



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

Risk Management Report

MPS Group Risk Profile as at 31-03-2018
Estratto Financial Risks

Direzione Chief Risk Officer

Executive Summary

Section 1 – Integrated Risks

Section 2 – Credit Risks (Lending, Securitization)

Section 3 – Operational Risks (Operational, Legal)

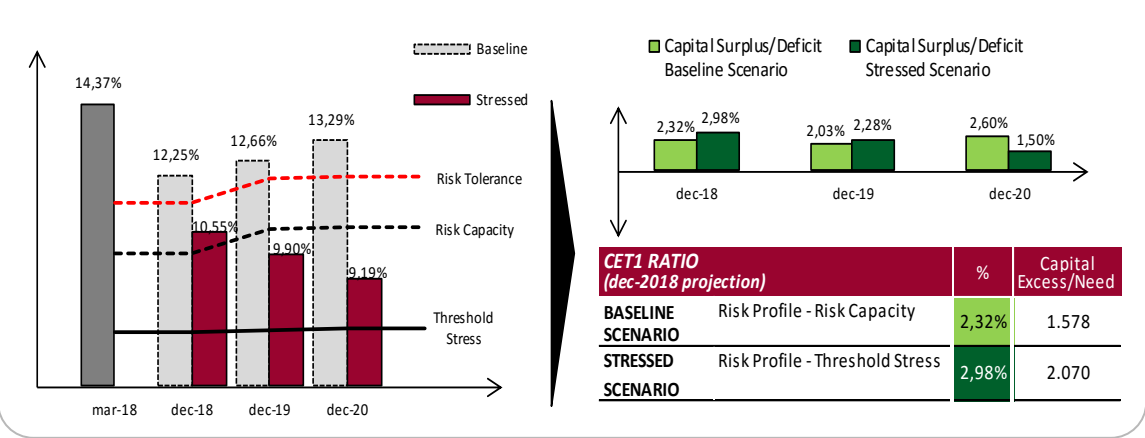
Section 4 – Financial Risks (Market, Issuer, Counterparty, IRRBB, Liquidity)

Section 5 – IT Risks

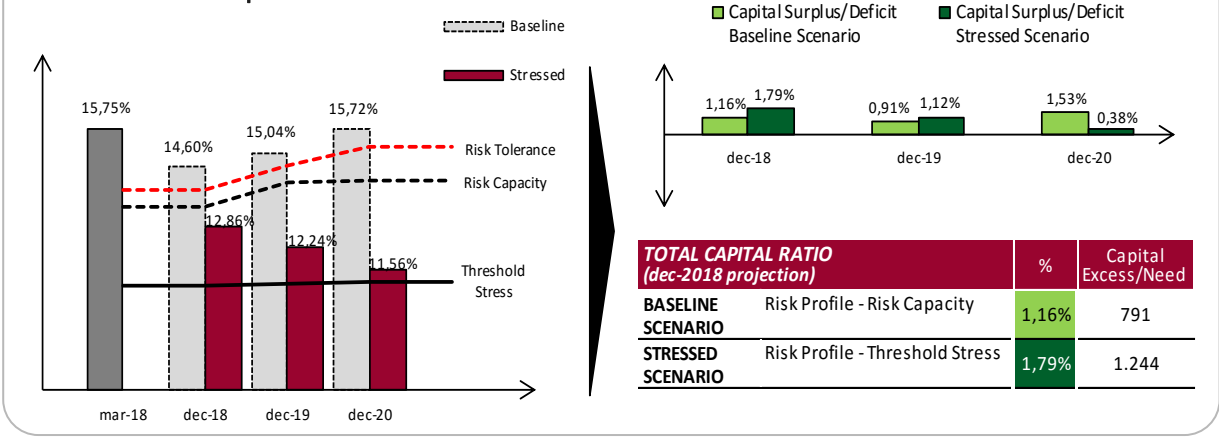


Executive Summary – Capital Adequacy overview

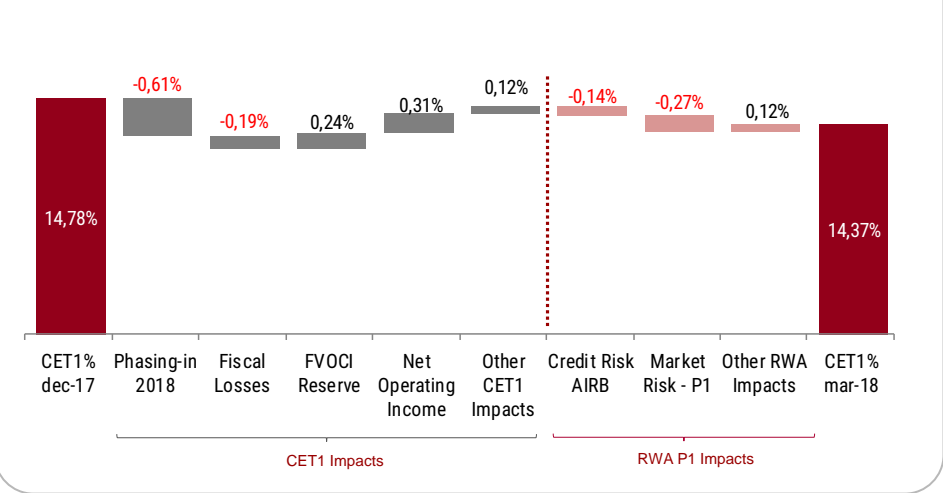
CET 1 Ratio



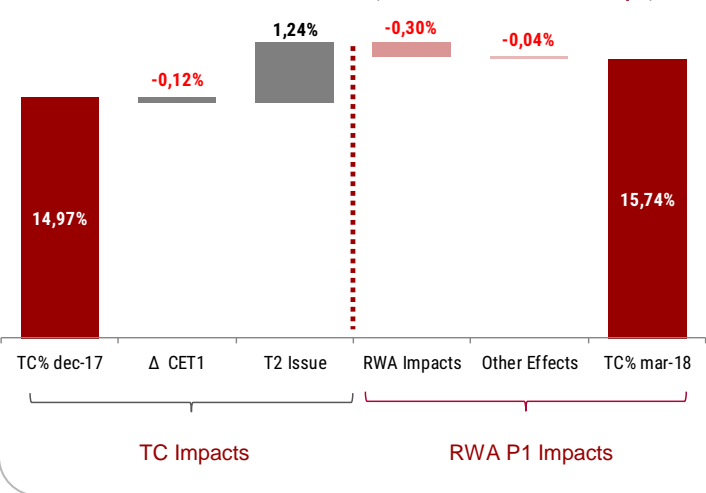
Total Capital Ratio



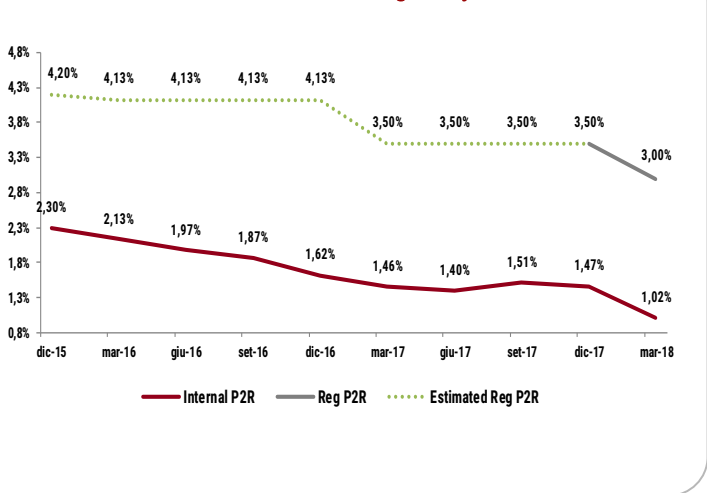
CET 1 RATIO (mar-18 vs dec-17 = -41 bps)



