**Total IRB Approach**	**19,909,578**	**88,694,252**	**11,122,148**	**-**	**-**	**-**	**97,481,682**
16	Central governments or central banks	-	21,538,189	-	57,878	-	-	21,480,311
17	Regional dovernments or local authorities	-	2,672,267	-	3,025	-	-	2,669,243
18	Public sector entities	-	860,223	-	681	-	-	859,542
19	Multilateral development banks	-	146,656	-	-	-	-	146,656
20	International organisations	-	-	-	-	-	-	-
21	Institutions	-	35,855,496	-	1,886	-	-	35,853,610
22	Corporates	-	9,235,314	-	36,487	-	-	9,198,827
23	*of which: SMEs*	-	-	-	-	-	-	-
24	Retail	-	2,475,742	-	11,826	-	-	2,463,916
25	*of which: SMEs*	-	-	-	-	-	-	-
26	Secured by mortgages on immovable property	-	1,592,815	-	13,742	-	-	1,579,073
27	*of which: SMEs*	-	-	-	-	-	-	-
28	Exposures in default	2,272,135	-	-	1,187,039	-	-	1,085,096
29	Items associated with particularly high risk	-	133,497	-	-	-	-	133,497
30	Covered bonds	-	696,059	-	-	-	-	696,059
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
32	Collective investments undertakings	-	568,144	-	875	-	-	567,269
33	Equity exposures	-	1,545,265	-	-	-	-	1,545,265
34	Other exposures	-	5,362,992	-	9,100	-	-	5,353,892
35	**Total standardised approach**	**2,272,135**	**82,682,661**	**-**	**1,322,540**	**-**	**-**	**83,632,257**
36	**Total**	**22,181,713**	**171,376,913**	**11,122,148**	**1,322,540**	**-**	**-**	**181,113,939**
37	*of which: Loans*	*127,140,647*		*11,190,731*	*1,314,033*			*114,635,883*
38	*of which: Debt securities*	*23,395,576*		*45,363*	*2,760*			*23,347,453*
39	*of which: Off-balance-sheet exposures*	*45,026,879*		*182,154*	*5,747*			*44,838,978*

Tab. 5.1.4 (EU CR1-D) – Ageing of past-due exposures

		a	b-c		d	e	f	
		Gross carrying values:						
		≤ 30 days	> 30 days ≤ 90 days	Unlikely to pay che non sono past-due o past due < = 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year ≤ 5 years	> 5 years
1	Loans	82,338,029	682,087	4,237,114	598,438	807,688	11,689,398	2,145,956
2	Debt securities	20,357,930	49,834	69,135	-	-	18,700	-
3	**Total exposures**	**102,695,959**	**731,921**	**4,306,249**	**598,438**	**807,688**	**11,708,098**	**2,145,956**

Column "a" includes unexpired exposures.

Tab. 5.1.5 (EU CR1-E) - Non-performing and forborne exposures

		a	b	c	d	e	f	g	h	i	j	k	l	m
		jun-2018												
		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
			Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
						Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
010	Debt securities	20,495,599	49,834	2,798	87,835	87,835	151	68,984	-27,460	-5	-28,951	-10,100	-	-
020	Loans and advances	102,498,711	682,087	2,383,747	19,478,594	19,478,594	18,497,630	7,067,877	-795,226	-180,881	-10,902,013	-3,137,304	6,348,325	5,006,972
030	Off-balance-sheet exposures	44,553,683	-	70,031	1,770,038	1,770,038	-	177,599	36,196	525	173,504	-	612,742	125,781

Tab.5.1.6 (EU CR2-A) – Changes in the stock of general and specific credit risk adjustments

		a	b
		jun-18	
		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance**	**-9,186,559**	**-1,990,834**
2	Increases due to amounts set aside for estimated loan losses during the period	-907,047	-187,322
3	Decreases due to amounts reversed for estimated loan losses during the period	615,027	198,312
4	Decreases due to amounts taken against accumulated credit risk adjustments	412,950	20,010
5	Transfers between credit risk adjustments	-4,103	4,103
6	Impact of exchange rate differences	-	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	-564,937	-320,490
9	**Closing balance**	**-9,634,669**	**-2,276,221**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	624,420	180,968
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-41,989	-

5.2 Credit Risk: Standard approach

Quantitative disclosure

The table below shows the details of the banking Group's exposures subject to credit risk – standard approach, determined according to the rules of Prudential Supervision and including the effects from risk mitigation techniques (netting agreements, guarantees, etc.). The quantitative disclosures in this Section complement those provided in the section on Risk mitigation techniques. In fact, each regulatory portfolio provided for by regulations under the standard approach is broken down as follows:

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

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

	jun-18			dec-17		
Regulatory Portfolio (Standard Approach)	Ante CRM Exposure	Post CRM Exposure	Credit Risk Mitigation Techniques	Ante CRM Exposure	Post CRM Exposure	Credit Risk Mitigation Techniques
Exposures to central governments and central banks	23,114,907	23,114,907	-	25,847,341	25,847,341	-
Exposures to regional governments and local authorities	2,692,454	2,692,454	-	3,116,398	3,116,398	-
Exposures to public sector entities	835,830	820,884	-14,945	1,095,203	1,080,236	-14,967
Exposures to Multi-lateral development banks	146,656	146,656	-	87,524	87,524	-
Exposures to International Organisations	-	-	-	-	-	-
Exposures to Institutions	36,372,436	13,597,487	-22,774,949	34,889,043	14,387,562	-20,501,481
Exposures to Corporates	9,036,850	8,123,930	-912,920	9,098,129	8,268,392	-829,738
Retail Exposures	2,397,586	2,374,922	-22,664	2,560,054	2,545,292	-14,762
Exposures secured by mortgages on immovable property	1,562,053	1,561,164	-889	1,406,469	1,405,811	-658
Exposures in Default	1,080,887	1,072,487	-8,400	1,311,779	1,304,504	-7,274
Exposures associated with particularly high-risk	133,497	133,497	-	93,602	93,602	-
Exposures in the form of covered bonds	696,059	696,059	-	695,967	695,967	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Exposures to UCITs	567,269	564,278	-2,991	522,608	519,617	-2,991
Equity Exposures	1,545,265	1,545,265	-	1,798,231	1,798,231	-
Other Exposures	5,380,933	5,380,933	-	5,289,559	5,289,559	-
Items representing securitization positions	-	-	-	-	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	-	-	-	-	-
Standard Approach Total	**85,562,682**	**61,824,923**	**-23,737,759**	**87,811,906**	**66,440,035**	**-21,371,871**

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

As at 30 June 2018, the total amount of exposures deducted from Funds came to EUR 1,661.5 million. The exposures reported in the table 5.2.2 also include the off balance-sheet exposures relating to guarantees and commitments (including undrawn credit lines) subsequent to the application of the Credit Conversion Factors (CFFs) required by prudential regualtions. The off-balance sheet exposures in relation to guarantees and commitments are disclosed side by side with the counterparty weighting factor. The exposure value shown in the tables of this section is stated net of adjustments in accordance with the prudential regulations.

