



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

# Risk Management Report

London Branch June 2018

Direzione Chief Risk Officer

### **Regulatory RWA and Internal RWA**

**Credit Risk Analysis of the Lending Portfolio**

**Interest Rate Risk Analysis of the Banking Book Portfolio**

**Operational Risk Management**

**Monitoring of credit risk by internally implemented portfolio model**



# Regulatory RWA and Internal RWA as at 30-06-2018

		(Eur mln)						
		LONDON						
P I L L A R  1	Regulatory / Internal RWA	giu-17	set-17	dic-17	mar-18	giu-18	ΔQ	ΔQ%
	Credit and Counterparty Risk	283,12	200,19	156,83	117,51	104,56	-12,95	-11,0%
	Credit Risk	243,42	160,71	125,50	88,74	75,45	-13,30	-15,0%
	AIRB	0,01	0,03	0,03	0,03	0,03	0,00	-1,3%
	Standard	243,41	160,67	125,47	88,71	75,42	-13,30	-15,0%
	Issuer Risk Banking Book	39,70	39,48	31,33	28,76	29,11	0,35	1,2%
	Operational Risk	16,75	17,06	18,64	14,69	15,02	0,33	2,3%
	REGULATORY RWA	299,87	217,25	175,47	132,20	119,58	-12,62	-9,5%

The Internal RWA are obtained by adding to the Regulatory RWA the additional Pillar 2 RWA ("Market Risk", "Interest Rate Risk BB", "Concentration Risk" and "Business and Strategic Risk") and subtracting the two Pillar 1 RWA components "Market Risk Banking Book" and "Market Risk Trading Book".



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## Credit Loans Portfolio – Regulatory measures

		Credit Risk								
Values in €/mln		dec-16	mar-17	jun-17	sep-17	dec-17	mar-18	jun-18	ΔQtD	ΔYtD
<b>RWA</b>	<b>TOTAL</b>	<b>264,9</b>	<b>269,7</b>	<b>243,4</b>	<b>160,7</b>	<b>125,5</b>	<b>93,5</b>	<b>79,9</b>	<b>-14,5%</b>	<b>-36,3%</b>
	Standard	264,9	269,7	243,4	160,7	125,5	93,4	79,9	-14,5%	-36,3%
	- of which Bonis	264,8	267,9	241,9	159,5	124,5	91,9	79,6	-13,3%	-36,0%
	- of which Default	0,1	1,8	1,5	1,2	1,0	1,6	0,3	-83,0%	-73,7%
	AIRB	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-1,3%	0,0%
	- of which Bonis	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-1,3%	0,0%
	- of which Default	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0%	0,0%

Values in €/mln		dec-16	mar-17	jun-17	sep-17	dec-17	mar-18	jun-18	ΔQtD	ΔYtD
<b>EAD</b>	<b>TOTAL</b>	<b>280,0</b>	<b>285,4</b>	<b>262,8</b>	<b>167,0</b>	<b>145,8</b>	<b>112,0</b>	<b>98,1</b>	<b>-12,4%</b>	<b>-32,7%</b>
	of which Intragroup	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0%	0,0%
	of which no Intragroup	280,0	285,4	262,8	167,0	145,8	112,0	98,1	-12,4%	-32,7%
	Standard	280,0	285,4	262,7	167,0	145,8	112,0	98,1	-12,4%	-32,7%
	- of which Bonis	279,9	284,1	261,7	166,1	145,1	110,9	97,8	-11,8%	-32,6%
	- of which Default	0,1	1,2	1,0	0,8	0,7	1,0	0,3	-74,5%	-62,1%
	AIRB	0,1	0,1	0,1	0,1	0,1	0,1	0,1	-1,3%	-0,1%
	- of which Bonis	0,1	0,1	0,1	0,1	0,1	0,1	0,1	-1,3%	-0,1%
	- of which Default	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0%	0,0%

