



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

## **Risk Management Report**

MPS Group Risk Profile as at 30-09-2018

Direzione Chief Risk Officer

## **Executive Summary**

### **Section 1 – Adequacy (IXAAP on-going)**

### **Section 2 – Integrated Risks**

### **Section 3 – Credit Risks (Lending, Securitization)**

### **Section 4 – Operational Risks (Operational, Legal)**

### **Section 5 – Financial Risks (Market, Issuer, Counterparty, IRRBB, Liquidity)**

### **Section 6 – IT Risks**



## Executive Summary – Highlights as at 30-09-2018

### ☐ Capital adequacy.

The Total Capital Ratio still breaches the RAS Tolerance / RPI Amber trigger (13,88% vs 13,94%). The ratio improves w.r.t. end of August value (+11 bps) thanks to the implementation of the first RWA reduction actions (+17 bps).

### ☐ Liquidity adequacy.

The NSFR temporary recovers from the Limit breach: the asset reduction in the financial and lending books more than compensate loss of funding mainly due to CSEA account.

### ☐ Credit Risk

Significant improvement of the average PD: 2,00% vs 2,09% as of end of August (slide 12). Re-alignment of almost all credit relevant parameters, the exception still being Juliet recoveries (slide 15). Relevant metrics reduce the gap with respect to Risk Limits and most are expected to recover from the breach by year-end (slide 16).

### ☐ Operational Risk

Mitigation Plan almost completed (slide 21).

### ☐ IRRBB

Breach of the Group Limit due to potential negative impact on NII in case of interest rates decrease, actions under way to rebalance profile (slide 26).

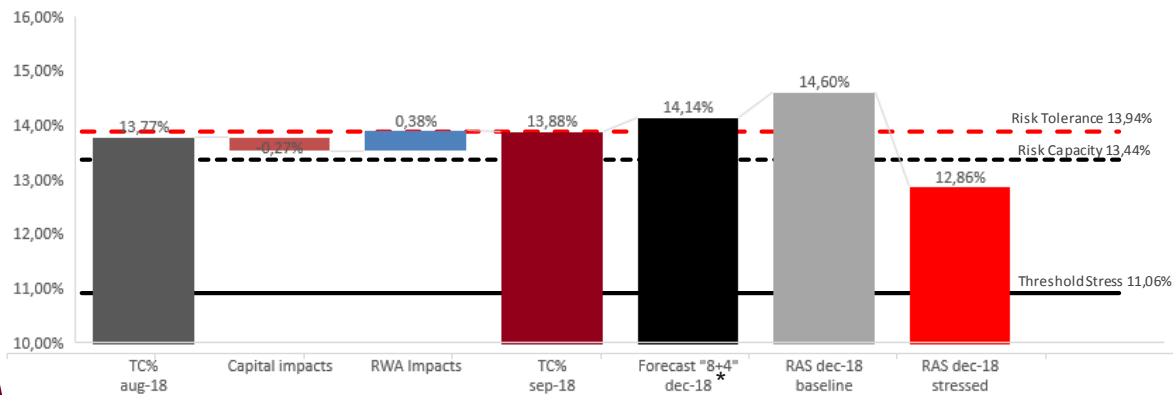
### ☐ Market Risk

Significant reduction of Italian sovereign bond holdings, mainly on trading portfolio for around -1,7 bn (slide 27).



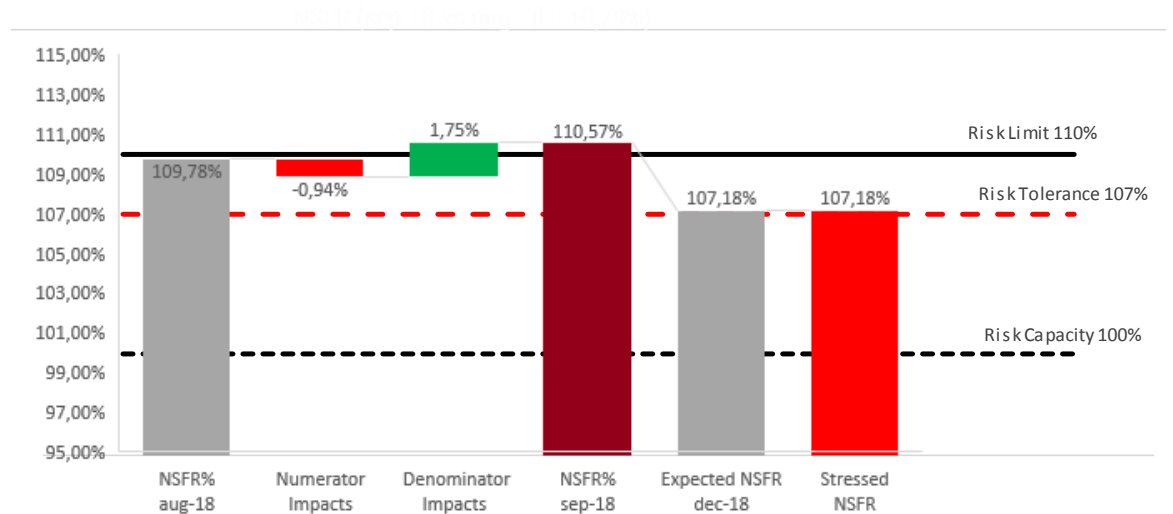
## Section 1 – IXAAP on-going as at 30-09-2018

**TC RATIO (sep-18 vs aug-18 = +11 bps)**

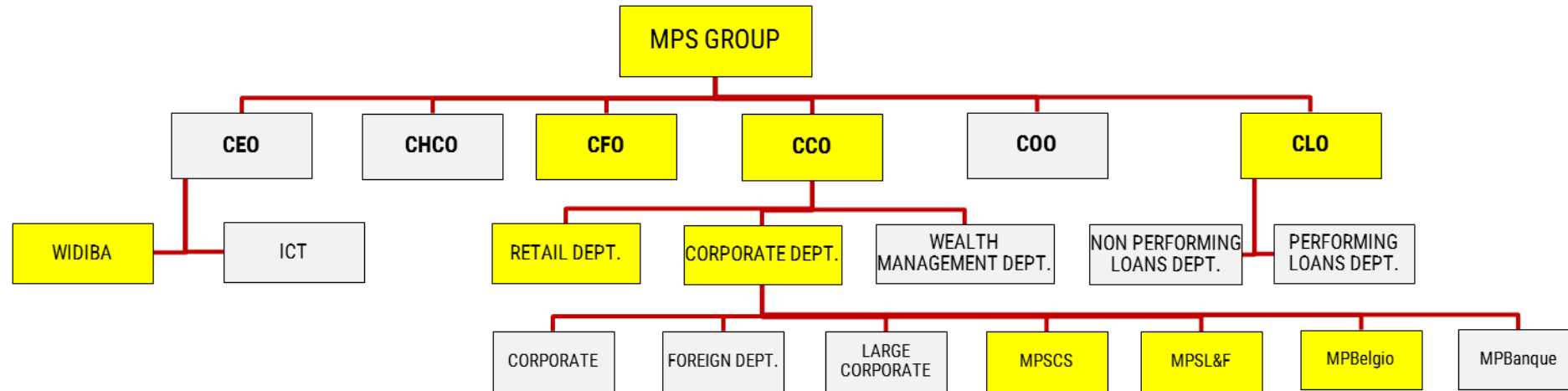


\* The forecasted dec-18 «8+4» accounts for the PD-LGD model change postponed in 2019

**NSFR (sep-18 vs aug-18 = +0,79%)**



## Section 1 – Main issues as at 30-09-2018

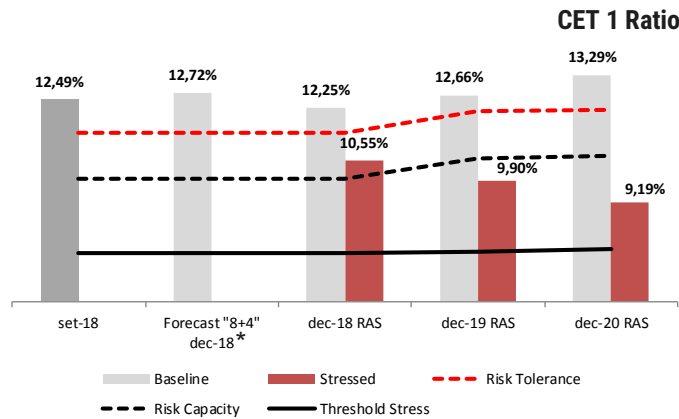


: Risk Limits breach

- **MPS Group:**
  - Market Limits Breaches [see page 28]
  - Liquidity Limits Breaches [see pages 7, 24]
- **CCO:**
  - Credit Limits Breaches [see page 16]
- **CCO Corporate:**
  - Credit Limits Breaches [see page 16]
- **CCO Retail:**
  - Credit Limits Breaches [see page 16]
- **CFO:**
  - Market Limits (AFTCM) Breaches [see page 28]
- **CLO:**
  - Credit Limits Breaches [see page 16]
- **MPBelgio:**
  - Market Limits Breaches [see page 28]
- **Widiba:**
  - IRRBB Limits Breaches [see page 26]
- **MPSCS:**
  - Credit Limits Breaches [see page 16]
  - Market Limits Breaches [see page 26]
- **MPSL&F:**
  - Credit Limits Breaches [see page 16]

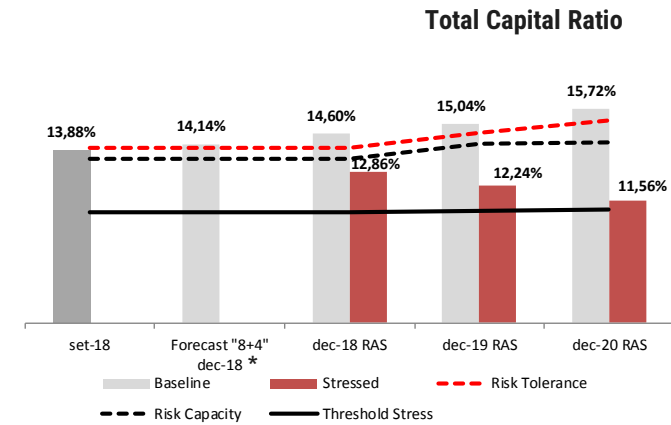


## Section 1 – Capital Adequacy overview



CET1 RATIO (dec-2018 projection)		%	Capital Excess/Need
BASILENE SCENARIO	Risk Profile - Risk Capacity	2,32%	1.578
STRESSED SCENARIO	Risk Profile - Threshold Stress	2,98%	2.070

\* The forecasted dec-18 «8+4» accounts for the PD-LGD model change postponed in 2019



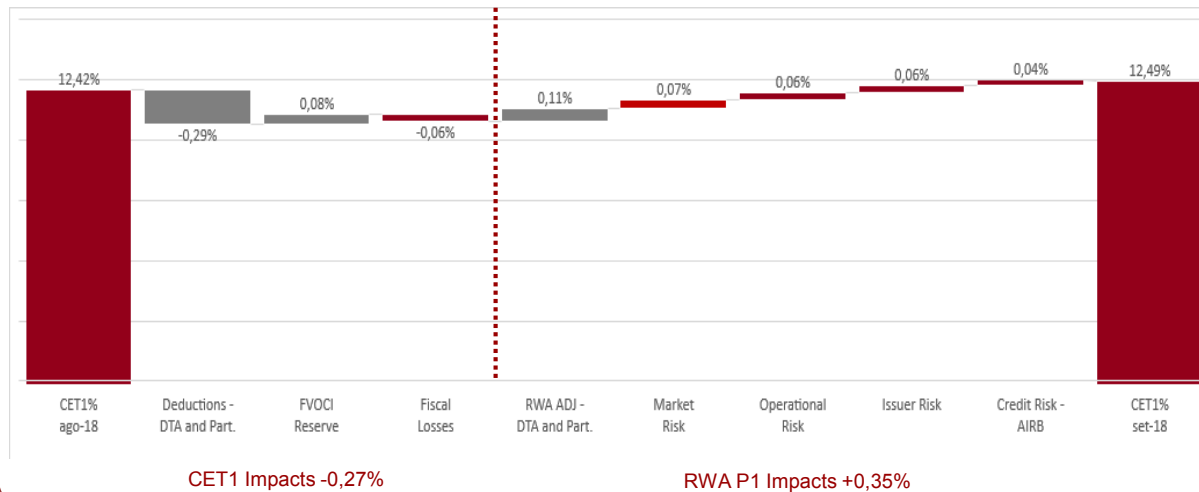
The Total Capital Ratio as at 30/9 breaches the RAS Tolerance and the Recovery Amber trigger: profile 13,88% vs limit 13,94%



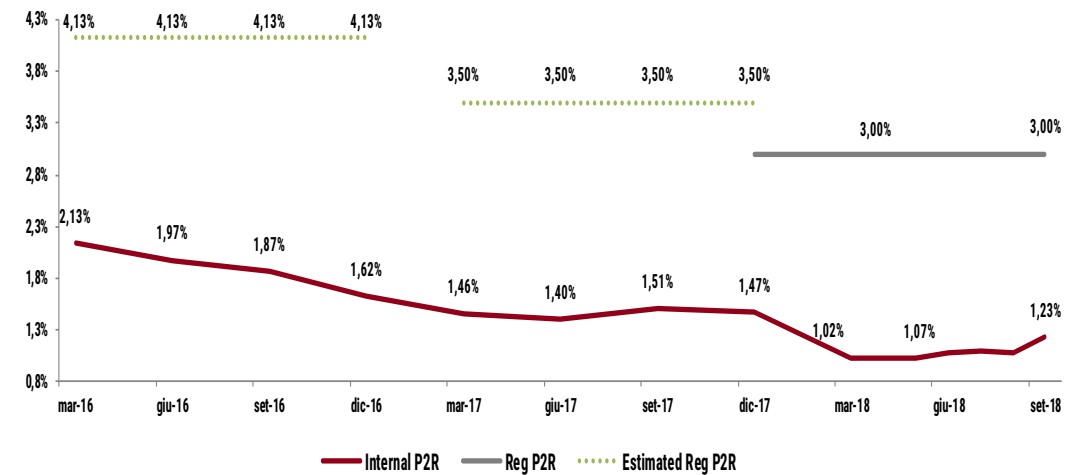
TOTAL CAPITAL RATIO (dec-2018 projection)		%	Capital Excess/Need
BASILENE SCENARIO	Risk Profile - Risk Capacity	1,16%	791
STRESSED SCENARIO	Risk Profile - Threshold Stress	1,79%	1.244

\* The forecasted dec-18 «8+4» accounts for the PD-LGD model change postponed in 2019

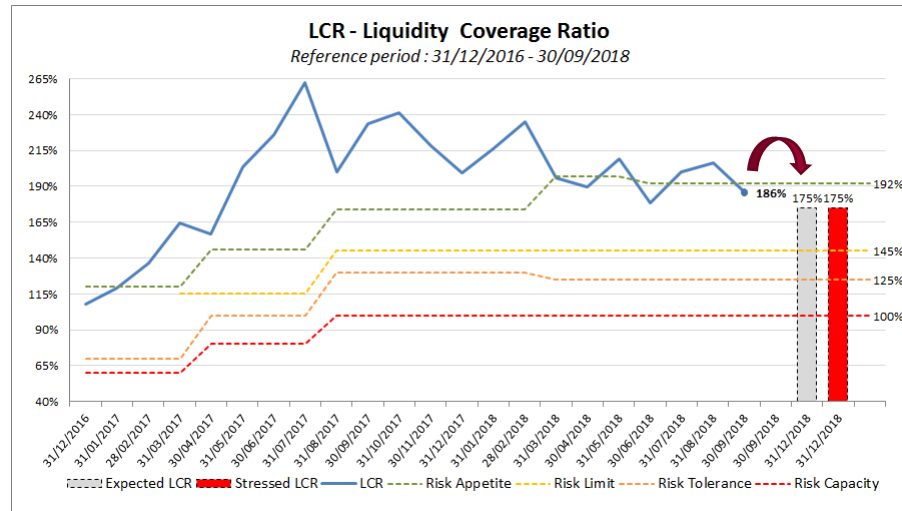
### CET 1 RATIO (set-18 vs ago 18 = +7 bps)



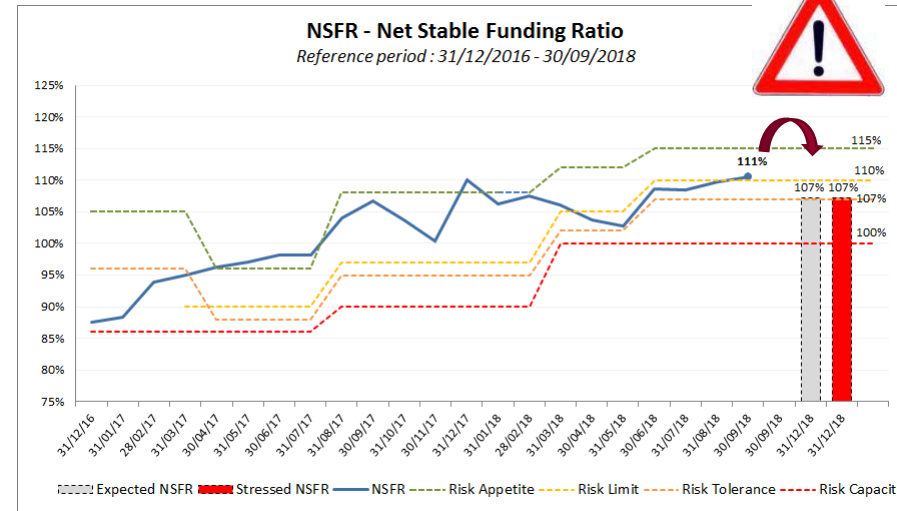
### Internal P2R vs Regulatory P2R



## Section 1 – Liquidity Adequacy overview

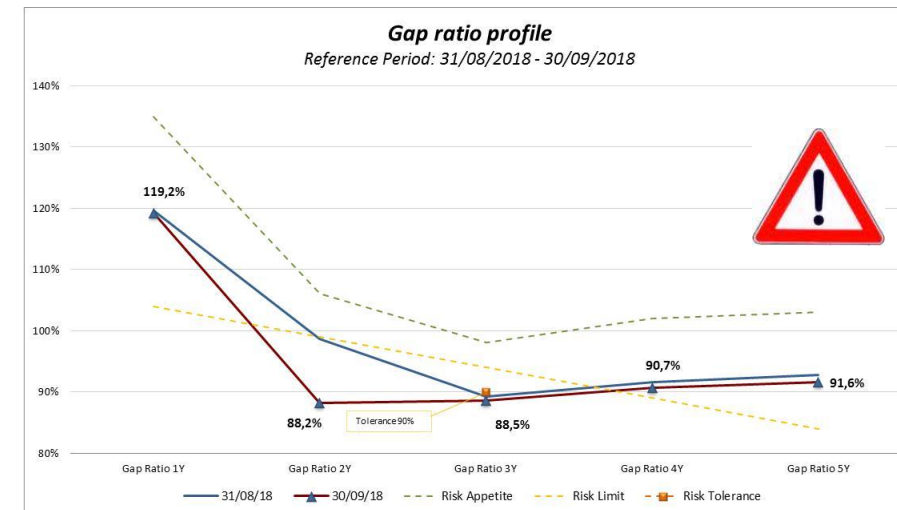
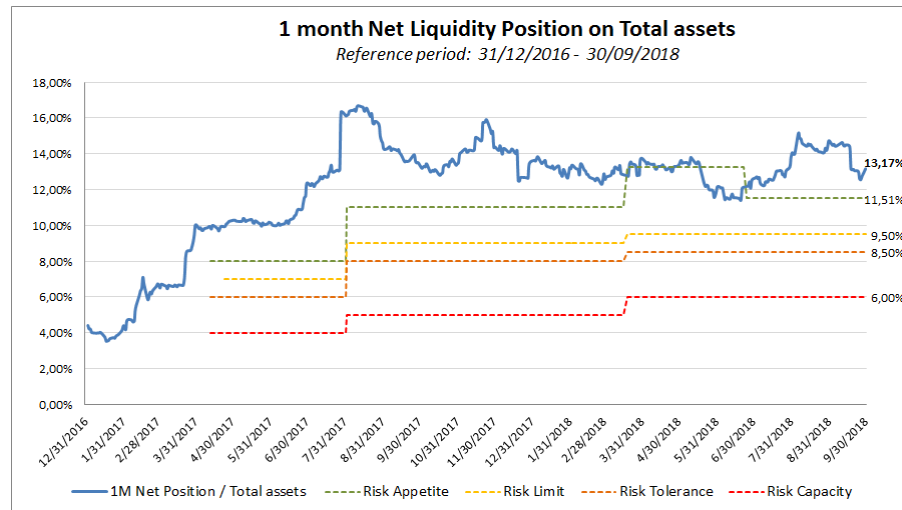


Expected LCR and NSFR are calculated with reference to September 2018 data as starting point. Expected baseline LCR and NSFR are prudentially set equal to the stressed measures because the hypotheses are assumed as realized in 4Q (e.g. missed Tier 2 issue).