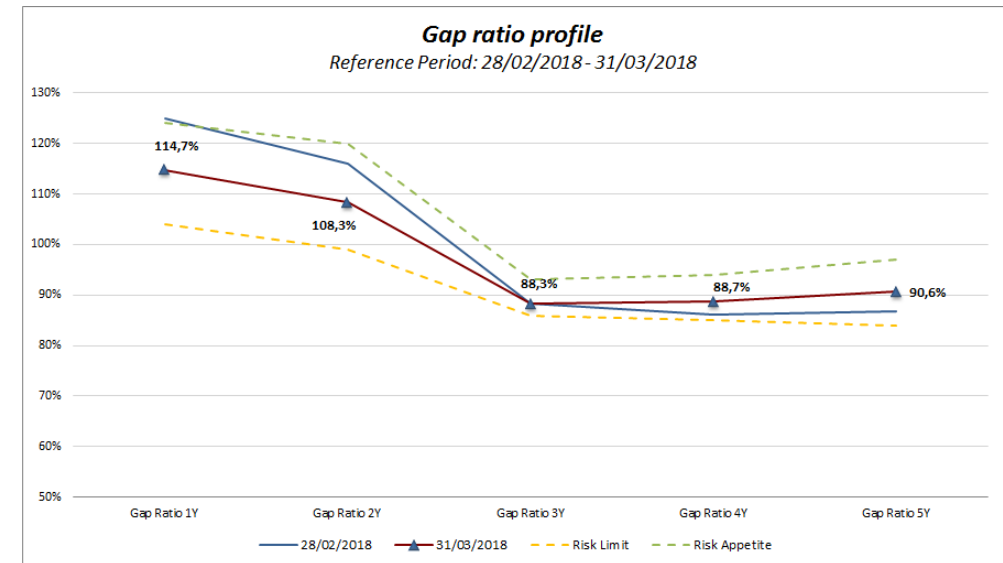
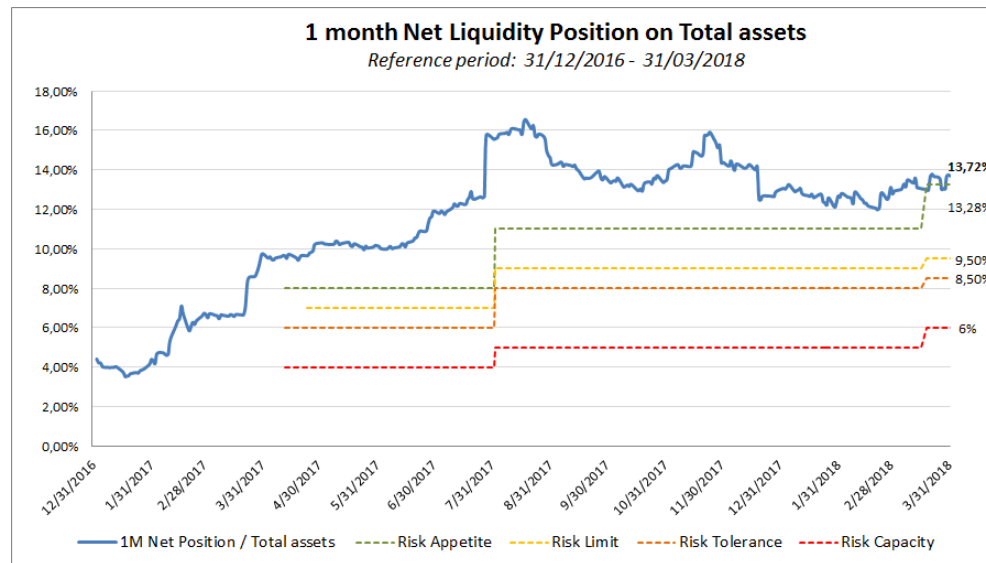
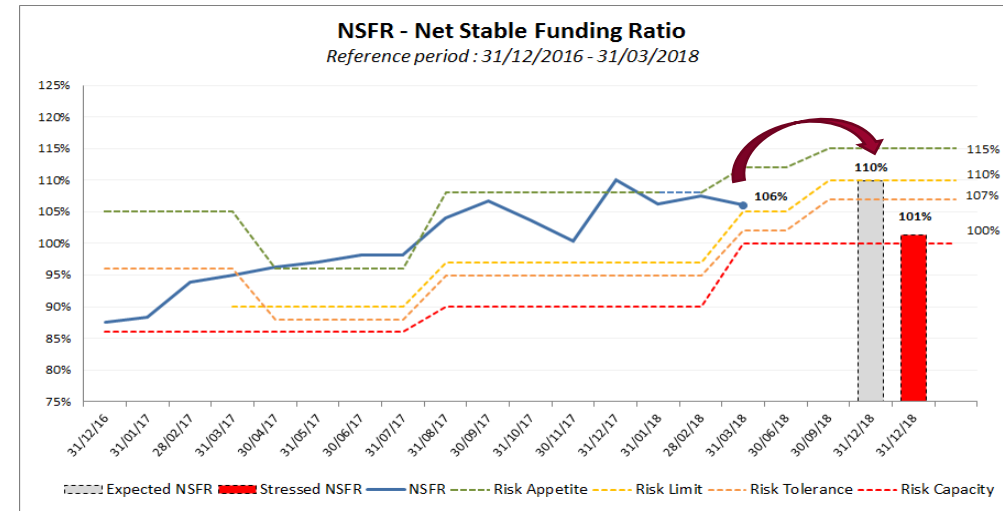
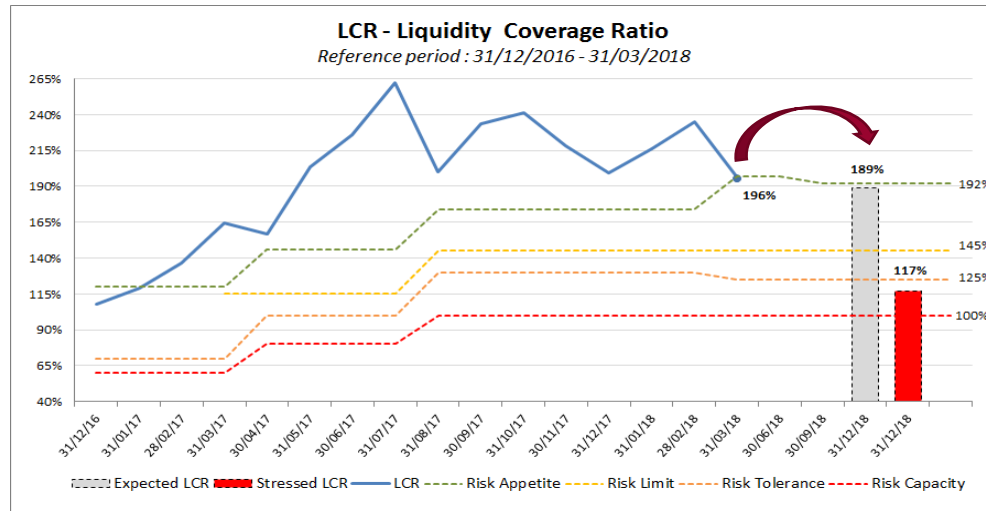
TOTAL CAPITAL RATIO (mar-18 vs dec-17 = +78 bps)



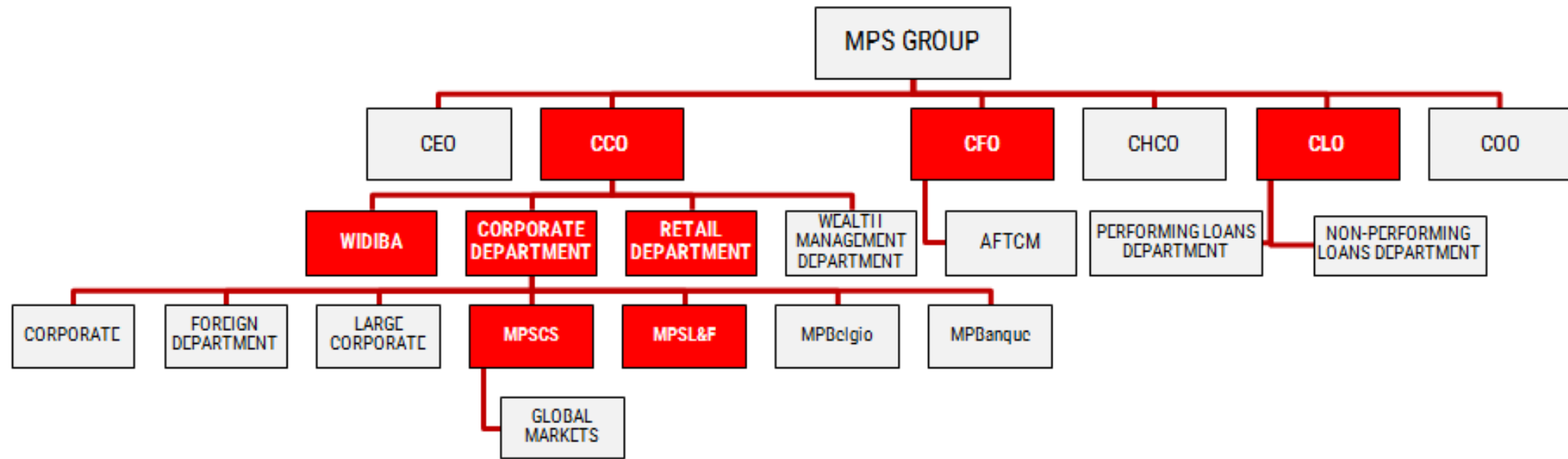
Internal P2R vs Regulatory P2R



Executive Summary – Liquidity Adequacy overview



Executive Summary – Main issues as at 31-03-2018



- **CCO**: Credit Limits Breaches [cfr. CGR– Sessione Lending]
- **CCO Corporate**: Credit Limits Breaches [cfr. CGR– Sessione Lending]
- **CCO Retail**: Credit Limits Breaches [cfr. CGR– Sessione Lending]
- **Widiba**: Credit Limits Breaches [cfr. CGR– Sessione Lending], IRRBB Limits Breaches [see page 13]
- **MPSCS**: Credit Limits Breaches [[cfr. CGR– Sessione Lending]
- **MPSL&F**: Credit Limits Breaches [CGR– Sessione Lending]
- **CFO**: Operational Losses [CGR– Sessione Operating]
- **CLO**: Credit Limits Breaches [CGR– Sessione Lending]