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

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

	Classes of credit worthiness (Weighting Factors)								
Regulatory Portfolio (Standard Approach)	0%	Until 20%	35%	50%	70% - 100%	150%	225% - 250%	1250%	Total as at 30/06/2018
Exposures to central governments and central banks	21,547,904	17	-	23,640	834,640	-	615,546	-	23,021,747
Exposures to regional governments and local authorities	20,003	1,798,615	-	-	6,408	-	-	-	1,825,026
Exposures to public sector entities	2,718	77,086	-	-	427,900	3	-	-	507,706
Exposures to Multi-lateral development banks	101,656	-	-	-	-	-	-	-	101,656
Exposures to International Organisations	-	-	-	-	-	-	-	-	-
Exposures to Institutions	63,723	6,614,630	-	1,483,691	291,059	284	-	-	8,453,387
Exposures to Corporates	-	44,573	-	188,761	4,841,416	86,727	-	-	5,161,476
Retail Exposures	-	-	-	-	1,254,538	-	-	-	1,254,538
Exposures secured by mortgages on immovable property	-	-	952,888	602,607	-	-	-	-	1,555,495
Exposures in Default	-	-	-	-	685,539	172,165	-	-	857,705
Exposures associated with particularly high-risk	-	-	-	-	-	133,497	-	-	133,497
Exposures in the form of covered bonds	-	696,059	-	-	-	-	-	-	696,059
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-
Exposures to UCITs	-	-	-	-	426,467	-	-	-	426,467
Equity Exposures	-	-	-	-	905,097	-	640,168	-	1,545,265
Other Exposures	720,799	1,215,729	-	445	3,439,597	4,363	-	-	5,380,933
Items representing securitization positions	-	-	-	-	-	-	-	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	-	-	-	-	-	-	-	-
Total as at 30/06/2018	**22,456,803**	**10,446,708**	**952,888**	**2,299,145**	**13,112,662**	**397,038**	**1,255,714**	**-**	**50,920,957**
Total as at 31/12/2017	**25,136,200**	**10,765,847**	**883,018**	**2,610,013**	**13,476,971**	**378,389**	**1,460,793**	**-**	**54,711,232**

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

Tab. 5.2.3 (EU CR5) – Standardised approach

	Exposure classes	Risk weight												Total
		0%	2%	4%	10%	20%	35%	50%	75%	100%	150%	225-250%	Deducted	
1	Exposures to central governments and central banks	21,547,565	-	-	-	17	-	23,640	-	-	-	615,546	1,345,231	**23,019,026**
2	Exposures to regional governments and local authorities	20,003	-	-	-	1,785,086	-	-	-	-	-	-		**1,811,497**
3	Exposures to public sector entities	2,718	-	-	-	77,086	-	-	-	-	-	-		**500,741**
4	Exposures to Multi-lateral development banks	101,656	-	-	-	-	-	-	-	-	-	-		**101,656**
5	Exposures to International Organisations	-	-	-	-	-	-	-	-	-	-	-		**-**
6	Exposures to Institutions	63,723	691,636	160,298	-	3,334,554	-	649,245	-	-	284	-		**5,162,576**
7	Exposures to Corporates	-	249	-	-	42,724	-	188,761	-	-	86,727	-		**4,930,981**
8	Retail Exposures	-	-	-	-	-	-	-	-	1,254,538	-	-		**1,254,538**
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	952,888	602,607	-	-	-	-		**1,555,495**
10	Exposures in Default	-	-	-	-	-	-	-	-	-	172,043	-		**856,862**
11	Exposures associated with particularly high-risk	-	-	-	-	-	-	-	-	-	133,497	-		**133,497**
12	Exposures in the form of covered bonds	-	-	-	13,832	682,227	-	-	-	-	-	-		**696,059**
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-		**-**
14	Exposures to UCITs	-	-	-	-	-	-	-	-	-	-	-		**424,157**
15	Equity Exposures	-	-	-	-	-	-	-	-	-	-	640,168	117,635	**1,545,265**
16	Other Exposures	720,799	-	-	-	1,215,729	-	445	-	-	4,363	-		**5,380,933**
17	**Total as at 30/06/2018**	**22,456,464**	**691,885**	**160,298**	**13,832**	**7,137,423**	**952,888**	**1,464,698**	**-**	**1,254,538**	**396,914**	**1,255,714**	**1,462,866**	**47,373,283**

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

5.3 Credit Risk: use of the AIRB approach

AIRB Authorization

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

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

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

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

Quantitative information

The following table reports the Group's exposure to credit risk – AIRB, as at 30 June 2018 divided by classes of regulatory activities. The exposure values reported are determined according to prudential supervisory requirements and as such are inclusive of value adjustments and do not factor in the effects of risk mitigation techniques which, in the case of exposures subject to an internal models-based approach, are directly included in the risk-weighting factor applied. As for guarantees issued and commitments to disburse funds, the values reported take into account credit conversion factors. The exposure value reported in the table, therefore, shows the EAD. Following are the values of risk weighted assets (RWAs), expected loss (EL) and actual losses (AL) as at the end of June 2018. It is noted that the amount of value adjustments on general-purpose and special-purpose receivables relating to securitisation exposures are not included in the calculation of the Expected Loss Delta, as required by the CRR.

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

	jun-18			
Regulatory Portfolio	EAD	RWA	EL	AL
Exposures to or secured by corporates:	36,977,135	22,050,404	5,228,801	6,252,728
- SMEs	21,095,691	10,618,717	3,784,246	4,688,558
- Other companies	13,992,930	10,004,688	1,216,441	1,268,069
- Specialized lending	1,888,513	1,427,000	228,114	296,100
Retail exposures:	47,298,915	8,814,451	4,160,905	5,165,520
- Secured by real estate: SMEs	5,582,071	2,079,747	382,013	488,826
- Secured by real estate: Individuals	26,585,011	3,049,744	189,212	321,906
- Qualifying revolving	87,262	8,129	491	614
- Other retail exposures: SMEs	11,501,385	3,313,391	2,589,190	3,082,370
- Other retail exposures: Individuals	3,543,186	363,440	999,998	1,271,803
Securitization positions	3,069,642	155,664	-	2,079
Total as at 30/06/2018	**87,345,691**	**31,020,519**	**9,389,706**	**11,420,327**
Total as at 31/12/2017	**106,235,730**	**27,014,214**	**22,068,815**	**29,190,518**

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

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

	jun-18				
Classes of creditworthiness	Corporates Exposure	Retail Exposure	AIRB Total Exposures	AIRB Total EL	AIRB Total AL
Class 01	-	-	-	-	-
Class 02	64,013	19,838	83,852	11	68
Class 03	336,679	65,762	402,441	84	378
Class 04	505,502	118,475	623,977	227	505
Class 05	629,921	6,586,016	7,215,937	1,512	1,836
Class 06	1,245,112	4,694,944	5,940,057	2,483	3,387
Class 07	2,603,339	3,955,117	6,558,455	4,949	5,384
Class 08	2,756,086	3,337,055	6,093,141	8,126	8,606
Class 09	2,991,097	4,607,398	7,598,494	13,892	13,081
Class 10	3,093,197	5,254,409	8,347,606	22,966	22,572
Class 11	3,154,627	2,866,110	6,020,737	30,727	34,968
Class 12	2,107,954	2,458,829	4,566,783	35,065	48,594
Class 13	2,035,795	2,379,211	4,415,005	54,331	126,555
Class 14	1,468,257	1,208,079	2,676,337	54,375	109,957
Class 15	911,867	654,106	1,565,973	47,304	92,913
Class 16	318,439	445,687	764,126	35,700	50,997
Class 17	192,523	190,776	383,299	23,643	32,930
Class 18	82,964	166,490	249,454	18,929	23,767
Class 19	238,142	106,840	344,982	34,796	65,229
Class 20	10,353,107	8,183,774	18,536,881	8,772,472	10,480,420
Total as at 30/06/2018	**35,088,621**	**47,298,915**	**82,387,536**	**9,161,591**	**11,122,148**
Total as at 31/12/2017	**46,667,577**	**57,209,111**	**103,876,688**	**21,638,549**	**28,668,873**

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

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

The nominal value in table 5.3.3 and following shows the exposure value before applying the credit conversion factor. The exposure value reported in the tables, therefore, shows the EAD post CRM and post CCF.