### Monthly Overview

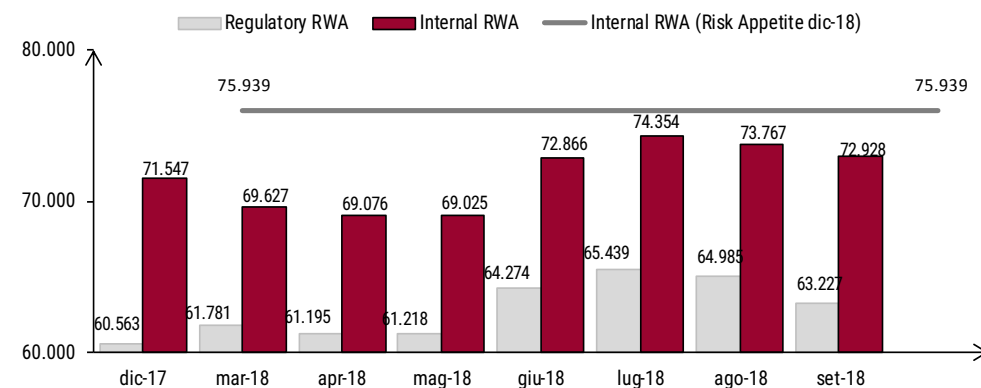
- Retail and wholesale funding reduction, mostly on wholesale funding with CSEA (4,6 €/bn total amount), over -1,92 €/bn;
- Weak Structural Liquidity position: NSFR returns over limit but is expected near the risk tolerance by year end.
- As of 30-09-2018 Gap Ratio 3Y still breaches Risk Tolerance (90%). The sharp decrease of Gap Ratio 2Y (88,2% vs 99% limit) is mainly due to shortening of residual maturity of ECB funding.



## Section 2 – Integrated Risks: Group Regulatory RWA (Pillar1) and Internal RWA (Pillar2) as at 30-09-2018

	(Eur mln)	GROUP MPS									
		dic-17	mar-18	giu-18	ago-18	set-18	%/INT.RWA	Δ	Δ%	ΔQ	ΔQ%
P I L L A R  1	<b>Regulatory / Internal RWA</b>										
	<b>Credit and Counterparty Risk</b>	<b>47.713</b>	<b>47.963</b>	<b>50.590</b>	<b>51.287</b>	<b>50.206</b>	<b>68,8%</b>	<b>-1.081</b>	<b>-2%</b>	<b>-384</b>	<b>-1%</b>
	<b>Credit Risk</b>	<b>35.600</b>	<b>36.172</b>	<b>38.956</b>	<b>39.650</b>	<b>39.380</b>	<b>54,0%</b>	<b>-270</b>	<b>-1%</b>	<b>424</b>	<b>1%</b>
	AIRB	26.650	27.241	30.489	31.613	31.385	43,0%	-228	-1%	895	3%
	Standard	8.951	8.932	8.467	8.037	7.996	11,0%	-42	-1%	-471	-6%
	<b>Counterparty Risk - Default Risk</b>	<b>1.429</b>	<b>1.370</b>	<b>1.284</b>	<b>1.329</b>	<b>1.408</b>	<b>1,9%</b>	<b>80</b>	<b>6%</b>	<b>124</b>	<b>10%</b>
	<b>Issuer Risk Banking Book</b>	<b>1.705</b>	<b>1.796</b>	<b>1.990</b>	<b>1.920</b>	<b>1.619</b>	<b>2,2%</b> ③	<b>-302</b>	<b>-16%</b>	<b>-372</b>	<b>-19%</b>
	<b>Market Risk Banking Book</b>	<b>228</b>	<b>195</b>	<b>197</b>	<b>195</b>	<b>184</b>	<b>0,3%</b>	<b>-12</b>	<b>-6%</b>	<b>-14</b>	<b>-7%</b>
	<b>Participation Risk</b>	<b>2.525</b>	<b>2.438</b>	<b>2.076</b>	<b>1.948</b>	<b>1.694</b>	<b>2,3%</b> ①	<b>-254</b>	<b>-13%</b>	<b>-382</b>	<b>-18%</b>
	<b>Real Estate Risk</b>	<b>2.157</b>	<b>2.173</b>	<b>2.167</b>	<b>2.167</b>	<b>2.161</b>	<b>3,0%</b>	<b>-6</b>	<b>0%</b>	<b>-5</b>	<b>0%</b>
	<b>DTA Risk</b>	<b>2.697</b>	<b>2.252</b>	<b>2.368</b>	<b>2.381</b>	<b>2.053</b>	<b>2,8%</b> ①	<b>-329</b>	<b>-14%</b>	<b>-315</b>	<b>-13%</b>
	<b>Other Risk</b>	<b>1.371</b>	<b>1.565</b>	<b>1.551</b>	<b>1.697</b>	<b>1.707</b>	<b>2,3%</b>	<b>10</b>	<b>1%</b>	<b>156</b>	<b>10%</b>
	<b>Market Risk</b>	<b>2.493</b>	<b>3.628</b>	<b>3.198</b>	<b>3.236</b>	<b>2.880</b>	<b>3,9%</b> ②	<b>-357</b>	<b>-11%</b>	<b>-318</b>	<b>-10%</b>
	Market Risk Trading Book	2.177	3.113	2.694	2.806	2.533	3,5%	-273	-10%	-162	-6%
	Issuer Risk Trading Book	315	515	503	430	347	0,5%	-84	-19%	-156	-31%
P I L L A R  2	<b>Operational Risk</b>	<b>10.012</b>	<b>9.816</b>	<b>10.037</b>	<b>10.037</b>	<b>9.721</b>	<b>13,3%</b> ④	<b>-316</b>	<b>-3%</b>	<b>-316</b>	<b>-3%</b>
	<b>Counterparty Risk - CVA Risk</b>	<b>346</b>	<b>375</b>	<b>451</b>	<b>450</b>	<b>421</b>	<b>0,6%</b>	<b>-29</b>	<b>-7%</b>	<b>-30</b>	<b>-7%</b>
	<b>REGULATORY RWA</b>	<b>60.563</b>	<b>61.781</b>	<b>64.274</b>	<b>65.010</b>	<b>63.227</b>	<b>86,7%</b>	<b>-1.783</b>	<b>-3%</b>	<b>-1.048</b>	<b>-2%</b>
	<b>PILLAR 1 Component *</b>	<b>58.157</b>	<b>58.473</b>	<b>61.383</b>	<b>62.009</b>	<b>60.510</b>		<b>-1.499</b>	<b>-2%</b>	<b>-873</b>	<b>-1%</b>
	<b>Market Risk</b>	<b>5.450</b>	<b>3.157</b>	<b>3.816</b>	<b>4.508</b>	<b>4.939</b>	<b>6,8%</b> ⑤	<b>431</b>	<b>10%</b>	<b>1.123</b>	<b>29%</b>
	Market Risk BB	4.620	2.393	2.980	3.604	4.034	5,5%	431	12%	1.055	35%
	Market Risk TB	829	764	836	904	904	1,2%	1	0%	68	8%
	<b>Interest Rate Risk BB</b>	<b>1.959</b>	<b>2.029</b>	<b>2.089</b>	<b>1.910</b>	<b>2.334</b>	<b>3,2%</b> ⑥	<b>424</b>	<b>22%</b>	<b>244</b>	<b>12%</b>
	<b>Concentration Risk</b>	<b>1.145</b>	<b>1.193</b>	<b>1.102</b>	<b>1.102</b>	<b>1.081</b>	<b>1,5%</b>	<b>-21</b>	<b>-2%</b>	<b>-21</b>	<b>-2%</b>
	<b>Business and Strategic Risk</b>	<b>4.837</b>	<b>4.774</b>	<b>4.476</b>	<b>4.263</b>	<b>4.065</b>	<b>5,6%</b>	<b>-198</b>	<b>-5%</b>	<b>-411</b>	<b>-9%</b>
	<b>INTERNAL RWA</b>	<b>71.547</b>	<b>69.627</b>	<b>72.866</b>	<b>73.792</b>	<b>72.928</b>	<b>100,0%</b>	<b>-864</b>	<b>-1%</b>	<b>63</b>	<b>0%</b>

\* = Regulatory RWA - Market Risk banking Book - Market Risk Trading Book



- ① DTA and Participation Risk (-583 €/mln): RWA reduction due to:
  - FAQ EBA #2018-3784 application: the IFRS9 transitional effect has not to be considered in order to calculate the thresholds for the RWA of significant and non significant financial investments and DTA (RWA adjusted);
  - DTA decrease (-59 €/mln).
- ② Market Risk (-357 €/mln): de-risking of bond and equity portfolio
- ③ Issuer Risk BB (-302 €/mln): de-risking of financial and corporate bond portfolio
- ④ Operational Risk (-316 €/mln): Internal Fraud decrease and successful lawsuits closure
- ⑤ Market Risk P2 BB (+431 €/mln): Rolling of the time window with increase of average VaR
- ⑥ IRRBB (+424 €/mln): Refixing of TLTRO II floating leg hedging



