



**MONTE
DEI PASCHI
DI SIENA**
BANCA DAL 1472

Group Risk Appetite Statement 2020

Risk Identification Process

Direzione Chief Risk Officer

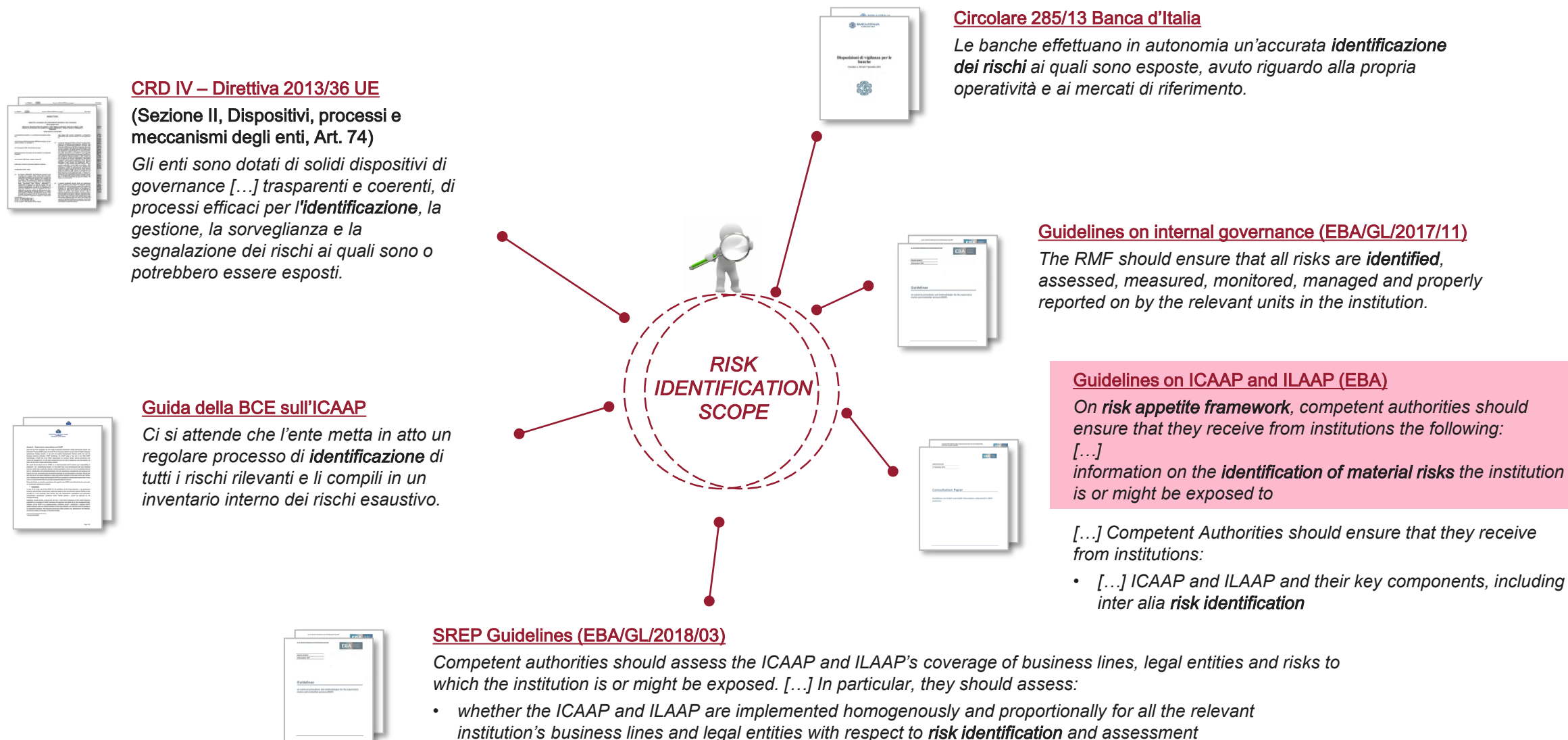
October 2019

Summary

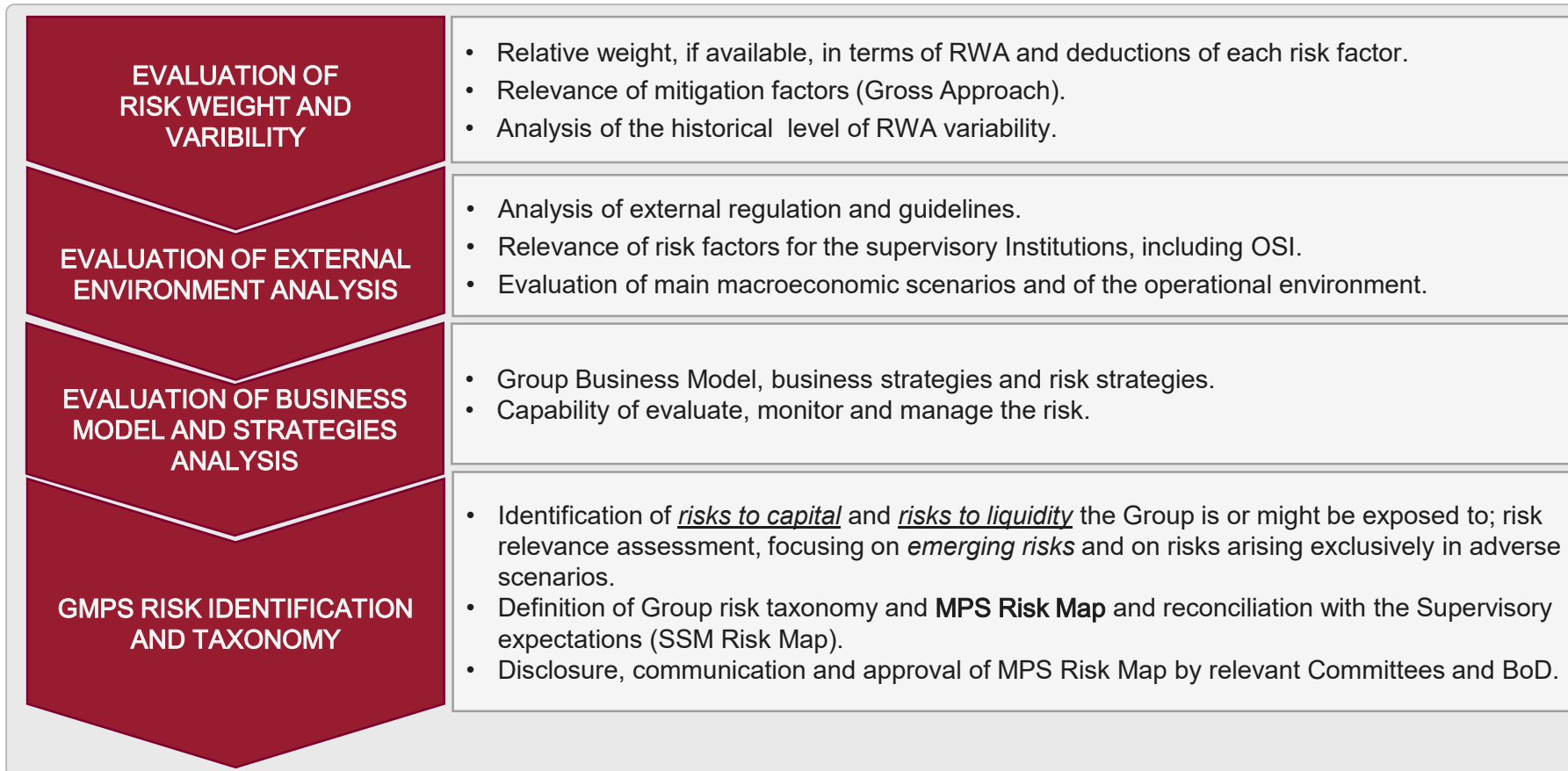
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Introduction – Reference Map



Introduction – Risk Identification Process



MPS RISK MAP

Ex-ante identification of all risks which the Group is or might be exposed to, with the purpose to include all related evaluations within the RAF.