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

Rating Class	Nominal Value	EAD	Off-balance-sheet amount	RWA	Value adjustments	Expected Loss
Category 1 - 50%	2,937	2,673	529	1,336	18	-
Category 1 - 70% equal to or greater than 2.5 years	41,187	41,187	-	28,831	861	165
Category 2 -70% less than 2.5 years	145,319	141,249	21,848	98,874	591	565
Category 2 - 90%	950,653	907,321	156,652	816,589	26,875	7,259
Category 3 - 115%	374,271	363,083	38,063	417,545	30,055	10,166
Category 4 - 250%	26,430	25,530	1,800	63,824	324	2,042
Category 5 - 0%	414,371	407,471	13,800	-	237,377	207,917
Total as at 30/06/2018	**1,955,168**	**1,888,513**	**232,692**	**1,427,000**	**296,100**	**228,114**
Total as at 31/12/2017	**2,335,749**	**2,279,469**	**213,862**	**1,535,769**	**519,767**	**430,120**

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

Rating Class	On-balance-sheet gross exposures	Nominal Value	EAD	CCF% (Average)	Number of obligors	Weighted Average PD (%)	Weighted Average LGD (%)	Average maturity	Average Risk Weight % RWA	Value adjustments	Expected Loss	RWA
Class 01	-	-	-	-	-	-	-	2.95	-	-	-	-
Class 02	206,347	206,275	39,533	4.66%	136	0.03%	41.07%	2.95	12.84%	31	5	5,077
Class 03	361,369	355,008	115,779	6.99%	287	0.05%	40.46%	2.95	14.16%	103	23	16,398
Class 04	597,839	583,641	229,685	8.23%	527	0.09%	38.75%	2.95	19.73%	167	80	45,310
Class 05	706,109	687,679	315,669	9.08%	561	0.13%	39.13%	2.95	23.73%	465	161	74,913
Class 06	1,131,744	1,100,282	565,688	9.16%	817	0.20%	39.52%	2.95	31.75%	728	447	179,591
Class 07	1,785,405	1,742,514	997,688	11.25%	1,239	0.30%	37.75%	2.95	38.14%	1,537	1,130	380,483
Class 08	1,905,171	1,847,517	1,090,846	8.77%	1,385	0.46%	36.95%	2.95	44.41%	2,306	1,854	484,429
Class 09	2,012,938	1,945,703	1,335,381	12.57%	1,483	0.69%	34.38%	2.95	51.74%	3,463	3,168	690,929
Class 10	2,292,781	2,207,062	1,648,029	10.28%	1,881	1.05%	35.20%	2.95	62.24%	6,677	6,091	1,025,787
Class 11	2,240,981	2,147,629	1,719,349	14.20%	1,969	1.59%	34.05%	2.95	69.74%	9,856	9,309	1,199,157
Class 12	1,756,299	1,701,127	1,409,873	10.22%	1,733	2.42%	32.58%	2.95	71.93%	13,287	11,116	1,014,182
Class 13	1,631,087	1,584,274	1,363,216	15.82%	1,532	3.99%	31.67%	2.95	83.53%	39,627	17,223	1,138,717
Class 14	1,089,872	1,062,874	941,463	21.89%	917	6.31%	30.94%	2.95	94.56%	42,486	18,383	890,233
Class 15	611,757	593,762	546,672	30.76%	525	9.95%	32.92%	2.95	114.96%	34,444	17,904	628,466
Class 16	269,448	264,151	248,826	29.54%	275	16.03%	31.29%	2.95	132.71%	16,875	12,479	330,224
Class 17	140,062	137,875	129,778	30.47%	104	22.12%	28.48%	2.95	133.51%	10,069	8,175	173,272
Class 18	73,865	72,420	68,356	17.23%	69	31.63%	29.41%	2.95	140.15%	8,379	6,358	95,799
Class 19	233,494	233,494	222,970	44.82%	89	45.00%	21.72%	2.95	104.92%	55,372	21,790	233,933
Class 20	8,533,258	8,489,842	8,106,890	28.73%	4,225	102.92%	43.73%	2.95	24.82%	4,442,687	3,648,549	2,011,817
Total as at 30/06/2018	**27,579,826**	**26,963,129**	**21,095,691**	**11.14%**	**19,754**	**3.51%**	**34.25%**	**2.95**	**-**	**4,688,558**	**3,784,246**	**10,618,717**
Total as at 31/12/2017	**39,066,593**	**38,524,139**	**32,444,612**	**12.05%**	**26,626**	**3.26%**	**33.72%**	**2.56**	**-**	**13,240,152**	**9,645,329**	**8,575,194**

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

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

Rating Class	On-balance-sheet gross exposures	Nominal Value	EAD	CCF% (Average)	Number of obligors	Weighted Average PD (%)	Weighted Average LGD (%)	Average maturity	Average Risk Weight % RWA	Value adjustments	Expected Loss	RWA
Class 01	-	-	-	-	-	-	-	1.77	-	-	-	-
Class 02	207,155	207,155	24,480	1.12%	38	0.03%	46.59%	1.77	23.85%	12	3	5,839
Class 03	712,785	711,985	220,901	20.43%	82	0.05%	43.26%	1.77	22.34%	185	48	49,347
Class 04	718,943	718,629	275,816	11.32%	123	0.09%	42.82%	1.77	26.50%	230	106	73,093
Class 05	870,859	868,759	314,252	12.71%	161	0.13%	40.99%	1.77	30.79%	212	167	96,742
Class 06	1,795,639	1,793,879	679,425	15.63%	252	0.20%	44.00%	1.77	41.04%	1,056	598	278,865
Class 07	3,899,205	3,895,458	1,605,651	8.68%	480	0.30%	37.34%	1.77	44.54%	1,689	1,799	715,193
Class 08	3,216,860	3,214,539	1,665,240	16.12%	439	0.46%	44.30%	1.77	69.67%	3,013	3,393	1,160,164
Class 09	3,698,594	3,693,345	1,655,716	11.92%	441	0.69%	42.91%	1.77	76.02%	3,204	4,902	1,258,594
Class 10	2,307,311	2,296,745	1,445,168	17.22%	484	1.05%	43.15%	1.77	85.25%	3,261	6,548	1,232,045
Class 11	2,127,198	2,117,903	1,435,278	22.60%	378	1.59%	41.79%	1.77	97.42%	5,903	9,537	1,398,248
Class 12	994,577	989,531	698,081	23.55%	271	2.42%	40.16%	1.77	106.66%	3,697	6,785	744,547
Class 13	900,285	892,985	672,579	24.48%	235	3.99%	41.69%	1.77	129.58%	13,051	11,189	871,510
Class 14	735,326	734,686	526,794	30.05%	132	6.31%	41.33%	1.77	153.31%	17,531	13,738	807,629
Class 15	408,494	407,824	365,195	34.64%	66	9.95%	31.43%	1.77	137.17%	20,259	11,420	500,926
Class 16	80,149	79,519	69,613	24.41%	36	16.03%	40.80%	1.77	212.17%	3,812	4,553	147,699
Class 17	69,155	69,155	62,745	12.37%	16	22.12%	39.80%	1.77	227.39%	8,328	5,524	142,679
Class 18	15,109	15,109	14,608	1.47%	6	31.63%	45.73%	1.77	275.46%	2,317	2,113	40,240
Class 19	16,333	15,236	15,172	-	4	45.00%	44.01%	1.77	238.78%	748	3,005	36,227
Class 20	2,889,750	2,880,753	2,246,217	17.98%	519	101.29%	49.71%	1.77	19.82%	1,179,561	1,131,013	445,101
Total as at 30/06/2018	**25,663,726**	**25,603,196**	**13,992,930**	**14.87%**	**4,163**	**1.82%**	**41.58%**	**1.77**	**-**	**1,268,069**	**1,216,441**	**10,004,688**
Total as at 31/12/2017	**26,431,039**	**26,372,076**	**14,222,965**	**15.00%**	**4,591**	**1.92%**	**41.72%**	**1.61**	**-**	**2,990,072**	**2,516,051**	**8,325,061**

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

(b) The weighted average PD (%) and weighted average LGD (%) under Total does not include class 20.