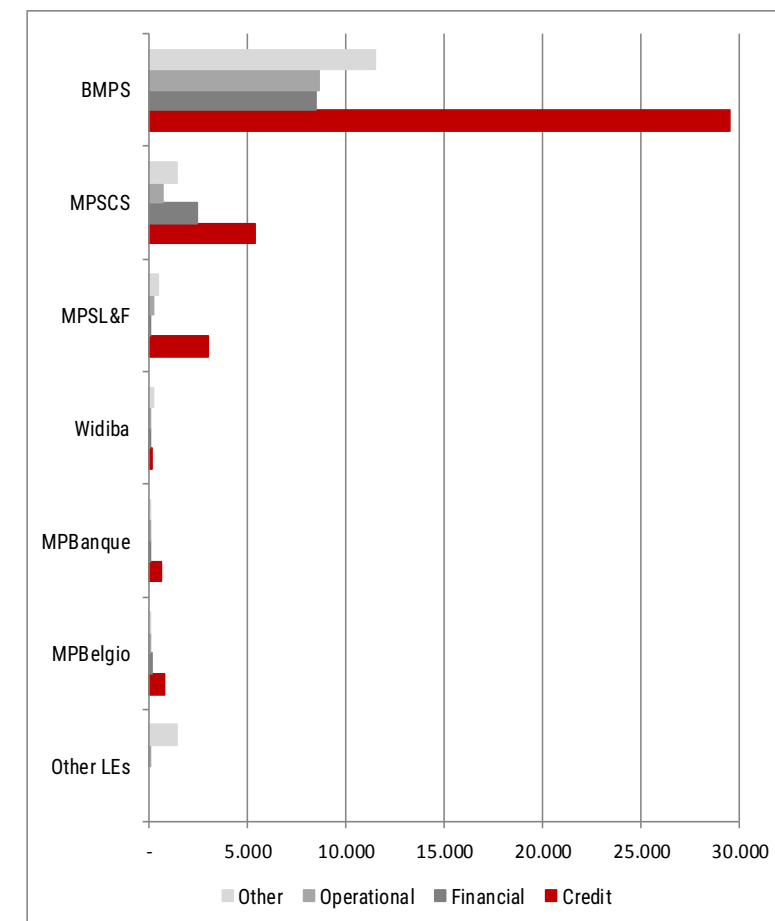


## Section 2 – Integrated Risks: RWA per BU/LE's as at 30-09-2018

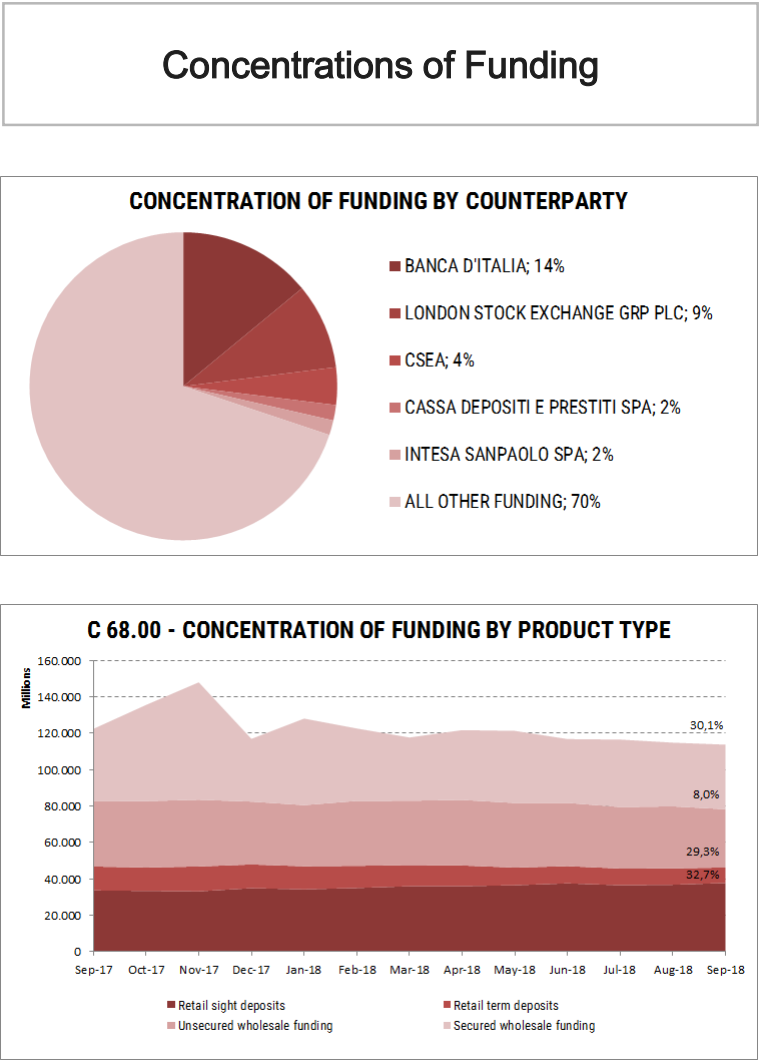
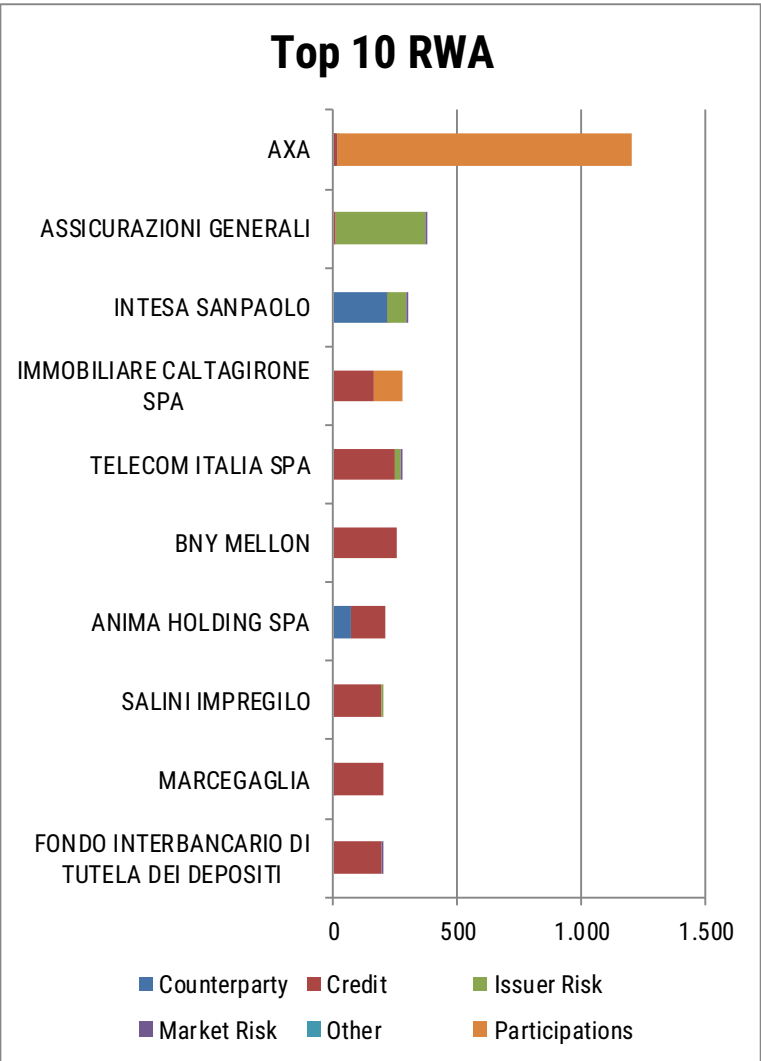
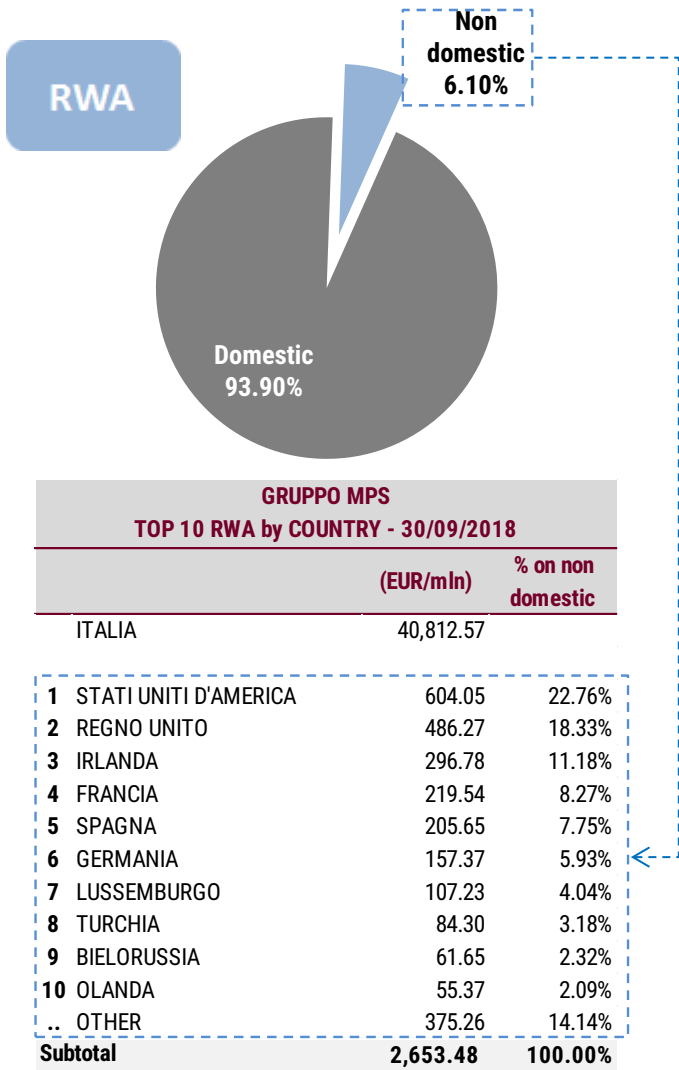
(Eur mln)		set-18						
Regulatory / Internal RWA		GROUP MPS	CCO	CFO	CEO	COO	CLO	CHCO
<b>Credit and Counterparty Risk</b>		<b>50.206</b>	<b>34.931</b>	<b>6.768</b>	<b>2.341</b>	<b>2.161</b>	<b>4.428</b>	-
	<b>Credit Risk</b>	<b>39.380</b>	<b>33.593</b>	<b>728</b>	<b>694</b>	<b>0</b>	<b>4.427</b>	-
	AIRB	31.385	27.571	0	2	0	3.812	-
	Standard	7.996	6.021	728	692	0	615	-
	<b>Counterparty Risk - Default Risk</b>	<b>1.408</b>	<b>872</b>	<b>536</b>	-	-	-	-
	<b>Issuer Risk Banking Book</b>	<b>1.619</b>	<b>156</b>	<b>1.449</b>	<b>15</b>	<b>0</b>	<b>0</b>	-
	<b>Market Risk Banking Book</b>	<b>184</b>	<b>21</b>	<b>161</b>	<b>0</b>	-	-	-
	<b>Participation Risk</b>	<b>1.694</b>	-	<b>1.768</b>	-	-	-	-
	<b>Real Estate Risk</b>	<b>2.161</b>	-	-	-	<b>2.161</b>	-	-
	<b>DTA Risk</b>	<b>2.053</b>	<b>191</b>	<b>2.117</b>	<b>35</b>	<b>0</b>	<b>0</b>	-
	<b>Other Risk</b>	<b>1.707</b>	<b>98</b>	<b>8</b>	<b>1.597</b>	<b>0</b>	<b>0</b>	-
<b>Market Risk</b>		<b>2.880</b>	<b>2.803</b>	<b>77</b>	-	-	-	-
	Market Risk Trading Book	2.533	2.456	77	-	-	-	-
	Issuer Risk Trading Book	347	347	0	-	-	-	-
<b>Operational Risk</b>		<b>9.721</b>	<b>6.674</b>	<b>523</b>	<b>1.359</b>	<b>606</b>	<b>0</b>	<b>606</b>
<b>Counterparty Risk - CVA Risk</b>		<b>421</b>	<b>279</b>	<b>142</b>	-	-	-	-
<b>Concentration Risk - Large Exposures</b>		-	-	-	-	-	-	-
<b>REGULATORY RWA</b>		<b>63.227</b>	<b>44.687</b>	<b>7.510</b>	<b>3.701</b>	<b>2.767</b>	<b>4.428</b>	<b>606</b>
<b>PILLAR 1 Component</b>		<b>60.510</b>	<b>42.209</b>	<b>7.272</b>	<b>3.701</b>	<b>2.767</b>	<b>4.428</b>	<b>606</b>
<b>Market Risk</b>		<b>4.939</b>	<b>1.001</b>	<b>3.917</b>	<b>148</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Market Risk BB	4.034	119	3.889	138	0	0	0
	Market Risk TB	904	883	28	10	0	0	0
<b>Interest Rate Risk BB</b>		<b>2.334</b>	-	<b>2.334</b>	-	-	-	-
<b>Concentration Risk</b>		<b>1.081</b>	<b>1.930</b>	-	<b>1</b>	-	-	-
<b>Business and Strategic Risk</b>		<b>4.065</b>	<b>687</b>	<b>0</b>	<b>4.424</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>INTERNAL RWA</b>		<b>72.928</b>	<b>45.828</b>	<b>13.523</b>	<b>8.272</b>	<b>2.767</b>	<b>4.428</b>	<b>606</b>
<b>INTERNAL RWA - Dec-18 *</b>		<b>75.939</b>	<b>46.786</b>	<b>12.309</b>	<b>8.379</b>	<b>2.691</b>	<b>4.960</b>	<b>634</b>
<b>Internal RWA Set-18/Internal RWA Dic-18</b>		<b>96%</b>	<b>98%</b>	<b>110%</b>	<b>99%</b>	<b>103%</b>	<b>89%</b>	<b>95%</b>

\* The CFO and CLO estimated Internal RWA at dec-18 are updated according to Appetite deliberated by BoD as at sep 6<sup>th</sup>, 2018; the CLO estimated Internal RWA at dec-18 include the RWA on defaulted asset expected by December 2018.

**Internal RWA**  
Breakdown per Legal Entity/Risk  
Eur/mln as at 30-09-2018



Section 2 – Integrated Risks: Risk Concentrations as at 30-09-2018



## Section 3 - Total Credit Portfolio: AIRB and Standard

Values in €/mln, regulatory risk measures	RWA by Portfolio							Change (MoM)	Change vs 2017	Expected FY 2018
	Dec-17	Mar-18	Jun-18	Jul-18	Aug-18	Sep-18	Dec-18			
<b>Standard</b>	7.543	7.448	7.050	6.858	6.626	6.597		-0,44%	-12,54%	7.057
- of which Performing	6.580	6.493	6.272	6.127	5.902	5.894		-0,14%	-10,43%	6.169
- of which Non-Performing	963	955	778	731	724	703		-2,90%	-27,00%	888
<b>AIRB</b>	26.631	27.238	30.475	31.729	31.597	31.372		-0,71%	17,80%	34.544
- of which Performing	26.631	27.238	27.555	27.536	27.446	27.318		-0,47%	2,58%	28.487
- of which Non-Performing	0	0	2.920	4.193	4.151	4.054		-2,34%	0,00%	6.058
<b>TOTAL</b>	34.174	34.686	37.525	38.587	38.223	37.969		-0,66%	11,10%	41.601

Values in €/mln, regulatory risk measures	EAD by Portfolio							Change (MoM)	Change vs 2017	Expected FY 2018
	Dec-17	Mar-18	Jun-18	Jul-18	Aug-18	Sep-18	Dec-18			
<b>Standard</b>	22.049	16.330	18.076	16.497	15.589	17.501		12,27%	-20,63%	19.231
- of which Performing	21.027	15.337	17.260	15.715	14.799	16.719		12,97%	-20,49%	17.555
- of which Non-Performing	1.022	993	816	782	790	782		-1,01%	-23,48%	1.676
<b>AIRB</b>	105.672	106.133	83.530	83.337	83.194	83.377		0,22%	-21,10%	79.022
- of which Performing	62.863	63.750	64.638	64.589	64.518	64.636		0,18%	2,82%	64.194
- of which Non-Performing	42.809	42.383	18.892	18.748	18.676	18.741		0,35%	-56,22%	14.828
<b>TOTAL</b>	127.721	122.463	101.606	99.834	98.783	100.878		2,12%	-21,02%	98.253

Values in €/mln, regulatory risk measures	Shortfall							Change (MoM)	Change vs 2017	Expected FY 2018
	Dec-17	Mar-18	Jun-18	Jul-18	Aug-18	Sep-18	Dec-18			
<b>Performing</b>	-48	-314	-296	-284	-302	-299		-0,99%	522,92%	-242
<b>Non-Performing</b>	-7.058	-8.090	-1.723	-1.482	-1.464	-1.423		-2,80%	-79,84%	-1386
PD	16	17	24	25	22	20		-9,09%	25,00%	27
UtoP	-517	-1.058	-602	-576	-566	-496		-12,37%	-4,06%	-461
Sofferenza	-6.557	-7.049	-1.145	-931	-920	-947		2,93%	-85,56%	-953
<b>TOTAL</b>	-7.106	-8.404	-2.019	-1.766	-1.766	-1.722		-2,49%	-75,77%	-1.628

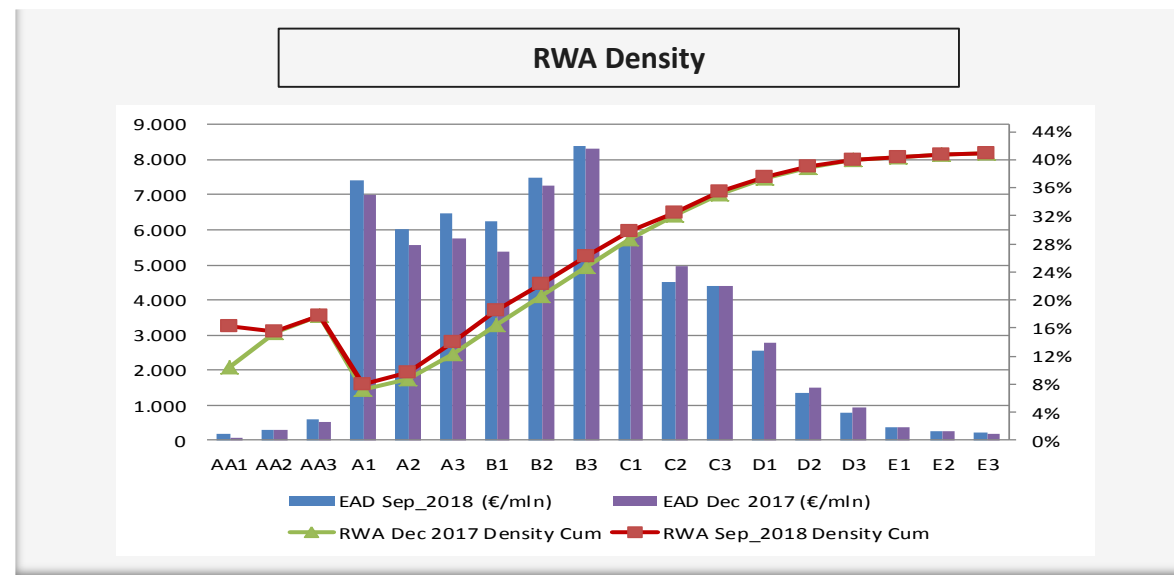
### In September:

- ❑ **RWAs at €38,0 bn**, down by €254 mln vs. August, mainly due to the **Corporate Division of AIRB performing portfolio** (-€125 mln, driven by classification in Utop of Astaldi spa) and to **CLO AIRB non performing portfolio** (-€87 mln).
- ❑ **EAD up by approx. €2,1 bn** vs. August, mainly due to **CFO Standard performing portfolio** (+€1.638 mln including exposure vs. Bankit, +€87 mln excluding it).
- ❑ **Shortfall remains substantially stable** vs. the previous month (expected losses exceeding accounting provisions).



## Section 3 - AIRB Performing Portfolio\*: RWA Density by Rating Classes, PD and LGD Evolution

LGD Evolution												
Values in €/mln, regulatory risk measures												
	Dec-17		Mar-18		Jun-18		Jul-18		Aug-18		Sep-18	
FINANCIAL COLLATERAL	406	0,7%	367	0,6%	360	0,6%	356	0,6%	355	0,6%	351	0,6%
LGD	0,00%		0,00%		0,00%		0,00%		0,00%		0,00%	
REAL ESTATE COLLATERAL	37.051	60,4%	36.472	58,6%	36.775	58,2%	36.713	58,2%	36.996	58,7%	37.124	58,8%
LGD	16,15%		16,02%		16,02%		16,05%		16,05%		16,04%	
PERSONAL GUARANTEES	1.226	2,0%	1.393	2,2%	1.404	2,2%	1.385	2,2%	1.373	2,2%	1.351	2,1%
LGD	37,43%		37,58%		37,89%		38,20%		38,02%		37,93%	
UNSECURED	22.670	37,0%	23.955	38,5%	24.618	39,0%	24.629	39,0%	24.275	38,5%	24.290	38,5%
LGD	42,32%		42,32%		42,35%		42,50%		42,56%		42,49%	
<b>TOTAL EAD</b>	<b>61.353</b>	<b>100%</b>	<b>62.187</b>	<b>100%</b>	<b>63.157</b>	<b>100%</b>	<b>63.083</b>	<b>100%</b>	<b>62.999</b>	<b>100%</b>	<b>63.116</b>	<b>100%</b>
<b>AVERAGE LGD</b>	<b>26,14%</b>		<b>26,54%</b>		<b>26,68%</b>		<b>26,77%</b>		<b>26,65%</b>		<b>26,60%</b>	



PD Evolution							
Values in €/mln, regulatory risk measures							
	EAD			AVG PD			
	Dec-17	Aug-18	Sep-18	Dec-17	Aug-18	Sep-18	Δ bps
Upgrading	13.281	13.114	14.039	2,97%	1,29%	1,26%	-38
Stable	32.136	31.740	29.752	1,67%	1,59%	1,58%	-4
Downgrading	13.167	13.034	13.546	1,84%	4,18%	3,75%	46
Default flow	708	669	917	12,38%	100,00%	100,00%	-15
Out	2.060	0	0	2,64%	0,00%	0,00%	-2
Cured	409	363	444	100,00%	10,50%	10,08%	6
New Inputs	0	4.748	5.338	0,00%	1,28%	1,23%	-7
<b>Total Performing</b>	<b>61.352</b>	<b>62.999</b>	<b>63.118</b>	<b>2,14%</b>	<b>2,09%</b>	<b>2,00%</b>	<b>-14</b>

- ❑ The Average LGD of AIRB Performing Portfolio at 26,60%, improving vs. August (-5 bps), driven by a lower average LGD on unsecured loans (-7 bps vs. August).
- ❑ Average PD improving by 9 bps vs. previous month and by 14 bps vs. December 2017:
  - ✓ improvements by **Default flow** (-15 bps), **New Inputs** (-7 bps) and **Out** (-2 bps), *partially offset by*
  - ✓ worsening of **positions classified performing from the begin of the year** (+4 bps vs. December 2017, improving by 6 bps vs. +10 bps as of August 2018) and by **Cured positions** (+6 bps).
- ❑ Average RWA Density equal to 41%, substantially stable vs. December 2017 (40,9%).



## Section 3 - Credit Portfolio: Performing and Non-Performing Exposures

Values in €/mln

		Dec-17 IAS39			Dec-17 FTA			Jun-18			Aug-18			Sep-18		
Stage 1		GBV	Provisions	Coverage	GBV	Provisions	Coverage	GBV	Provisions	Coverage	GBV	Provisions	Coverage	GBV	Provisions	Coverage
RATING	A	30.729	12,8	0,04%	30.729	8,6	0,03%	29.168	11,5	0,04%	27.013	10,3	0,04%	28.863	10,3	0,04%
	A**	24.117	12,8	0,05%	24.117	8,6	0,04%	25.391	11,5	0,05%	25.021	10,3	0,04%	25.319	10,3	0,04%
	B	22.339	54,1	0,24%	22.339	35,9	0,16%	23.146	28,3	0,12%	22.855	27,6	0,12%	23.124	35,8	0,15%
	C	11.229	81,0	0,72%	11.229	39,4	0,35%	11.326	47,3	0,42%	10.875	33,1	0,30%	10.771	32,7	0,30%
	D	840	21,3	2,53%	840	8,1	0,96%	932	7,8	0,83%	894	7,3	0,81%	904	7,8	0,86%
	E	57	6,4	11,08%	57	2,0	3,48%	51	1,5	2,98%	68	0,9	1,30%	30	0,1	0,49%
TOTAL**		58.582	175,5	0,30%	58.582	93,9	0,16%	60.845	96,4	0,16%	59.712	79,1	0,13%	60.148	86,8	0,14%

Values in €/mln

		Dec-17 IAS39			Dec-17 FTA			Jun-18			Aug-18			Sep-18		
Stage 2		GBV	Provisions	Coverage	GBV	Provisions	Coverage	GBV	Provisions	Coverage	GBV	Provisions	Coverage	GBV	Provisions	Coverage
RATING	A**	870	1,3	0,15%	870	7,9	0,90%	678	4,8	0,71%	728	5,1	0,71%	742	5,2	0,71%
	B	1.839	16,7	0,91%	1.839	36,7	1,99%	2.110	31,5	1,49%	2.163	40,0	1,85%	2.111	30,9	1,46%
	C	8.034	78,7	0,98%	8.034	233,7	2,91%	7.273	206,4	2,84%	7.251	207,5	2,86%	7.372	210,0	2,85%
	D	5.711	180,1	3,15%	5.711	341,9	5,99%	5.533	306,3	5,54%	5.411	294,9	5,45%	5.264	330,9	6,29%
	E	1.148	91,9	8,00%	1.148	124,2	10,81%	1.268	164,2	12,95%	1.247	155,0	12,43%	1.212	117,9	9,72%
TOTAL		17.602	368,7	2,09%	17.602	744,3	4,23%	16.862	713,2	4,23%	16.801	702,5	4,18%	16.702	694,9	4,16%