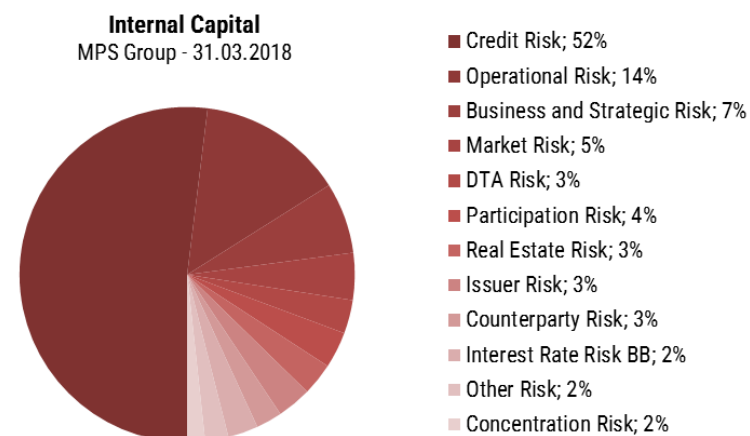
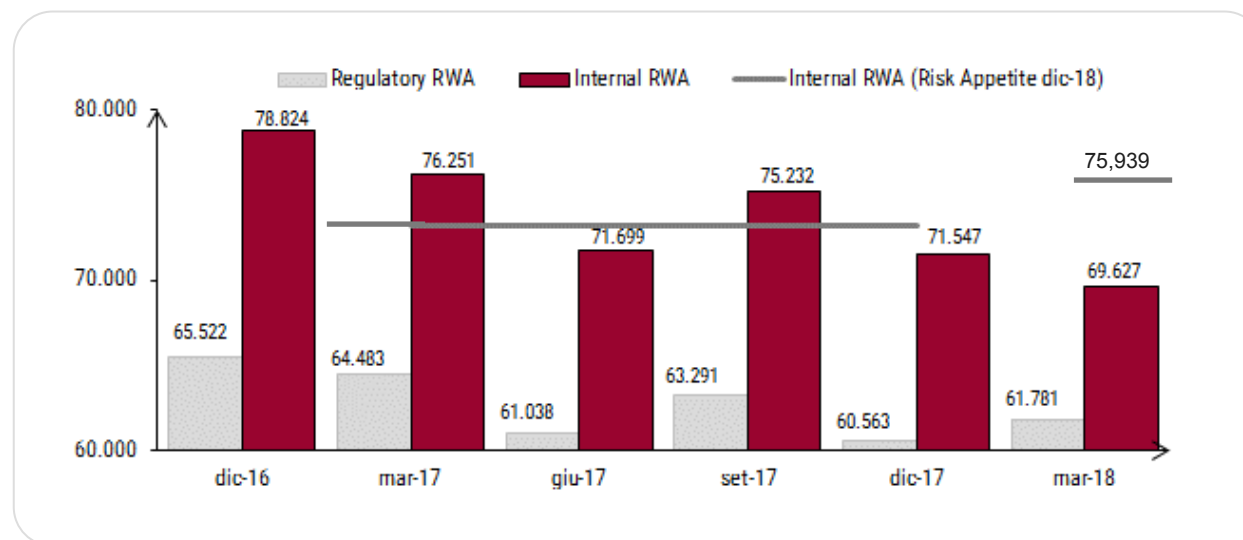


Section 1 – Integrated Risks: Group Regulatory RWA (Pillar1) and Internal RWA (Pillar2) as at 31-03-2018

(Eur mln)		GROUP MPS			
Regulatory / Internal RWA		dic-17	mar-18	ΔQ	ΔQ%
Credit and Counterparty Risk		47.713	47.963	250	0,5%
Credit Risk		35.600	36.172	572	1,6%
AIRB		26.650	27.241	591	2,2%
Standard		8.951	8.932	-19	-0,2%
Counterparty Risk - Default Risk		1.429	1.370	-59	-4,1%
Issuer Risk Banking Book		1.705	1.796	91	5,3%
Market Risk Banking Book		228	195	-33	-14,3%
Participation Risk		2.525	2.438	-87	-3,5%
Real Estate Risk		2.157	2.173	16	0,8%
DTA Risk		2.697	2.252	-445	-16,5%
Other Risk		1.371	1.565	195	14,2%
Market Risk		2.493	3.628	1.136	45,6%
Market Risk Trading Book		2.177	3.113	936	43,0%
Issuer Risk Trading Book		315	515	200	63,4%
Operational Risk		10.012	9.816	-196	-2,0%
Counterparty Risk - CVA Risk		346	375	29	8,4%
REGULATORY RWA		60.563	61.781	1.219	2,0%
Market Risk		5.450	3.157	-2.292	-42,1%
Market Risk BB		4.620	2.393	-2.227	-48,2%
Market Risk TB		829	764	-65	-7,9%
Interest Rate Risk BB		1.959	2.029	70	3,6%
Concentration Risk		1.145	1.193	48	4,2%
Business and Strategic Risk		4.837	4.774	-62	-1,3%
INTERNAL RWA		71.547	69.627	-1.920	-2,7%

Market Risk: Regulatory_RWA increase due to growth of IR derivative portfolio sensitivity by MPS Capital Services. Internal RWA decrease due to reclassification for BTPi 2041 from AFS to Amortized Cost.

Credit Risk: increase of RWA due to growth of commercial assets with corporate counterparties.