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MPS Group Risk Identification Process – General overview

The Group takes the opportunity to better represent the following topics concerning its risk identification process, also based on feedbacks emerged within recent communications with Supervision Authorities:

- the methodology underlying such process, by focusing on criteria which drive the classification of risks in each category, making the BoD acquainted;
- the implications, in terms of monitoring and controls, of classifying each risk in a certain category.

Accordingly, the following slides reports the main elements of the methodology employed, which, de facto, is quite close to what was already used in practice albeit less formally.

The methodology considers both quantitative elements and scores deriving from qualitative assessments, ending up with a preliminary interim classification of risks, then made definitive by applying an “expert layer”.

Quali-quantitative criteria are going to be synthetically illustrated, highlighting the way through which each criteria influence the preliminary assessment of risks. Most relevant criteria, the rationale of their relevance and final classification are described within the specific assessment of each risk.

In addition, the present document aims also to suggest to BoD a correlation between each category of classification of risks and the treatment in terms of monitoring/controls.

Such approach also strive to respond to ECB Guidelines on ICAAP, whose point n. 63 declares: *“The management body is responsible for deciding which risk types are to be considered material, and which material risks are to be covered by capital. This includes a justification of why a certain risk the institution is exposed to is not considered material”*.



MPS Group Risk Identification Process – Methodological approach

Process and definition of criteria

Similarly to previous years, the risk identification process is based on information such as for

- *risks-to-capital*: RWA weights (meant as percentage of RWA for single risk with respect to the total RWA – Pillar 2 scope), deductions from Own Funds, variability of each risk RWA, supervisory regulations and communications, Group strategies and expected scenarios.
- *risks-to-liquidity*: RSF on total assets (meant as Required Stable Funding for funding risk, denominator of NSFR), variability of indicators of the other liquidity risks (LCR, NSFR, daily potential liquidity, concentration risk indicator), supervisory regulations and communications, Group strategies and expected scenarios.

Within the scope of 2020 Risk Identification, it is proposed to explicit such criteria and their impacts on the classification, by using a score system similar to SREP Decision mechanism, so attaining a first quantitative evaluation, enriched and completed by a final «expert layer» step in order to obtain the final risk classification.

Four relevance levels

The number of relevance classes has been augmented to 4 (with respect to the three used until the last year's risk identification process). It is believed that introducing a fourth level of relevance may be useful to ensure a higher flexibility and diversification capability, for example to distinguish between lowly relevant risks and non-material risks. Moreover, a 4-level classification results to be more consistent with the majority of the other classifications, that are, for example, Internal Validation judgements or SREP Decision mechanism.

Gross approach

Starting from this year a “**gross approach**” view will be introduced, accordingly to ECB Guide on ICAAP (point n. 61), “*The risk identification process is expected to follow a “gross approach”, i.e. without taking into account specific techniques designed to mitigate the underlying risks. The institution is then expected to assess the effectiveness of these mitigating actions*”.

From classification to control

Belonging to a higher relevance class will then mean belonging to a higher level of control/monitoring.



MPS Group Identification Process – Risks-to-Capital – 1/2: Quantitative and qualitative criteria

CRITERIA

RWA weights + Deductions

It is the main criterion which determines the starting point of the process. It considers RWAs and deductions from Own Funds (where applicable, deductions are expressed in terms of RWA by multiplying them for 12,5). Such criterion is mapped along 4 classes (1=High Risk, 4=Non material Risk), according to the cumulated distribution of decreasing weights. Since the core risk (Credit Risk) accounts for more than 45% of measured RWA, following thresholds have been chosen: 75%, 90%, 95%, 99%.

Mitigating actions

If the risk has a material/medium level of mitigation, its relevance, initially determined by the RWAs (+deductions) weight, is augmented by one/half class.

Historical volatility

Historical volatility of RWA over the last two years (monthly values) is mapped along the following four classes: [0%-10%] minimal volatility, [10%-25%] low volatility, [25%-50%] medium volatility, >50% high volatility. Accordingly, relevance level increases or decreases, with following scoring: High volatility=+1, Medium=+0,5, Low=no change, Minimal=-0,5).

External components

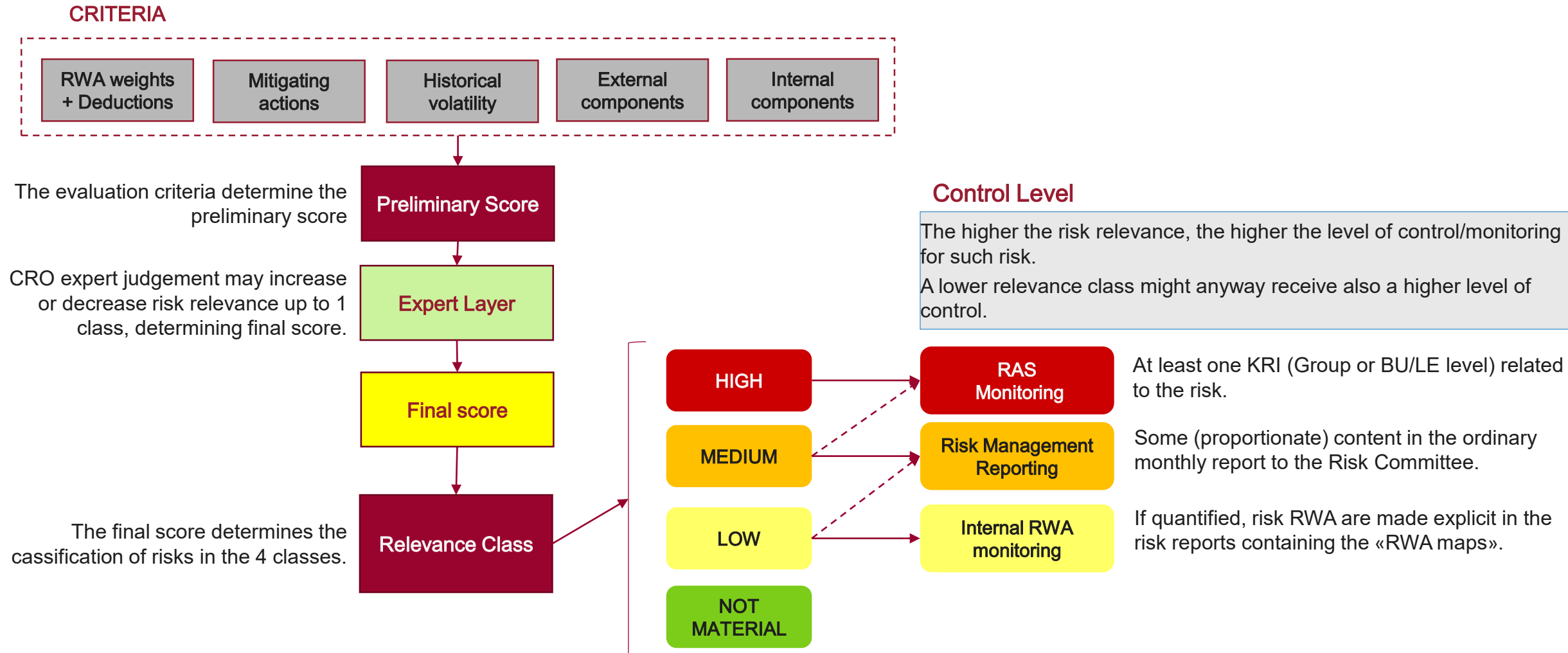
External component criterion is the average score between two elements: the first element is the focus of the regulator on specific risk, the second element is how the scenario impacts on specific risk. Regulatory element evaluation includes existing or envisaged normatives and regulations, the results of the OSI, SREP decision, and all other interactions with regulators. The scenario element evaluates how macroeconomic scenarios, operational environment and idiosyncratic elements impact on specific risk. Relevance of external component could be high, medium, low or minimal.

