



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

Risk Management Report

London Branch September 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



London Branch – Regulatory RWA and Internal RWA as at 30-09-2018

		(Eur mln)	LONDON						
P I L L A R 1	Regulatory / Internal RWA		set-17	dic-17	mar-18	giu-18	set-18	ΔQ	ΔQ%
	Credit and Counterparty Risk		200,19	156,83	117,51	104,56	93,38	-11,18	-10,7%
		Credit Risk	160,71	125,50	88,74	75,45	64,23	-11,22	-14,9%
		AIRB	0,03	0,03	0,03	0,03	0,03	0,00	-0,2%
		Standard	160,67	125,47	88,71	75,42	64,19	-11,22	-14,9%
		Issuer Risk Banking Book	39,48	31,33	28,76	29,11	29,16	0,05	0,2%
	Operational Risk		17,06	18,64	14,69	15,02	14,53	-0,49	-3,2%
	REGULATORY RWA		217,25	175,47	132,20	119,58	107,91	-11,66	-9,8%



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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	sep-18	ΔQtD	ΔYtD
RWA	TOTAL	264,9	269,7	243,4	160,7	125,5	93,5	79,9	68,2	-14,7%	-45,7%
	Standard	264,9	269,7	243,4	160,7	125,5	93,4	79,9	68,1	-14,7%	-45,7%
	- of which Bonis	264,8	267,9	241,9	159,5	124,5	91,9	79,6	68,0	-14,6%	-45,3%
	- of which Default	0,1	1,8	1,5	1,2	1,0	1,6	0,3	0,1	-61,8%	-90,0%
	AIRB	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,2%	-0,2%
	- of which Bonis	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,2%	-0,2%
Values in €/mln		dec-16	mar-17	jun-17	sep-17	dec-17	mar-18	jun-18	sep-18	ΔQtD	ΔYtD
EAD	TOTAL	280,0	285,4	262,8	167,0	145,8	112,0	98,1	84,2	-14,2%	-42,3%
	of which Intragroup	0,0	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	84,2	-14,2%	-42,3%
	Standard	280,0	285,4	262,7	167,0	145,8	112,0	98,1	84,2	-14,2%	-42,3%
	- of which Bonis	279,9	284,1	261,7	166,1	145,1	110,9	97,8	84,1	-14,1%	-42,1%
	- of which Default	0,1	1,2	1,0	0,8	0,7	1,0	0,3	0,1	-61,8%	-85,5%
	AIRB	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	-0,2%	-0,3%
	- of which Bonis	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	-0,2%	-0,3%
	- of which Default	0,0	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	sep-18	ΔQtD	ΔYtD
RWA	Aziende	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,2%	-0,2%
	Privati	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0%	0,0%
	Total	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,2%	-0,2%
EAD	Aziende	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	-0,2%	-0,3%
	Privati	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0%	0,0%
	Total	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	-0,2%	-0,3%
PD	Aziende	0,1%	0,1%	0,1%	0,5%	0,5%	0,5%	0,5%	0,5%	-0,8%	-1,1%
	Privati	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
	Total	0,1%	0,1%	0,1%	0,5%	0,5%	0,5%	0,5%	0,5%	-0,8%	-1,1%
LGD	Aziende	48,0%	48,1%	48,1%	48,1%	48,0%	48,0%	48,0%	48,1%	0,1%	0,2%
	Privati	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
	Total	48,0%	48,1%	48,1%	48,1%	48,0%	48,0%	48,0%	48,1%	0,1%	0,2%

- RWA decrease from the previous quarter (-14,7%, -€12 mln) due to the standard Corporate segment.
- The decrease of EAD observed vs. the end of June is mainly due to the reduction of EAD above mentioned.



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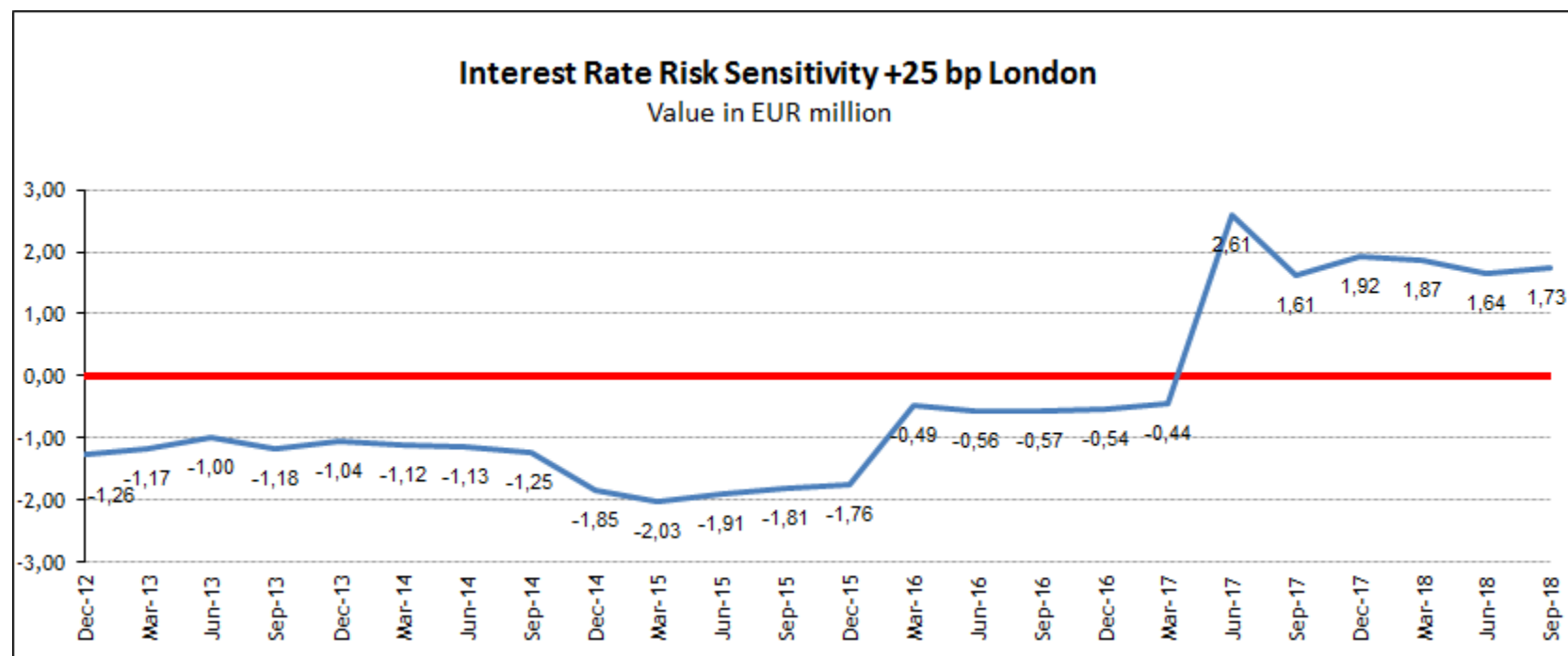
Operational Risk Management