Values in €/mln

		Dec-17 IAS39			Dec-17 FTA			Jun-18			Aug-18			Sep-18		
Stage 3		GBV	Provisions	Coverage	GBV	Provisions	Coverage	GBV	Provisions	Coverage	GBV	Provisions	Coverage	GBV	Provisions	Coverage
DEFAULT	Past due	530	139,6	26,35%	530	194,8	36,79%	409	152,0	37,13%	384	139,3	36,30%	379	140,5	37,04%
	IP Rete	1.532	450,7	29,42%	1.532	553,5	36,13%	858	285,0	33,24%	807	262,5	32,52%	922	285,2	30,94%
	Ristrutturati	3.888	1.577,8	40,58%	3.888	1.701,7	43,76%	3.773	1.690,2	44,80%	3.594	1.598,6	44,48%	3.438	1.546,3	44,98%
	Massivo	774	302,5	39,07%	774	386,6	49,94%	1.038	528,7	50,92%	1.090	564,5	51,77%	1.062	556,6	52,42%
	Rischio Anomalo	5.312	2.331,8	43,90%	5.312	2.609,8	49,13%	4.774	2.322,9	48,66%	4.539	2.213,2	48,76%	4.303	2.078,0	48,29%
	Bad loans	9.295	5.965,9	64,18%	9.295	6.567,4	70,65%	9.989	7.026,2	70,34%	10.126	7.136,3	70,47%	10.514	7.400,4	70,39%
TOTAL		21.332	10.768,3	50,48%	21.332	12.013,9	56,32%	20.841	12.005,1	57,60%	20.541	11.914,4	58,00%	20.618	12.007,0	58,24%

Budget format - Loans on/off balance sheet and related provisions both inclusive of default interest      \*\*net of exposures to Bankit

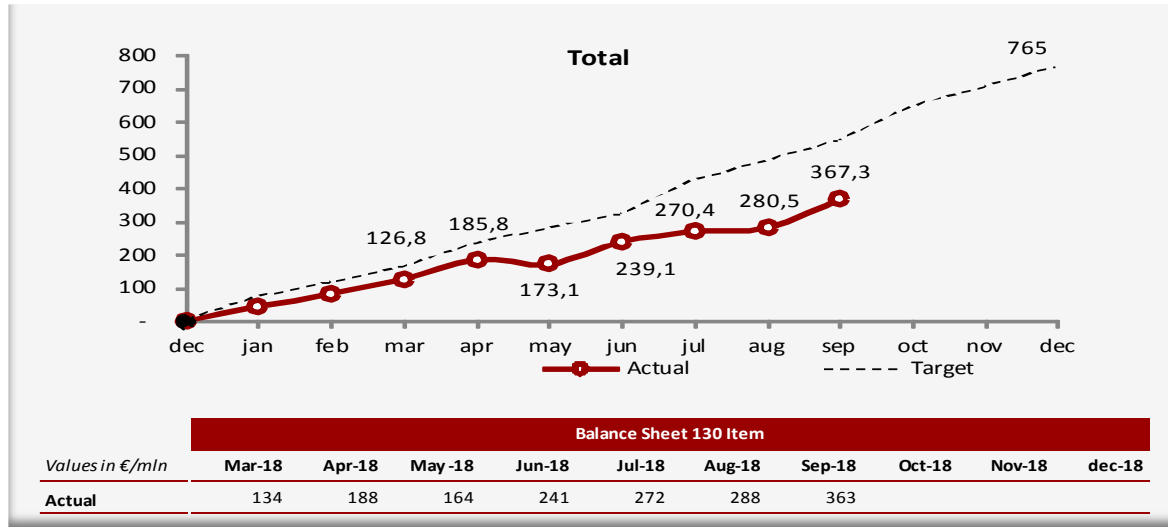
❑ In the month of September **Performing Exposure** up by €337 mln vs. August. In particular:

- ✓ **Stage1 GBV** up by €435 mln vs. August, mainly due to **new customers** on classes A and B;
- ✓ **Stage2 GBV decreases** by €98 mln vs. August; it's worth highlighting the decrease due to the **default flow of September** (€262 mln, whose €160 mln referred to Astaldi SpA).

❑ The month of September registers a slight **increase in Stage3 GBV** of €76 mln vs. August. In particular it is observed an increase of bad loans by €387 mln, partially offset by a reduction of UtoP loans by €306 mln.



## Section 3 - Net Loan Loss Provision: Cost of Performing and Non-Performing Loans

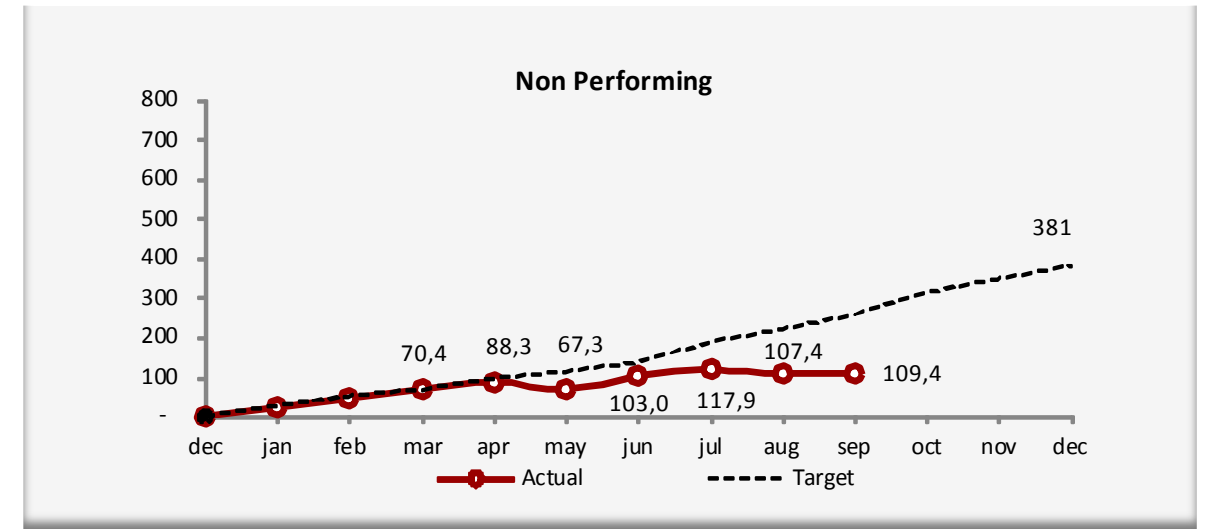
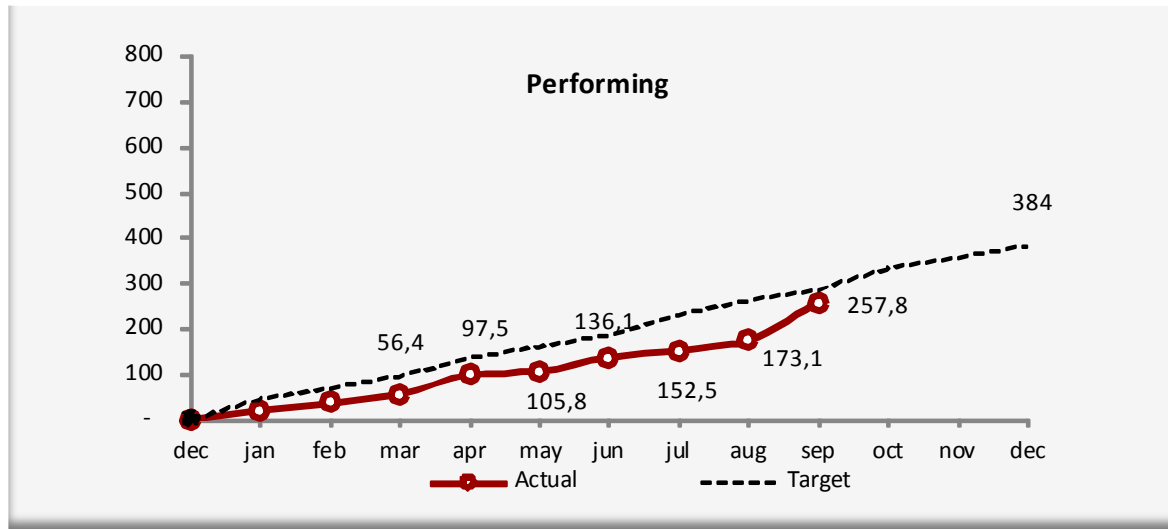


Net Loan Loss Provision as of September 2018 equal to €367,3 mln, €176,7 mln lower than budget value of €544 mln, in particular:

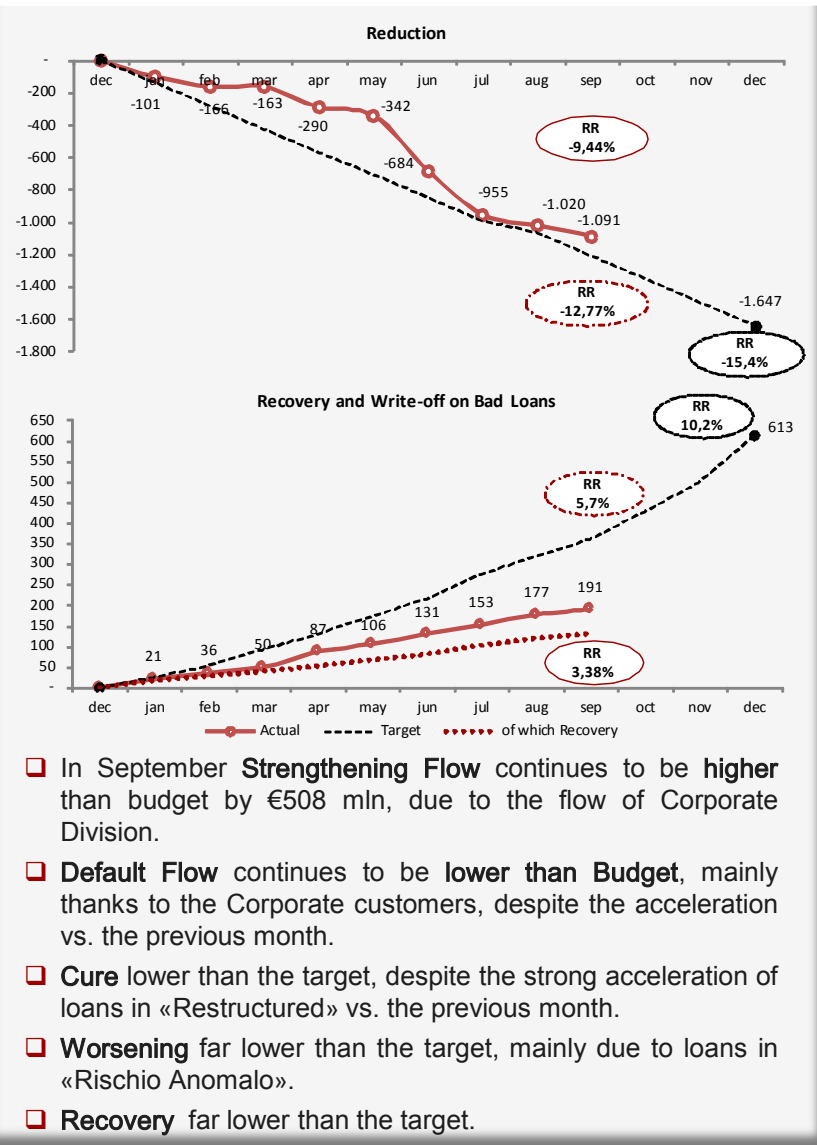
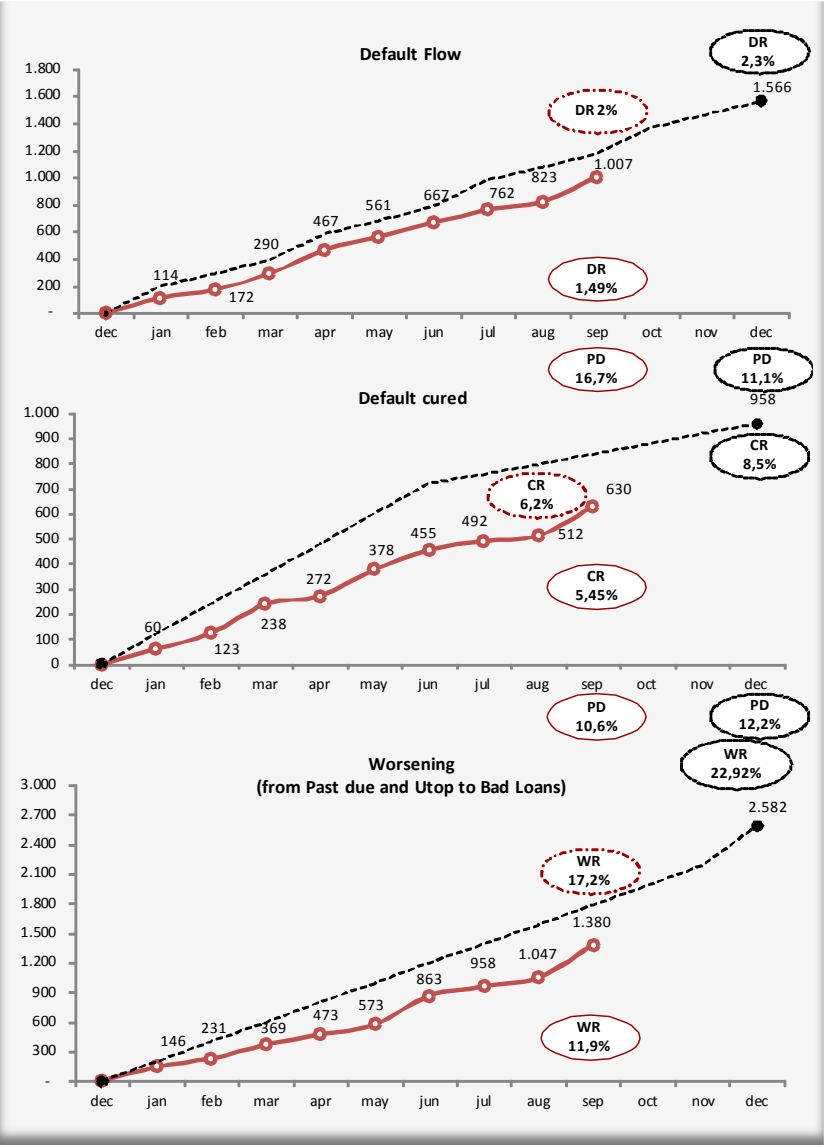
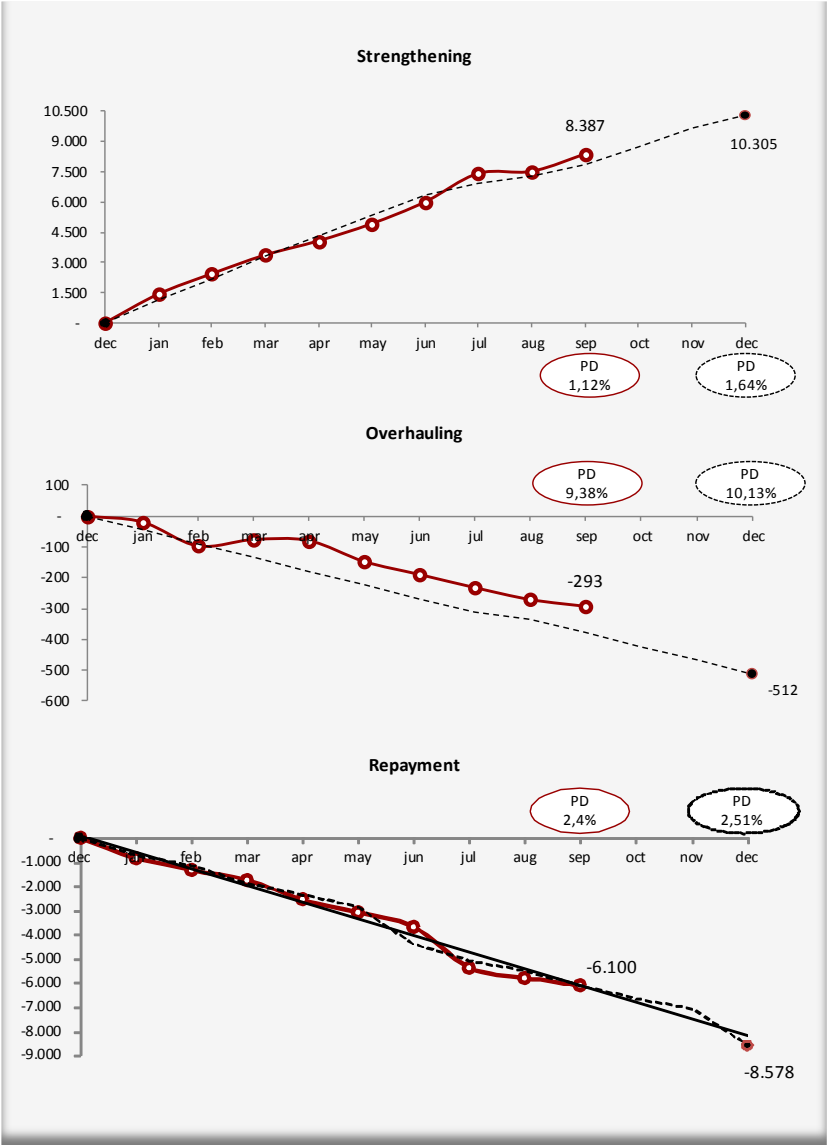
✓ **Cost of the Performing Loans** at €257,8 mln, €28,1 mln lower than budget value of €285,9 mln (€85,8 mln the gap as of the 31th of August 2018), mainly due to the **default flow still lower than expected**, despite the acceleration occurred in September, primarily driven by the classification in Utop of Astaldi Spa (cost €35,4 mln);

✓ **Cost of the Non Performing Loans** at €109,4 mln, €148,6 lower than budget value of €258 mln (€111,1 mln the gap as of the 31th of August 2018), mainly due to a **worsening flow lower than expected** both in terms of **volume** (actual €1,972 mln vs. €2,449 mln expected) and **cost** (actual worsening cost at 10,5% vs. 17,6% expected);

□ The month of **September** registers a cost of about €87 mln, with **Performing Cost** at €85 mln (totally driven by default flow) and **Non Performing Cost** at €2 mln.



Section 3 - Dashboard: Parameters - Credit Policies\*



- ❑ In September **Strengthening Flow** continues to be higher than budget by €508 mln, due to the flow of Corporate Division.
- ❑ **Default Flow** continues to be lower than Budget, mainly thanks to the Corporate customers, despite the acceleration vs. the previous month.
- ❑ **Cure** lower than the target, despite the strong acceleration of loans in «Restructured» vs. the previous month.
- ❑ **Worsening** far lower than the target, mainly due to loans in «Rischio Anomalo».
- ❑ **Recovery** far lower than the target.