Internal components

The internal components criterion regards potential impacts and focus on single risk which may arise from risk framework evolutions, procedural modifications and strategic/operational plans. Relevance of internal components could be high, medium, low or minimal.



MPS Group Risk Identification Process – Risks-to-Capital – 2/2: Assessment



MPS Group Identification Process – Risks-to-Liquidity – 1/2: Quantitative and qualitative criteria

CRITERIA

RSF on total assets

It is the main criterion which determines the starting point of the process. It considers *RSF (Required Stable Funding) on total asset* as an central key metric to evaluate current and forward-looking liquidity position. Such criterion is mapped along 3 classes (1=High Risk, 3=Low Risk) excluding the forth class because liquidity risk can not be considered as non-material risk, according to following thresholds: 40%, 50%, 60%. In other words, if RSF on total assets was steadily below 40% all liquidity risks are considered Low Risk while if RSF on total assets has been stably over 60% then all liquidity risks are evaluated as High Risk.

Mitigating actions

If the risk assessed has a material/medium level of mitigation, its relevance, initially determined by the RSF, is augmented by one/half class.

Historical volatility

For each liquidity risks, historical volatility of Key Risk Metrics (NSFR, LCR, daily potential liquidity and concentration risk indicators) over the last two years (monthly values) is mapped along the 4 classes, and, accordingly, the level of relevance is incremented/decremented (High volatility=+1 class, Medium=+0,5, Low=no change, Very Low=-0,5)

External components

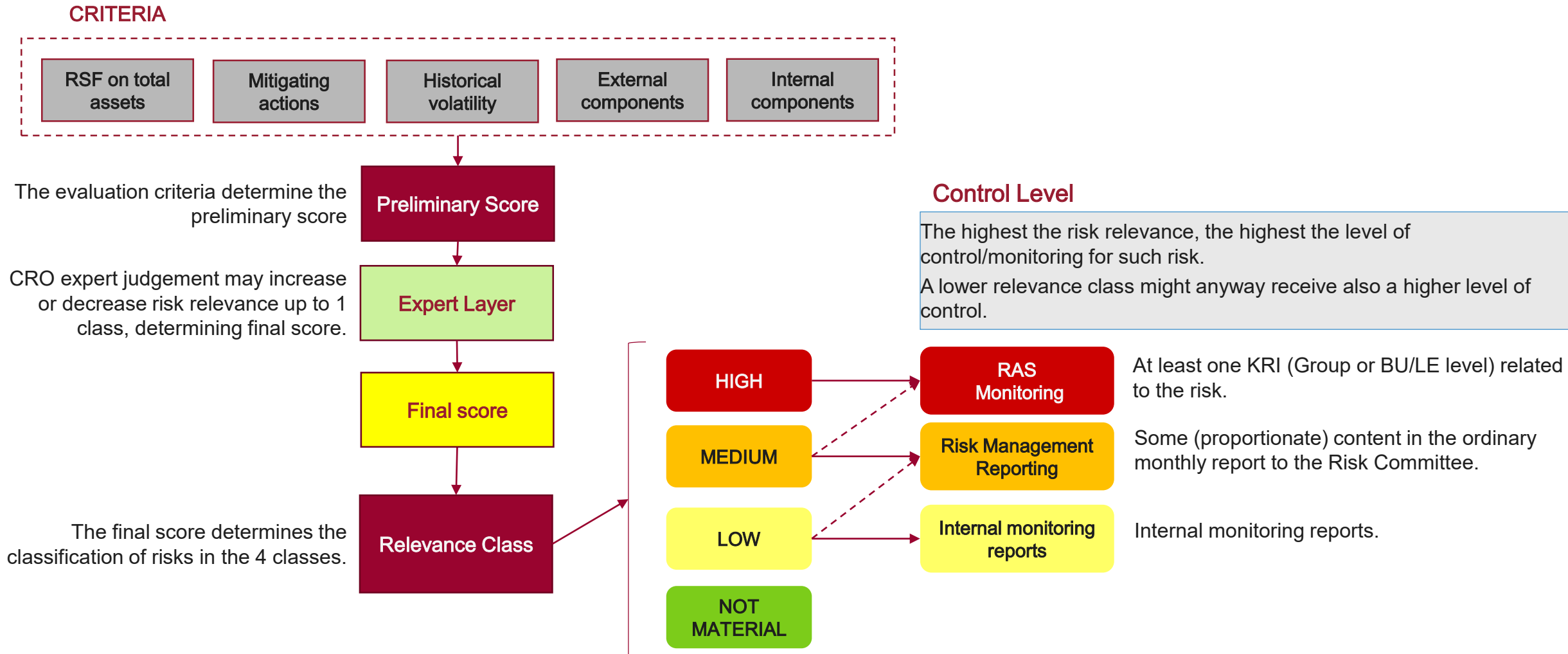
External component criterion is composed by two elements: the first element is the focus of the regulator on specific risk, the second element is how the scenario impacts on specific risk. Regulatory element evaluation includes existing or envisaged normatives and regulations, the results of the OSI, SREP decision, and all other interactions. The scenario element evaluates how macroeconomic scenarios, operational environment and idiosyncratic elements impact on specific risk. Relevance of external components could be high, medium, low or not existent.

Internal components

The internal components criterion regards potential impacts and focus on single risk which may arise from risk framework evolutions, procedural modifications and strategic/operational plans.



MPS Group Risk Identification Process – Risks-to-Liquidity – 2/2: Assessment



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MPS Group Risk Map – Single criterion evaluation – Risks-to-Capital Dashboard

The table below shows the scoring and classifying results. The main underlying rationales are explained in the assessments below.

