



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

Regulatory Incomings

Summary as at 31-08-2018

Direzione Chief Risk Officer

Executive Summary – What's new?

(1/2)

REGULATORY INCOMING (TOPIC)	FIELD OF ACTION & MAIN PECULIARITIES	IMPACT ON GMPS (N/L/M/H)	RISK EFFECT (↑ - ↓)	ENTRY INTO FORCE
Standardised Method Updating (BIS)	Credit Risk Model (STD) – more differentiation of risk weights, more risk sensitivity.	LOW	↑	2022
Internal Rating Based Method Updating (BIS)	Credit Risk Model (A-IRB/F-IRB) – restriction to usage of F-IRB method; introduction of minimum level of LGD for secured/unsecured exposures	LOW	↓	2022
Internal Rating Based Method Updating (ECB – TRIM)	Credit Risk Model (A-IRB) – adjustments on LGD estimation model and discount rate of LGD	MEDIUM	↑	2019-2020
Fundamental Review of Trading Book (BIS)	Market Risk (on Trading Book exposures) – Introduction of: a stricter way to define Banking and Trading Book exposures, a sensitivity-based approach, a default risk charge.	HIGH	↑	2022
Standardised Method Updating (BIS)	Operational Risk (STD) – RWA computed based on Business Indicator Component (BIC) and the Internal Loss Multiplier (ILM) as scaling factor.	HIGH	↑	2022
Advanced Measurement Approach usage (EBA)	Operational Risk (AMA) - The RTS aim to standardising mechanisms for the identification, classification and treatment of AMA models, to ensure the comparability of AMA RWA across institutions	MEDIUM	- (1)	2Q 2019
New Model Standards (BIS)	Interest Rate Risk on Banking Book - Introduction of a standardised framework, note on «Credit Spread Risk of Banking Book», definition of a new «Supervisory Outlier Test»	MEDIUM	- (1)	2021



(1) Impacts expected in terms of organisation and processes. No quantitative impact is expected.
 (2) Phase-in expected to run from 2022.
 (3) Impact already considered in elaboration for current Risk Appetite Statement.

Executive Summary – What's new?

(2/2)

REGULATORY INCOMING (TOPIC)	FIELD OF ACTION & MAIN PECULIARITIES	IMPACT ON GMPS (N/L/M/H)	RISK EFFECT (↑ - ↓)	ENTRY INTO FORCE
Collective Investment Undertakings – CIUs (CRR2)	Introduction of hierarchical system for exposures on Banking Book (<i>look-through, mandate-based, fall-back</i>) and Trading Book (<i>look-through, sensitivities-based</i>).	MEDIUM	↑	2021
Large Exposures (CRR2)	Exposures is now expected to be compared with the amount of Tier1 capital of the institution. Widening of perimeter by including exposures above 300 €/mln.	NONE	-	2021
Basel III Output Floor (BIS)	Floor aiming at reducing differences among banks and limiting RWA savings deriving from the application of internal models	LOW	↑	2027 ⁽²⁾
New SREP Guidelines (EBA)	Introduction of Pillar 2 Requirement and Pillar 2 Guidance .	NONE	- ⁽³⁾	2020
Institution's Stress Testing (EBA)	Many regulatory incomings are expected in terms of frequency, accuracy and completeness of stress test exercises to be developed by banks.	NONE	- ⁽¹⁾	2H 2018
Internal Governance (EBA)	Guidelines point out on the responsibilities of the Board of Directors with reference to its risk oversight function, and mainly aim at strengthening the status of the risk management function.	LOW	- ⁽¹⁾	2H 2018
Sovereign Concentration Charge (European Parliament)	Introduction of a Pillar 1 RWA Add-on aiming at reducing the home-bias problem , arising from the high concentration of banks' sovereign exposures to home-country.	HIGH	↑	2024/2029
Sovereign Exposures (BIS)	Regulatory innovation framework even from a credit risk perspective. IRB method will be replaced by Standard approach which consists in higher risk weight for such category of exposures.	MEDIUM	↑	n.d.

(1) Impacts expected in terms of organisation and processes. No quantitative impact is expected.

(2) Phase-in expected to run from 2022.

(3) Impact already considered in elaboration for current Risk Appetite Statement.