		Performing Credit Portfolio - Analysis regulatory risk measures (focus AIRB)								
Values in €/mln		dec-16	mar-17	jun-17	sep-17	dec-17	mar-18	jun-18	ΔQtD	ΔYtD
<b>RWA</b>	Aziende	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-1,3%	0,0%
	Privati	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0%	0,0%
	<b>Total</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>-1,3%</b>	<b>0,0%</b>
<b>EAD</b>	Aziende	0,1	0,1	0,1	0,1	0,1	0,1	0,1	-1,3%	-0,1%
	Privati	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0%	0,0%
	<b>Total</b>	<b>0,1</b>	<b>0,1</b>	<b>0,1</b>	<b>0,1</b>	<b>0,1</b>	<b>0,1</b>	<b>0,1</b>	<b>-1,3%</b>	<b>-0,1%</b>
<b>PD</b>	Aziende	0,1%	0,1%	0,1%	0,5%	0,5%	0,5%	0,5%	-0,6%	-0,4%
	Privati	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
	<b>Total</b>	<b>0,1%</b>	<b>0,1%</b>	<b>0,1%</b>	<b>0,5%</b>	<b>0,5%</b>	<b>0,5%</b>	<b>0,5%</b>	<b>-0,6%</b>	<b>-0,4%</b>
<b>LGD</b>	Aziende	48,0%	48,1%	48,1%	48,1%	48,0%	48,0%	48,0%	0,1%	0,1%
	Privati	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
	<b>Total</b>	<b>48,0%</b>	<b>48,1%</b>	<b>48,1%</b>	<b>48,1%</b>	<b>48,0%</b>	<b>48,0%</b>	<b>48,0%</b>	<b>0,1%</b>	<b>0,1%</b>

- RWA decrease from the previous quarter (-14,5%, -14 €/mln) due to the standard Corporate segment, in particular to the closing of position as «SPIE SA» (-5 €/mln) and «BHS CORPORATION LIMITED CO PIROL» (-2 €/mln) and to the reduction of EAD of several positions as «COSTATIN NVESTISSEMENT 4» (-2 €/mln) and «B E M EUROPEAN VALUE RETAIL SA» (-1 €/mln).
- The decrease of EAD observed vs. the end of March is mainly due to the reduction of EAD of the counterpart above mentioned.



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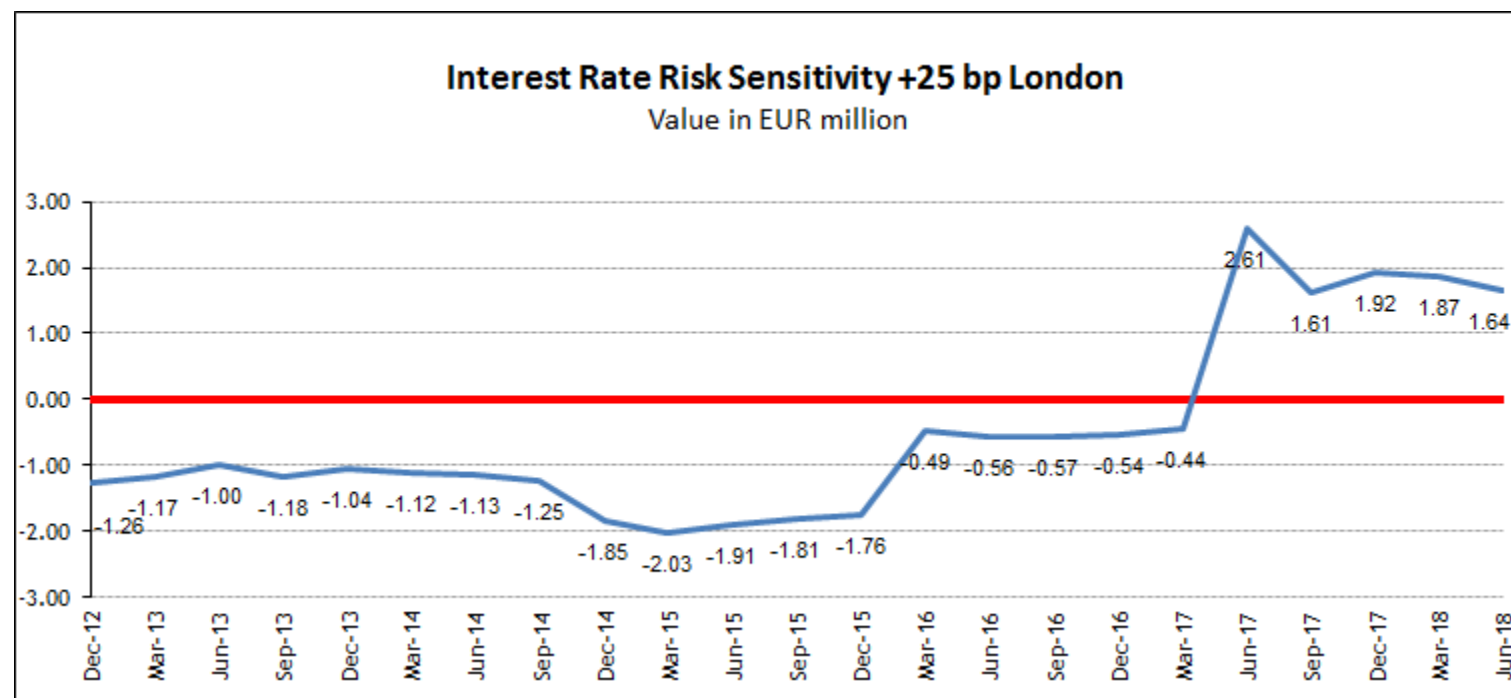
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# Interest Rate Sensitivity