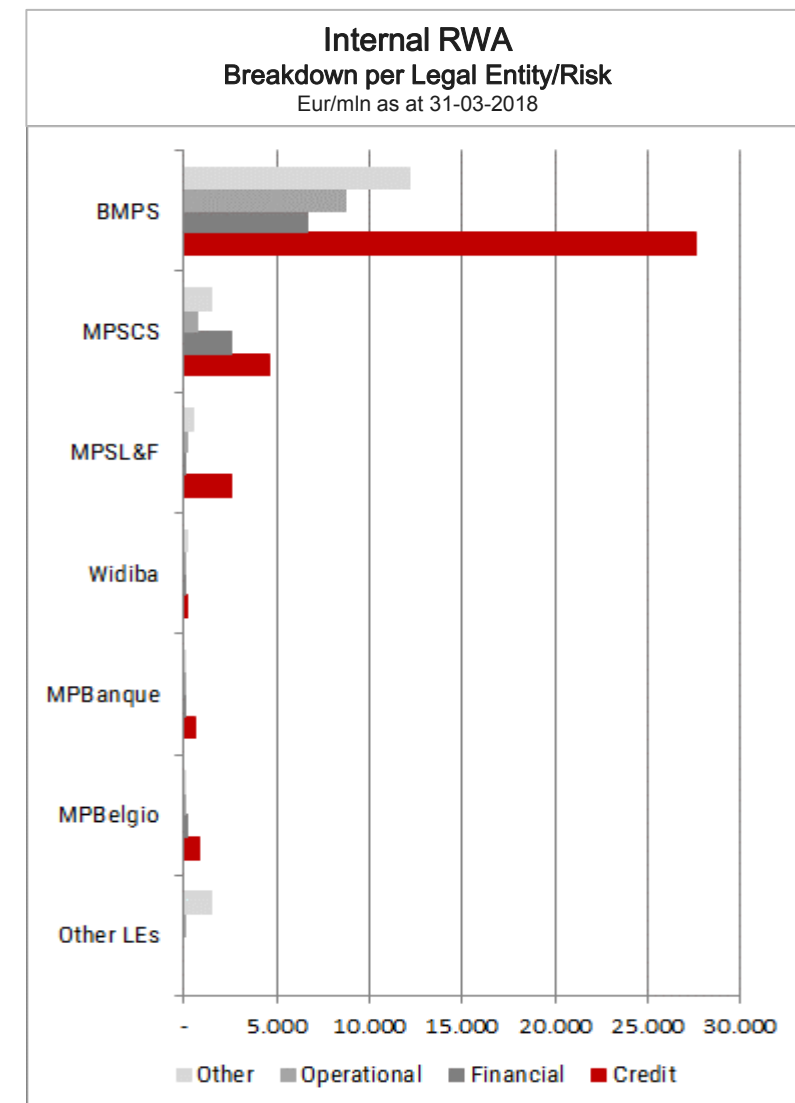


Section 1 – Integrated Risks: RWA per BU/LE's as at 31-03-2018

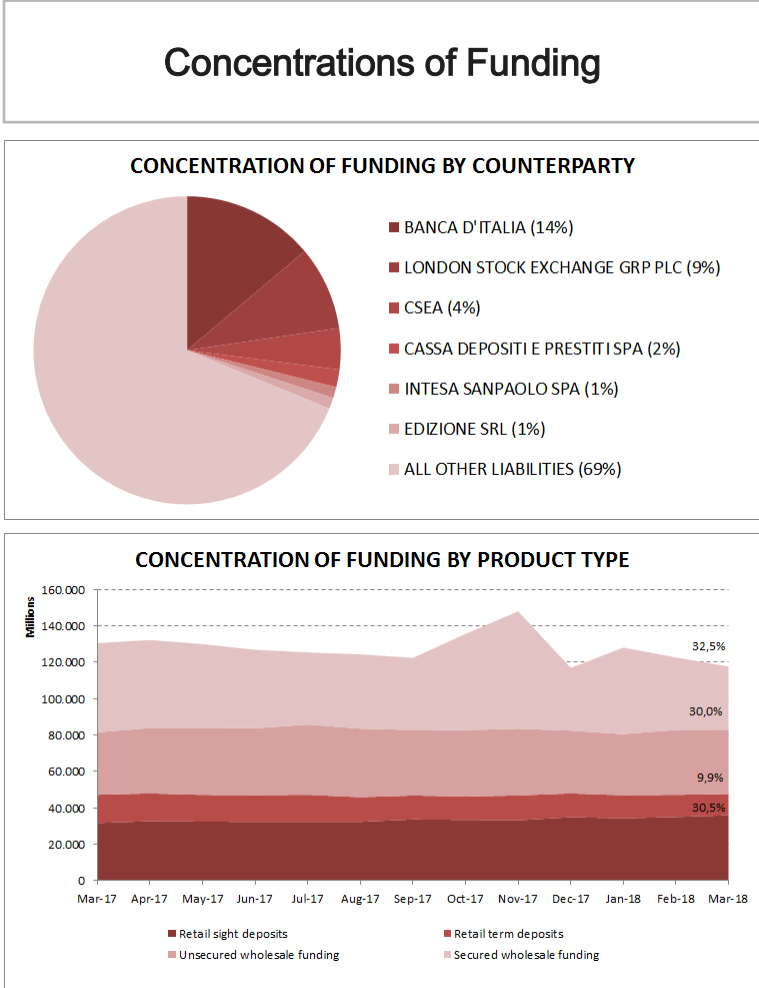
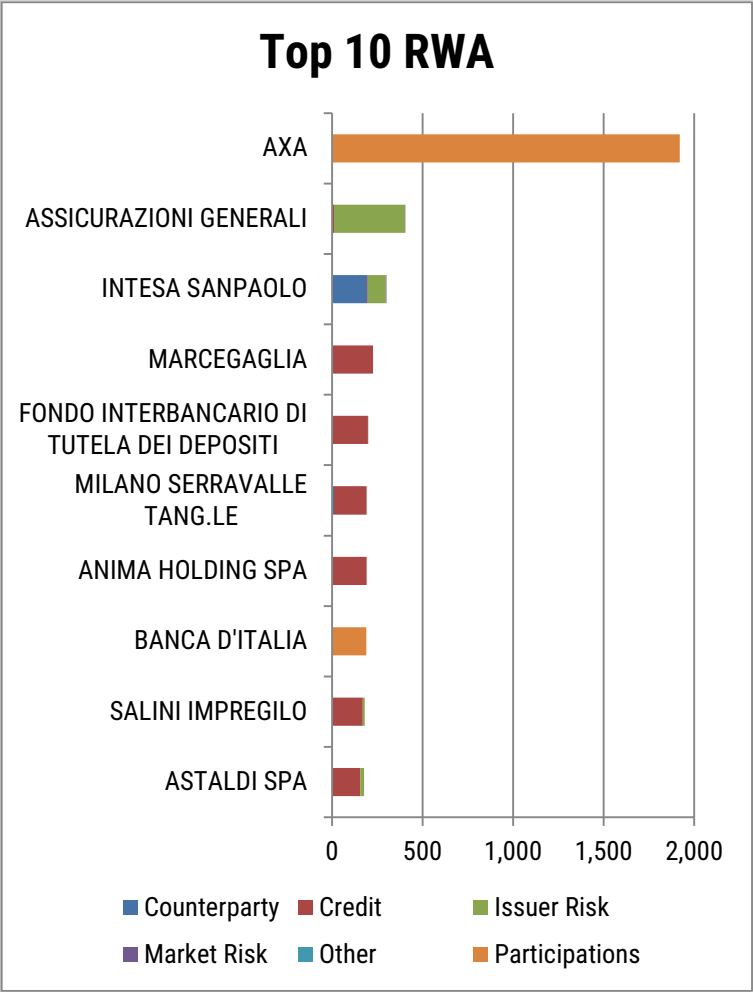
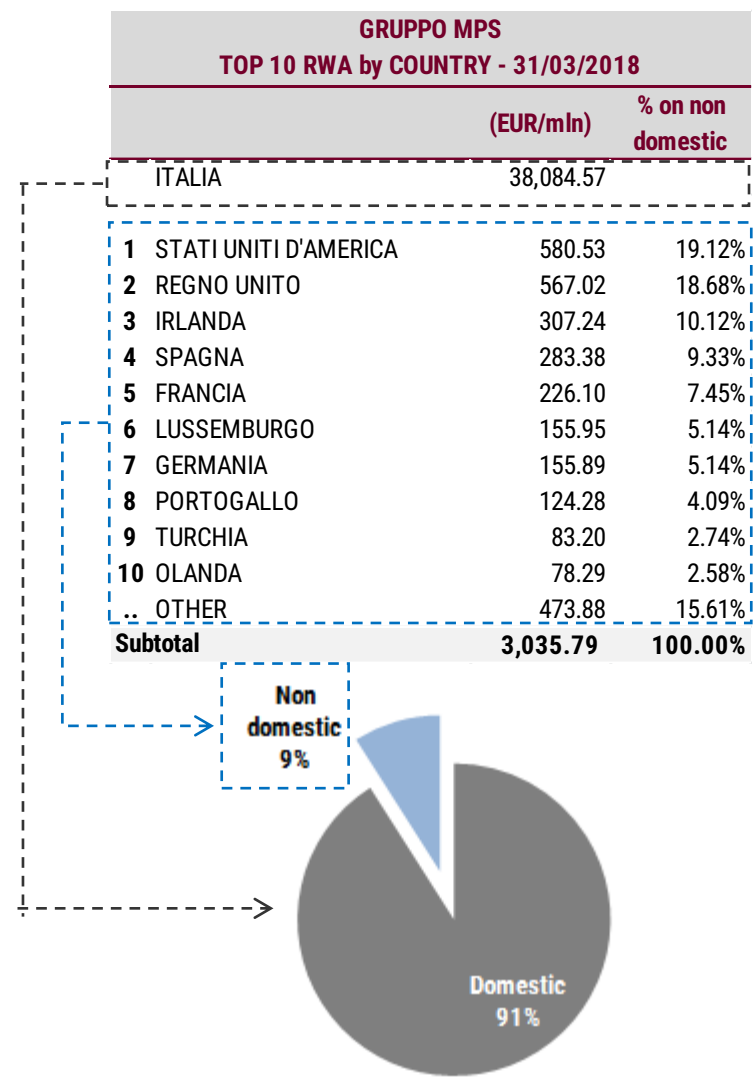
(Eur mln)	mar-18						
Regulatory / Internal RWA	GROUP MPS	CCO	CFO	CEO	COO	CLO	CHCO
Credit and Counterparty Risk	47.963	35.667	6.867	1.997	2.273	853	-
Credit Risk	36.172	34.116	653	678	-	852	-
AIRB	27.241	27.241	0	0	-	-	-
Standard	8.932	6.875	653	678	-	852	-
Counterparty Risk - Default Risk	1.370	869	501	-	-	-	-
Issuer Risk Banking Book	1.796	224	1.595	15	-	-	-
Market Risk Banking Book	195	22	152	-	-	-	-
Participation Risk	2.438	-	1.789	-	-	-	-
Real Estate Risk	2.173	-	-	-	2.173	-	-
DTA Risk	2.252	275	2.167	0	9	0	-
Other Risk	1.565	162	10	1.304	90	1	-
Market Risk	3.628	3.544	85	-	-	-	-
Market Risk Trading Book	3.113	3.029	84	-	-	-	-
Issuer Risk Trading Book	515	515	0	-	-	-	-
Operational Risk	9.816	6.799	528	1.311	612	-	612
Counterparty Risk - CVA Risk	375	278	97	-	-	-	-
REGULATORY RWA	61.781	46.288	7.577	3.308	2.885	853	612
Market Risk	3.157	835	2.309	201	-	-	-
Market Risk AFS	2.393	62	2.282	191	-	-	-
Market Risk HFT	764	773	26	10	-	-	-
Interest Rate Risk BB	2.029	-	2.029	-	-	-	-
Concentration Risk	1.193	2.221	-	-	-	-	-
Business and Strategic Risk	4.774	901	0	4.734	-	-	-
INTERNAL RWA	69.627	47.195	11.679	8.243	2.885	853	612
INTERNAL RWA - Dec-18	75.939	46.580	13.909	7.801	2.776	6.460	634
Internal RWA Mar-18/Internal RWA Dic-18	92%	101%	84%	106%	104%	13%	97%

The CLO estimated Internal RWA at dec-18 include the RWA on defaulted asset expected by December 2018.