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

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

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

Rating Class	On-balance-sheet gross exposures	Nominal Value	EAD	CCF% (Average)	Number of obligors	Weighted Average PD (%)	Weighted Average LGD (%)	Average maturity	Average Risk Weight % RWA	Value adjustments	Expected Loss	RWA
Class 01	-	-	-	-	-	-	-	4.02	-	-	-	-
Class 02	1,711	1,711	1,701	50.00%	11	0.03%	19.02%	4.02	1.79%	2	0	30
Class 03	8,403	8,403	8,323	28.96%	48	0.05%	19.21%	4.02	2.37%	12	1	198
Class 04	26,878	26,878	24,793	49.59%	150	0.09%	18.65%	4.02	3.67%	20	4	910
Class 05	31,028	30,163	30,142	20.00%	248	0.13%	19.66%	4.02	5.43%	25	8	1,638
Class 06	90,853	89,288	89,078	50.00%	610	0.20%	19.79%	4.02	7.22%	68	35	6,430
Class 07	163,147	161,726	161,289	50.00%	1,144	0.30%	20.46%	4.02	10.42%	195	99	16,812
Class 08	289,900	289,383	288,978	39.48%	2,073	0.46%	19.97%	4.02	14.15%	535	265	40,893
Class 09	448,712	447,718	444,608	47.86%	2,994	0.69%	20.08%	4.02	18.97%	828	616	84,362
Class 10	645,708	645,072	638,644	39.81%	4,447	1.05%	20.35%	4.02	25.42%	1,842	1,364	162,373
Class 11	737,123	736,067	735,239	34.98%	5,145	1.59%	20.23%	4.02	32.43%	3,938	2,365	238,462
Class 12	708,699	707,524	706,920	49.17%	4,697	2.42%	20.12%	4.02	41.93%	8,432	3,441	296,412
Class 13	633,584	632,791	631,425	26.67%	3,236	3.99%	20.21%	4.02	55.20%	21,545	5,092	348,552
Class 14	312,352	311,836	310,962	33.61%	1,583	6.31%	20.55%	4.02	70.59%	14,291	4,032	219,502
Class 15	181,315	180,469	180,430	11.78%	827	9.95%	20.22%	4.02	85.17%	11,667	3,630	153,664
Class 16	135,132	135,032	132,425	49.68%	648	16.03%	20.65%	4.02	101.72%	9,906	4,384	134,708
Class 17	45,775	45,775	45,750	50.00%	297	22.12%	19.69%	4.02	108.57%	3,619	1,992	49,670
Class 18	36,468	36,468	36,318	50.00%	191	31.63%	21.30%	4.02	118.92%	3,804	2,447	43,189
Class 19	27,250	27,250	27,119	36.69%	124	45.00%	19.97%	4.02	102.75%	2,812	2,437	27,865
Class 20	1,103,621	1,103,544	1,087,929	24.51%	4,029	102.66%	31.32%	4.02	23.35%	405,286	349,801	254,077
Total as at 30/06/2018	**5,627,659**	**5,617,097**	**5,582,071**	**43.45%**	**32,502**	**3.53%**	**20.21%**	**4.02**	**-**	**488,826**	**382,013**	**2,079,747**
Total as at 31/12/2017	**6,421,133**	**6,420,554**	**6,383,214**	**41.75%**	**34,940**	**3.63%**	**20.13%**	**3.83**	**-**	**750,655**	**524,159**	**1,923,208**

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

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

Rating Class	On-balance-sheet gross exposures	Nominal Value	EAD	CCF% (Average)	Number of obligors	Weighted Average PD (%)	Weighted Average LGD (%)	Average maturity	Average Risk Weight % RWA	Value adjustments	Expected Loss	RWA
Class 01	-	-	-	-	-	-	-	4.78	-	-	-	-
Class 02	-	-	-	-	-	-	-	4.78	-	-	-	-
Class 03	-	-	-	-	-	-	-	4.78	-	-	-	-
Class 04	-	-	-	-	-	-	-	4.78	-	-	-	-
Class 05	6,333,166	6,333,166	6,329,897	43.45%	76,632	0.13%	13.08%	4.78	4.02%	970	1,076	254,697
Class 06	4,260,632	4,260,632	4,259,105	40.43%	50,537	0.20%	13.43%	4.78	5.71%	1,189	1,144	243,226
Class 07	3,211,232	3,211,232	3,207,896	35.65%	38,067	0.30%	13.18%	4.78	7.55%	1,351	1,268	242,261
Class 08	2,380,197	2,380,197	2,376,631	35.55%	29,664	0.46%	13.13%	4.78	10.23%	1,650	1,436	243,128
Class 09	3,268,364	3,268,364	3,265,306	42.26%	42,431	0.69%	12.54%	4.78	12.96%	3,433	2,825	423,201
Class 10	3,530,794	3,530,794	3,527,921	35.09%	44,150	1.05%	12.28%	4.78	16.85%	6,305	4,549	594,521
Class 11	885,317	885,317	883,226	24.17%	12,212	1.59%	12.79%	4.78	22.95%	7,258	1,795	202,723
Class 12	469,433	469,433	468,774	48.36%	6,000	2.42%	12.88%	4.78	29.94%	7,970	1,461	140,345
Class 13	640,205	640,205	636,632	14.00%	7,292	3.99%	12.95%	4.78	40.09%	24,403	3,289	255,222
Class 14	228,115	228,115	227,179	32.23%	2,780	6.31%	12.58%	4.78	49.35%	8,978	1,803	112,118
Class 15	151,793	151,793	151,567	-	1,775	9.95%	12.48%	4.78	59.95%	6,683	1,882	90,872
Class 16	126,142	126,142	125,343	0.00%	1,454	16.03%	12.29%	4.78	69.55%	5,980	2,469	87,180
Class 17	74,547	74,547	74,529	50.00%	860	22.12%	12.34%	4.78	74.85%	3,644	2,034	55,782
Class 18	93,384	93,384	93,196	-	1,007	31.63%	12.39%	4.78	76.47%	4,896	3,652	71,267
Class 19	49,322	49,322	48,639	0.76%	622	45.00%	12.06%	4.78	68.26%	2,441	2,638	33,200
Class 20	923,249	923,249	909,170	6.25%	9,802	103.28%	16.60%	4.78	-	234,757	155,892	-
Total as at 30/06/2018	**26,625,891**	**26,625,891**	**26,585,011**	**33.48%**	**325,285**	**1.03%**	**12.94%**	**4.78**	**-**	**321,906**	**189,212**	**3,049,744**
Total as at 31/12/2017	**26,420,805**	**26,420,805**	**26,377,007**	**31.41%**	**322,534**	**1.07%**	**12.88%**	**4.73**	**-**	**265,164**	**213,612**	**3,028,018**