Interest rate sensitivity June 2018						Value in €/ mln
	shock+25bp	shock-25bp	shock +100 bp	shock -100 bp	shock +200 bp	shock -200 bp
London Branch	1.64	-1.72	6.04	-7.27	10.18	-14.21



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## Operational Risk Management – Loss Data Collection overview

The process of Loss Data Collection (LDC) consists of searching and registering loss data, triggered by operational risk events, and analytically examining them in order to fully understand loss causes and their implications as far as mitigation is concerned.

The London Branch collects operational losses data from 2006; its operational losses are generally of a low amount and are related to errors/delays in executing operations.

In the last years (2010-2018) the average annual operational losses suffered by the branch dropped to a very low amount.

Concerning the period under investigation, no operational risk event occurred in **Q2 2018**.

In Q2 2018 the Risk Self Assessment on the London Branch was carried out, in order to evaluate and monitor operational and control factors.

The Assessment questionnaire, addressed to the Middle Management (in cooperation with the Branch General Manager and the Operational Risk Manager), included 88 questions and revealed a good control over all the activities, with some residual “partially adequate” evaluations (nearly 7%) relating mainly to the controls over the Branch information systems, for which mitigation actions have already been addressed or suggested.

During the Scenario analysis (H2 2018), Head Office Top Managers (Foreign Dept.) will be informed of the Assessment results, in order to set up further mitigation interventions to strengthen controls over the most relevant and risky topics.



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## Credit Portfolio Measurement System – Methodological Notes

1. Measuring and monitoring of credit risk are made in Banca MPS by means of the internally implemented portfolio model.
2. The model, under the responsibility of the Risk Management Dept, takes into account:
  - a) probability of default (PD) derived from the internal rating system for AIRB portfolio counterparties and from External Rating (if available) or benchmark approach for Standard portfolio counterparties. Until September 2015 the pd benchmark was estimated by average default rate approach above whole group portfolio. Since December 2015 the pd benchmark was estimated by average default rate approach above foreign branch portfolio, improving approximately 70-80%;
  - b) loss given default (LGD) rates obtained from specific 7-year time series of recovering and costs relating to “close” defaulted position;
  - c) coefficients of exposure at default (EAD);
  - d) data relating to different types of guarantees supporting specific transactions.
3. The model takes into account the diversification effect by means of a structural and dynamic correlation matrix which considers the concentration and diversification effects of the risk, together with the marginal redistribution of risk at single counterparty level .
4. The results of the portfolio model at Group level are regularly presented to the Risk Committee of the Corporate Center.
5. The main measures regularly presented are:
  - a) expected loss, representing the annual average estimated loss;
  - b) unexpected loss, representing the difference between the loss - measured on a yearly holding period at 99,93% confidence interval - and the expected loss;
  - c) economic capital, measure of the capital requirement originated from the positions held in the portfolio;
  - d) stress testing measures calculated on specific variables (i.e., increase in PD, etc.), representing extreme but possibile scenarios.
6. LGD parameters are estimated according to the “workout LGD” concept. LGD is calculated on the basis of historical recoveries and costs relating to defaulted positions over several years, discounted at the proper rates and adjusted through “cure-rate” methodology.
7. The parameters utilized to compute economic capital are the same according to the international Regulatory framework for the validated AIRB approach.



## Credit Loans Portfolio - Bonis portfolio

### Default portfolio

June 30, 2018 - London - €/mln

Counterparty Name	Drawn	EAD	EL	LGD
AL EZZ FLAT STEEL CO	0,57	0,57	0,34	59,01%
MONDIAL WINE LIMITED	0,46	0,46	0,29	62,89%
ENZO DEGLI ANGIUONI SPA	0,00	0,00	0,00	65,51%
Total	1,03	1,03	0,63	60,74%

Defaulted loans exposures – at June 2018 – amount to 1,03 €/mln. Expected Loss (EL) is equal to 0,63 €/mln. LGD of Mondial Wine Limited, which represents almost 55% of total default exposures, is 59,01%.