## Section 3 - Credit Risk Limits: Summary of limits breach

Risk Limits	Aggregation Level	FY17								EXPECTED SIGN	LIMITS			
			31/03/2018	30/04/2018	31/05/2018	30/06/2018	31/07/2018	31/08/2018	30/09/2018		mar-18	jun-18	sep-18	dec-18
Cure Rate on UtoP Loans	CLO	4,04%	0,62%	0,78%	1,74%	2,13%	2,30%	2,38%	3,57%	>	1,93%	3,86%	4,50%	5,15%
Reduction (Bad Loans)	CLO	1.231	49	87	106	131	154	177	191	>	83	196	330	558
Average Pd (Airb)	CCO	2,13%	2,17%	2,16%	2,13%	2,12%	2,08%	2,09%	2,00%	<	2,08%	2,03%	1,98%	1,93%
Cured Exposures	CCO	270	180	195	226	249	266	276	293	>	126	252	294	336
Portfolio worsening towards UtoP / Bad Loans (flow)	CCO	1.442	383	468	516	701	745	775	844	<	258	516	775	1.119
Average Pd (Airb)	CCO Corporate	2,64%	2,73%	2,76%	2,73%	2,70%	2,65%	2,69%	2,48%	<	2,58%	2,51%	2,45%	2,39%
Exposures Amount (Performing)	CCO Corporate	32.853	34.074	33.919	34.137	34.488	34.236	33.814	33.837	<	33.398	33.298	33.198	33.098
Cured Exposures	CCO Retail	170	111	123	138	159	174	186	201	>	86	173	202	230
Portfolio worsening towards UtoP / Bad Loans (flow)	CCO Retail	601	109	164	201	368	404	428	482	<	123	246	369	533
Cure Rate on UtoP Loans	MPSCS	8,00%	1,43%	1,60%	2,18%	2,40%	2,93%	3,08%	3,78%	>	2,34%	4,67%	5,45%	6,23%
Reduction (Bad Loans)	MPSCS	152	9	10	15	25	28	34	36	>	16	38	64	108
Exposures Amount (Performing)	MPSCS	4.435	4.504	4.492	4.476	4.398	4.406	4.399	4.518	<	4.514	4.393	4.271	4.150
Average Pd (Airb)	MPSLF	2,68%	2,74%	2,79%	2,91%	2,82%	2,76%	2,84%	2,84%	<	2,68%	2,60%	2,51%	2,42%

Risk Limits	Aggregation Level	FY17								EXPECTED SIGN	LIMITS			
			31/03/2018	30/04/2018	31/05/2018	30/06/2018	31/07/2018	31/08/2018	30/09/2018		mar-18	jun-18	sep-18	dec-18
Average Pd (Airb)	MPSCS	3,32%	3,18%	3,66%	3,57%	3,15%	3,18%	3,11%	2,86%	<	3,22%	3,11%	3,01%	2,91%
Cure Rate on UtoP Loans	MPSLF	3,16%	0,91%	1,42%	2,11%	2,42%	2,38%	2,85%	4,14%	>	1,56%	3,13%	3,65%	4,17%

□ The table above summarizes the limits breaches as of the 30<sup>th</sup> of September 2018:

- **Cure Rate on UtoP Loans** (CLO, MPSCS) and **Reduction on Bad Loans** (CLO, MPSCS) continue to show values lower than floor limits, except for Cure Rate of MPSLF;
- **Worsening towards UtoP/Bad Loans** (CCO, CCO Retail) continues to register a value higher than cap limit;
- **Exposures Amount Performing** (CCO Corporate Division and MPSCS) remains higher than the cap limit;
- **Average PD (AiIRB)** (CCO, CCO Corporate, MPSLF) continues to show a value higher than cap limit, except for MPSCS.





## Section 4 – Operational Inherent Risks

The capital requirement for operational risks as at 30th September 2018 is 778 €/mln, substantially stable from June 2018.

As far as accounted operational risk losses in the 3<sup>rd</sup> quarter (17,9 €/mln) are concerned, their amount is lower than the previous quarter (Q2 2018), thus maintaining themselves under the average of 2017.

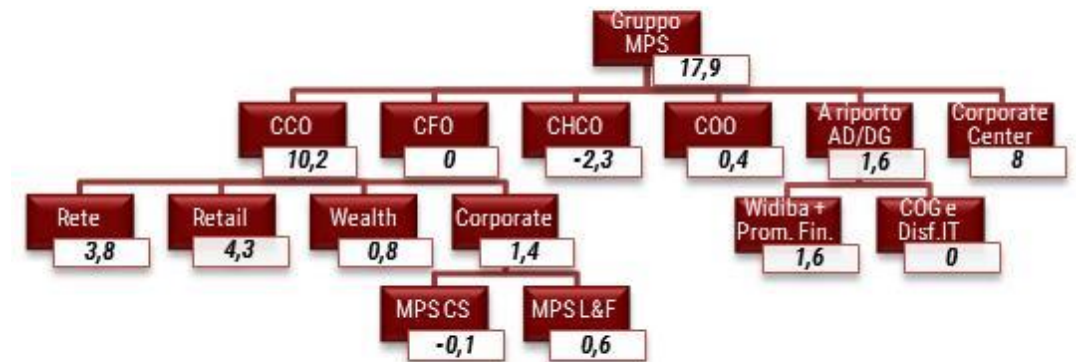
The most relevant losses are: the increased provision for the customer recommendation activity for diamond purchase (from 120 €/mln to 125 €/mln, +5 €/mln due to the raise of Rapaport's price list in September), and a new provision (3 €/mln) covering potential reimbursements of mistakes which led to overcome the usury threshold.

MPS GROUP - ACCOUNTED OPERATIONAL LOSSES					
		dec-17	mar-18	jun-18	sep-18
ACTUAL LOSSES	First-time Accounted Events	11,5	2,9	6,1	5,1
	Events with losses accounted for in the past	36,2	28,5	15,4	14,1
	<i>of which reduced allowance</i>	11,0	19,2	5,1	5,9
	<b>Total</b>	<b>47,7</b>	<b>31,4</b>	<b>21,5</b>	<b>19,2</b>
PROVISIONS	First-time Accounted Events	13,5	16,8	9,1	10,6
	Events with losses accounted for in the past	94,7	-34,8	29,1	-11,8
	<i>of which increased allowance (larger loss estimation)</i>	144,0	4,1	48,9	9,9
	<i>of which reduced allowance (smaller loss estimation)</i>	-38,3	-19,7	-14,7	-15,8
	<i>of which reduced allowance</i>	-11,0	-19,2	-5,1	-5,9
	<b>Total</b>	<b>108,2</b>	<b>-18,0</b>	<b>38,2</b>	<b>-1,3</b>
TOTAL	First-time Accounted Events	25,0	19,8	15,2	15,7
	Events with losses accounted for in the past	130,9	-6,3	44,5	2,3
	<b>Total</b>	<b>155,9</b>	<b>13,5</b>	<b>59,7</b>	<b>17,9</b>

### MPS GROUP - REGULATORY CAPITAL REQUIREMENTS

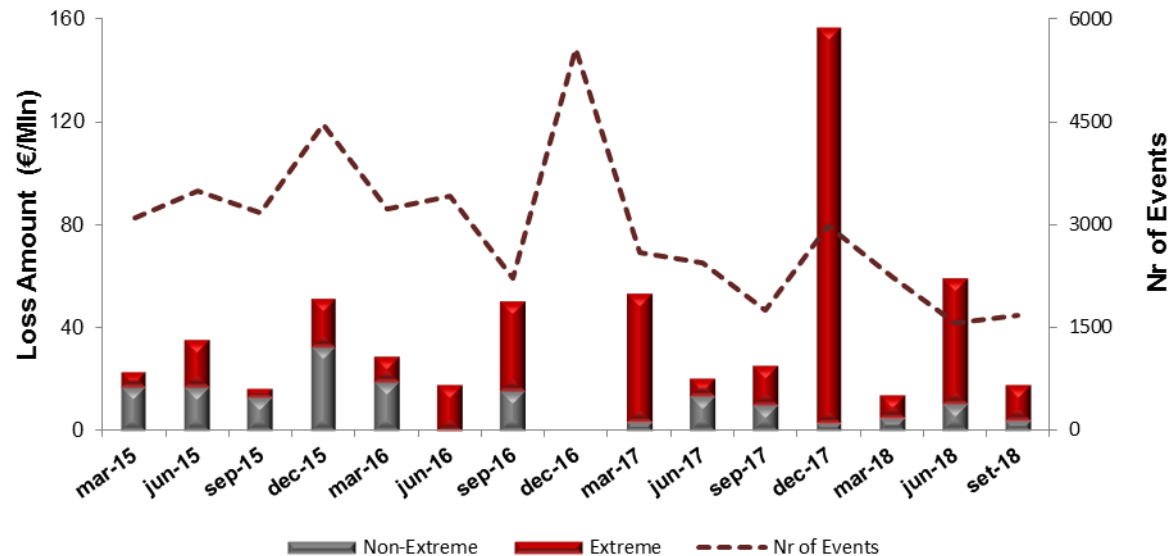
	€/mln	dec-17	mar-18	jun-18	sep-18	ΔQ/Q
REGULATORY CAPITAL REQUIREMENTS	AMA Regulatory Capital Requirements <i>of which:</i>	789.0	773.3	791.0	765.7	-3%
	ET1 - Internal Fraud	230.9	228.6	229.2	218.9	-4%
	ET2 - External Fraud	38.5	38.5	38.6	38.4	0%
	ET3 - Employment Relationship	23.7	25.8	26.4	17.8	-33%
	EVENT TYPE ET4 - Customers, products and operating practices	379.4	363.6	383.6	383.1	0%
	ET5 - Property damage	2.3	2.2	2.2	2.2	-1%
	ET6 - Business disruptions and system failures	14.2	14.1	13.9	13.7	-1%
	ET7 - Process management, execution and delivery	100.0	100.6	97.0	91.5	-6%
	BIA Regulatory Capital Requirements	11.9	11.9	11.9	11.9	0%
	<b>TOTAL REGULATORY CAPITAL REQUIREMENT</b>	<b>800.9</b>	<b>785.3</b>	<b>802.9</b>	<b>777.7</b>	<b>-3%</b>
	<b>TOTAL RWA</b>	<b>10,012</b>	<b>9,816</b>	<b>10,037</b>	<b>9,721</b>	<b>-3%</b>

### ALLOCATION OF LOSSES TO BUSINESS UNITS



## Section 4 – Operational Inherent Risks

### EXTREME vs NON-EXTREME EVENTS



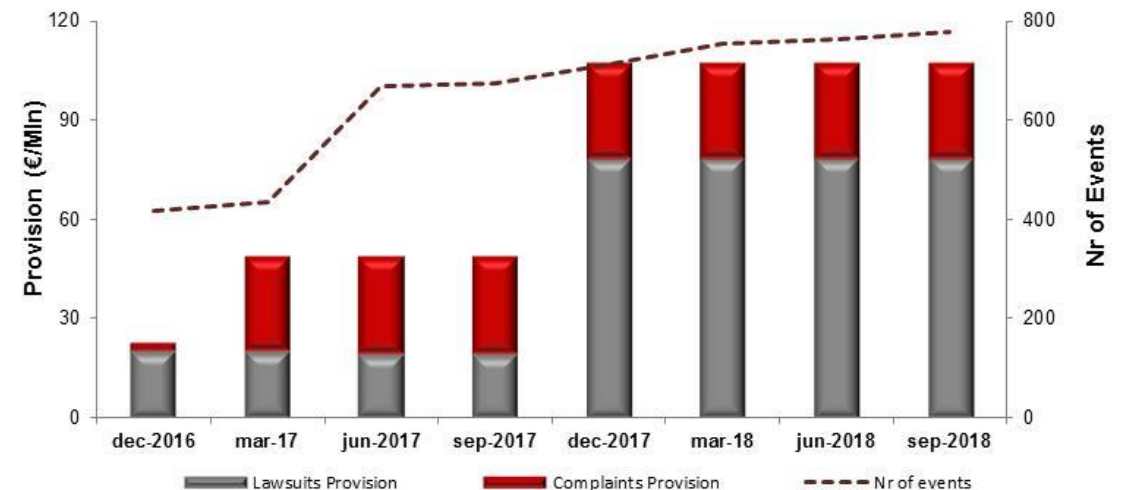
The provision relating to the customer recommendation activity for diamond purchases increases from 120 €/mIn to 125 €/mIn; in the quarter, the first disbursements for settlement transactions were registered (0,6 €/mIn, of which 0,4 €/mIn covered by provision). As at 30 September 2018, nearly 3.700 requests have been received for a total value of 116 €/mIn.

Provisions for disputes over past capital increase operations remained stable during the quarter.

Operational risk losses accounted in the quarter are mainly due to high impact and low frequency events (Extreme Events), although the total loss is not significant.

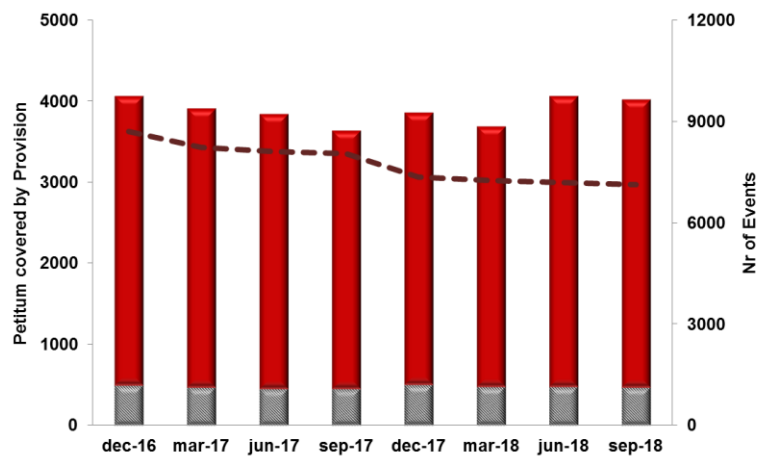
In particular the high impact losses recorded (Extreme Events) are primarily related to the increase of the provision for customer recommendation activity in diamond investment and for new provisions covering potential reimbursements of mistakes which led to overcome the usury threshold.

### AUCAP



## Section 4 – Legal Risk

**BMPS - LAWSUITS**  
STOCK VALUE

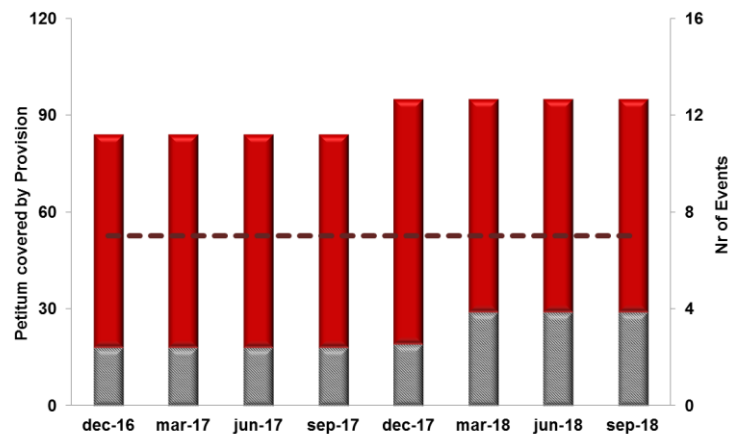


As far as Banca MPS as at 30th September 2018 is concerned, with reference to 30<sup>th</sup> June 2018, litigations remained quite unchanged in terms of number (0%), provision (-2%) and pettium (-1%) of claims:

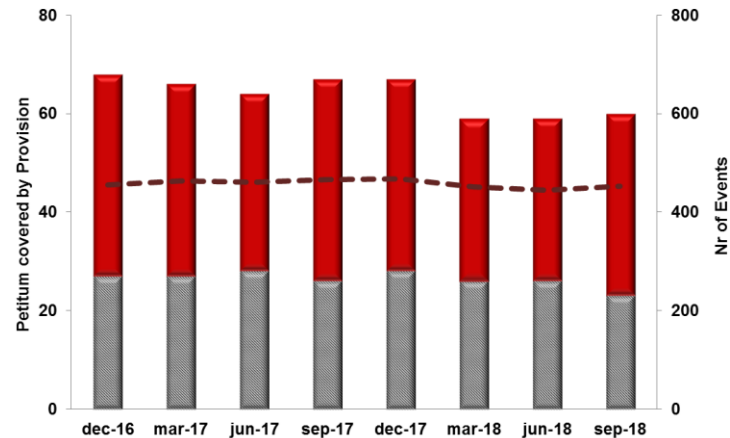
- ✓ **Lawsuits** are essentially stable. The main outstanding disputes refer to bankruptcy claw-backs (decreased from the previous quarter: 10 disputes closed, with an overall pettium of approximately 11 €/mln and 1,5 €/mln losses).
- ✓ **Tax Litigations** have been stable since March 2018.
- ✓ **Labor Disputes** register a decrease in provision due to a partially favourable pronouncement in a relevant litigation (-3,5€/mln).
- ✓ **Complaints** remain substantially unaltered in the amount exposed, despite an increase in their number.

Finally, **Subsidiary companies'** litigations show no significant variation.