RISKS-TO-CAPITAL	Percentage of RWA + Deductions Dec-19	Gross Approach Mitigation Relevance	Relevance based on gross RWA	RWA Variability Component	Internal Component	External Component°	Preliminary Score	Expert Layer & Final Score	Equivalent Relevance Class
Business & Strategic Risk	4,0%	MINIMAL	2	MINIMAL	HIGH	HIGH	1	1	HIGH
Credit Risk (Lending)	45,5%	MEDIUM	1	MINIMAL	HIGH	HIGH	1	1	HIGH
Market Risk	15,3%	MINIMAL	1	MEDIUM	LOW	MEDIUM	1	1	HIGH
Operational Risk	13,2%	MINIMAL	1	MINIMAL	HIGH	HIGH	1	1	HIGH
Counterparty Risk	2,0%	HIGH	2	LOW	LOW	LOW	2	2	MEDIUM
Interest Rate Risk on Banking Book	2,5%	LOW	3	HIGH	LOW	MEDIUM	1,5	2	MEDIUM
Participation Risk	5,0%	MINIMAL	2	MEDIUM	MINIMAL	LOW	2	2	MEDIUM
Reputational Risk		MINIMAL	4		MEDIUM	MEDIUM	3	2	MEDIUM
Compliance Risk		MINIMAL	4		MEDIUM	LOW	3,5	3	LOW
Concentration Risk	1,8%	MINIMAL	3	LOW	MEDIUM	LOW	2,75	3	LOW
CVA Risk	0,7%	HIGH	3	MEDIUM	LOW	LOW	2,5	3	LOW
DTA Risk	3,1%	MINIMAL	2	MEDIUM	MINIMAL	LOW	2,25	3	LOW
Excessive Leverage Risk		MINIMAL	4		MEDIUM	MEDIUM	3,25	3	LOW
Issuer Risk	2,6%	MINIMAL	3	MEDIUM	MINIMAL	LOW	3	3	LOW
Lapse Risk	0,1%	MINIMAL	4		MEDIUM	LOW	3,5	3	LOW
Model Risk	1,3%	MINIMAL	4		HIGH	LOW	3	3	LOW
Real Estate Risk	2,8%	MINIMAL	2	MINIMAL	MINIMAL	MINIMAL	3,25	3	LOW
Residual Risk		MINIMAL	4		MEDIUM	MEDIUM	3,25	3	LOW
Country Risk		MINIMAL	4		MINIMAL	MINIMAL	4	4	NOT MATERIAL
Pension Risk		MINIMAL	4		MINIMAL	MINIMAL	4	4	NOT MATERIAL
Settlement & Delivery Risk		MINIMAL	4		MINIMAL	MINIMAL	4	4	NOT MATERIAL
Transfer Risk		MINIMAL	4		MINIMAL	MINIMAL	4	4	NOT MATERIAL

100,0%

° Average between institutional and scenario components. In case of rounding, institutional component prevails.

Operational Risk Components									
Legal Risk*	7,8%	MINIMAL	2		HIGH	HIGH	1	1	HIGH
Cyber Security Risk		MINIMAL	4		HIGH	HIGH	2,25	2	MEDIUM
IT Risk		MINIMAL	4		HIGH	MEDIUM	2,75	2	MEDIUM

*Legal risk RWA (estimated una-tantum for OSI purposes) are included in operational risk RWA



MPS Group Risk Map – Risk Relevance Assessment

MEASURED	RISKS-TO-CAPITAL	RELEVANCE CLASSES	RISKS-TO-LIQUIDITY	MEASURED
YES	Business & Strategic Risk Credit Risk (Lending) <i>Legal Risk*</i> Market Risk Operational Risk	HIGH	Funding Risk Short Term Liquidity Risk	YES
YES	Counterparty Risk <i>Cyber Security Risk*</i> Interest Rate Risk in BB <i>IT Risk*</i> Participation Risk Reputational Risk	MEDIUM	Funding Concentration Risk Asset Concentration Risk Intraday Liquidity Risk	YES
NO	Compliance Risk Concentration Risk CVA Risk DTA Risk Excessive Leverage Risk Issuer Risk Lapse Risk Model Risk Real Estate Risk Residual Risk	LOW		
YES	Country Risk Pension Risk Settlement & Delivery Risk Transfer Risk	NOT MATERIAL		

* Legal Risk, IT Risk and Cyber Security Risk are included in Operational Risk.



MPS Group Risk Map – Risk Identification & Assessment (RISKS-TO-CAPITAL)

<u>RISK TYPE</u>	<u>ASSESSMENT</u>	<u>RELEVANCE LEVEL</u> (H,M,L,N)
Business & Strategic Risk	<p>The level of expected results of Restructuring Plan 2018-2021, in terms of economics evolution (NII & Commission growth and sensible reduction of administrative costs), imply a high execution risk – current and perspective - for the Group. As a matter of fact, business results represent a central point of attention by supervision authorities, at the systemic level and specifically for MPS (as, for example, manifested in the last SREP draft decision).</p> <p>Therefore, overall business & strategic risk relevance is assessed as “high”.</p>	HIGH
Credit Risk	<p>Credit activity represents the core business of the Group, and it is the biggest source of risk. Credit risk RWA represents almost 50% of Group’s total RWA.</p> <p>In risk identification process, the Group follows the “gross approach”, which means risk relevance is evaluated taking into account risk mitigation techniques also.</p> <p>Credit quality improvement activities continued and will continue to be addressed (i.e. bad loans disposal programme as contained into MPS Restructuring Plan 2018-2021). Credit risk relevance remains unchanged (high), also in light of envisaged regulatory normative such as the new definition of default and the addendum on non-performing loans provisioning.</p>	HIGH
Legal Risk	<p>Since legal risk is a very relevant component of operational risk, the Group decided to assess it separately.</p> <p>The exposure of MPS to legal risk has grown in recent years, mainly due to extraordinary events connected to the legal proceedings concerning the capital increases that took place from 2008 to 2015. In addition the precautionary recapitalisation carried out with State support in the 2017 is likely to result in more litigations know as “Burden Sharing” event.</p> <p>Legal risk is subjected to particular attention by regulators and it was recently under supervisory review.</p>	HIGH



MPS Group Risk Map – Risk Identification & Assessment (RISKS-TO-CAPITAL)

<u>RISK TYPE</u>	<u>ASSESSMENT</u>	<u>RELEVANCE LEVEL</u> (H,M,L,N)
Market Risk	<p>Notwithstanding the reduction of sovereign exposures, market risk remains one of the main risks which the Group is exposed to, mainly due to external elements (the potential volatility of relevant underlying market variables) and internal elements (the unexpected losses estimation of «Amortised Cost» portfolio, introduced within the 2019 ICAAP scope).</p> <p>In addition, expectation for the envisaged regulatory innovation on capital requirements calculation concerning Trading portfolio (<i>Fundamental Review of the Trading Book</i>) are to be considered.</p>	HIGH
Operational Risk	<p>The keys element of the ongoing Restructuring Plan are costs reduction, which will be mainly achieved by laying off 5.500 employees, who will join the <i>Fondo di Solidarietà</i>. This operation is also likely to result in more litigations.</p> <p>Another key pillar of the Restructuring Plan is a renewed operating model, aimed at improving efficiency, including an extensive automation/digitalisation of business processes which will involve the whole Group.</p> <p>The plan will also require a complete re-design of the bank's network by reducing the number of coordination centres and branches. This restructuring process exposes the Group to potential operational risks.</p> <p>The Operational Risk includes the Legal Risk, IT Risk and Cybersecurity Risk. Therefore, it reflects the assessment of those components.</p> <p>In the end, the high relevance remains unchanged with respect to previous year.</p>	HIGH