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

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

Rating Class	On-balance-sheet gross exposures	Nominal Value	EAD	CCF% (Average)	Number of obligors	Weighted Average PD (%)	Weighted Average LGD (%)	Average maturity	Average Risk Weight % RWA	Value adjustments	Expected Loss	RWA
Class 01	-	-	-	-	-	-	-	1.00	-	-	-	-
Class 02	-	-	-	-	-	-	-	1.00	-	-	-	-
Class 03	-	-	-	-	-	-	-	1.00	-	-	-	-
Class 04	-	-	-	-	-	-	-	1.00	-	-	-	-
Class 05	59,599	59,599	18,995	-	36,029	0.13%	21.20%	1.00	1.68%	10	5	319
Class 06	20,972	20,972	7,832	-	13,475	0.20%	27.56%	1.00	3.12%	6	4	244
Class 07	27,421	27,421	9,756	-	15,628	0.30%	23.36%	1.00	3.67%	9	7	358
Class 08	24,467	24,467	6,994	-	10,207	0.46%	24.13%	1.00	5.34%	8	8	374
Class 09	24,259	24,259	8,681	-	12,146	0.69%	22.02%	1.00	6.71%	16	13	582
Class 10	20,497	20,497	10,101	-	12,872	1.05%	21.47%	1.00	9.04%	33	23	913
Class 11	12,082	12,082	6,721	-	8,262	1.59%	22.50%	1.00	12.95%	39	24	870
Class 12	9,030	9,030	5,418	-	6,676	2.42%	22.98%	1.00	17.97%	48	30	974
Class 13	5,376	5,376	3,352	-	3,909	3.99%	24.21%	1.00	26.85%	47	32	900
Class 14	8,024	8,024	6,988	-	7,225	6.31%	16.40%	1.00	24.58%	113	72	1,717
Class 15	1,290	1,290	749	-	881	9.95%	23.48%	1.00	46.26%	24	17	346
Class 16	819	819	392	-	518	16.03%	23.59%	1.00	59.57%	16	15	234
Class 17	416	416	80	-	192	22.12%	24.91%	1.00	71.93%	4	4	58
Class 18	346	346	219	-	340	31.63%	16.71%	1.00	53.23%	14	12	116
Class 19	491	491	204	-	404	45.00%	18.67%	1.00	59.95%	18	17	122
Class 20	1,539	1,539	780	-	1,241	100.00%	26.45%	1.00	-	210	206	-
Total as at 30/06/2018	**216,628**	**216,628**	**87,262**	**-**	**130,005**	**1.61%**	**22.33%**	**1.00**	**-**	**614**	**491**	**8,129**
Total as at 31/12/2017	**240,355**	**240,355**	**93,801**	**-**	**137,731**	**1.69%**	**22.85%**	**1.00**	**-**	**497**	**543**	**9,266**

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

Tab. 5.3.9 – (EU CR6) – IRB approach: Other retail Exposures - SMEs

Rating Class	On-balance-sheet gross exposures	Nominal Value	EAD	CCF% (Average)	Number of obligors	Weighted Average PD (%)	Weighted Average LGD (%)	Average maturity	Average Risk Weight % RWA	Value adjustments	Expected Loss	RWA
Class 01	-	-	-	-	-	-	-	1.88	-	-	-	-
Class 02	56,422	55,215	18,137	6.22%	231	0.03%	43.08%	1.88	3.78%	23	2	685
Class 03	164,552	158,163	57,439	6.30%	656	0.05%	42.66%	1.88	5.35%	77	12	3,074
Class 04	682,247	670,990	93,682	2.35%	10,345	0.09%	42.83%	1.88	8.36%	88	36	7,835
Class 05	370,870	356,489	130,863	5.97%	2,130	0.13%	42.71%	1.88	11.04%	107	73	14,454
Class 06	648,793	624,949	250,529	7.37%	4,242	0.20%	42.67%	1.88	14.77%	267	214	36,999
Class 07	933,696	894,344	409,785	6.45%	7,116	0.30%	42.57%	1.88	19.37%	410	523	79,385
Class 08	1,032,150	979,013	504,052	8.05%	9,663	0.46%	42.58%	1.88	25.56%	801	987	128,814
Class 09	1,389,580	1,325,237	708,802	8.11%	13,301	0.69%	42.30%	1.88	31.96%	1,489	2,069	226,565
Class 10	1,595,059	1,505,281	879,481	6.89%	18,784	1.05%	42.33%	1.88	39.21%	3,254	3,909	344,863
Class 11	1,853,080	1,740,646	1,060,978	8.24%	24,534	1.59%	41.84%	1.88	44.58%	6,400	7,058	472,947
Class 12	1,853,897	1,737,628	1,122,819	8.99%	25,816	2.42%	41.84%	1.88	49.41%	13,083	11,369	554,799
Class 13	1,483,065	1,394,506	998,910	9.11%	22,970	3.99%	41.37%	1.88	52.25%	24,625	16,489	521,882
Class 14	805,290	755,482	582,455	8.95%	17,834	6.31%	41.39%	1.88	54.24%	24,375	15,211	315,922
Class 15	379,580	351,319	288,064	12.23%	6,588	9.95%	40.82%	1.88	58.92%	18,333	11,700	169,734
Class 16	216,783	200,478	169,162	22.41%	3,997	16.03%	40.94%	1.88	71.84%	13,460	11,102	121,525
Class 17	73,095	68,567	59,781	16.65%	1,551	22.12%	40.68%	1.88	81.60%	6,580	5,379	48,779
Class 18	37,334	34,453	30,320	8.78%	1,953	31.63%	40.47%	1.88	91.12%	3,792	3,881	27,628
Class 19	31,070	29,019	23,690	23.63%	4,258	45.00%	39.31%	1.88	91.07%	3,334	4,190	21,575
Class 20	4,375,917	4,285,270	4,112,437	22.11%	99,172	101.53%	59.76%	1.88	5.25%	2,961,873	2,494,986	215,925
Total as at 30/06/2018	**17,982,479**	**17,167,049**	**11,501,385**	**7.46%**	**275,141**	**3.09%**	**41.92%**	**1.88**	**-**	**3,082,370**	**2,589,190**	**3,313,391**
Total as at 31/12/2017	**24,867,914**	**24,123,871**	**18,269,107**	**7.72%**	**322,407**	**3.30%**	**41.93%**	**1.89**	**-**	**8,484,957**	**6,715,503**	**3,231,074**