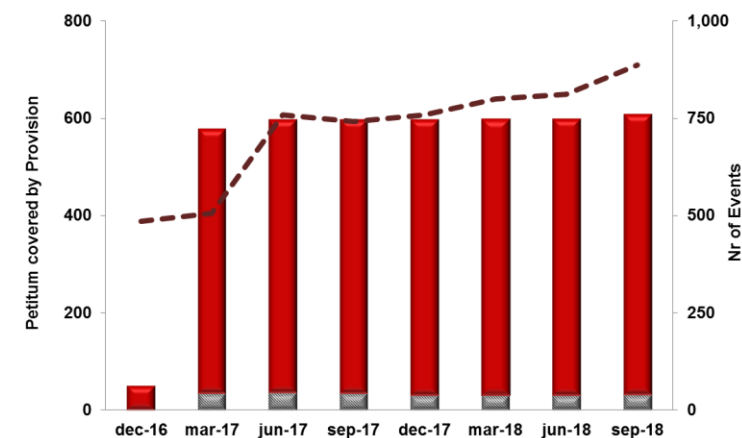
**BMPS - TAX LITIGATION**  
STOCK VALUE



**BMPS - LABOR DISPUTES**  
STOCK VALUE



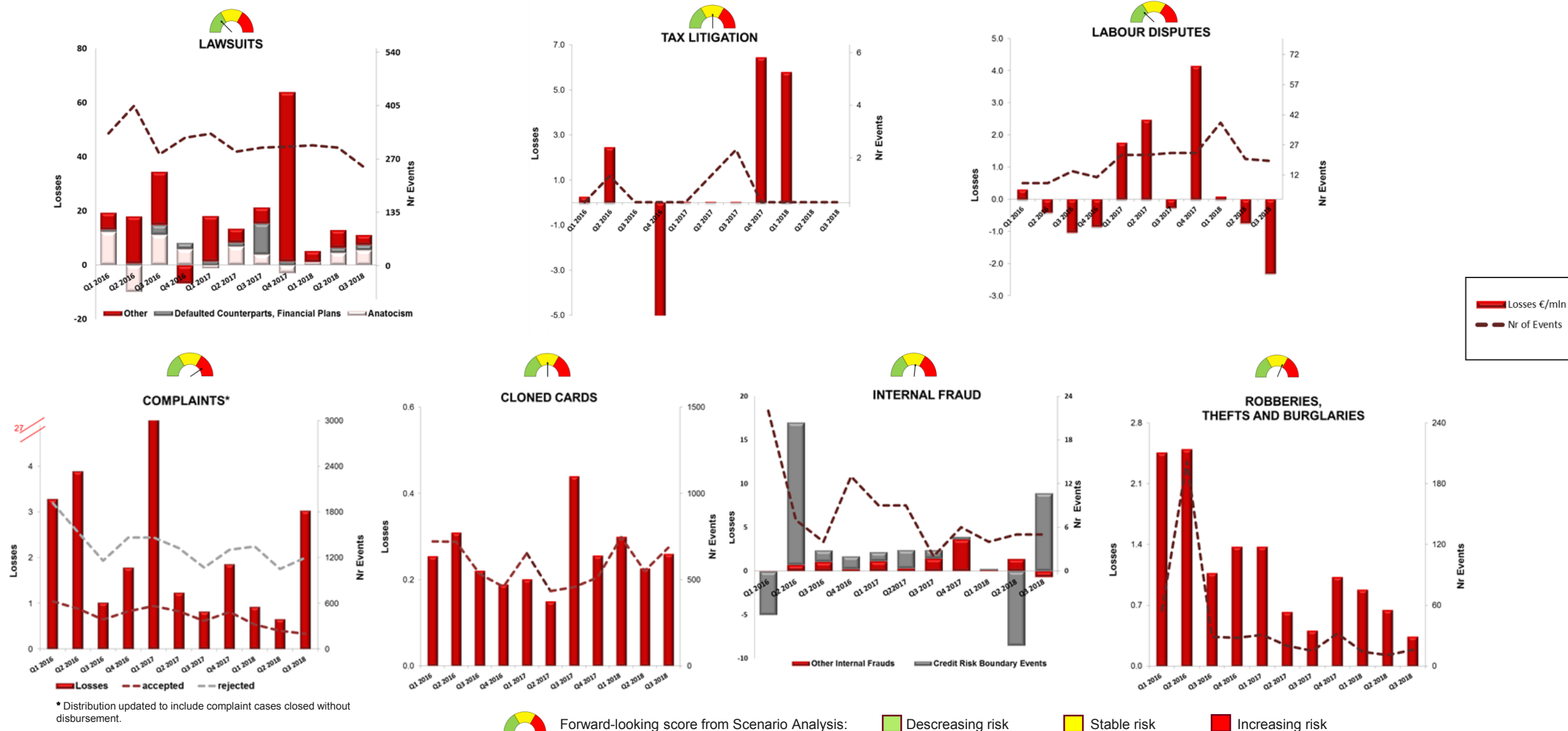
**BMPS - COMPLAINTS**  
STOCK VALUE






■ Pettium 
 ■ of which, covered by Provisions 
 — Nr of Events



## Section 4 – Operational KRI



## Section 4 – Operational Risk: Mitigation Plan

Activity	Mitigation action	Deadline	Progress status	Risk Highlighted	Owner/Relevance
IT Procedures	Improvements in the applications' input rules in order to guarantee the correctness of the balances for the monitoring and management of liquidity (gap RM_2017_00008).	30/06/2018 Q1 Q2 Q3 Q4	100% 	Mitigates the risk of incorrectness of balances for liquidity management	<b>MPS Capital Services</b> – Government e Money Market <b>High</b>
Management of guarantees – Collective Guarantee Bodies: mistakes and omissions in managing Confidi guarantees so that they cannot be called	Automatisation of the compulsory notifications towards guarantee bodies and creation of a dedicated data-exchange platform from and to Confidi (gap RM_2018_00003).	31/12/2018 Q1 Q2 Q3 Q4	30% 	Mitigates risk of mistakes and omissions in managing Confidi guarantees	<b>BMPS</b> – Direzione Corporate - Area Mercati E Prodotti Corporate - Servizio Finanza Agevolata, Organismi di Garanzia, Provvista e Agroalimentare <b>Medium</b>
Labour Disputes: disputes about salary framework and definition (also related to the working relationship termination)	Providing a technical note about working downgrading in order to avoid problems connected to salary framework and definition, also related to the working relationship termination (gap RM_2018_00002).	31/12/2018 Q1 Q2 Q3 Q4	95% 	Mitigates risks connected to labour disputes about salary framework and definition	<b>BMPS</b> – Direzione CHCO - Servizio rapporti di lavoro <b>Medium</b>

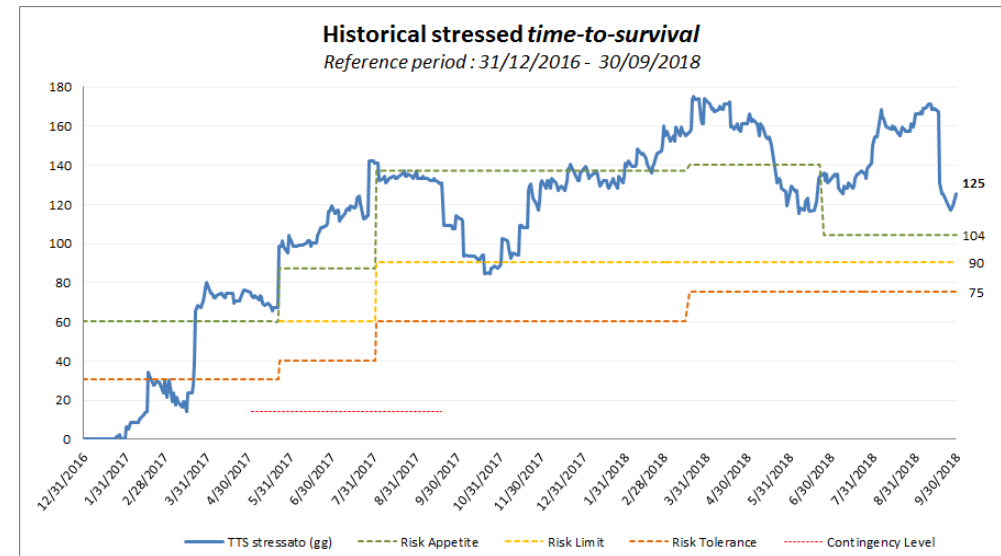
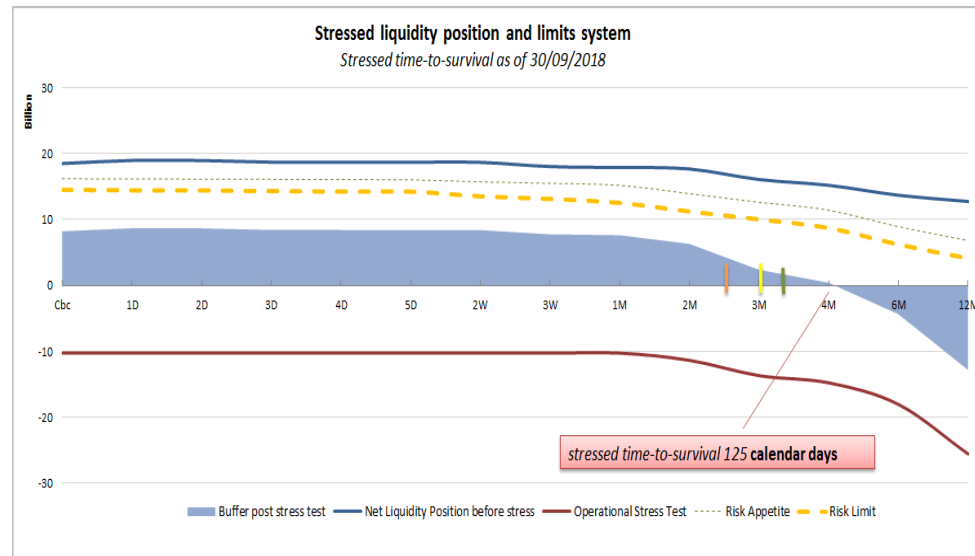
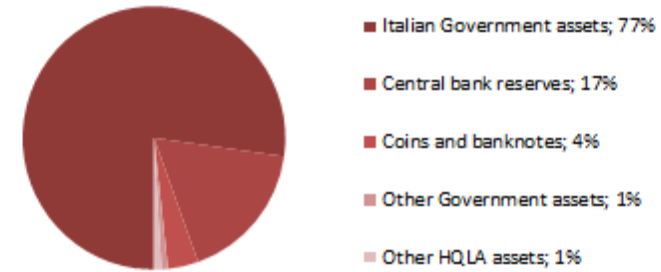


## Section 5 – Financial Risks: Short Term Liquidity Inherent Risk

LCR DA	31/08/18	30/09/18	Δ
(a) buffer	18.992	17.441	-1.550
(b) outflows	12.517	11.871	-646
(c) inflows	3.320	2.491	-829
ratio [a/(b-c)]	206%	186%	-20%

LCR decrease is mainly due to a consistent reduction in commercial flows (-1,89 €/bn, of which -1,92 €/bn related to the loss of funding with CSEA) and to an expected inflows decrease, largely caused by the following month end exemption within the 30 days time horizon (-0,67 €/bn).

LCR Buffer Composition  
MPS Group - 30.09.2018



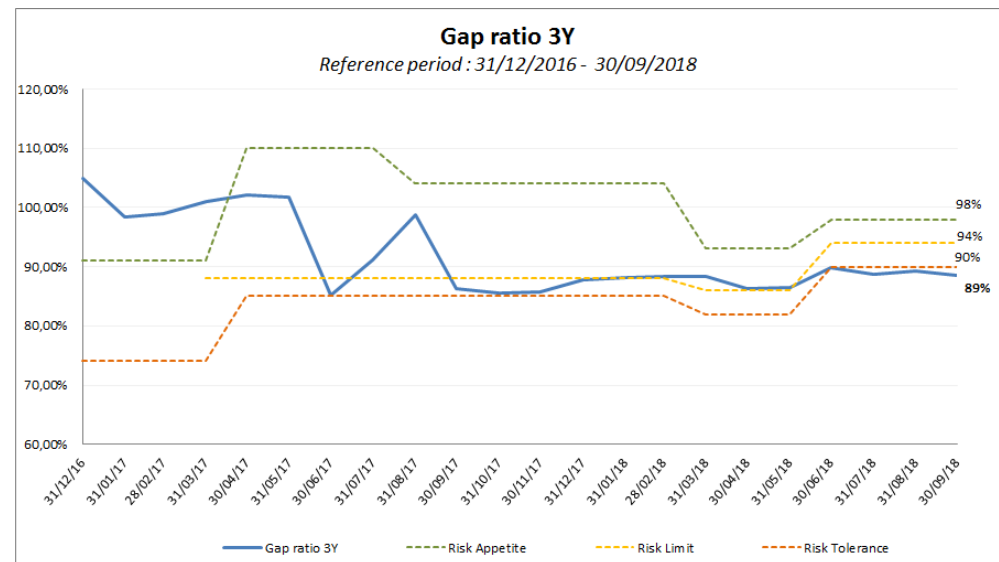
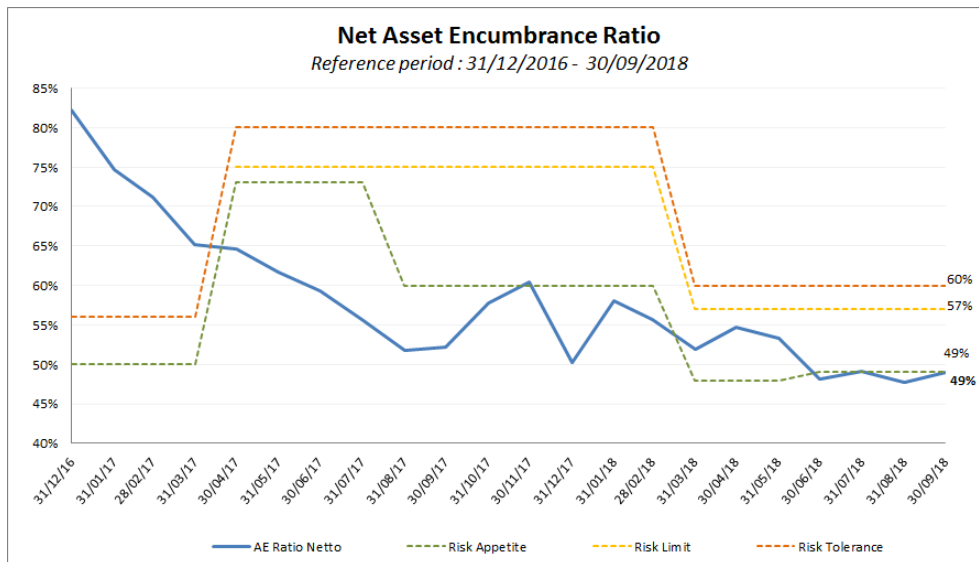
## Section 5 – Financial Risks: M/L Term Liquidity Inherent Risk

NSFR Basel III		31/08/18	30/09/18	Δ
(a)	ASF	95.878	95.054	-823
(b)	RSF	87.336	85.964	-1.373
ratio [a/b]		109,8%	110,6%	0,80%

The increase of NSFR is mainly due to decrease of financial assets (-0,7 €/bn) and to decrease of commercial assets (-0,4 €/bn), despite of a decrease of commercial funding and other balance sheet items. NSFR doesn't breaches Risk Limit (110%) anymore as at 30/09/2018.

As of 30-09-2018 Gap Ratio 3Y still breaches Risk Tolerance (90%).

The sharp decrease of Gap Ratio 2Y (88,2% vs 99% limit) is mainly due to shortening of residual maturity of ECB funding.





## Section 5 – Financial Risks: Liquidity Limits/Processes

				LIQUIDITY RISK LIMITS - MPS GROUP														
				dec-17	jan-18	feb-18	mar-18	apr-18	may-18	jun-18	jul-18	aug-18	sep-18	oct-18	nov-18	dec-18	Risk Limits	Check
SHORT TERM	Short Term Liquidity Indicators	Counterbalancing Capacity	€/mln	21.095	20.450	18.936	19.555	19.810	17.289	19.330	19.294	20.522	18.463				14.500	✓
		Net 1M Position	€/mln	18.726	18.402	17.933	18.764	18.249	16.314	17.009	18.739	19.991	17.869				12.500	✓
		Net 1M Position/tot assets	%	12,89%	12,67%	12,89%	13,72%	13,34%	11,93%	12,53%	13,81%	14,73%	13,17%				9,50%	✓
		Time-to-Survival	days	136	141	160	174	161	126	132	150	166	125				90	✓
		Contingency Reserve	€/mln				6.668	7.891	7.881	7.925	8.370	6.425	5.830				4.000	✓
	Regulatory Indicators	LCR		199%	216%	235%	196%	189%	209%	178%	200%	206%	185,9%				145%	✓
MEDIUM & LONG TERM	NSFR		110,0%	106,3%	107,6%	106,0%	103,7%	102,7%	108,7%	108,4%	109,8%	110,6%				110%	✓	
	Asset Encumbrance	Net Asset Encumbrance ratio		50,2%	58,0%	55,6%	51,9%	54,7%	53,3%	48,2%	49,1%	47,7%	49,0%				57%	✓
	Gap Ratio	MPS GROUP	Gap Ratio 1 Y	125,7%	125,9%	124,9%	114,7%	114,0%	115,9%	118,2%	117,8%	119,5%	119,2%				104%	✓
			Gap Ratio 2 Y	121,8%	115,8%	115,9%	108,3%	108,8%	111,2%	99,5%	98,2%	98,6%	88,2%				99%	✗
			Gap Ratio 3 Y	87,7%	88,2%	88,3%	88,3%	86,3%	86,4%	89,8%	88,7%	89,2%	88,5%				94%	✗
			Gap Ratio 4 Y	86,8%	85,9%	86,1%	88,7%	88,8%	88,9%	92,6%	91,3%	91,6%	90,7%				89%	✓
			Gap Ratio 5 Y	86,0%	86,9%	86,7%	90,6%	90,5%	90,6%	94,0%	92,6%	92,8%	91,6%				84%	✓
Com Gap Ratio	78,8%	78,0%	78,9%	81,2%	80,3%	78,7%	85,6%	82,3%	83,3%	82,0%				75%	✓			

### Liquidity Operating Limits

#### ➤ MPS Group:

- GR2Y breaches Risk Limit;
- GR3Y breaches Risk Tolerance;
- NSFR doesn't breach Risk Limit anymore.

#### ➤ Subsidiaries:

- No breaches.

			LIQUIDITY RISK LIMITS												Risk Limits	Check
			dec-17	jan-18	feb-18	mar-18	apr-18	may-18	jun-18	jul-18	aug-18	sep-18	oct-18	nov-18		
DOMESTIC SUBSIDIARIES	MPS CS	Gap Ratio 1 Y	109,6%	109,5%	107,7%	105,6%	101,4%	104,3%	104,7%	105,0%	104,8%	106,8%			103%	✓
		Gap Ratio 2 Y	106,1%	105,4%	105,2%	107,9%	108,4%	103,7%	105,1%	105,8%	105,7%	105,3%			103%	✓
		Gap Ratio 3 Y	109,2%	109,3%	108,5%	116,4%	116,8%	109,4%	104,3%	105,8%	105,5%	106,8%			103%	✓
		Gap Ratio 4 Y	121,6%	121,6%	120,9%	107,9%	108,6%	103,5%	106,1%	106,6%	107,4%	110,6%			103%	✓
		Gap Ratio 5 Y	120,3%	121,4%	120,2%	113,5%	114,1%	115,7%	107,9%	108,2%	107,6%	104,7%			103%	✓
	MPS L&F	Gap Ratio 1 Y	117,9%	117,3%	117,7%	103,7%	104,0%	102,2%	113,2%	112,4%	112,0%	111,6%			103%	✓
		Gap Ratio 2 Y	122,8%	124,5%	125,1%	109,3%	109,8%	109,8%	120,3%	119,8%	118,9%	118,7%			103%	✓
		Gap Ratio 3 Y	132,3%	134,5%	135,2%	117,8%	118,4%	118,6%	128,6%	128,4%	128,7%	128,4%			103%	✓
		Gap Ratio 4 Y	144,4%	147,3%	148,3%	128,7%	129,7%	130,0%	138,9%	139,4%	137,3%	136,9%			103%	✓
		Gap Ratio 5 Y	154,9%	158,0%	158,9%	135,2%	136,1%	136,6%	145,1%	146,0%	143,1%	142,8%			103%	✓
	WIDIBA	Gap Ratio 1 Y	204,9%	226,3%	227,0%	243,2%	252,9%	261,3%	299,0%	287,6%	288,5%	297,0%			130%	✓
		Gap Ratio 2 Y	202,2%	226,2%	223,0%	260,5%	269,0%	276,7%	308,6%	294,5%	296,0%	306,8%			130%	✓
		Gap Ratio 3 Y	209,8%	238,8%	232,4%	300,0%	307,9%	315,2%	301,7%	288,0%	289,5%	300,8%			130%	✓
		Gap Ratio 4 Y	187,9%	214,5%	206,8%	293,8%	301,3%	308,5%	295,2%	281,9%	283,5%	295,2%			130%	✓
		Gap Ratio 5 Y	170,7%	195,1%	186,1%	288,2%	295,3%	302,4%	289,2%	276,3%	278,1%	290,1%			130%	✓
FOREIGN SUBSIDIARIES	MP BANQUE	LCR	562%	702%	325%	352%	340%	441%	443%	376%	411%	279%			145%	✓
		NSFR	121%	-	-	119%	-	-	119%	-	-	114%			110%	✓
	MPS BELGIO	LCR	556%	225%	628%	366%	262%	403%	202%	234%	290%	251%			145%	✓
		NSFR	117%	118%	115%	124%	121%	118%	119%	115%	116%	116%			110%	✓