Group figures are based on consolidated data. C-Level RWA drill down are based on individual, not consolidated data.



Section 1 – Integrated Risks: Risk Concentrations as at 31-03-2018



Section 4 – Financial Risks: Market Inherent Risk – Trading Book & Banking Book

MPS GROUP - REGULATORY CAPITAL REQUIREMENTS			
	dic-17	mar-18	Δ
Rischio di Posizione Tit. di Deb/ Cartolarizzazione			
Rischio Generico	87,13	160,89	73,76
Rischio Specifico	13,44	18,16	4,73
OIC	0,15	0,09	-0,06
Opzioni	13,95	9,85	-4,10
Rsk Spec. Cartolariz.	11,78	23,04	11,26
Rsk Spec. Ricartolariz.	-	-	-
Totale	126,45	212,04	85,59
Rischio di Posizione Titoli di Capitale			
Rischio Generico	5,81	14,44	8,64
Rischio Specifico	20,70	17,38	-3,31
OIC	1,67	2,48	0,81
Opzioni	14,92	22,69	7,76
Totale	43,10	56,99	13,90
Rischio Cambio			
Rischio Cambio	16,15	3,58	-12,57
Opzioni	0,52	6,34	5,81
Totale	16,68	9,91	-6,76
Rischio Mercati			
Rischio Mercati	13,10	11,17	-1,93
Opzioni	0,09	0,16	0,07
Totale	13,19	11,32	-1,87
Rischio Correlazione			
	-	-	-
TOTAL CAP. REQ.	199,41	290,27	90,86
TOTAL RWA	2.492,64	3.628,38	1.135,74

€/mln

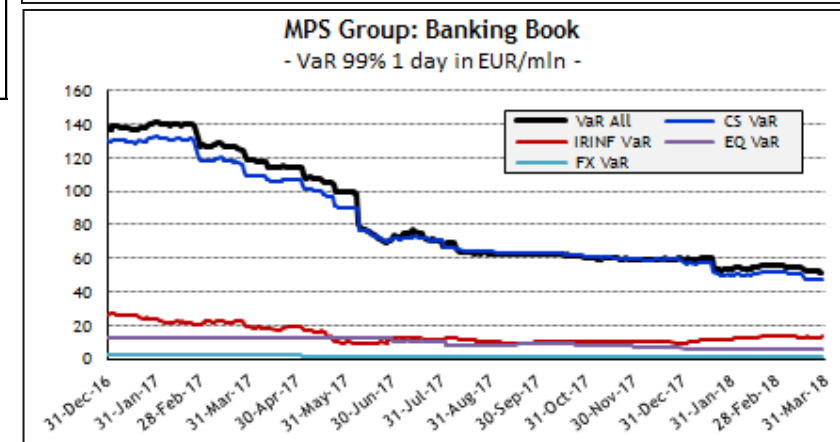
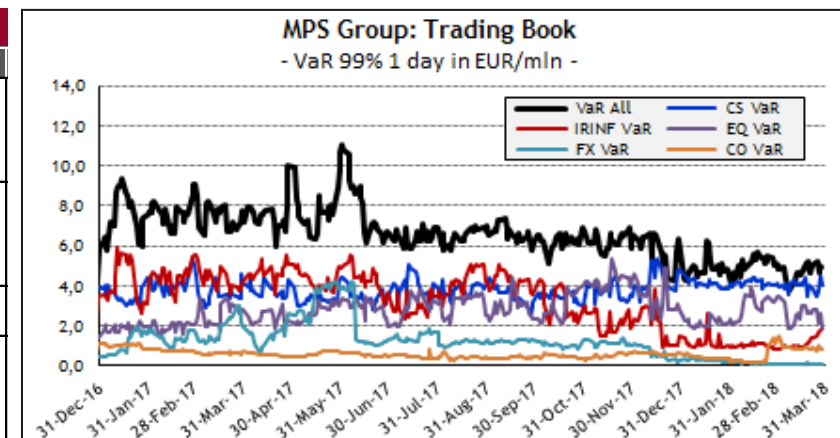
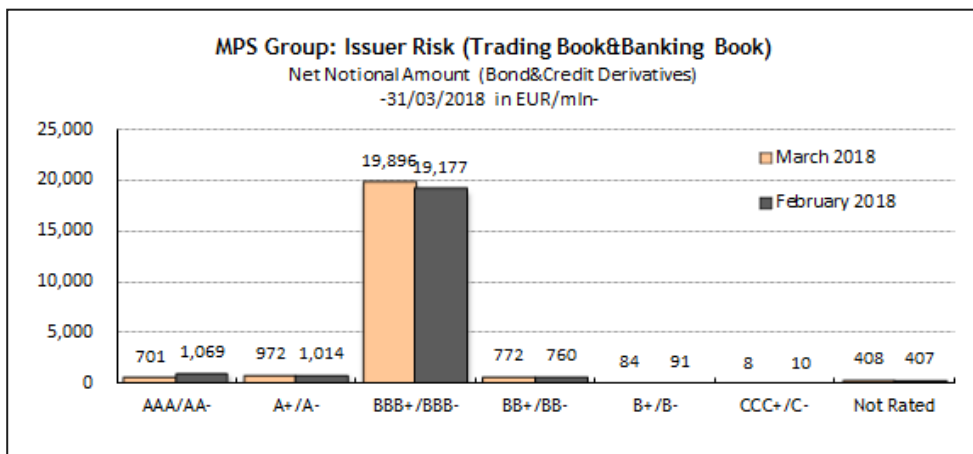
CAPITAL REQ: Mar18-Dec17 increase (about 91 €/mln) mainly attributable to generic IR Risk on Securities (increase of about 74 €/mln) due to IR derivatives transactions of MPSCS.

SENSITIVITY: in TB increase of IR short Sens compared to a Dec17 (about -663 K€) due to IR derivatives transactions of MPSCS; In BB the Sensitivity measure includes AC positions.

MPS GROUP - SENSITIVITY			TB						BB	
Risk Area		Shock	Delta	ΔQ	Gamma	ΔQ	Vega*	ΔQ	Delta	ΔQ
IR	IR sens. of which:	+1 bp	-598	-663	16	15			-3,091	-548
	EUR		-617	-650	16	15			-3,103	-547
	USD		13	-8					13	-1
	Other		5	-5					-1	-0
EQ	EQ sens. of which:	+1%	-172	-73	135	315	1,057	1,861	2,481	245
	Europe		290	326	118	317	1,062	2,197	2,471	245
	US		-495	-306	-10	-12	-521	-400	0	0
	Other		33	-92	27	9	516	64	10	0
CO	CO sens.	+1%	24	-32	-3	-2	-4	-5	0	0
CS	CS sens. of which:	+1 bp	-963	237					-7,673	-170
	Sovereign Italy		-59	104					-5,777	-350
	Sovereign other		262	144					-201	246
	Corporate		-1,167	-11					-1,695	-66
FX	FX sens. of which:	+1%	201	270	374	243	349	26	757	33
	EURUSD		30	29	359	-88	325	21	759	35
	EURJPY		19	66	0	8	15	18	-1	-0
	Other		153	175	6	-7	8	-12	-1	-2

31/03/2018 - K€

* Vega sens. are calculated by 1 point vol shock



TB VaR: no significant variations (Feb 5.1 €/mln vs. Mar 4.9 €/mln).

BB VaR: VaR reduction (ca. 4 €/mln) due to time frame sliding of underlying scenarios.

Issuer Risk: on a monthly basis increase of approx. 766 €/mln in March on Italian Sovereign bonds, in FVTPL portfolio of MPSCS, and a decrease of about 380 €/mln of Sovereign bonds of other countries in FVOCI portfolio of BMPS (200 €/mln on Germany and 175 €/mln on France).