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

Tab. 5.3.10 – (EU CR6) – IRB approach: Other retail Exposures - Individuals

Rating Class	On-balance-sheet gross exposures	Nominal Value	EAD	CCF% (Average)	Number of obligors	Weighted Average PD (%)	Weighted Average LGD (%)	Average maturity	Average Risk Weight % RWA	Value adjustments	Expected Loss	RWA
Class 01	-	-	-	-	-	-	-	2.74	-	-	-	-
Class 02	-	-	-	-	-	-	-	2.74	-	-	-	-
Class 03	-	-	-	-	-	-	-	2.74	-	-	-	-
Class 04	-	-	-	-	-	-	-	2.74	-	-	-	-
Class 05	493,922	493,911	76,118	2.17%	81,341	0.13%	22.61%	2.74	7.19%	48	22	5,472
Class 06	205,953	205,951	88,401	8.30%	15,595	0.20%	23.02%	2.74	9.88%	74	41	8,737
Class 07	308,295	308,232	166,392	9.53%	26,431	0.30%	24.78%	2.74	13.89%	193	124	23,113
Class 08	273,782	273,695	160,400	15.78%	19,069	0.46%	24.72%	2.74	17.97%	291	182	28,823
Class 09	342,275	342,171	180,001	8.69%	27,342	0.69%	24.17%	2.74	21.90%	649	300	39,427
Class 10	368,050	367,944	198,262	6.69%	31,717	1.05%	23.15%	2.74	25.48%	1,200	482	50,527
Class 11	285,560	285,235	179,945	7.63%	28,509	1.59%	22.28%	2.74	28.54%	1,575	638	51,358
Class 12	233,946	233,794	154,898	8.52%	25,466	2.42%	23.03%	2.74	32.82%	2,078	863	50,842
Class 13	137,671	137,589	108,893	8.47%	15,519	3.99%	23.42%	2.74	35.86%	3,258	1,018	39,051
Class 14	91,440	91,379	80,495	17.62%	22,567	6.31%	22.35%	2.74	35.89%	2,182	1,135	28,887
Class 15	38,397	38,392	33,296	15.09%	5,333	9.95%	22.66%	2.74	40.25%	1,504	751	13,403
Class 16	19,934	19,932	18,365	5.85%	3,730	16.03%	23.71%	2.74	50.93%	948	698	9,354
Class 17	11,337	11,337	10,637	16.48%	1,967	22.12%	22.70%	2.74	55.81%	686	534	5,936
Class 18	6,676	6,676	6,437	9.32%	5,887	31.63%	22.92%	2.74	62.83%	565	467	4,044
Class 19	8,141	8,109	7,188	8.24%	16,605	45.00%	22.20%	2.74	62.13%	505	718	4,466
Class 20	2,082,243	2,081,779	2,073,457	12.61%	161,831	103.72%	46.13%	2.74	-	1,256,047	992,025	-
Total as at 30/06/2018	**4,907,620**	**4,906,126**	**3,543,186**	**7.25%**	**488,909**	**2.36%**	**23.44%**	**2.74**	**-**	**1,271,803**	**999,998**	**363,440**
Total as at 31/12/2017	**7,351,433**	**7,350,201**	**6,085,983**	**6.03%**	**506,731**	**2.48%**	**23.72%**	**1.91**	**-**	**2,937,375**	**2,023,353**	**378,864**

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

Exposures subject to the AIRB approach broken down by geographical location

The Montepaschi Group operates almost exclusively in the domestic market. If the geographical location of the counterparties is considered, 99.9999% of AIRB exposures are towards counterparties resident in Italy.

For the purposes of this disclosure and in accordance with Article 452 of the CRR, the relevant geographical location of credit exposures means exposures in the Member States in which the institution has been authorized and Member States or third countries in which institutions carry out activities through a branch or subsidiary. As far as credit risk is concerned, the Group is currently authorized to use internal estimates of PD, LGD parameters for portfolios of loans to locals Counterparties (Companies and Retail Exposures) of the main Italian subsidiaries of the Group, namely Banca Monte dei Paschi di Siena, MPS Capital Services and MPS Leasing & Factoring. The other foreign subsidiaries (MP Banque and MP Belgio) adopt standard models and their exposures are included among those subject to credit risk – the standard approach. The Group also operates in Member States or third countries via foreign branches, whose operations focus on supporting the expansion of Italian businesses and investments abroad and in the major foreign financial markets. AIRB credit exposures (net of default) held by foreign branches amount to 0.0001% and are entirely towards local counterparties (with headquarters/residence or domicile in Italy). The exposures are towards counterparties that were assigned an internal PD and LGD estimate since they are already counterparties of Italian subsidiaries and are reported under the Parent Company Banca MPS for regulatory purposes Accordingly, the values of the exposure-weighted average PD and LGD by geographical location coincide with those reported in the tables above which show the AIRB exposures of authorized Italian subsidiaries broken down by class of exposure. Reported below are the credit exposures subject to the AIRB approach (net of default) according to the definition of geographical location described above, i.e. by Member State in which the institution has been authorized (Italy) and by Member State or third country in which the institution operates through a branch.

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

		EAD	Incidence	Weighted Average PD	Weighted Average LGD	RWA	EL	AL
Exposures to or secured by corporates	Italy	24,735,458	100.00%	2.71%	37.73%	18,166,454	221,125	334,379
	Other EU Countries	56	0.00%	0.46%	48.06%	32	-	-
	Other not EU Countries	-	-	-	-	-	-	-
	Total as at 30/06/2018	**24,735,514**	**100.00%**	**2.71%**	**37.73%**	**18,166,486**	**221,125**	**334,379**
	Total as at 31/12/2017	**22,722,407**	**100.00%**	**2.68%**	**37.19%**	**16,900,223**	**204,665**	**236,116**

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

		EAD	Incidence	Weighted Average PD	Weighted Average LGD	RWA	EL	AL
Retail exposures	Italy	39,115,129	100.00%	1.76%	19.66%	8,344,445	167,995	307,348
	Other EU Countries	-	0.00%	6.31%	10.29%	-	-	-
	Other not EU Countries	-	0.00%	0.69%	29.03%	3	-	-
	Total as at 30/06/2018	**39,115,129**	**100.00%**	**1.76%**	**19.66%**	**8,344,449**	**167,995**	**307,348**
	Totale as at 31/12/2017	**39,071,712**	**100.00%**	**1.86%**	**19.78%**	**8,570,427**	**179,733**	**188,031**

5.5 Credit Risk: use of risk mitigation techniques

Compensation Policies

With reference to the retail and corporate loan portfolio, the Montepaschi Group does not apply any netting processes to the credit risk exposures with on- or off-balance sheet items with opposite sign. The Montepaschi Group adopts policies reducing counterparty risk with institutional counterparties, by entering into netting agreements according to the international ISDA and ISMA standards and related collateral agreements in relation to derivatives.

Management of collateral

The Montepaschi Group has fulfilled the obligations set out by EU Regulations (CRR 575/2013) for the purpose of recognition of risk mitigation effects produced by any existing collaterals securing the loan.

Quantitative information

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

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

Regulatory Portfolio (Standard Approach)	jun-18 Financial Collaterals	jun-18 Guarantees and Credit Derivatives	jun-18 Other Guarantees	dec-17 Financial Collaterals	dec-17 Guarantees and Credit Derivatives	dec-17 Other Guarantees
Exposures to central governments and central banks	-	17	-	-	17	-
Exposures to regional governments and local authorities	-	-	-	-	-	-
Exposures to public sector entities	14,945	23,800	-	14,967	23,800	-
Exposures to Multi-lateral development banks	-	-	-	-	-	-
Exposures to International Organisations	-	-	-	-	-	-
Exposures to Supervised institutions	22,774,949	-	-	20,501,481	-	-
Exposures to Corporates	912,920	224,310	-	829,738	215,117	-
Retail Exposures	22,664	66,329	-	14,762	58,421	-
Exposures secured by mortgages on immovable property	889	17,020	-	658	16,885	-
Exposures in Default	8,400	4,209	-	7,274	11,832	-
Exposures associated with high-risk	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Exposures to UCITs	2,991	-	-	2,991	-	-
Equity Exposures	-	-	-	-	-	-
Other Exposures	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	-	-	-	-	-	-
Standard Approach Total	**23,737,759**	**335,686**	**-**	**21,371,871**	**326,072**	**-**