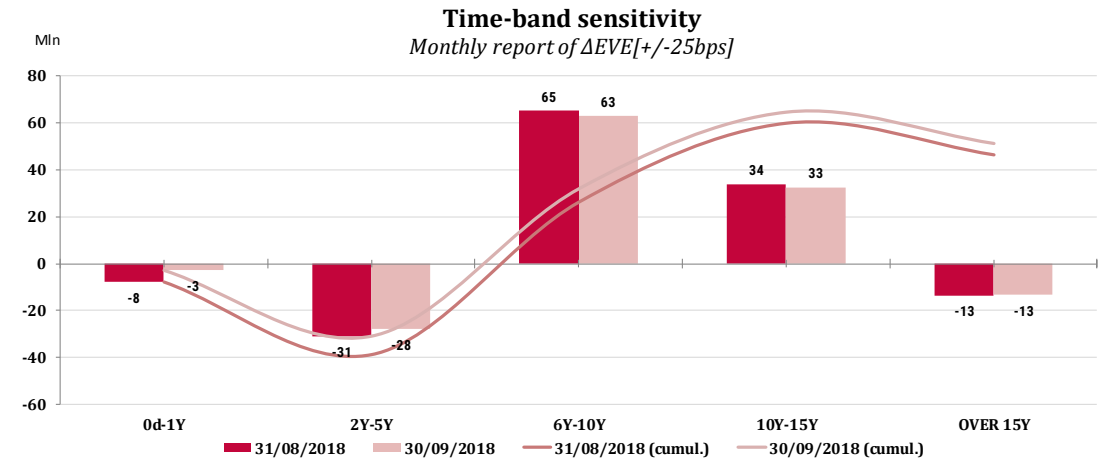
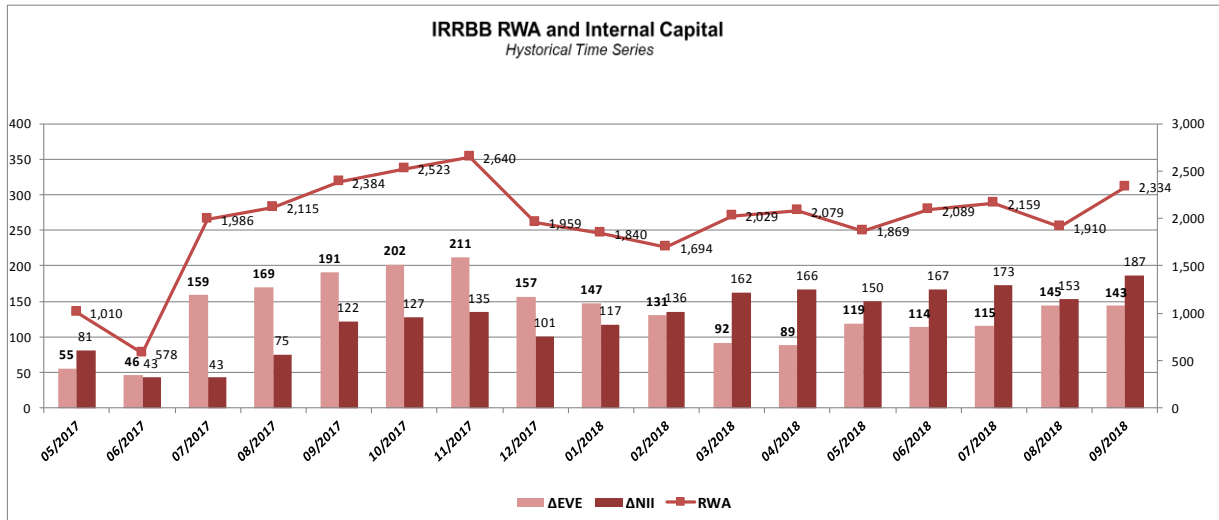
### Processes: Open Gaps

- No relevant Gaps Detected

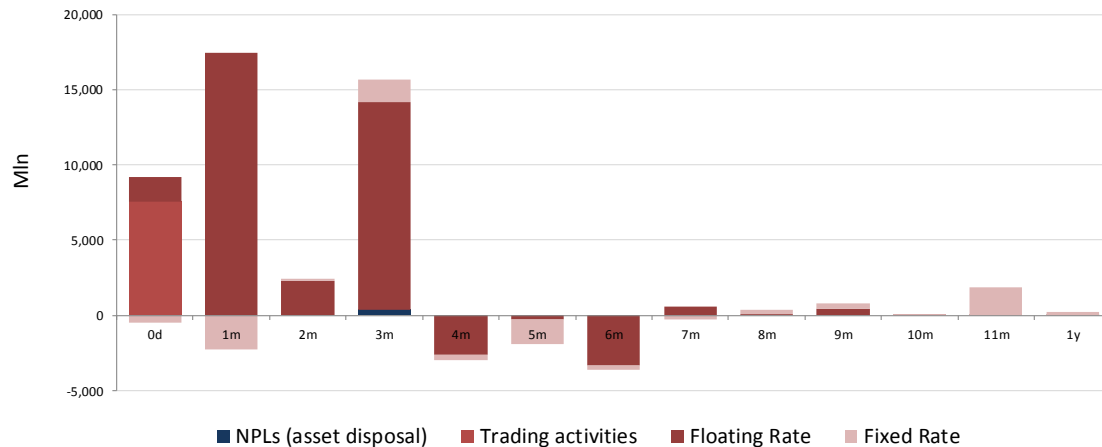




## Section 5 – Financial Risks: IRRBB Inherent Risk



**Repricing Gap analysis**  
*Assets/Liabilities in maturing/repricing up to 1Y*



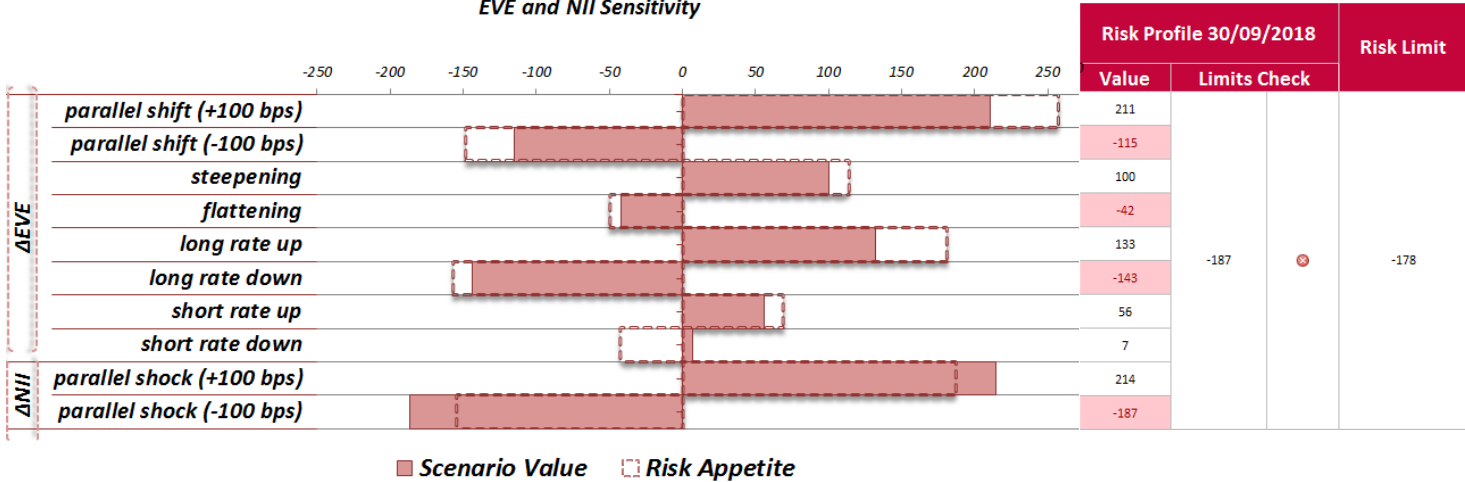
	ΔEVE +25 bps	Δ	ΔEVE -25 bps	Δ
<b>Gap Risk</b>	<b>-152</b>	<b>5</b>	<b>158</b>	<b>-5</b>
Mismatch	-216	2	228	-2
Derivatives	90	5	-98	-5
NPLs ("Sofferenza" disposal)	-27	-2	27	2
	0	0	0	0
<b>Option Risk</b>	<b>202</b>	<b>1</b>	<b>-194</b>	<b>-11</b>
Behavioral model	229	0	-236	0
NMDs	168	-2	-171	2
Prepayment	61	1	-65	-2
Automatic Options	-26	1	42	-11
Embedded	-45	4	72	-20
Explicit	19	-2	-30	9

- IRRBB Internal Capital is equal to 187 €/mln and it has been evaluated as the highest loss in terms of the actual sensitivity of GMPS stemming from a set of rate scenarios (both ΔEVE and ΔNII sensitivities).
- Monthly Internal Capital variation is mainly due to refixing of TLTRO II floating leg hedging.



Section 5 – Financial Risks: IRRBB Limits/Processes

Scenario Analysis  
EVE and NII Sensitivity



IRRBB Limits: MPS Group



- Risk Limit breach: value -187 €/mln (around 105%) due to the NII sensitivity stemming from the parallel down interest rate scenario (-100 bps).  
Actions are being implemented by AFTCM to rebalance the Group profile.

Entity	Owner	IRRBB Indicators		Risk Profile 30/9/2018			Risk Limit
		Metrics	Scenario	Value	Tier 1 capital 30/09/2018	Limits Check	
Italian Legal Entities	MPS Capital Services	ΔEVE	parallel shift (+100 bps)	-17	1,149	1.5% Tier 1 capital ✓	2,5% Tier 1 capital
			parallel shift (-100 bps)	8			
	MPS Leasing & Factoring	ΔEVE	parallel shift (+100 bps)	1	557	1% Tier 1 capital ✓	2,5% Tier 1 capital
			parallel shift (-100 bps)	-5			
	WIDIBA	ΔEVE	parallel shift (+100 bps)	-5	97	4.8% Tier 1 capital ✗	2,5% Tier 1 capital
			parallel shift (-100 bps)	9			

IRRBB Limits: Italian Legal Entities

- Widiba: Risk Limit breach (4,8% absorption versus 2,5% threshold).  
Extension of credit line by the Parent Company is under implementation.



## Section 5 – Financial Risks: Market Inherent Risk – Trading Book & Banking Book

MPS GROUP - REGULATORY CAPITAL REQUIREMENTS - P1 TB			
	Aug-18	Sep-18	Δ
<b>Position Risk on Debt</b>			
Generic	1,456	1,448	-8
Specific	109	102	-7
Funds	4	2	-3
Gamma Vega	93	71	-22
Securization	321	244	-77
<b>Total</b>	<b>1,984</b>	<b>1,867</b>	<b>-116</b>
<b>Position Risk on Capital</b>			
Generic	185	99	-86
Specific	362	278	-85
Funds	165	181	16
Gamma Vega	236	192	-44
<b>Total</b>	<b>948</b>	<b>750</b>	<b>-198</b>
<b>Position Risk on FX</b>			
FX	120	96	-25
Gamma Vega	4	3	-1
<b>Total</b>	<b>124</b>	<b>99</b>	<b>-26</b>
<b>Position Risk on Commodities</b>			
Commodity	176	160	-15
Gamma Vega	4	3	-1
<b>Total</b>	<b>180</b>	<b>163</b>	<b>-17</b>
<b>TOTAL RWA</b>	<b>3,236</b>	<b>2,880</b>	<b>-357</b>
<b>TOTAL CAP. REQ.</b>	<b>259</b>	<b>230</b>	<b>-29</b>

€/mln

**RWA:** Sept-Aug decrease (-357€/mln). The decrease in Securization (-77€/mln) is related to a reduction of ABS exposure of the subsidiary MPSCS. Decrease of Equity Generic/Specific Risk (about -170€/mln), attributable to the correct representation in regulatory systems of new structured products related to activities carried out in Jul-Aug by the subsidiary MPSCS.

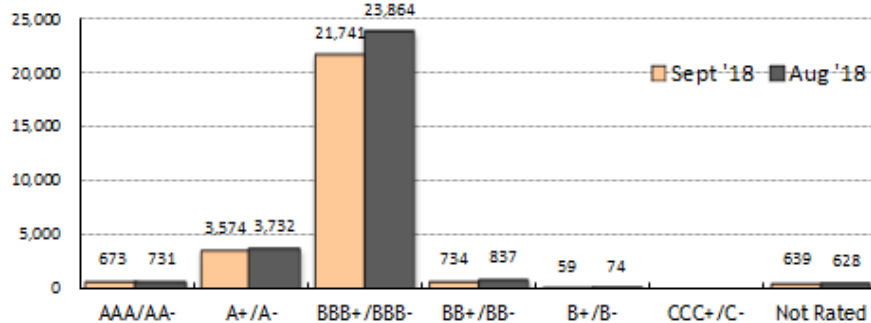
**SENSITIVITY:** TB sens. are related to activities of the subsidiary MPSCS (short delta EQ exposure due to options and futures on EU market indices, short CS delta exposure mainly on short-term Italy bonds with related hedge on mid-long term btp futures). BB CS sens. attributable to BMPS strategic exposure on mid/long- term Italy bonds.

MPS GROUP - SENSITIVITY				TB		BB (no AC)
Risk Area		Shock		Delta	Vega*	Delta
IR	IR sens.	of which: EUR USD Other	+1 bp	-320	136	-1,829
				-280		-1,770
				-42		-58
				2		-1
EQ	EQ sens.		+1%	-1,210	619	1,240
CO	CO sens.		+1%	91	-9	0
CS	CS sens.	of which: Sovereign Italy Other	+1 bp	-321	0	-3,749
				-271		-3,358
				-50		-390
FX	FX sens.	of which: EURUSD EURJPY Other	+1%	-82	524	43
				-79		24
				-3		-1
				0		21

30/09/2018 - K€

\* Vega sens. are calculated by 1 point vol shock

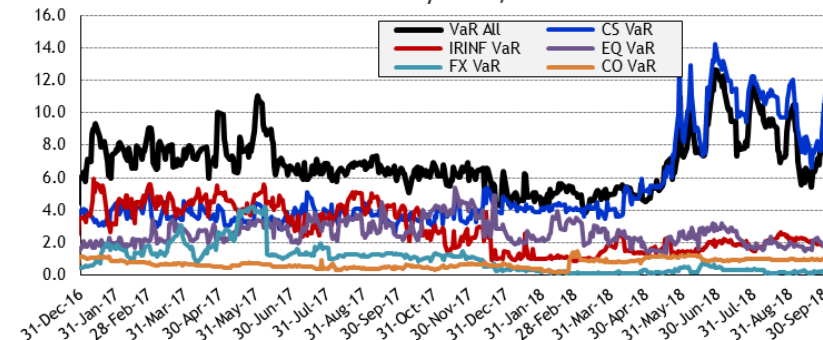
MPS Group: Issuer Risk (Trading Book & Banking Book)  
Net Notional Amount (Bond & Credit Derivatives)  
30-09-2018 in EUR/mln



**Issuer Risk:** on a monthly basis (end of Sept18-Aug18) decrease of about 1.7 €/bln on Italian Sovereign bonds in FVTPL portfolio of MPSCS and decrease of about 0.28 €/bln on Corporate bonds in OCI portfolio of MPS.

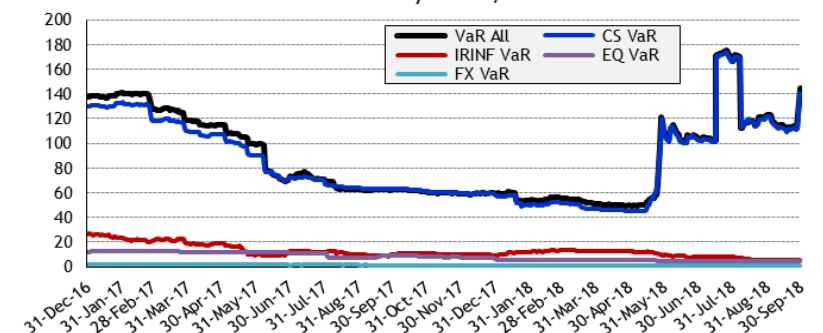
MPS Group: Trading Book

- VaR 99% 1 day in EUR/mln -



MPS Group: Banking Book

- VaR 99% 1 day in EUR/mln -



**TB VaR:** Slight Increase: about 10.5€/mln by the end of Sept2018 vs 9.9€/mln by the end of Aug2018 (Increase in VaRALL and VaRCS of about 0.6 €/mln and 0.65 €/mln respectively); The volatility of VaR is due to both changes in market parameters and both trading activities of the subsidiary MPS Capital Services (mainly on short term Italian Government bonds and related hedge on mid-long term btp futures). A temporary reduction of CS mitigation activities on btp futures and a widening of the Italian credit spread have primarily characterized the end of September.

**BB VaR:** Sharp increase: 144 €/mln end-Sept2018 vs 123€/mln end-Aug2018, mainly due to the increase of the Italian credit spread (entry of a CS loss scenario in historical simulation at the end of September).