MPS Group Risk Map – Risk Identification & Assessment (RISKS-TO-CAPITAL)

<u>RISK TYPE</u>	<u>ASSESSMENT</u>	<u>RELEVANCE LEVEL (H,M,L,N)</u>
Counterparty Risk	<p>At the date of 30/06/2019, the Group holds around 29,6 €/bn of <i>ante-CRM</i> exposure-at-default and 4,5 €/bn of <i>post-CRM</i> regulatory EAD. MPS Group assesses counterparty risk relevance as “medium”, considering:</p> <ul style="list-style-type: none"> • the high impact of risk mitigation techniques, such as ISDA and CSA, impacting regulatory EAD; • the significant historical volatility of RWAs; • the future introduction of new standardised model to estimate unexpected losses (i.e. SA-CCR). 	MEDIUM
Cyber Security Risk	<p>Cyber security risk is an important component of operational risk, so it is assessed separately. Cyber security risk is introduced starting from 2020 risk identification process.</p> <p>Whilst no RWA estimation is provided, the Group deems cyber security risk as material, with a «medium» relevance, due to the attention given both by supervision authorities and by Group’s business and control functions.</p>	MEDIUM
Interest Rate Risk in Banking Book	<p>As for the last year, Group interest rate structure remains “asset sensitive”. In particular, in case of +/- 100 bps in interest rates level, at date of 30 June 2019, the Group would face economic value variations in a range of [+219;-121] €/mln.</p> <p>Besides such sensitivity structure, risk relevance is assessed as “medium” because of the following further considerations:</p> <ul style="list-style-type: none"> • historically, IRRBB RWAs show a high level of volatility; • IRRBB was recently under Supervisory review; furthermore, the internal framework is currently under review and material changes may arise. 	MEDIUM



MPS Group Risk Map – Risk Identification & Assessment (RISKS-TO-CAPITAL)

<u>RISK TYPE</u>	<u>ASSESSMENT</u>	<u>RELEVANCE LEVEL</u> (H,M,L,N)
IT Risk	<p>IT risk is an important component of operational risk, therefore it is assessed individually. Such risk category is introduced starting from 2020 risk identification process.</p> <p>Although the Group does not provide an estimation of unexpected losses in terms of RWA, the relevance of IT risk is perceived as “medium” in light of:</p> <ul style="list-style-type: none">• the possibility of COG disposal, for which the strategy has not been defined yet;• the focus on such risk treatment by both supervision authorities and the Group internal functions.	MEDIUM
Participation Risk	<p>Participation risk mainly stems from the relevant partnership with AXA Group.</p> <p>Despite a low level of unexpected losses in terms of RWA, participation risk relevance is assessed as “medium” in light of the following items:</p> <ul style="list-style-type: none">• deductions from own funds have been taken into account;• a significant historical volatility of RWA.	MEDIUM
Reputational Risk	<p>During the last years, the Group has been affected by credibility issues, that has affected its capital and liquidity positions. In order to relaunch its business, MPS is striving to attract new clients and to optimise the relationship with existing customers. Rebuilding a strong reputation represents a key element of this plan.</p> <p>According to that, the Group has recently launched its Reputational Risk Framework as a tool to improve monitoring and managing Reputational Risk.</p> <p>Considering the improved framework and the fact that MPS’s reputation improved during 2018 (as shown by surveys on external and internal sentiment on Group’s reputation), then risk relevance is assessed as “medium”, decreasing compared to the last year.</p>	MEDIUM



MPS Group Risk Map – Risk Identification & Assessment (RISKS-TO-CAPITAL)

<u>RISK TYPE</u>	<u>ASSESSMENT</u>	<u>RELEVANCE LEVEL (H,M,L,N)</u>
Compliance Risk	Taking into account both regulatory focus and internal procedures aiming to mitigate compliance risk, the Group assesses the relevance of such risk as «low».	LOW
Concentration Risk	Similarly to previous year assessment, the Group evaluates this risk relevance as «low» because of the moderate level of estimated RWA. Anyway, the Group is aware of its conspicuous concentration of business toward credit activities.	LOW
CVA Risk	CVA risk is represented separately from counterparty risk, starting from 2020 risk identification process. Although the presence of significant level of historical volatility, the forthcoming regulatory model changes and the high impact that risk mitigation techniques have on regulatory EAD, the Group assesses the risk relevance as «low» given a substantially meagre amount of estimated RWA.	LOW
DTA Risk	Such risk category is introduced starting from 2020 risk identification process. Risk assessment takes into account both RWA and deductions from own funds deriving from DTA. In assessing the final DTA Risk relevance as «low», it is considered that the deferred taxes is expected not to change significantly, and the variability of RWA also depends on the dynamics of the CET1 Capital.	LOW
Excessive Leverage Risk	Since Group's leverage ratio is well below regulatory minimum, and it is nevertheless under constant monitor via KRI, the relevance of the risk is assessed as «low».	LOW



MPS Group Risk Map – Risk Identification & Assessment (RISKS-TO-CAPITAL)

<u>RISK TYPE</u>	<u>ASSESSMENT</u>	<u>RELEVANCE LEVEL (H,M,L,N)</u>
Issuer Risk	Given the on-going Group strategy of partial disposal of Corporate & Financial bonds portfolio, both exposure and unexpected losses estimation shows a steady decreasing trend. According to that, the Group downgrades the risk relevance to «low» level.	LOW
Lapse Risk	Lapse risk is a new risk for MPS Group, stemming from new commercial agreement with AXA. Notwithstanding a very low level of capital absorption which would imply a non-materiality of this risk, the Group assesses its relevance as “low” in light of future possible expansion of the underlying business.	LOW
Model Risk	The Group has devoted significant attention to this risk. In fact, starting from this year, the new framework adopted by the Group provides a RWA estimation for model risk, based on Internal Validation findings. As a result of the assessment, risk relevance is considered «low», in decrease with respect to previous risk identification, in light of improved risk monitoring procedures.	LOW
Real Estate Risk	Although RWA for real estate risk are relevant, the Group assesses the risk relevance as «low» given: <ul style="list-style-type: none"> • planned disposal programme of Group’s real estate assets; • a very modest level of historical volatility. 	LOW
Residual Risk	The risk relevance is assessed as «low», because the credit risk mitigation techniques are considered effective.	LOW



MPS Group Risk Map – Risk Identification & Assessment (RISKS-TO-CAPITAL)

<u>RISK TYPE</u>	<u>ASSESSMENT</u>	<u>RELEVANCE LEVEL (H,M,L,N)</u>
Country Risk	The Group does not have relevant business activities in foreign countries.	NOT MATERIAL
Pension Risk	The pension systems managed by MPS Group are monitored and in financial balance, and concern a limited number of individuals.	NOT MATERIAL
Settlement & Delivery Risk	The Group is not exposed to such risk.	NOT MATERIAL
Transfer Risk	The foreign currency lending exposure represents the 4.16% of the total lending exposure, hence the not materiality of the risk.	NOT MATERIAL