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

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

Regulatory Portfolio (IRB Approach)	jun-18			dec-17		
	Financial Collaterals	Guarantees and Credit Derivatives	Other Guarantees	Financial Collaterals	Guarantees and Credit Derivatives	Other Guarantees
Exposures to or secured by corporates:	503,626	2,474,566	-	343,350	2,370,401	-
- SMEs	126,674	1,578,076	-	153,973	1,453,126	-
- Other companies	376,953	896,490	-	189,378	917,275	-
- Specialized Lending	-	-	-	-	-	-
Retail exposures:	317,893	1,828,069	-	350,936	1,652,062	-
- secured by real estate: SMEs	3,907	18,715	-	4,540	6,864	-
- secured by real estate: Individuals	3,901	791	-	4,493	864	-
- Qualifying revolving	-	-	-	-	-	-
- Other retail exposures: SMEs	185,674	1,781,141	-	210,680	1,617,992	-
- Other retail exposures: Individuals	124,411	27,422	-	131,223	26,343	-
Securitization positions	-	-	-	-	-	-
IRB Approach Total	**821,519**	**4,302,634**	**-**	**694,287**	**4,022,463**	**-**

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

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

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

		a Exposures unsecured Carrying amount	b Exposures secured Carrying amount	c Exposures secured by collateral	d Exposures secured by financial guarantees	e Exposures secured by credit derivatives
1	**Total loans**					
2	**Total debt securities**					
3	**Total Exposures as at 30/06/2018**	**151,916,340**	**29,197,598**	**24,559,278**	**4,638,320**	
4	*Of which defaulted*	*21,917,470*	*264,243*	*51,074*	*213,169*	
5	**Total as at 31/12/2017**	**163,606,764**	**26,414,424**	**22,066,157**	**4,348,267**	

The following table shows the effect of all CRM techniques applied in accordance with Part Three, Title II, Chapter 4 of the CRR, on standardised approach capital requirements' calculations.

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

	Exposures class	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments and central banks	21,453,134	24,457	22,986,273	32,754	2,382,842	10.35%
2	Regional governments and local authorities	1,642,229	1,013,485	1,664,748	146,749	363,187	20.05%
3	Public sector entities	490,729	361,848	470,347	30,394	436,354	87.14%
4	Multi-lateral development banks	101,656	45,000	101,656	-	-	0.00%
5	International Organisations	-	-	-	-	-	0.00%
6	Supervised institutions	4,596,431	9,705,309	4,669,497	493,079	1,272,220	24.64%
7	Corporates	4,448,815	3,651,600	4,296,616	634,365	4,829,083	97.93%
8	Retail	1,205,733	1,258,182	1,133,599	120,940	872,912	69.58%
9	Secured by mortgages on immovable property	1,568,099	10,974	1,550,189	5,306	600,463	38.60%
10	Exposures in Default	858,053	226,200	846,304	10,558	942,883	110.04%
11	Associated with high-risk	133,497	-	133,497	-	200,245	150.00%
12	Covered bonds	696,059	-	696,059	-	137,829	19.80%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.00%
14	Exposures to UCITs	401,097	163,861	400,145	24,012	424,157	100.00%
15	Equity Exposures	1,545,265	-	1,545,265	-	2,505,518	162.14%
16	Other Exposures	5,353,892	-	5,377,674	3,259	3,689,510	68.57%
17	**Total as at 30/06/2018**	**44,494,690**	**16,460,918**	**45,871,868**	**1,501,415**	**18,657,201**	**39.38%**
18	**Total as at 31/12/2017**	**48,696,977**	**14,057,846**	**49,831,795**	**1,516,791**	**19,614,088**	**38.20%**

6. Counterparty Risk

Quantitative information

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

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

		jun-2018						
		a	b	c	d	e	f	g
		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Market value method	x	2,061,372	2,016,295	x	x	2,439,501	901,025
9	Financial collateral comprehensive method (for SFTs)	x	x	x	x	x	1,824,334	382,772
11	**Total**	**x**	**2,061,372**	**2,016,295**	**x**	**x**	**3,845,107**	**1,428,516**

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

Tab. 6.2.2 - (EU CCR2) - CVA capital charge

		jun-18		dec-17	
		Exposure value	RWAs	Exposure value	RWAs
1	Total portfolios subject to the advanced method	-	-	-	-
2	(i) VaR component (including the 3× multiplier)	x	-	x	-
3	(ii) SVaR component (including the 3× multiplier)	x	-	x	-
4	All portfolios subject to the standardised method	796,241	450,801	672,260	345,620
EU4	Based on the original exposure method	-	-	-	-
5	**Total subject to the CVA capital charge**	**796,241**	**450,801**	**672,260**	**345,620**

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

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

	Exposure classes	Risk weight												Total
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	Others	
1	Central governments or central banks	339	-	-	-	-	-	-	-	-	2,381	-	-	**2,720**
2	Regional government or local authorities	-	-	-	-	13,528	-	-	-	-	-	-	-	**13,528**
3	Public sector entities	-	-	-	-	-	-	-	-	-	6,963	3	-	**6,965**
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	**-**
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	**-**
6	Institutions	-	900,776	657,601	-	869,764	-	834,446	-	-	28,224	-	-	**3,290,811**
7	Corporates	-	1,600	-	-	-	-	-	-	-	228,896	-	-	**230,496**
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-	**-**
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	**-**
10	Other items													
	Exposures in Default	-	-	-	-	-	-	-	-	-	*721*	*122*	-	***843***
	Exposures to UCITs	-	-	-	-	-	-	-	-	-	*2,311*	-	-	***2,311***
11	**Total as at 30/06/2018**	**339**	**902,376**	**657,601**	**-**	**883,292**	**-**	**834,446**	**-**	**-**	**269,495**	**125**	**-**	**3,547,674**
	Total as at 31/12/2017	**566**	**244,256**	**1,067,652**	**-**	**491,094**	**-**	**1,264,197**	**-**	**50**	**294,585**	**246**	**-**	**3,362,646**

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

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

		a	b	c	d	e
		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	4,420,473	-2,625,198	1,795	2,177,107	-
4	**Total**	**4,420,473**	**-2,625,198**	**1,795**	**2,177,107**	**-**

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

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

	jun-2018		dec-2017	
	Collateral used in derivative transactions	Collateral used in SFTs	Collateral used in derivative transactions	Collateral used in SFTs
Standard Approach				
Comprehensive method	1,638,165	17,922,463	1,536,440	18,908,717
Simple method	-	-	-	-
Standard Approach Total	**1,638,165**	**17,922,463**	**1,536,440**	**18,908,717**
IRB Approach				
IRB Approach Total	-	-	-	-
Total	**1,638,165**	**17,922,463**	**1,536,440**	**18,908,717**

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

Tab. 6.2.6 - (EU CCR6) - Credit derivatives exposures

	a	b	c
Notionals	Credit derivative hedge		Other Credit derivatives
	Protection purchases	Protection sales	
Credit default swap	-	-	5,993,082
Total rate of return swap	-	-	
Total as at 30/06/2018	**-**	**-**	**5,993,082**
Fair value			
Positive Fair value	-	-	***22,166***
Negative Fair value	-	-	***46,953***

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

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

		jun-2018	
		a	b
		EAD post CRM	RWAs
1	**Exposures to QCCPs (total)**	x	**44,352**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	1,559,977	44,352
3	(i) OTC derivatives	-	-
4	(ii) Exchange-traded derivatives	-	-
5	(iii) SFTs	301,598	6,032
6	(iv) Netting sets where cross-product netting has been approved	1,258,379	38,320
7	Segregated initial margin	560,784	x
8	Non-segregated initial margin	-	-
9	Prefunded default fund contributions	128,388	3,633
10	Alternative calculation of own funds requirements for exposures	x	
11	**Exposures to non-QCCPs (total)**	x	
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which		
13	(i) OTC derivatives		
14	(ii) Exchange-traded derivatives		
15	(iii) SFTs		
16	(iv) Netting sets where cross-product netting has been approved		
17	Segregated initial margin		x
18	Non-segregated initial margin		
19	Prefunded default fund contributions		
20	Unfunded default fund contributions		

7. Market Risk

Quantitative information

The following table display the components of own funds requirements under the standardised approach for market risk.