## Section 5 – Financial Risks: Market Limits/Processes

€/mln		RISK LIMITS							Breaches Recorded
		mar-18	jun-18	ago-18	set-18	Limit	Usage%	Check	
<b>MPS GROUP</b>	Issuer OCI Bond Portfolio *	12,342	12,890.78	12,690.78	12,530.45	14,000	90%	✓	✓
<b>MPS GROUP</b>	VaR Trading Book (PNV) °	4.93	12.61	9.90	10.48	15.00	70%	✓	✓
	Average VaR Trading Book (3M PNV)	4.90	6.97	9.44	8.55	8.50	101%	✗	Sep 1-28
	Stop Loss Annual Drawdown Trading	0.00	-10.96	-22.65	-5.83	-30.00	19%	✓	✓
	Monthly Stop Loss Trading Book ***	11.24	25.04	-16.73	26.63	-21.50	0%	✓	✓
<b>MPS GROUP</b>	VaR Banking Book (PB)	32.80	85.44	94.05	116.35	75.00	155%	✗	Sep 1-28
	VPB Limit	210.46	-174.25	-410.51	-272.95	-200.00	136%	✗	Sep 1-17, 19-28
<b>AFTCM</b>	VaR Trading Book (PNV)	0.39	0.35	0.38	0.35	2.80	12%	✓	✓
	Average VaR Trading Book (3M PNV)	0.07	0.35	0.36	0.35	1.80	19%	✓	✓
	Stop Loss Annual Drawdown Trading	-0.27	-1.74	-1.54	-0.73	-6.00	12%	✓	✓
	Monthly Stop Loss Trading Book	0.15	1.36	-0.43	0.81	-2.50	-	✓	✓
	Stress Limit Trading Book (PNV)	-13.31	-3.71	-2.64	-2.64	-60.00	4%	✓	✓
	VaR Banking Book (PB)	31.33	82.78	91.26	113.40	70.00	162%	✗	Sep 1-28
	VPB Limit	210.09	-189.76	-422.67	-283.54	-190.00	149%	✗	Sep 1-14, 24, 28
	Hedge fund - complessivo	1.01	1.01	1.00	1.01	5.00	20%	✓	✓
	Hedge fund - singola società***	0.36	0.34	0.33	0.34	5.00	7%	✓	✓
	Defaulted - complessivo	0.00	0.03	0.00	0.00	10.00	0%	✓	✓
<b>MPS CS</b>	Defaulted - singolo emittente***	0.00	0.44	0.44	0.56	5.00	11%	✓	✓
	VaR Trading Book (PNV)	4.90	12.14	9.33	10.08	13.50	75%	✓	✓
	Average VaR Trading Book (3M PNV)	4.92	6.82	8.98	8.07	8.00	101%	✗	Sep 1-28
	Stop Loss Annual Drawdown Trading	0.00	-10.11	-22.54	-5.69	-23.50	24%	✓	Sep 3
	Monthly Stop Loss Trading Book - TP	2.66	25.30	-15.78	19.39	-8.00	0%	✓	✓
	Stress Limit Trading Book (PNV)	-208.98	-129.05	-100.54	-112.97	-260.00	43%	✓	✓
	VaR Banking Book (PB)	0.30	0.38	0.37	0.39	3.00	13%	✓	✓
	VPB Limit	0.60	-1.61	-1.21	-3.00	-7.50	40%	✓	✓
	Hedge fund - complessivo	0.00	0.00	0.00	0.00	5.00	0%	✓	✓
	Hedge fund - singola società***	0.00	0.00	0.00	0.00	5.00	0%	✓	✓
<b>MP Belgio</b>	Defaulted - complessivo	0.00	0.00	0.00	0.00	30.00	0%	✓	✓
	Defaulted - singolo emittente***	0.00	0.00	0.19	7.50	10.00	75%	✓	✓
<b>MP Belgio</b>	VaR Banking Book (PB)	0.87	2.21	2.34	2.27	2.00	113%	✗	Sep 1-25, 28
	VPB Limit	8.40	-0.15	-4.78	-2.23	-16.00	14%	✓	✓
<b>MP Banque</b>	VaR Banking Book (PB)	0.09	0.08	0.08	0.14	0.50	27%	✓	✓
	VPB Limit	5.41	4.43	4.39	4.50	-4.00	-	✓	✓

° Commitment DG Comp limit 20 €/mln

° Commitment DG Comp limit 14,4 €/mln

° Commitment DG Comp limit -31€/mln

\* The limit will tend towards the end of 2018 on the level of 13,5 €bn

\*\*\* For Single Issuer the maximum utilization is reported

Operating Limits are monitored and reported, with respect to the autonomies approved by the resolution of the CEO dated 14-03-18 (2018 authorizations are active since 19-03-18).

### Operating Limits

The Breaches Recorded have been ratified directly by the CEO.

Actual breaches have been ratified by the CEO with the following details:

### AFTCM

- VaR Banking Book (PB) and VPB Limit: breaches ratified until 31-12-18 with commitment to hold/reduce current risk exposure on FVOCI Italian Government Bond.

### MPS Capital Services:

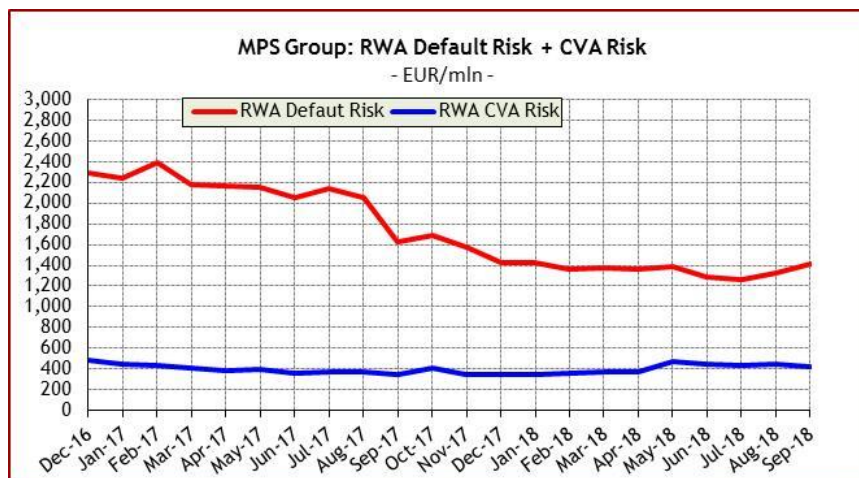
- Average VaR Trading Book (3M PNV): breach ratified up to 9 €/mln until 31-12-18 with commitment to hold/reduce current risk exposure (except for a temporary deviation around auctions on Italian Government Bond due to market making activities).

### MP Belgio

- VaR Banking Book (PB): breach ratified until 31-12-18 with commitment to hold/reduce current risk exposure.



## Section 5– Financial Risks: Counterparty Inherent Risk



		MPS GROUP - COUNTERPARTY RISK								
€/mIn, Regulatory Metrics		dec-17	mar-18	jun-18	jul-18	aug-18	sept-18	Δ%	ΔQ%	ΔY%
RWA	DEFAULT RISK of which:	1,429	1,370	1,284	1,260	1,329	1,408	5.9%	9.7%	-1.5%
	Derivatives + LST	505	518	541	528	537	510	-5.1%	-5.7%	0.9%
	STANDARD	567	489	367	379	398	513	28.9%	39.6%	-9.5%
	<b>Total</b>	<b>1,072</b>	<b>1,007</b>	<b>908</b>	<b>907</b>	<b>935</b>	<b>1,022</b>	<b>9.4%</b>	<b>12.6%</b>	<b>-4.6%</b>
	Derivatives + LST	352	361	360	337	372	369	-0.9%	2.3%	4.6%
	AIRB	5	2	15	16	22	17	-24.2%	9.0%	266.6%
	<b>Total</b>	<b>357</b>	<b>363</b>	<b>376</b>	<b>353</b>	<b>394</b>	<b>385</b>	<b>-2.2%</b>	<b>2.6%</b>	<b>8.0%</b>
	CVA RISK	346	375	451	439	450	421	-6.5%	-6.6%	21.8%
<b>TOTAL RWA</b>		<b>1,774</b>	<b>1,744</b>	<b>1,734</b>	<b>1,699</b>	<b>1,779</b>	<b>1,829</b>	<b>2.8%</b>	<b>5.4%</b>	<b>3.1%</b>

		MPS GROUP - COUNTERPARTY RISK								
€/mIn, Regulatory Metrics		dec-17	mar-18	jun-18	jul-18	aug-18	sept-18	Δ%	ΔQ%	ΔY%
EAD	DEFAULT RISK of which:	3,711	3,912	3,937	4,081	4,102	4,010	-2.3%	1.8%	8.0%
	Derivatives + LST	1,812	1,903	2,081	2,050	2,009	1,996	-0.6%	-4.1%	10.2%
	STANDARD	1,551	1,637	1,466	1,663	1,671	1,610	-3.6%	9.8%	3.8%
	<b>Total</b>	<b>3,363</b>	<b>3,541</b>	<b>3,547</b>	<b>3,713</b>	<b>3,679</b>	<b>3,606</b>	<b>-2.0%</b>	<b>1.6%</b>	<b>7.2%</b>
	Derivatives + LST	345	370	358	336	374	365	-2.4%	2.0%	5.9%
	AIRB	3	1	32	32	49	38	-21.4%	20.8%	1035.7%
	<b>Total</b>	<b>348</b>	<b>371</b>	<b>390</b>	<b>368</b>	<b>423</b>	<b>404</b>	<b>-4.6%</b>	<b>3.5%</b>	<b>15.9%</b>
	CVA RISK	674	714	798	765	783	726	-7.3%	-9.1%	7.6%
<b>TOTAL EAD</b>		<b>4,385</b>	<b>4,626</b>	<b>4,735</b>	<b>4,846</b>	<b>4,885</b>	<b>4,735</b>	<b>-3.1%</b>	<b>0.0%</b>	<b>8.0%</b>

Relevant RWA variations – Sept 18 / Aug 18

**STANDARD : increase (+88 €/mIn)**

**SFT: increase (+115 €/mIn)**

- For BMPS increase on BANCA IMI S.P.A. (+72 €/mIn) due to rolling of existing financing repo and on J.P. MORGAN SECURITIES PLC (+42 €/mIn) due to opening of new financing repos.

- For MPSCS no relevant variations.

**Derivatives+LST: reduction (-27 €/mIn)**

- For BMPS no relevant variations.
- For MPSCS reduction on DEUTSCHE BANK AG (-17 €/mIn) due to expiry of credit derivatives transactions.

**AIRB: reduction (-8 €/mIn)**

**SFT: reduction (-5 €/mIn)**

**Derivatives+LST: reduction (-3 €/mIn)**

- On MPSCS increase on TRAM DI FIRENZE S.P.A. (+11 €/mIn) due to the higher risk weight applied given the downgrading of the counterparty.

**CVA risk : reduction (-29 €/mIn)**

**RWAs Composition – September 18**

GMPS level:

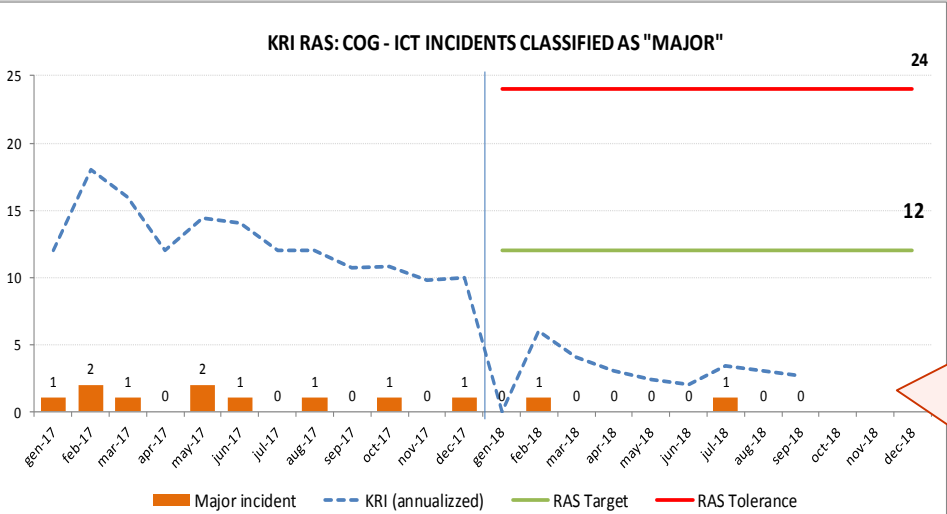
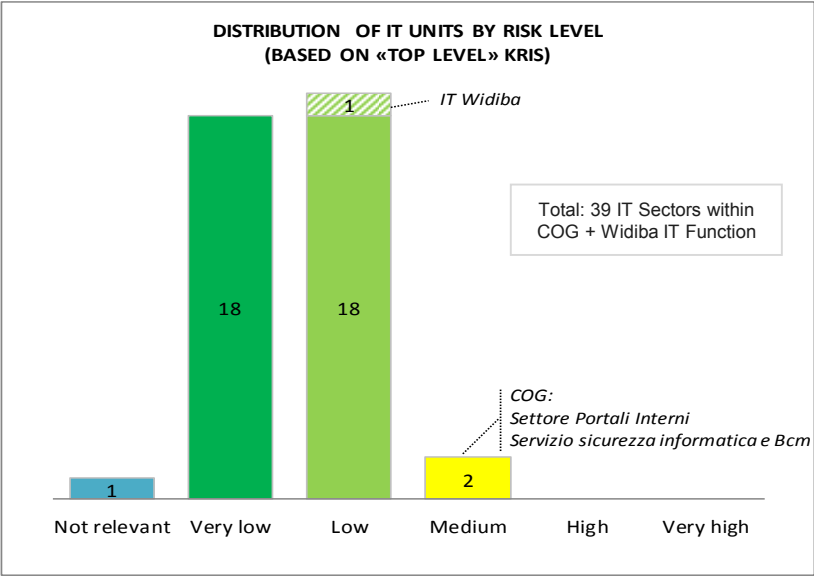
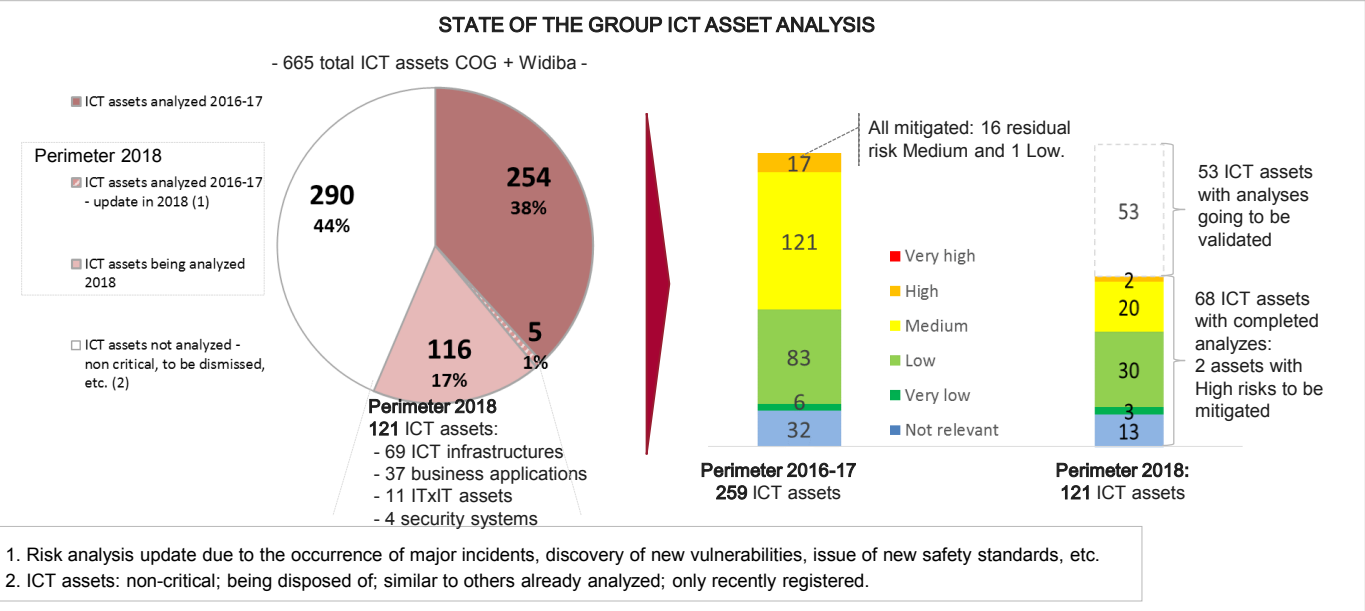
- SFT: relevant activity in structured funding mainly on BANCA IMI S.P.A. (203 €/mIn) and THE ROYAL BANK OF SCOTLAND (109 €/mIn) for about 59% of total RWAs of SFT;
- Derivatives & LST: 45% for activity with commercial (non financial) customers and 24% for activity in AXA products;

Exposure with Central Counterparties (1.626 €/mIn) is about 41% of total outstanding EAD - Default Risk - that is 3.2% of total RWAs.



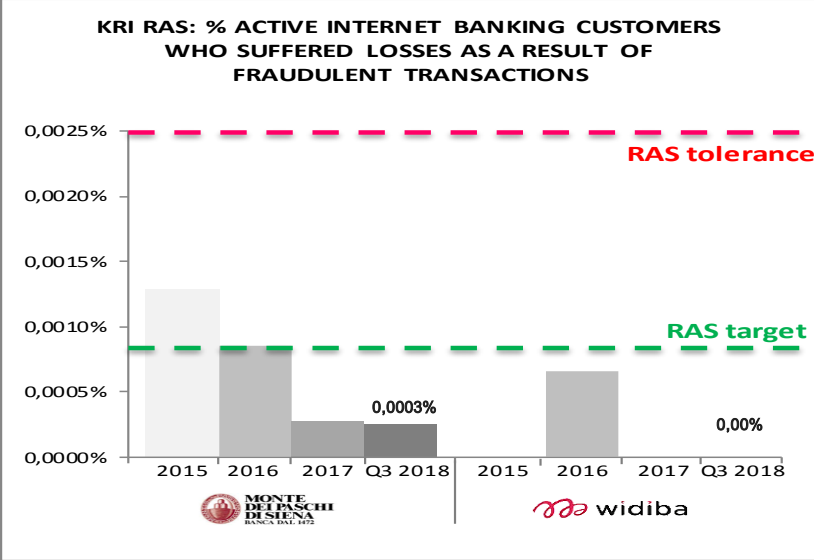


Section 6 – IT Risk KRI







The Major incident COG occurred on Thursday 19/07 was classified as "Grave" and notified to Bankit: It involved the total blocking of ATMs and debit and prepaid cards issued by MPS and WIDIBA from 12.40am to 2.20pm.

This incident follows the other one classified as «Grave» on 19/2, thus reaching the limit of RAS tolerance (2) defined on the COG for this type of accidents.



## Section 6 – IT Risk: Mitigation Plan

In the Q3 the mitigation actions on the internal firewall were completed. As on Sept. 30th there were 2 new ICT assets managed by the COG on which 3 "high" risks had been identified.

ICT asset - description	Nr. Asset	Mitigation action	Deadline	Progress status	Risk Highlighted	Owner/Relevance
Firewall (network perimeter security device)	1	Implementation of traffic filtering rules on the internal firewall that controls access to intranet services, coming from the network section where the servers exposed to the outside are attested	30/09/2018 Q1 Q2 Q3 Q4	100% 	Mitigation of the risk of extension of systems compromised by cyber attack	COG - Servizio Sicurezza Informatica e BCM Alta
OIM - Oracle Identity Manager (centralized management of information system authorizations)	1	Migration on updated OIMv12 version; full bidirectional reconciliation with the target systems; servers renewal for optimal management of peaks; writing of technical documentation to support development and maintenance interventions.	30/04/2019 Q1 Q2 Q3 Q4	0% 	Mitigation of the risk of incidents with alteration or loss of the access rights assigned to users	BMPS - Servizio Sicurezza Logica e Continuità Operativa Alta
		Tracking of privileged user activity and implementation of controls; reactivation of the audit log; strengthening of the access rights management.	30/04/2019 Q1 Q2 Q3 Q4	0% 	Mitigation of the risk of malicious actions with illegitimate assignment of the authorizations to operate on the information system	BMPS - Servizio Sicurezza Logica e Continuità Operativa Alta
iMeeting - document repository for top management meetings	1	Enforcement of remote access only via managed devices.	30/11/2018 Q1 Q2 Q3 Q4	50% 	Mitigation of cyber attack risk with violation of confidentiality of top management documents	BMPS - Servizio Segreteria Organi Apicali Alta