Regulatory Incomings

(1/7)

Topic	Description	Estimated Impact on GMPS	Expected entry from
Credit Risk Standard (BIS)	<p>The new framework provides some changes to the standardised approach for calculating capital requirements for credit risk.</p> <p>The main innovations concern:</p> <ol style="list-style-type: none"> 1. more differentiation of risk weights for unrated exposures, exposures to covered bonds, specialised lending, Corporate and Retail, subordinated debt and equity; 2. more <i>risk sensitivity</i> based on LTV values; 3. CCF floored to 10% for unconditionally irrevocable commitments, which currently have CCF equal to 0%. 	<p><i>For the standard portfolio of GMPS no significant impacts are expected:</i></p> <ul style="list-style-type: none"> - <i>slight improvement for unrated exposures to SME Corporate whose weighting goes from 100% to 85% and for residential real estate exposures whose weighting decreases compared to the current for LTV < 80%;</i> - <i>slight worsening due to the increase of CCF floor from 0 to 100% for unconditionally irrevocable commitments</i> 	2022
Credit Risk A-IRB, F-IRB (BIS)	<p>Basel III introduces more constraints on the use of the IRB approach; here are the main innovations:</p> <ul style="list-style-type: none"> - in IRB context only F-IRB approach is prescribed for Corporate exposures with consolidated revenues > 500 €/mIn, for banks and other financial institutions; - for F-IRB approach the regulatory LGD goes from 45% to 40% for unsecured amounts and a 20% floor is introduced for secured amounts; - removing of the 1,06 scaling factor; - introduction of LGD minimum values on unsecured amounts, 25% for Corporate and 30% for Retail (50% for QRRE); modification of the LGD floors on secured amounts: from 10% / 15% to 5% for mortgages; for Corporate and other Retail varying by collateral type (0% financial, 10% receivables and real estate, 15% other physical). 	<p><i>For the IRB portfolio of GMPS some positive impacts are expected:</i></p> <ul style="list-style-type: none"> - <i>lower requirement for using FIRB and LGD 40% to Corporate exposures with consolidated revenues > 500 €/mIn (abt -200 €/mIn RWA valued on sep-2017)</i> - <i>lower requirement for removing the 1,06 scaling factor (abt -1500 €/mIn RWA valued on sep-2017)</i> - <i>LGD floors do not involve significant impacts</i> 	2022



Regulatory Incomings

(2/7)

Topic	Description	Estimated Impact on GMPS	Expected entry from
TRIM Internal IRB model Credit Risk IRB (ECB)	<p>The Targeted Review of Internal Models (TRIM) aims to confirm the adequacy and appropriateness of approved Pillar I internal models authorised to calculate own funds requirements.</p> <p>The main adjustments of the internal methodologies compared to the indications of the TRIM guidelines, which the bank will have to introduce, are the following:</p> <ul style="list-style-type: none"> discounting rate in LGD estimate equal to Euribor +5%; inclusion of all incomplete workout processes in LGDs estimate (Bad Loans component); MOC under category C: regardless of the accuracy and performance of the model, an add on should be introduced on the risk parameters due to the general estimation error. 	<p><i>The estimated impacts valued during last TRIM inspection:</i></p> <ul style="list-style-type: none"> <i>discounting rate: about 1 €/bn of RWA;</i> <i>inclusion of all IW: TBD, the potential impact will be greatly reduced according to the non performing loans disposals of 2018;</i> <i>MOC category C: first hypotheses proposed during the TRIM inspection concerned only the PD model for an impact of about 1 €/bn of RWA.</i> 	2019/2020
Fundamental Review of Trading Book (BIS)	<p>The Fundamental Review of Trading Book (FRTB) changes the way through which banks calculate Market Risk capital requirements. The main innovations are:</p> <ul style="list-style-type: none"> A new stricter way to define Trading and Banking book; A sensitivity-based standardised approach, that will be mandatorily calculated and disclosed by all banks. The standardised methodology will also serve as requirement floor for banks using internal model based approach; The introduction of a Default Risk Charge, capturing the risk of default of credit and equity trading book exposures; The introduction of a Residual Risk Add-on, applied to notional amounts of instruments with non-linear payoffs. 	<p><i>High impact is expected under the hypothesis of static portfolio: +2 / 2,5 €/bn of RWA Add-on.</i></p>	2022



Regulatory Incomings

(3/7)