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

		jun-18		dec-17	
		a	b	a	b
		RWAs	Capital requirements	RWAs	Capital requirements
	Outright products				
1	Interest rate risk (general and specific)	1,796,346	143,708	1,258,968	100,717
2	Equity risk (general and specific)	421,374	33,710	352,134	28,171
3	Foreign exchange risk	153,816	12,305	201,906	16,152
4	Commodity risk	149,897	11,992	163,740	13,099
	Options				
5	Simplified approach	x	x	-	-
6	Delta-plus method	358,223	28,658	368,660	29,493
7	Scenario approach	x	x	-	-
8	**Securitisation (specific risk)**	**317,881**	**25,431**	**147,228**	**11,778**
9	**Total**	**3,197,537**	**255,803**	**2,492,636**	**199,411**

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, 2 August 2018

Nicola Massimo Clarelli

Financial Reporting Officer

List of Tables

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

CRR Article		*Pillar 3 Report 30/06/2018*
Art. 431 - *Scope of disclosure requirements*	*Par.1; 2 ;3; 4*	**Introduction**
Art. 432 - *Non-material, proprietary or confidential information*		**Introduction**
Art. 433 - *Frequency of disclosure*		**Introduction**
Art. 434 - *Means of disclosure*		**Introduction**
Art. 435 - *Risk management objectives and policies*	*Par.2*	**Introduction**: reference to the link: https://www.gruppomps.it/en/corporate-governance/corporate-governance-report.html
Art. 437 - *Own funds*	*Par.a*	**Chapter 3** - Own funds - Tab. 3.2; Tab. 3.3
	Par. d	**Chapter 3** - Own funds - Tab. 3.1.1/3.1.2/3.1.3/3.1.4
	Par. e/f	**1. Chapter 3** - Own funds
		2. Chapter 3 Reference to the section F of Notes - Financial Statement
Art. 438 - *Capital requirement*	*Par. a*	**Chapter 4** - Capital requirements, liquidity ratios and leverage
	Par. b	**1. Executive Summary**; **2. Chapter 4** - Capital requirements, liquidity ratios and leverage
	Par. c; d	**Chapter 4** - Capital requirements, liquidity ratios and leverage
	Par. e; f	**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4a)
	Slotting criteria	**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4.3)
Art. 439 - *Exposure to counterparty credit risk*	*Par. e; f; g; h; i*	**1. Chapter 6** - Counterparty risk;
Art. 440 - *Capital buffers*	*Par. b*	**1. Executive Summary**; **2. Chapter 4** - Section countercyclical capital buffer (Tab.4.8)
Art. 442 - *Credit risk adjustments*	*Par. e*	**Chapter 5.3** - Credit risk: AIRB approach -Tab. 5.3.1 – IRB Approach: Summary of Exposures, RWAs, expected and actual losses
Art. 444 - *Use of ECAIs*	*Par. e*	**Chapter 5.2** - Credit risk: Standard approach (Tab. 5.2.1; Tab. 5.2.2)
Art. 445 - *Exposure to market risk*		**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4a; Tab. 4.4)
Art. 450 - *Remuneration Policy*		**Introduction:** Introduction -reference to BMPS websitehttps://www.gruppomps.it/en/corporate-governance/remuneration.html
Art. 451 - *Leverage*		**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4.10)
Art. 452 - *Use of the IRB Approach to credit risk*	*Par. a*	**Chapter 5.3** - Credit risk: use of the AIRB approach
	Par. d; e; f;	**Chapter 5.3** - Tab. 5.3.1; from Tab. 5.3.2 to Tab. 5.3.10
	Par. j	**Chapter 5.3** - Section "Exposures subject to the AIRB approach broken down by geographical location" (Tab. 5.3.11 - 5.3.12)
Art. 453 - *Use of credit risk mitigation techniques*		**Chapter 5.5** - Credit risk: use of risk mitigation techniques (Tab. 5.5.1; 5.5.2)

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

Guidelines on disclosure requirements EBA/GL/2016/11		Pillar 3 - 30 June 2018	
OV1	Overview of RWAs	4. Capital requirements, liquidity ratios and leverage	tab.4b
INSI	Non-deducted participations in insurance undertakings	4. Capital requirements, liquidity ratios and leverage	tab.4.7
EU CR1-A	Credit quality of exposures by exposure class and instrument	5.1 Credit Risk: general disclosure	tab 5.1.3
EU CR1-B	Credit quality of exposures by industry or counterparty types	n.d	
EU CR1-C	Credit quality of exposures by geography	n.s	
EU CR1-D	Ageing of past-due exposures	5.1 Credit Risk: general disclosure	tab 5.1.4
EU CR1-E	Non-performing and forborne exposures	5.1 Credit Risk: general disclosure	tab 5.1.5
EU CR2-A	Changes in the stock of general and specific credit risk adjustments	5.1 Credit Risk: general disclosure	tab 5.1.6
EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Changes in gross exposure in the Consolidated Financial Statement (p.79)	
EU CR3	CRM techniques – Overview	5.5 Credit Risk: use of risk mitigation techniques	tab. 5.5.3
EU CR4	Standardised approach – Credit risk exposure and CRM effects	5.5 Credit Risk: use of risk mitigation techniques	tab. 5.5.4
EU CR5	Standardised approach	5.2 Credit Risk: Standard approach	tab 5.2.3
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	5.3 Credit Risk: use of the AIRB approach	tab.5.3.4-tab.5.3.10
EU CR7	IIRB approach – Effect on the RWAs of credit derivatives used as CRM techniques	n.s	
EU CR8	RWA flow statements of credit risk exposures under the IRB approach	4. Capital requirements, liquidity ratios and leverage	tab 4.6
EU CR10	IRB (specialised lending and equities)	5.3 Credit Risk: use of the AIRB approach	tab 5.3.3
EU CCR1	Analysis of CCR exposure by approach	6.1 Counterparty Risk: general disclosure	tab 6.2.1
EU CCR2	CVA capital charge	6.1 Counterparty Risk: general disclosure	tab 6.2.2
EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk	6.1 Counterparty Risk: general disclosure	tab 6.2.3
EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	7. Market Risk	
EU CCR5-A	Impact of netting and collateral held on exposure values	6.1 Counterparty Risk: general disclosure	tab 6.2.4
EU CCR5-B	Composition of collateral for exposures to CCR	6.1 Counterparty Risk: general disclosure	tab 6.2.5
EU CCR6	Credit derivatives exposures	6.1 Counterparty Risk: general disclosure	tab 6.2.6
EU CCR7	RWA flow statements of CCR exposures under the IMM	n.a.	
EU CCR8	Exposures to CCPs	6.1 Counterparty Risk: general disclosure	tab 6.2.7
EU MR1	Market risk under the standardised approach	n.a.	tab. 7
EU MR2-A	Market risk under the IMA	n.a.	
EU MR2-B	RWA flow statements of market risk exposures under the IMA	n.a.	
EU MR3	IMA values for trading portfolios	n.a.	
EU MR4	Comparison of VaR estimates with gains/losses	n.a.	

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

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

Guidelines on disclosure requirements EBA/GL/2018/01		*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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