Section 4 – Financial Risks: Market Limits/Processes

€/mln		RISK LIMITS						
		dec-17	jan-18	feb-18	mar-18	Limit	Usage	Check
MPS GROUP	Issuer OCI Bond Portfolio *	12.891	12.553	12.389	12.342	14.000	88%	✓
CEO	VaR Trading Book (PNV) °	6,36	4,11	5,10	4,93	15,00	33%	✓
	Average VaR Trading Book (3M PNV) °°	6,11	5,61	5,24	4,90	8,50	58%	✓
	Stop Loss Annual Drawdown Trading	-12,50	-3,40	-3,70	0,00	-30,00	0%	✓
	Monthly Stop Loss Trading Book °°°	-5,65	10,29	2,45	11,24	-21,50	-	✓
	VaR Banking Book (PB)	55,64	51,37	35,88	32,80	75,00	44%	✓
	VPB Limit	26,19	5,51	123,16	210,46	-200,00	-	✓
BMPS	VaR Trading Book (PNV)	0,08	0,09	0,14	0,39	2,80	14%	✓
	Average VaR Trading Book (3M PNV)	0,13	0,07	0,09	0,07	1,80	4%	✓
	Stop Loss Annual Drawdown Trading	-0,15	0,00	0,00	-0,27	-6,00	5%	✓
	Monthly Stop Loss Trading Book	0,66	0,72	0,47	0,15	-2,50	-	✓
	Stress Limit Trading Book (PNV)**	-0,90	-0,96	-3,90	-13,31	-60,00	22%	✓
	VaR Banking Book (PB)	54,81	50,45	34,98	31,33	70,00	45%	✓
	VPB Limit	52,47	-2,15	122,85	210,09	-190,00	-	✓
	Hedge fund - complessivo	1,01	1,01	1,01	1,01	5,00	20%	✓
	Hedge fund - singola società***	0,36	0,36	0,36	0,36	5,00	7%	✓
	Defaulted - complessivo	0,00	0,00	0,00	0,00	10,00	0%	✓
	Defaulted - singolo emittente***	0,00	0,00	0,00	0,00	5,00	0%	✓
MPS CS	VaR Trading Book (PNV)	6,37	4,17	5,19	4,90	13,50	36%	✓
	Average VaR Trading Book (3M PNV)	6,12	5,61	5,26	4,92	8,00	61%	✓
	Stop Loss Annual Drawdown Trading	-13,26	-3,45	-3,79	0,00	-23,50	0%	✓
	Monthly Stop Loss Trading Book - TP	-4,23	0,73	0,54	2,66	-8,00	-	✓
	Stress Limit Trading Book (PNV)	-217,89	-198,73	-177,85	-208,98	-260,00	80%	✓
	VaR Banking Book (PB)	0,00	0,00	0,04	0,30	3,00	10%	✓
	VPB Limit	0,12	0,00	-0,01	0,60	-7,50	-	✓
	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%	✓
	Defaulted - complessivo	0,39	0,37	0,38	0,00	30,00	0%	✓
	Defaulted - singolo emittente***	0,39	0,37	0,38	0,00	10,00	0%	✓
MP Belgio	VaR Banking Book (PB)	0,94	0,91	0,87	0,87	2,00	44%	✓
	VPB Limit	12,25	5,60	5,68	8,40	-16,00	-	✓
MP Banque	VaR Banking Book (PB)	0,09	0,11	0,09	0,09	0,50	17%	✓
	VPB Limit	9,48	5,25	5,23	5,41	-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

** The limit has been amended by CEO from -20 €/mln to -60 €/mln on 20/04/2018

*** For Single Issuer we report maximum utilization

Operating Limits are monitored and reported with respect to the new autonomies approved by the resolution of the CEO dated 14-03-2018. Authorizations are active since 19-03-2018.

EU Commitments

The EU Commitments contain specific limits at Group level, of a quantitative and qualitative nature.

It should be noted that compared to the previous resolution there are no variations in the limits.

As of 31-03-2018, all the Commitments are respected.

Operating Limits

MPS Capital Services: no breaches recorded.

Banca MPS: no breaches recorded.

Issuer Risk Limits

MPS Capital Services: no breaches recorded.

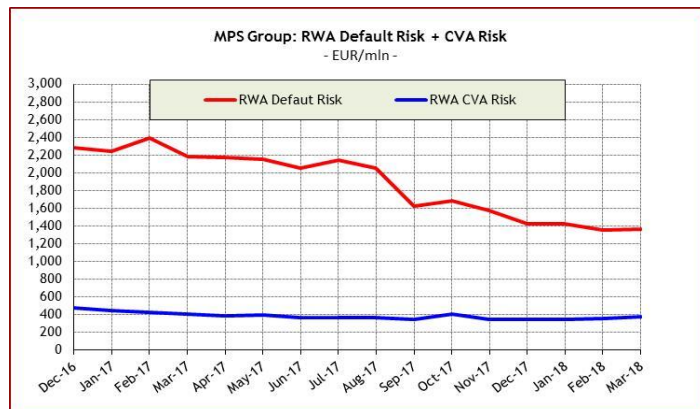
Banca MPS: no breaches recorded.

Processes: Open Gaps

No relevant Gaps Detected.



Section 4 – Financial Risks: Counterparty Inherent Risk



€/mIn, Regulatory Metrics

MPS GROUP - COUNTERPARTY RISK										
		dec-16	mar-17	jun-17	sep-17	dec-17	feb-18	mar-18	ΔMtD	ΔQtD
RWA	DEFAULT RISK	2,285	2,180	2,055	1,621	1,429	1,358	1,370	0.9%	-4.1%
	of which:									
	Derivatives + LST	634	560	522	513	505	517	518	0.3%	2.6%
	STANDARD	1,251	1,225	1,145	709	567	499	489	-2.0%	-13.7%
	Total	1,885	1,786	1,667	1,222	1,072	1,016	1,007	-0.9%	-6.0%
	Derivatives + LST	398	391	381	395	352	340	361	6.1%	2.4%
	AIRB	2	4	7	4	5	3	2	-29.3%	-59.4%
	Total	400	395	388	399	357	343	363	5.8%	1.6%
	CVA RISK	480	407	365	351	346	355	375	5.6%	8.4%
	TOTAL RWA	2,765	2,587	2,421	1,972	1,774	1,712	1,744	1.9%	-1.7%

€/mIn, Regulatory Metrics

MPS GROUP - COUNTERPARTY RISK										
		dec-16	mar-17	jun-17	sep-17	dec-17	feb-18	mar-18	ΔMtD	ΔQtD
EAD	DEFAULT RISK	6,851	5,890	5,217	4,293	3,711	4,066	3,912	-3.8%	5.4%
	of which:									
	Derivatives + LST	2,285	2,246	1,765	1,825	1,812	1,946	1,903	-2.2%	5.0%
	STANDARD	4,135	3,251	3,074	2,071	1,551	1,768	1,637	-7.4%	5.6%
	Total	6,420	5,497	4,839	3,896	3,363	3,715	3,541	-4.7%	5.3%
	Derivatives + LST	431	391	372	394	345	350	370	5.7%	7.3%
	AIRB	1	2	6	3	3	2	1	-38.2%	-69.3%
	Total	431	393	378	397	348	352	371	5.5%	6.6%
	CVA RISK	868	768	691	674	674	714	714	0.0%	5.9%
	TOTAL EAD	7,719	6,659	5,908	4,967	4,385	4,781	4,626	-3.2%	5.5%

Relevant RWA variations – Mar 18/Dec 17

SFT: reduction (-80 €/mIn)

- BMPS: reductions on THE ROYAL BANK OF SCOTLAND PLC (-44 €/mIn), BANCA CABOTO MI (-21 €/mIn), MEDIOBANCA (-14 €/mIn) and NATIXIS (-12 €/mIn due to maturing of di financing Repos. Increase on BARCLAYS BANK PLC (+11 €/mIn) linked to the opening of a new position in security lending on an Italian Gov. Bond , with an Haircut set at 50%.
- MPCS: no relevant variations.

Derivatives+LST: increase (+22 €/mIn)

- BMPS: reduction of exposure on TRAM DI FIRENZE (-7.8 €/mIn) due to a better credit quality of the ctp.
- MPSCS: increase of exposure on GOLDMAN SACHS INTERNATIONAL (+28 €/mIn) due to opening of credit derivatives transactions and on QUAESTIO INTERNATIONAL FUNDS MULTIVALORE (+16 €/mIn) due to opening of new derivatives transactions.

RWAs Composition – March 18

GMPS level:

- SFT: relevant activity in structured funding mainly on BANCA IMI S.P.A. (183 €/mIn) and THE ROYAL BANK OF SCOTLAND (105 €/mIn) for about 59% of total RWAs of SFT;
- Derivatives & LST: 45% for activity with commercial (non financial) customers and 25% for activity in AXA products;

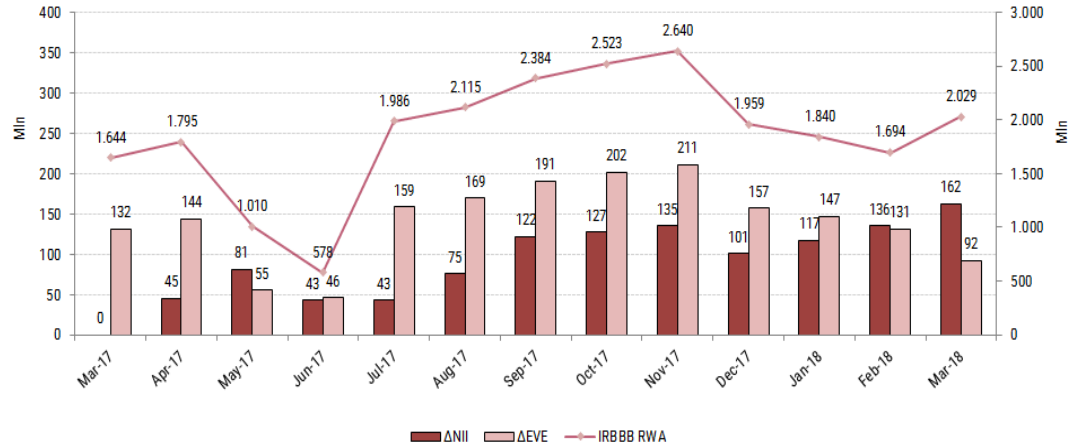
Central Counterparties, opposed to an exposure of 1,707 €/mIn (about 44% of total outstanding EAD) determine a mere 3.4% of total RWAs.