## Credit Loans Portfolio – Top 20 – Bonis portfolio

Top 20

June 30, 2018 - London - €/mln

Counterparty Name	Drawn	EAD	EL	Ecap	EL / EAD (bp)	Ecap / EAD %
JPMORGAN CHASE BANK N.A.	19,43	19,43	0,00	0,03	2	0,16%
MINISTERIUM CAPITAL SA	10,97	11,23	0,05	0,55	42	4,89%
ORPEA SA	10,00	10,00	0,04	0,49	42	4,89%
JACOBS DOUWE EGBERTS INTERNATION	7,99	8,02	0,03	0,39	41	4,84%
B & M EUROPEAN VALUE RETAIL SA	7,34	7,59	0,03	0,20	41	2,63%
DELFO ILFORD LIMITED	5,69	5,79	0,02	0,28	42	4,89%
PLINIUS LIMITED	4,21	4,21	0,02	0,20	41	4,86%
QATAR LIQUEFIED GAS COMPANY LIMI	3,57	3,57	0,00	0,02	1	0,53%
1908 ACQUISITION BV	3,45	3,45	0,01	0,17	41	4,80%
HSBC BANK P.L.C.	2,98	2,98	0,00	0,00	2	0,15%
100 CAMP ROAD LTD	2,56	2,56	0,01	0,12	41	4,86%
SETHA DALSTON LIMITED	2,50	2,51	0,01	0,12	42	4,89%
FULHAM BARONS LIMITED	1,71	1,72	0,01	0,08	41	4,87%
TS UK LIMITED	1,35	1,30	0,00	0,04	17	3,00%
UPLANDS HIGH WYCOMBE LLP	1,12	1,13	0,00	0,05	41	4,86%
RICHMOND CAYMAN LP	1,10	1,37	0,01	0,07	42	4,92%
FARID HILLEND ENGINEERING LIMITE	0,98	0,98	0,00	0,05	41	4,87%
CORIALIS GROUP LIMITED	0,62	0,74	0,00	0,04	41	4,86%
PLASMAC LTD	0,26	0,26	0,00	0,01	41	4,87%
LLOYDS BANK PLC	0,23	0,23	0,00	0,00	2	0,15%
<b>Total</b>	<b>88,06</b>	<b>89,05</b>	<b>0,26</b>	<b>2,92</b>	<b>29</b>	<b>3,28%</b>

\* Counterparties highlighted represent new entries in portfolio compared with the previous quarter



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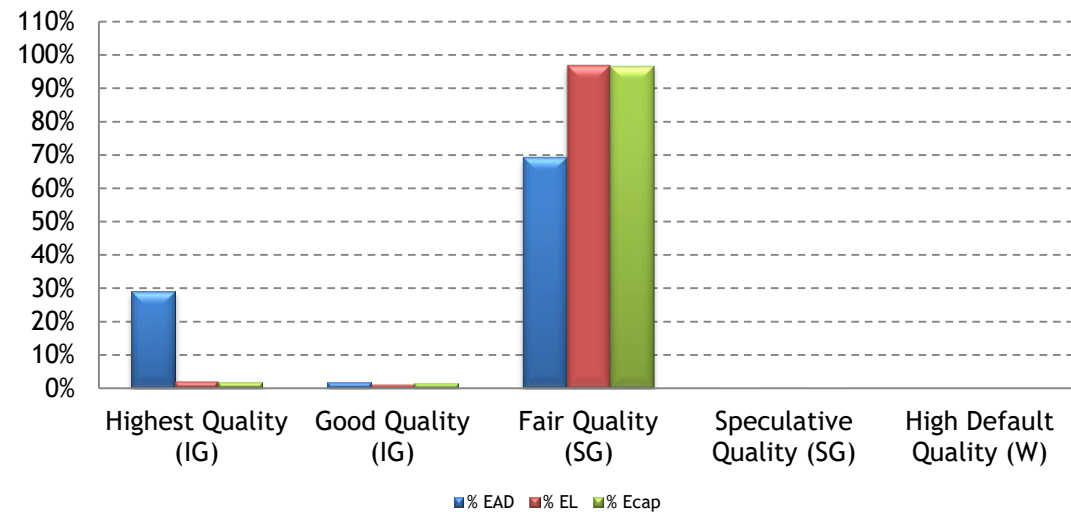
## Credit Loans Portfolio – quality distribution – Bonis portfolio

Master Scale	Basis point from to		S&P's Rating	Description
Highest Quality (IG)	-	16	AAA / A-	Investment
Good Quality (IG)	16	56	BBB+ / BBB-	
Fair Quality (SG)	56	298	BB+ / BB-	Speculative
Speculative Quality (SG)	298	1.774	B+ / B-	
Hight Default Quality (W)	1.774	10.000	CCC+ / D	Watch

On June 2018, the measurement of Exposures At Risk (EAD), in terms of internal-external ratings (according to the MPS Master Scale), results in the following counterparties distribution (as also represented in the graph below):

- Speculative Grade Class about 69% (see Fair and Speculative classes);
- Investment Grade about 31%.

Master scale distribution of borrowers



## Credit Loans Portfolio – Default portfolio

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