



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

Operational Risk

11th October 2018



MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

Agenda

a) Regulatory Capital and underlying data

- ☐ Internal Operational Losses



Regulatory Capital and underlying data

Internal Operational Losses

		2013		2014		2015		2016		2017		2018 H1	
		Nr	€/mln	Nr	€/mln	Nr	€/mln	Nr	€/mln	Nr	€/mln	Nr	€/mln
ET1	Internal fraud	159	10	193	8	66	9	72	8	58	6	18	1
ET2	External fraud	7.601	17	4.703	11	3.472	15	3.041	11	2.477	6	1.130	2
ET3	Employment practice and workplace safety	142	16	166	11	58	6	48	3	93	4	36	2
ET4	Clients, products and business practices	2.875	64	3.221	68	3.145	122	1.800	80	1.492	185	407	10
ET5	Damages to physical assets	28	0	91	0	52	0	55	0	45	0	5	0
ET6	Business disruption and system failures	213	0	74	2	104	0	80	0	80	0	27	0
ET7	Execution, delivery and process management	5.662	48	7.233	40	7.252	18	8.403	19	5.162	21	1.260	4
Total		16.680	155	15.681	140	14.149	169	13.499	122	9.407	223	2.883	18

		2013		2014		2015		2016		2017		2018 H1	
		Nr	€/mln	Nr	€/mln	Nr	€/mln	Nr	€/mln	Nr	€/mln	Nr	€/mln
	Conduct risk	3.034	74	3.414	76	3.211	130	1.872	88	1.550	192	425	11
	Other operational risk	13.646	82	12.267	64	10.938	39	11.627	34	7.857	31	2.458	7
Total		16.680	155	15.681	140	14.149	169	13.499	122	9.407	223	2.883	18

Observed losses by discovery date

- ✓ The category “ET4 Clients, products and business practices” for 2017 includes data relating both to expected refunding to the customers (120 €/mln) and the administrative sanction (2 €/mln) for customer recommendation activity for diamond purchases.
- ✓ Conduct risk losses are approximated as event types 1 and 4 (respectively, ‘Internal fraud’ and ‘Clients, products and business practices’), as indicated in paragraph 338 of the Methodological Note for the EBA 2016 EU-Wide Stress Test.
- ✓ Losses belonging to the other event types are included within Other operational risk.



Regulatory Capital and underlying data

2017 and first part of 2018 data and comparison with estimated losses for the same periods

	Observed Losses 2017	2016 EBA Stress Exercise Projected Losses for 2017	Observed Losses H1 2018	Projected Losses for H1 2018 (*)
Conduct Risk, of which:	191,8	84,0	11,1	56,5
ET1 Internal fraud	6,4		0,6	
ET4 Clients, products and business practices	185 **		10,5	
Other Operational Risk, of which:	30,9	48,0	7,4	18,5
ET2 External fraud	5,9		2,0	
ET3 Employment practice and workplace safety	3,5		1,6	
ET5 Damages to physical assets	0,2		0,0	
ET6 Business disruption and system failures	0,3		0,0	
ET7 Execution, delivery and process management	21,0		3,8	
Total	222,7	132,0	18,5	75,0

Observed losses by discovery date

(*) H1 2018 = projected losses for 2018 * 0.5

(**) The category "ET4 Clients, products and business practices" includes data relating both to expected refunding to the customers (120 €/mln) and the administrative sanction (2 €/mln) for customer recommendation activity for diamond purchases.



Regulatory Capital and underlying data

In depth-analysis of the main sources of operational losses (1/3)

The table below details events and losses (by **discovery date** within 2013 - H1 2018) related to breaches of professional obligation towards customers and shortcomings in operation and process management in **Basel-Event Type 4**:

Event Type 4	2013		2014		2015		2016		2017		H1 2018	
	No. of Events	Loss (€/mln)	No. of Events	Loss (€/mln)	No. of Events	Loss (€/mln)	No. of Events	Loss (€/mln)	No. of Events	Loss (€/mln)	No. of Events	Loss (€/mln)
Violation of regulations on informations adequacy and obligations towards clients	1.746	23	825	21	460	76	408	20	477	39	88	3
<i>bonds (defaulted counterparties)</i>	168	5	45	1	35	2	7	0	6	0	0	0
<i>derivatives</i>	32	3	57	14	30	3	25	7	14	10	4	0
<i>financial plans (pre-mifid)</i>	1.235	8	560	4	258	2	331	5	97	1	22	0
<i>other</i>	311	8	163	1	137	69	45	9	360	28	62	2
Improper market practices (incorrect interpretation of the regulations - retrospected effects)	1.117	36	2.387	47	2.674	44	1.381	32	998	22	305	7
<i>compound interest (anatocism)</i>	1.116	36	2.380	47	2.674	44	1.381	32	998	22	305	7
<i>other</i>	1	0	7	0	0	0	0	0	0	0	0	0
other events in ET4	12	5	9	0	11	1	11	28	17	124	14	0
Total	2.875	64	3.221	68	3.145	122	1.800	80	1.492	185	407	10

The category “Other events in ET4” for 2017 includes data relating both to expected refunding to the customers (120 €/mln, increased from the initial 78€/mln) and the administrative sanction (2 €/mln) for customer recommendation activity for diamond purchases. These amounts were included within the RWA calculation as at 30th June 2018.



Regulatory Capital and underlying data

In depth-analysis of the main sources of operational losses (2/3)

As far as **violation of professional obligations** towards clients and shortcomings in operation and process management is concerned, events are mainly related to litigations (legal proceedings and claims) on:

- ☐ bonds issued by defaulted countries and societies (Argentina, Parmalat, etc.)
- ☐ sales of derivatives
- ☐ sale of financial plans (specific for “For You” and “My Way”, “Visione Europa”)

Many of these losses are due to occurrences from past years which are still impacting financial statements today, even if in diminishing amounts. We expect these losses to progressively decrease in the near future. In the meantime, the Group is continuously looking for conciliating solutions.

The category «**Other**» includes various typologies of lawsuits which cannot be grouped under specific and homogeneous classifications; the most relevant losses (ref. 2015 and 2017) are related to operations on past capital increases, insurance policies, investment fund, shares, ecc.

As far as **incorrect business practices** are concerned, events are mainly related to litigations on **compound interests**; the loss impact of this phenomenon is still relevant.

The category «**Other events in ET4**» shows in 2016 a relevant amount, which includes a sanction (12,6 €/mln) by AGCM (Italian Competition Authority) and an administrative proceeding (10,6 €/mln) for the violation of the Italian D.Lgs. 231/01, whereas 2017 is affected by losses connected to customer recommendation activity for diamond purchases (120 €/mln as expected refunding to the customers and 2 €/mln as AGCM sanction).



Regulatory Capital and underlying data

In depth-analysis of the main sources of operational losses (3/3)

The table below details events and losses (by **discovery date** within 2013 - 1H2018) related to breaches of professional obligation towards customers and shortcomings in operation and process management in **Basel-Event Type 7**:

Event Type 7	2013		2014		2015		2016		2017		H1 2018	
	num. of events	Loss (€/mln)	num. of events	Loss (€/mln)	num. of events	Loss (€/mln)	num. of events	Loss (€/mln)	num. of events	Loss (€/mln)	num. of events	Loss (€/mln)
<i>negligence in executing operations</i>	3.504	8	4.759	10	5.398	5	5.984	6	3.484	6	683	2
<i>management of credit positions</i>	334	7	376	12	292	6	564	4	340	6	130	2
<i>tax payment and other administrative sanctions</i>	119	25	171	11	203	3	777	4	941	7	418	0
<i>commercial counterparts/Sellers and suppliers</i>	371	6	152	6	53	2	24	4	15	0	0	0
<i>other</i>	1.334	3	1.775	2	1.306	2	1.054	2	382	2	29	0
Total	5.662	48	7.233	40	7.252	18	8.403	19	5.162	21	1.260	4

Events in this category are mainly related to litigations on:

- ☐ negligence in executing operations (events with high frequency but low impact, typically irrelevant mistakes in executing operations vs clients, i.e. receipts and payments)
- ☐ management of credit positions (litigations due to mistakes, delays and negligence in credit authorization and managements, typically for mortgages and loans)
- ☐ tax payment and other administrative sanctions (relevant: few past events on “abuse of law” - dividend washing)
- ☐ suppliers, with few past events of contractual litigation