MPS Group Risk Map – Risk Identification & Assessment (RISKS-TO-LIQUIDITY)

<u>RISK TYPE</u>	<u>ASSESSMENT</u>	<u>RELEVANCE LEVEL (H,M,L)</u>
Short term Liquidity Risk	The Group suffered phases of severe liquidity stress with events close to real bank runs that have been addressed by developing a specific business plan to limit the loss of stable funding. Although past weaknesses have been partially addressed during last years, risk relevance is still assessed as “high” due to a deep regulatory focus on internal models used to determine cash outflows (LiST 2019).	HIGH
Funding Risk	Sustainability of the funding profile, meaning the ability to fund banking activities with stable sources of funding, has been strongly under pressure subsequently to the liquidity crisis of the last years. Restructuring Plan 2017-2021 aims to restore a balanced structure of the medium/long term liquidity profile, including the substitution of GGB and secured funding by T-LTRO II, and the decrease of the high level of asset encumbered. Despite the access to the senior and subordinated bond market during 2019, market conditions could make difficult for the Bank to execute the current planned Funding Strategy, therefore risk relevance is assessed as “high”.	HIGH
Funding Concentration Risk	Risk relevance is assessed as “medium”, mainly due to the relevant share of funding raised with CSEA (<i>Cassa per i Servizi Energetici Ambientali</i>), which shows high seasonality and has a relevant impact on both liquidity and funding risk.	MEDIUM
Asset Concentration Risk	Risk relevance is assessed as “medium”, mainly due to the relevant share of Italian Government Bonds owned by the Group. Such issue is going to be addressed within Restructuring Plan 2017-2021 through a progressive diversification of Government Bond issuers countries.	MEDIUM
Intraday Liquidity Risk	Intraday Liquidity Risk is strongly linked to Short Term Liquidity Risk, but with a lesser impact on the Bank from a viability point of view; risk relevance is assessed as “medium”.	MEDIUM



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SSM Risk Map – Taxonomy and MPS evaluation

#	Risk Category	Definition	Source	MPS Evaluation
1	CREDIT RISK	The current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed.	CEBS 01/2006 - Guidelines on the Application of the Supervisory Review Process under Pillar 2	<i>Assessed, Measured, Monitored</i>
1.1	Default Risk	The current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed.	CEBS 01/2006 - Guidelines on the Application of the Supervisory Review Process under Pillar 2	<i>Assessed, Measured, Monitored</i>
1.2	Credit Concentration Risk	The risk that the institution will incur significant credit losses stemming from a concentration of exposures to a small group of borrowers, to a set of borrowers with similar default behavior or to highly correlated financial assets.	EBA/GL/2014/13 – SREP Guidelines	<i>Assessed, Measured, Monitored</i>
1.3	FX Lending Risk	The current or prospective risk to the institution's earnings and own funds arising from FX lending to unhedged borrowers.	EBA/GL/2014/13 - SREP Guidelines	<i>Assessed (not material)</i>
1.4	Securitisation Risk	Risk arising from securitisation transactions in relation to which the credit institutions are investor, originator or sponsor, including reputational risks, such as arise in relation to complex structures or products.	DIRECTIVE 2013/36/EU - Article 82 (CRD IV)	<i>Assessed, Measured, Monitored</i>
1.5	Country Risk (includes other Risks)	The risk for an institution to incur losses due to events manifested in foreign countries. It refers to exposures towards all types of counterparty (individuals, corporations, banks and public administrations).	BANCA D'ITALIA - Circolare 285/13 - Parte Prima, Titolo III, Cap. 1, Allegato A	<i>Assessed, Measured, Monitored</i>
1.6	Transfer Risk	The risk for an institution to face losses due to foreign currency exchange difficulties, arising in case the institution lends to a borrower whose income sources are denominated in a foreign currency.	BANCA D'ITALIA - Circolare 285/13 - Parte Prima, Titolo III, Cap. 1, Allegato A	<i>Assessed (not material)</i>

ASSESSMENT = A risk is identified and evaluated (as material or not material). If material, it can be managed by including risk factors into measurement model (in order to provide a quantification in terms of expected and/or unexpected losses) or solely defining operational limits in order to control such risk.

MEASUREMENT = Providing a quantification in terms of expected and/or unexpected losses (RWA) for a material risk.

MONITORING = Process put in place in order to periodically control the manifestation of a risk through pre-defined metrics (a risk can be monitored and not necessarily measured).



SSM Risk Map – Taxonomy and MPS evaluation

#	Risk Category	Definition	Source	MPS Evaluation
1.7	Settlement and Delivery Risk	The risk arising in the case of transactions in which debt instruments, equities, foreign currencies and commodities (excluding repurchase transactions and securities or commodities lending and securities or commodities borrowing) are unsettled after their due delivery dates. Therefore, it represents the risk for the institution to incur losses due to price differences between the agreed settlement price and its current market value.	REGULATION 575/2013/EU - Article 378 (CRR)	<i>Not existing</i>
1.8	Residual Risk	The risk arising in case recognised credit risk mitigation techniques used by institutions prove less effective than expected.	DIRECTIVE 2013/36/EU - Article 80 (CRD IV)	<i>Assessed, partially Measured(*), not Monitored</i>
1.9	Migration Risk	The risk for an institution to face losses due to the worsening of a counterparty's creditworthiness.	Internal definition	<i>Assessed, Measured (in scenario analysis), Monitored</i>
1.10	Counterparty Risk	The risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows; it refers to exposure value of derivative instruments, repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions.	REGULATION 575/2013/EU – Articles 271-272 (CRR)	<i>Assessed, Measured, Monitored</i>



SSM Risk Map – Taxonomy and MPS evaluation

#	Risk Category	Definition	Source	MPS Evaluation
2	MARKET RISK	The current or prospective risk to earnings and capital arising from adverse movements in bond prices, security or commodity prices or foreign exchange rates in the trading book. This risk can arise from market making, dealing, and position taking in bonds, securities, currencies, commodities, or derivatives (on bonds, securities, currencies, or commodities).	CEBS 01/2006 - Guidelines on the Application of the Supervisory Review Process under Pillar 2	<i>Assessed, Measured, Monitored</i>
2.1	Position Risk in the Trading Book	Position risk on a traded debt instrument or equity instrument or derivative may be divided into two components: the first shall be its specific risk component and shall encompass the risk of a price change in the instrument concerned due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying instrument. The general risk component shall encompass the risk of a price change in the instrument due in the case of a traded debt instrument or debt derivative to a change in the level of interest rates or in the case of an equity or equity derivative to a broad equity-market movement unrelated to any specific attributes of individual securities.	REGULATION 575/2013/EU - Article 362 (CRR)	<i>Assessed, Measured, Monitored</i>
2.2	FX Risk	The current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates.	CEBS 01/2006 - Guidelines on the Application of the Supervisory Review Process under Pillar 2	<i>Assessed, Measured, Monitored</i>
2.3	Commodity Risk	The current or prospective risk to earnings and capital arising from adverse movements in [...] commodity prices [...].	CEBS 01/2006 - Guidelines on the Application of the Supervisory Review Process under Pillar 2	<i>Assessed, Measured, Monitored</i>