Topic	Description	Estimated Impact on GMPS	Expected entry from
New standardised approach for Operational Risk (BIS)	<p>Basel III+ implement a new Standard Approach to reduce variability of RWA and to ensure a transparent and comparabile risk-weighted capital calculation. The new Standardised Approach is introduced to replace all existing approaches (BIA, SMA, AMA) for internationally active banks on a consolidated basis. Supervisors retain the discretion to apply the standardised approach framework to non-internationally active banks.</p> <p>Operational RWA should be computed by banks multiplying the Business Indicator Component (BIC), a financial-statement-based which takes into account even the bank "size" and the Internal Loss Multiplier (ILM), a scaling factor that is based on a bank's average historical losses, as in the following formula:</p> $\text{Operational RWA} = \text{BIC} * \text{ILM} * 12,5$	<p><i>High impact is expected : +3 €/bn of RWA (about +30% of Operational RWA).</i></p>	2022
RTS on assessment methodologies for the use of AMAs for Operational Risk (EBA)	<p>The RTS aim to standardising mechanisms for the identification, classification and treatment of AMA models, to ensure the comparability of AMA RWA across institutions. Topics like legal risk, misconduct events and reporting system are detailed and specified.</p> <p>In particular RTS contain:</p> <ul style="list-style-type: none"> - A detailed reference perimeter of operational risks and operational losses ; - Measures promoting the efficacy and soundness of institution governance. Particular relevance is given to an on-going operational risk management process and to senior management involvement; - A focus on models' Use-Test. AMA models should support top management in the business strategy, the operational risk management and should enhance operational risk organization and control; - Stringent criteria for data quality and IT Systems to ensure the robustness of internal models. 	<p><i>Impacts are expected in terms of process implementation.</i></p>	2Q 2019



Regulatory Incomings

(4/7)

Topic	Description	Estimated Impact on GMPS	Expected entry from
Standards – Interest rate risk in the banking book (BIS)	<p>The final BCBS document highlights the following aspects:</p> <ul style="list-style-type: none"> • Introduction of a «standardised framework» • Note concerning «Credit Spread Risk of Banking Book» • Definition of a new «Supervisory Outlier Test» • Definition of market disclosure <p>The European Commission transfers BCBS indication in Artt. 84, 98, 104a of CRD5 and within Art. 448 of CRR2. Such dictates are implemented also in a consultation paper launched by EBA in October 2017.</p>	<p><i>No quantitative impact is expected.</i></p> <p><i>Major impacts concerns organisation of risk management processes, especially given the necessity to develop a parachute model (i.e. introduction of «standardised framework»)</i></p>	<p>2021</p> <p><i>(depending on entry into force of CRR2)</i></p>
Collective Investment Undertakings – CIUs (CRR2)	<p>In order to align European regulation to international standards (BCBS) and to promote underlying transparency, a new hierarchical system of approaches is introduced for treatment of exposures to CIUs.</p> <ul style="list-style-type: none"> • Approaches for Banking Book: <i>look-through, mandate-based, fall-back</i>; • Approaches for Trading Book: <i>look-through, sensitivities-based</i>. 	<p>Major impacts concern GMPS Banking Book (current RWA around 120 €/mln). Exposures might increase by 12,5 times, applying a risk weight of 1250% with the fall-back approach, rather than current 100% (+1,4 €/bn).</p>	<p>2021</p> <p><i>(depending on entry into force of CRR2)</i></p>
Large Exposures (CRR2)	<p>The amendment of CRR2 on treatment of large exposures concerns mainly the identification of the exposure to a single or a group of connected clients. In particular, the exposures is now compared with the amount of Tier1 capital of the institution (nowadays, it is compared with eligible capital, consisting of Tier1 and Tier2 capital). Percentages relatively to identification (10%) and overall limit of a large exposure (25%) are kept unchanged. In addition, the perimeter of large exposures is widen also to exposures above 300 €/mln (even if they do not represent at least 10% of Tier1 capital).</p>	<p><i>No impact is expected.</i></p>	<p>2021</p> <p><i>(depending on entry into force of CRR2)</i></p>



Regulatory Incomings

(5/7)