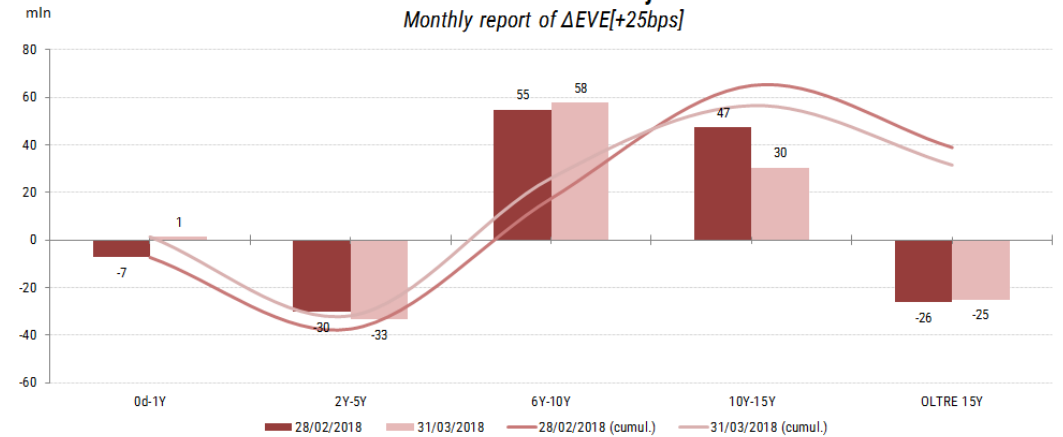
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Section 4 – Financial Risks: IRRBB Inherent Risk

IRRBB RWA and Internal Capital
Historical Time Series



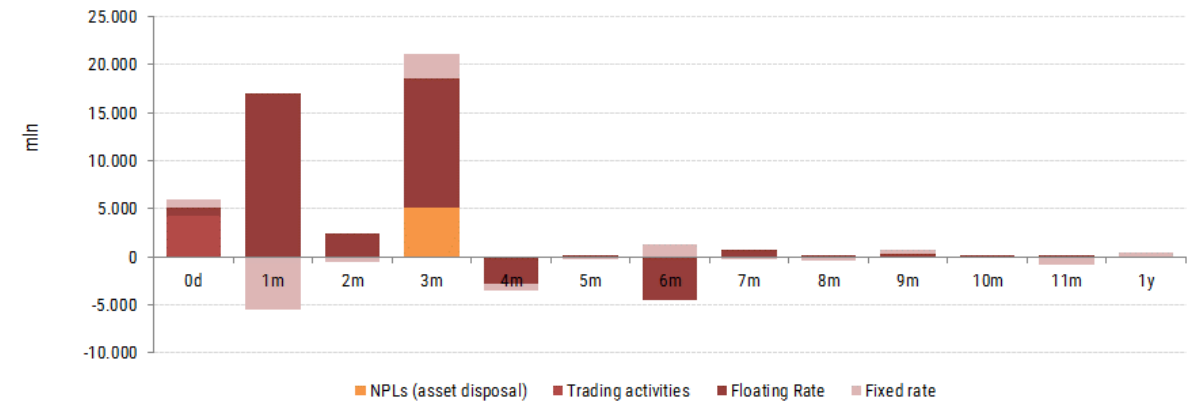
Time-band sensitivity
Monthly report of ΔEVE[+25bps]



	ΔEVE +25 bps	Δ	ΔEVE -25 bps	Δ
Gap Risk	-158	5	162	-5
Contractual Maturity Mismatch	-176	-7	186	7
Derivatives	47	11	-53	-11
NPLs ("Sofferenza")	-24	1	24	-1
Other ("Perimetro cessione")	-4	0	4	0
Option Risk	187	-11	-186	13
Behavioral model	221	-15	-228	15
NMDs	167	-18	-171	18
Prepayment	54	2	-57	-3
Automatic Options	-34	4	42	-2
Embedded	-46	4	68	2
Explicit	12	0	-26	-5
Totale	32	-7	-26	10

Differences in ΔEVE between March and February are mainly due to the introduction of new approved methodological approach in Behavioural Models (impact on Non Maturing Deposits, NMDs and Prepayments).

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

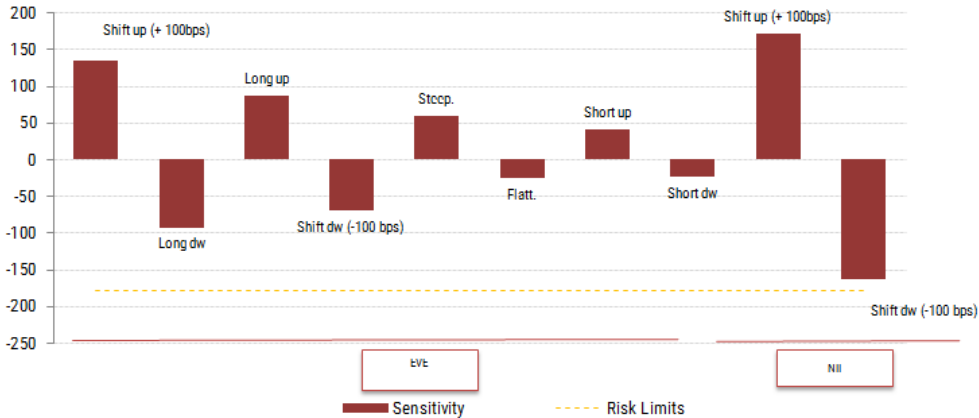


Section 4 – Financial Risks: IRRBB Limits/Processes

Entity	Owner	IRRBB Indicators		Risk Profile 31/3/2018		Risk Limit	
		Metrics	Scenario	Value	Limits Check		
Group	AFTCM	ΔEVE	Shift up (+ 100bps)	135	-162	✔	-178
			Long dw	-92			
			Long up	87			
			Shift dw (-100 bps)	-69			
			Steep.	59			
			Flatt.	-25			
			Short up	42			
			Short dw	-23			
		ΔNII	Shift up (+ 100bps)	172	-162	✔	
			Shift dw (-100 bps)	-162			

€/mln

Scenario analysis
EVE and NII Sensitivity



Entity	Owner	IRRBB Indicators		Risk Profile 31/3/2018			Risk Limit
		Metrics	Scenario	Value	Tier 1 capital al 31/12/2017	Limits Check	
Italian Legal Entities	MPS Capital Services	ΔEVE	parallel shift (+100 bps)	-18	1.245	1,4% Tier 1	2,5% Tier 1 capital
			parallel shift (-100 bps)	12		✔	
	MPS Leasing & Factoring	ΔEVE	parallel shift (+100 bps)	-4	319	1,2% Tier 1	2,5% Tier 1 capital
			parallel shift (-100 bps)	1		✔	
	WIDIBA	ΔEVE	parallel shift (+100 bps)	-3	93	3,7% Tier 1	2,5% Tier 1 capital
			parallel shift (-100 bps)	7		✖	

€/mln

WIDIBA: Risk limit breach (3,7%) due to the new production of customer loans (fixed rate and floating rate with floor on market parameter).
The Subsidiary has already set Remedial action with Head Office by the end of May.