SSM Risk Map – Taxonomy and MPS evaluation

#	Risk Category	Definition	Source	MPS Evaluation
2.4	Structural FX Risk	The risk arising from equity held that has been deployed in offshore branches and subsidiaries in a currency other than the parent undertaking's reporting currency.	EBA/GL/2014/13 - SREP Guidelines	<i>Not existing</i>
2.5	Market Concentration Risk	The risk to which the institution is exposed, due either to exposures to a single risk factor or to exposures to multiple risk factors that are correlated. It should be also considered concentration in complex products (e.g. structured products), illiquid products (e.g. collateralised debt obligations (CDOs)) or products valued using mark-to-model techniques.	EBA/GL/2014/13 - SREP Guidelines	<i>Assessed, Measured, Monitored</i>
2.6	Credit Spread Risk	The risk arising from changes in the market value of debt financial instruments due to fluctuations in their credit spread.	EBA/GL/2014/13 - SREP Guidelines	<i>Assessed, Measured, Monitored</i>
2.7	Credit Valuation Adjustment Risk	The risk for the institution to incur losses due to adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the institution, but does not reflect the current market value of the credit risk of the institution to the counterparty.	REGULATION 575/2013/EU - Article 381 (CRR)	<i>Assessed, Measured, Monitored</i>



SSM Risk Map – Taxonomy and MPS evaluation

#	Risk Category	Definition	Source	MPS Evaluation
3	OPERATIONAL RISK	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.	REGULATION 575/2013/EU - Article 4 (CRR)	<i>Assessed, Measured, Monitored</i>
3.1	Operational Risk (CRR definition)	See no 3. Operational Risk	REGULATION 575/2013/EU - Article 4 (CRR)	<i>Assessed, Measured, Monitored</i>
3.2	Reputational Risk	The current or prospective risk to the institution's earnings, own funds or liquidity arising from damage to the institution's reputation.	EBA/GL/2014/13 - SREP Guidelines	<i>Assessed, Monitored</i>
3.3	Model Risk	It includes two distinct forms of risk: i. risk relating to the underestimation of own funds requirements by regulatory approved models (e.g. internal ratings-based (IRB) models for credit risk); and ii. risk of losses relating to the development, implementation or improper use of any other models by the institution for decision-making (e.g. product pricing, evaluation of financial instruments, monitoring of risk limits, etc.).	EBA/GL/2014/13 - SREP Guidelines	<i>i) Assessed, Measured, Monitored ii): Assessed, partially Measured in Valuation Adjustments, losses included in Operational Risk Requirement, Monitored</i>
3.4	Conduct Risk	The current or prospective risk of losses to an institution arising from inappropriate supply of financial services including cases of willful or negligent misconduct. It is meant as part of legal risk [...], and in particular to: a) mis-selling of products, in both retail and wholesale markets, b) pushed cross-selling of products to retail customers, [...] c) conflicts of interest in conducting business, d) manipulation of benchmark interest rates, foreign exchange rates or any other financial instruments or indices to enhance the institution's profits, e) barriers to switching financial products during their lifetime and/or to switching financial service providers, f) poorly designed distribution channels that may enable conflicts of interest with false incentives, g) automatic renewals of products or exit penalties, h) unfair processing of customer complaints.	EBA/GL/2014/13 - SREP Guidelines	<i>Assessed, Measured (losses included in Operational Risk Requirement), Monitored</i>



SSM Risk Map – Taxonomy and MPS evaluation

#	Risk Category	Definition	Source	MPS Evaluation
3.5	Information and Communication Technology (ICT) Risk	The current or prospective risk of losses due to the inappropriateness or failure of the hardware and software of technical infrastructures, which can compromise the availability, integrity, accessibility and security of such infrastructures and of data.	EBA/GL/2014/13 - SREP Guidelines	<i>Assessed, Measured (losses included in Operational Risk Requirement), Monitored</i>
3.6	Legal Risk	Losses or other expenses that are triggered by the breach of rules resulting in legal proceedings or in other voluntary actions with the view to avoiding upcoming legal risks.	EBA/RTS/2015/02 - Final Draft Regulatory Technical Standards on the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches (AMA) for operational risk ...	<i>Assessed, Measured (losses included in Operational Risk Requirement), Monitored</i>
3.7	Compliance Risk	The current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards.	EBA/GL/2011/44 Guidelines on Internal Governance	<i>Assessed, Measured (losses included in Operational Risk Requirement), Monitored</i>
4	IRRBB	The risk arising from potential changes in interest rates that affect an institution's non-trading activities.	DIRECTIVE 2013/36/EU - Article 84 (CRD IV)	<i>Assessed, Measured, Monitored</i>
4.1	Repricing Risk	The risks related to the timing mismatch in the maturity and re-pricing of assets, liabilities and off-balance sheet short- and long-term positions.	EBA/GL/2018/02 – Revised SREP Guidelines	<i>Assessed, Measured, Monitored</i>
4.2	Yield Curve Risk	The risk arising from changes in the slope and shape of the yield curve.	EBA/GL/2018/02 – Revised SREP Guidelines	<i>Assessed, Measured, Monitored</i>
4.3	Basis Risk	The risks arising from hedging exposure to one interest rate with exposure to a rate that re-prices under slightly different conditions.	EBA/GL/2018/02 – Revised SREP Guidelines	<i>Assessed, Measured, Monitored</i>
4.4	Option Risk	The risks arising from options, including embedded options, e.g. consumers redeeming fixed-rate products when market rates change.	EBA/GL/2018/02 – Revised SREP Guidelines	<i>Assessed, Measured, Monitored</i>



SSM Risk Map – Taxonomy and MPS evaluation

#	Risk Category	Definition	Source	MPS Evaluation
5	EXCESSIVE LEVERAGE RISK	The risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.	REGULATION 575/2013/EU - Article 4 (CRR)	<i>Assessed, not Measured, Monitored</i>
6	PENSION RISK	Pension risk can be defined as the risk of a change (up or down) in the plan's funding deficit or surplus and the resulting change in the plan's funding ratio. [...] A number of common risk factors impact a plan's funding status; the two most important of these in terms of their influence are movements in interest rates and equity markets. Other risks, such as credit risk and longevity risk, could have a direct and meaningful impact on a plan's current funding status and long-term total cost.	A Framework for Pension Risk Management - David R. Cantor and Brett B. Dutton Article from: Risk Management March 2014 – Issue 29	<i>Assessed (not material)</i>
7	INSURANCE RISK	It represents the risk for an institution to pay claims for insured events. Similarly, it is meant as the occurrence probability of insured events.	-	<i>Not existing</i>
8	BUSINESS & STRATEGIC RISK	The current and/or prospective risk for the bank to incur in unexpected losses linked to business volatility (Business risk), wrong strategic decisions and/or poor reactivity to competitive environment changes (Strategic risk).	BANCA D'ITALIA - Circolare 285/13 - Parte Prima, Titolo III, Cap. 1, Allegato A	<i>Assessed, Measured (only referring to business risk component), Monitored</i>
9	REAL ESTATE RISK	The risk to incur in losses generated by unexpected variation of prices referred to real estate assets, due to the relative market trend.	Internal definition	<i>Assessed, Measured, Monitored</i>
10	PARTICIPATION RISK	The risk for an institution to face losses due to participations in financial and/or non-financial corporations.	Internal definition	<i>Assessed, Measured, Monitored</i>
11	SOVEREIGN RISK	The risk for an institution to face losses due to sovereign exposures.	Internal definition	<i>Assessed, Measured, Monitored</i>