Topic	Description	Estimated Impact on GMPS	Expected entry from
Basel III Output Floor (BIS)	<p>Basel III+ Output Floor aims at reducing differences among banks and limiting RWA savings deriving from the application of internal models. Accordingly, total RWA should be computed by banks taking into account the following constraint:</p> <p>TOTAL RWA = MAX [TOTAL RWA(STA+IRB*); 72,5% of TOTAL RWA (STA)]</p> <p>Regulation is considering a <i>phase-in</i> period aiming at limiting potential wide impacts which such new regulation might have on banks.</p>	<p><i>No material impact is expected, given the current RWA savings deriving from the application of internal model for credit risk offset by additional RWA (compared to floor) on other risks.</i></p>	<p>2027 (phase-in starting from 2022)</p>
New SREP Guidelines (EBA)	<p>The new SREP Guidelines, which will enter into force by 1 January 2019 (with first effect on banks starting from 2020 SREP Decision), introduce two new measures, referring to minimum requirements and capital adequacy:</p> <ul style="list-style-type: none"> • Pillar 2 Requirement – additional own funds amount covering underestimated Pillar 1 risks, Pillar 2 risks and other aspects (e.g. governance failures); • Pillar 2 Guidance – capital buffer (consisting in CET1 capital) defined over the Overall Capital Requirement (OCR), needed to afford distressed condition and protect an institution from the breach of TSCR threshold under adverse scenario. Capital covering P2G cannot be considered to respect other capital requirements. It results that P2G amount has to be included when determining capital adequacy thresholds for all capital ratios. 	<p><i>Impact already considered in elaboration for current Risk Appetite Statement.</i></p>	<p>2020</p>
Draft Guidelines on institution's stress testing (EBA)	<p>In October 2017, EBA launched a consultation paper on practices which must be followed by institutions when developing their own internal stress test framework.</p> <p>Guidelines provide a clear view of what is expected by regulation in terms of frequency, accuracy and completeness of stress test exercises.</p>	<p><i>Major impacts are expected in terms of process implementation (in particular referring to the need of developing an on-going process able to put together and capitalise all existing internal stress test exercise, differenced by risk category).</i></p>	<p>2Q 2018 (to be implemented on 2019 Internal Stress Test Framework)</p>



Regulatory Incomings

(6/7)

Topic	Description	Estimated Impact on GMPS	Expected entry from
Internal Governance (EBA)	<p>Final Guidelines were published on 26 September 2017. The previous GL were published on 27 September 2011.</p> <p>The guidelines point out on the responsibilities of the Board of Directors with reference to its risk oversight function, including the role of the board committees. The GL aim at strengthening the status of the risk management function, to improve the flow of information between the risk management function and the Board itself so as to ensure an effective monitoring of risk governance and stimulate effective decision making. The GL insist on the need for effective diffusion of the Risk Culture and the concept of Business Conduct.</p>	<p><i>Low organizational impact is expected because many issues are already solved. Possible improvements in terms of efficiency/opportunity.</i></p> <p><i>Participation of the CRO to all the Group Management Committees with greater incisiveness in strategic decisions (eventually reinforced with the power of veto).</i></p> <p><i>Risk Management Function will have to develop the ability to assist the CRO in its "management" role as well as the risk controller.</i></p> <p><i>Possibility to evaluate to weaken the role of the Risk Management Committee (possible cancellation) with reinforcement of the Comitato Direttivo and Board Risk Committee.</i></p>	30/06/2018
Sovereign Concentration Charge (European Parliament)	<p>The European Parliament has proposed a study and the adoption of a new regulation (SCCR), aimed at reducing the home-bias problem, arising from the high concentration of banks' sovereign exposures to home-country.</p> <p>Synthetically, proposed regulation consists in assigning a Pillar 1 RWA Add-on to those institutions that hold high sovereign exposures to the same country (exceeding exemption threshold), with respect to their level of Tier1 capital. Problem is therefore addressed from a concentration point of view.</p> <p>A 5/10-year <i>phase-in</i> period is considered in order not to excessively penalise banks and give time to manage their sovereign portfolios.</p>	<p><i>High impact is expected under the hypothesis of static portfolio (rolling all existing Italian sovereign positions).</i></p> <p><i>Sovereign Concentration Charge (Italy) around +5 / 5,5 €/bn of RWA Add-on.</i></p>	<p>2024/2029</p> <p>(phase-in probably starting from 2019)</p>



Regulatory Incomings

(7/7)

Topic	Description	Estimated Impact on GMPS	Expected entry from
Sovereign Exposures (BIS)	<p>Sovereign exposures are involved in regulatory innovation framework even from a credit risk perspective. IRB method will be replaced by Standard approach which consists in higher risk weight for such category of exposures; no case of 0% risk weight is anymore allowed for the majority of sovereign exposures (both in Trading and in Banking book). The possibility for a National Competent Authority to apply lower/preferential risk weight for exposures to domestic central government is removed.</p> <p>In addition, a further marginal add-on on risk weight (addressing concentration risk) is introduced.</p> <p>Pillar 3 disclosure becomes mandatory with reference to sovereign exposures (in terms of nominal amounts and RWA), differenced by jurisdictions, currency and accounting classification.</p>	<p>Material impact is expected under the hypothesis of static portfolio (high exposure in Italian sovereign government bonds).</p> <p>Around +1,2 €/bn (by considering both credit risk weight increase and concentration marginal add-on effects).</p>	Not defined