Processes: Open Gaps
No relevant Gaps Detected

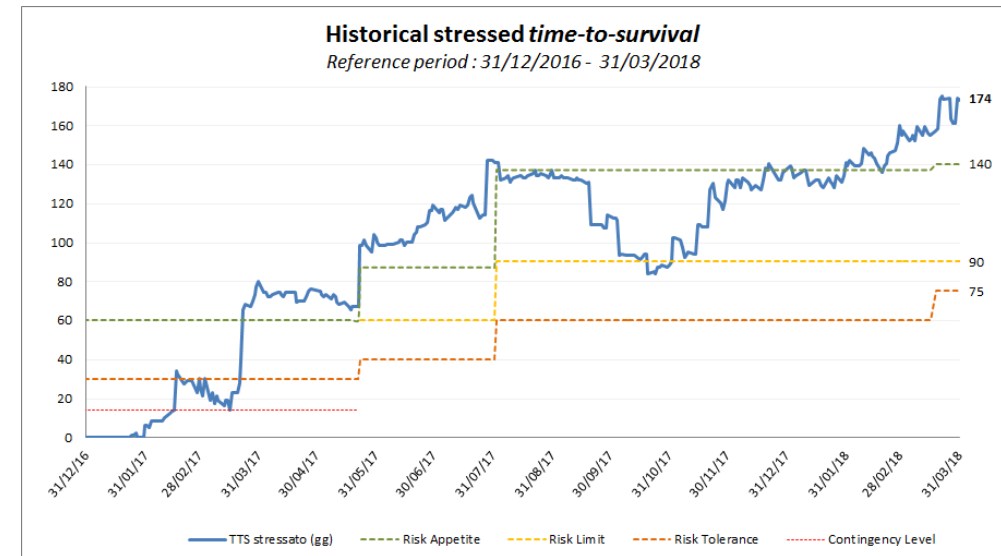
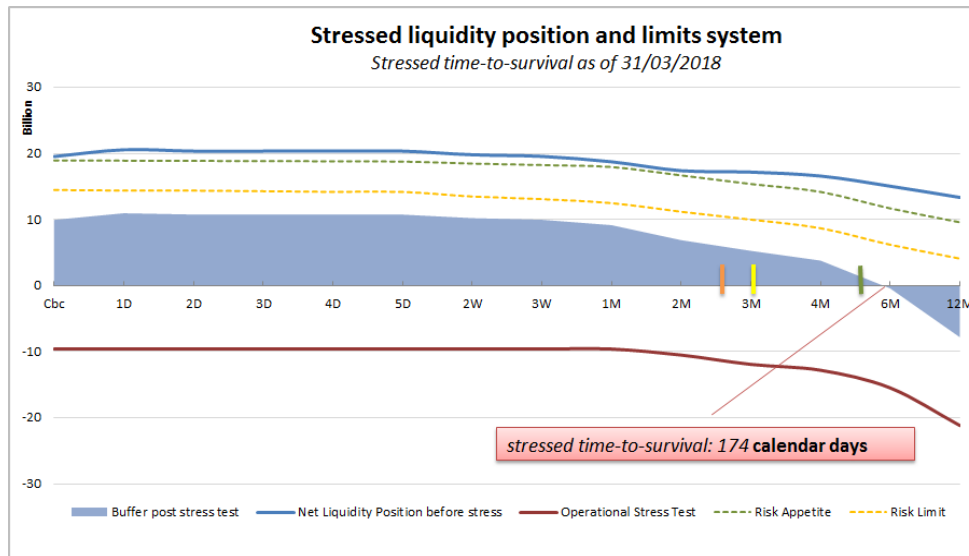
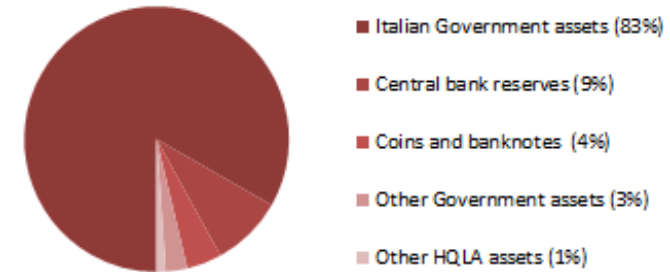


Section 4 – Financial Risks: Short Term Liquidity Inherent Risk

LCR DA		28/02/18	31/03/18	Δ
(a)	buffer	18.383	16.881	-1.503
(b)	outflows	12.310	12.149	-162
(c)	inflows	4.486	3.522	-964
ratio [a/(b-c)]		235%	196%	-39%

LCR decrease is mainly due to an higher HQLA bond encumbrance in *ECB liquidity-providing operations* (-2,11 €/bn) and to a reduction in *commercial flows* (-1,06 €/bn).

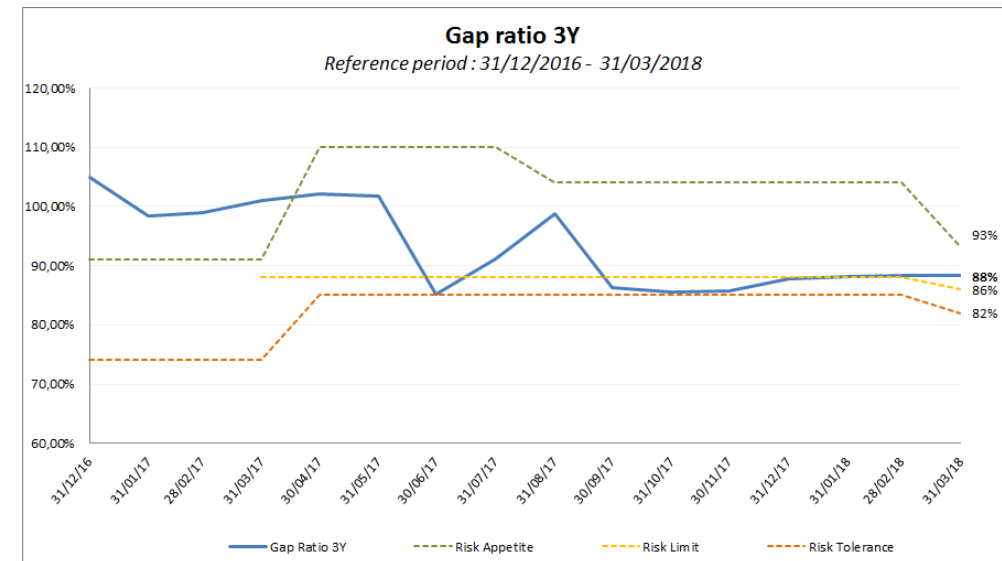
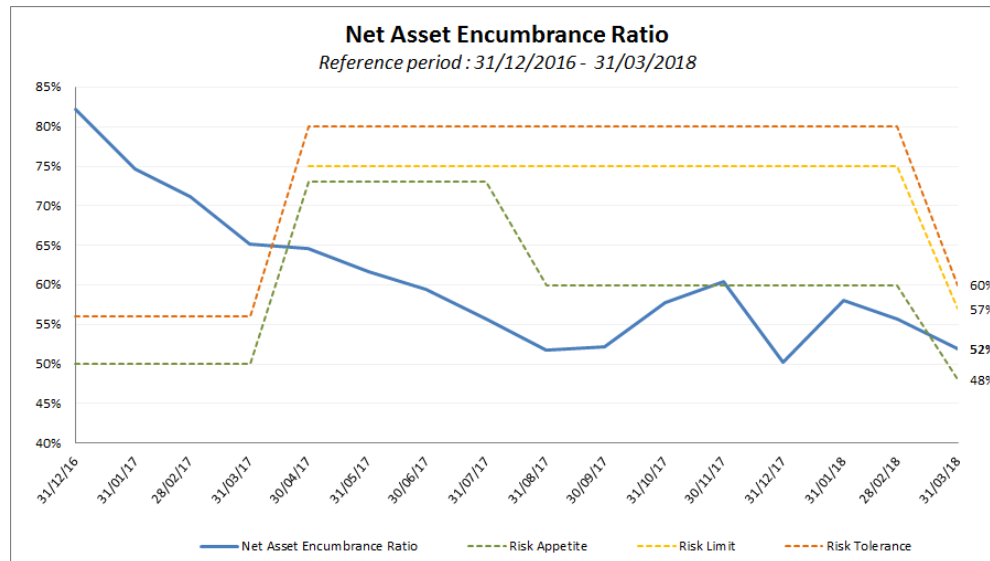
LCR Buffer Composition
MPS Group - 31.03.2018



Section 4 – Financial Risks: M/L Term Liquidity Inherent Risk

NSFR Basel III	28/02/18	31/03/18	Δ
(a) ASF	98.055	96.786	- 1.269
(b) RSF	91.170	91.288	119
ratio [a/b]	107,6%	106,0%	-1,53%

NSFR decrease is mainly due to negative impact of financial statement as at 31-03-2018 (-1,3 €/bn, mainly due to the reduction of book equity in accordance with the introduction of IFRS9).



Section 4 – 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										14.500	✓	
		Net 1M Position	€/mln	18.726	18.402	17.933	18.764										12.500	✓	
		Net 1M Position/tot assets	%	12,89%	12,67%	12,89%	13,72%										9,50%	✓	
		Time-to-Survival	days	136	141	160	174										90	✓	
	Regulatory Indicators	LCR		199%	216%	235%	195,7%										145%	✓	
MEDIUM & LONG TERM	NSFR		110,0%	106,3%	107,6%	106,0%											105%	✓	
	Asset Encumbrance	Net Asset Encumbrance ratio		50,2%	58,0%	55,6%	51,9%										57%	✓	
	Gap Ratio	MPS GROUP	Gap Ratio 1 Y		125,7%	125,9%	124,9%	114,7%										104%	✓
			Gap Ratio 2 Y		121,8%	115,8%	115,9%	108,3%										99%	✓
			Gap Ratio 3 Y		87,7%	88,2%	88,3%	88,3%										86%	✓
			Gap Ratio 4 Y		86,8%	85,9%	86,1%	88,7%										85%	✓
			Gap Ratio 5 Y		86,0%	86,9%	86,7%	90,6%										84%	✓
Com Gap Ratio				78,8%	78,0%	78,9%	81,2%										75%	✓	

Liquidity Operating Limits

MPS Group: No breaches in Liquidity Limits.

Legal Entities: No breaches in Liquidity Limits.

Processes: Open Gaps

No relevant Gaps Detected