SSM Risk Map – Taxonomy and MPS evaluation

#	Risk Category	Definition	Source	MPS Evaluation
12	LIQUIDITY RISK	The risk that an institution is not able to meet its financial obligations due to difficulties to fund itself on the market (funding liquidity risk) and/or to liquidate its assets (market liquidity risk).	BANCA D'ITALIA - Circolare 285/13 - Parte Prima, Titolo III, Cap. 1, Allegato A	<i>Assessed, Measured, Monitored</i>
12.1	Funding Risk	The risk that the institution will not have stable sources of funding in the medium and long term, resulting in the current or prospective risk that it cannot meet its financial obligations, such as payments and collateral needs, as they fall due in the medium to long term, either at all or without increasing funding costs unacceptably.	EBA/GL/2014/13 - SREP Guidelines	<i>Assessed, Measured, Monitored</i>
12.2	Short Term Liquidity Risk	The risk that a credit institution becomes vulnerable to liquidity demands because it is not holding a sufficient volume of liquid assets to meet demands to withdraw funds (outflows) during a stressed period.	Commission Delegated Regulation (EU) 2015/61	<i>Assessed, Measured, Monitored</i>
12.3	Intraday Liquidity Risk	The current or prospective risk that the institution will fail to manage its intraday liquidity needs effectively.	EBA/GL/2014/13 - SREP Guidelines	<i>Assessed, Measured, Monitored</i>
12.4	Funding Concentration Risk	The risk arising when the funding structure of the institution makes it vulnerable to a single event or a single factor, such as a significant and sudden withdrawal of funds or inadequate access to new funding. The amount that represents a funding concentration is an amount that, if withdrawn by itself or at the same time as similar or correlated funding sources would require the institution to significantly change its day-to-day funding strategy.	CEBS (09/2010) - Guidelines on the management of concentration risk under the supervisory review process (GL31)	<i>Assessed, Measured, Monitored</i>
12.5	Asset Concentration Risk	The risk arising in case of an institution's inability to generate cash in times of illiquidity or reduced market liquidity for certain asset classes.	CEBS (09/2010) - Guidelines on the management of concentration risk under the supervisory review process (GL31)	<i>Assessed, Measured, Monitored</i>



SSM Risk Map – Taxonomy and MPS evaluation

#	Risk Category	Definition	Source	MPS Evaluation
13	RISK CONCENTRATION	The risk that large exposures, arisen within or across different risk categories throughout an institution, produce: a) losses large enough to threaten the institution's health or ability to maintain its core operations, b) a material change in an institution's risk profile.	BCBS (04/2008) - Cross-sectorial review of group-wide identification and management of risk concentrations	<i>Assessed, Measured, Monitored</i>
13.1	Intra-Risk Concentration	The risk for an institution to face losses due to concentrations that may arise from interactions between different risk exposures within a single risk category.	CEBS (09/2010) - Guidelines on the management of concentration risk under the supervisory review process (GL31)	<i>Assessed, Measured, Monitored</i>
13.2	Inter-Risk Concentration	The risk for an institution to face losses due to concentrations that may arise from interactions between different risk exposures across different risk categories. The interactions between the different risk exposures may stem from a common underlying risk driver or from interacting risk drivers.	CEBS (09/2010) - Guidelines on the management of concentration risk under the supervisory review process (GL31)	<i>Assessed, Measured, Monitored</i>



Summary

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MPS Group Risk Taxonomy – Link to SSM Risk Map

MPS GROUP RISK TAXONOMY	SSM RISK MAP (Category / Sub-Category)
Credit Risk ¹	Credit Risk (Default Risk, FX Lending Risk, Migration Risk) Sovereign Risk
Counterparty Risk	Credit Risk (Counterparty Risk)
CVA Risk ² NEW	Market Risk (Credit Valuation Adjustment Risk)
Market Risk ³	Market Risk (Position Risk in TB, FX Risk, Commodity Risk, Structural FX Risk, Credit Spread Risk) Sovereign Risk
Operational Risk	Operational Risk (Operational Risk - CRR Def., Conduct Risk, Legal Risk, IT Risk, Cyber Security Risk ⁴)
Model Risk ⁵	Model Risk
Issuer Risk	Credit Risk (Default Risk, Securitisation Risk) Sovereign Risk

(1) Credit risk refers only to lending exposures deriving from **commercial** activities (such as credit facilities, mortgages, etc.) and other **financial** transactions (such as collateral agreement, etc).

(2) Differently from last year risk identification process, CVA risk is assessed separately from counterparty risk.

(3) For Market Risk purpose, two measures are provided (Pillar 1 and Pillar 2 capital requirements). Within Pillar 1 scope, Banking Book positions are included into calculation of FX and Commodity risk measures. Market exposures accounted into FVOCI and AC category are included into Pillar 2 risk measures.

(4) Differently from last year risk identification process, Legal Risk, IT Risk and Cyber Security Risk, although included within operational risk, receive individual assessments.

(5) Relatively to point i) of definition in previous slides, model risk management scope in MPS Group covers only A-IRB, AMA and IRRBB models.



MPS Group Risk Taxonomy – Link to SSM Risk Map

MPS GROUP RISK TAXONOMY	SSM RISK MAP (Category / Sub-Category)
Interest Rate Risk BB	IRRBB (<i>Repricing Risk, Yield Curve Risk, Basis Risk, Option Risk</i>)
Participation Risk	Participation Risk
Concentration Risk	Credit Risk (<i>Credit Concentration Risk</i>) Market Risk (<i>Market Concentration Risk</i>) Risk Concentrations (<i>Intra-Risk Concentration, Inter-Risk Concentration</i>)
Liquidity Risk	Liquidity Risk (<i>Liquidity Risk, Intraday Liquidity Risk, Funding Concentration Risk, Funding Risk, Asset Concentration Risk</i>)
Excessive Leverage Risk	Excessive Leverage Risk
Real Estate Risk	Real Estate Risk
Business & Strategic Risk	Business and Strategic Risk
Reputational Risk	Reputational Risk



MPS Group Risk Taxonomy – Link to SSM Risk Map

MPS GROUP RISK TAXONOMY	SSM RISK MAP (Category / Sub-Category)
Settlement & Delivery Risk	Settlement & Delivery Risk
Country Risk	Country Risk
Pension Risk	Pension Risk
Transfer Risk	Transfer Risk
Compliance Risk	Compliance Risk
Residual Risk	Residual Risk
Lapse Risk ⁶ NEW	-
DTA Risk ⁷ NEW	-

(6) Lapse Risk is defined as the risk to incur in losses due to an unexpected rate of policyholders cashing-in.

(7) It refers to the risk linked to volatility of Deferred Tax Assets.