Monitoring of credit risk by internally implemented portfolio model



Interest Rate Sensitivity

Interest rate sensitivity September 2018						Value in €/ mln
	shock+25bp	shock-25bp	shock +100 bp	shock -100 bp	shock +200 bp	shock -200 bp
London Branch	1,73	-1,82	6,32	-7,69	10,79	-15,20



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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 (averagely 4,200 GBP/year) 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 **Q3 2018**.



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Credit Loans Portfolio - Bonis portfolio

Credit risk information, included from the current slide to ahead, are based on managerial measurements.

September 30, 2018 - London - €/mln

Portfolio	Drawn	EAD	EL	Ecap	EL / EAD (bp)	Ecap / EAD %	AVG PD %
<i>Corporate</i>	45,86	46,94	0,18	2,17	38	4,62%	0,97%
<i>Institutional</i>	29,66	29,78	0,04	0,29	15	0,97%	0,38%
Total	75,51	76,72	0,22	2,46	29	3,21%	0,74%

Loans* exposures – at September 2018 – amount to 75,51 €/mln. Expected Loss (EL) and Economic Capital (Ecap**) are respectively 0,22 €/mln and 2,46 €/mln.

45,86 €/mln of exposure, almost 61% of whole portfolio, is represented by Corporate counterparts.

In terms of relative credit risk ratios, EL/EAD ratio is equal to 29 bps while ECap/EAD is 3,21%.

* The Portfolio considered, in line with the analysis made at Bank and Group level, does not include the defaulted positions according to the international Regulatory framework for the validated AIRB approach.

** ECap is calculated taking into account the diversification effect at the entire Group Portfolio level



Credit Loans Portfolio – Top 20 – Bonis portfolio

Top 20

September 30, 2018 - London - €/mln

Counterparty Name	Drawn	EAD	EL	Ecap	EL / EAD (bp)	Ecap / EAD %
JPMORGAN CHASE BANK N.A.	18,87	18,87	0,00	0,03	2	0,16%
MINISTERIUM CAPITAL SA	10,95	11,21	0,05	0,56	42	4,96%
ORPEA SA	10,00	10,00	0,04	0,50	42	4,95%
B & M EUROPEAN VALUE RETAIL SA	9,61	9,74	0,04	0,26	41	2,64%
DELFO ILFORD LIMITED	5,68	5,78	0,02	0,29	42	4,96%
PLINIUS LIMITED	4,20	4,20	0,02	0,21	41	4,93%
1908 ACQUISITION BV	3,45	3,45	0,01	0,17	42	4,96%
QATAR LIQUEFIED GAS COMPANY LIM	2,74	2,74	0,00	0,01	1	0,54%
SETHA DALSTON LIMITED	2,51	2,51	0,01	0,12	42	4,96%
TS UK LIMITED	1,89	1,78	0,00	0,05	17	3,03%
UPLANDS HIGH WYCOMBE LLP	1,12	1,13	0,00	0,06	41	4,93%
RICHMOND CAYMAN LP	1,09	1,37	0,01	0,07	42	4,99%
FARID HILLEND ENGINEERING LIMITE	0,98	0,99	0,00	0,05	41	4,93%
HSBC BANK P.L.C.	0,84	0,84	0,00	0,00	2	0,15%
CORIALIS GROUP LIMITED	0,54	0,66	0,00	0,03	41	4,93%
LLOYDS BANK PLC	0,23	0,23	0,00	0,00	2	0,15%
PEREGRINE TRADING LIMITED	0,21	0,21	0,00	0,01	41	4,93%
BOFFI UK LIMITED	0,20	0,20	0,00	0,01	41	4,86%
PLASMAL LTD	0,17	0,17	0,00	0,01	41	4,93%
TAGHLEEF INDUSTRIES SOCIETA' PER	0,11	0,09	0,00	0,00	21	3,70%
Total	75,40	76,16	0,22	2,43	29	3,20%

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



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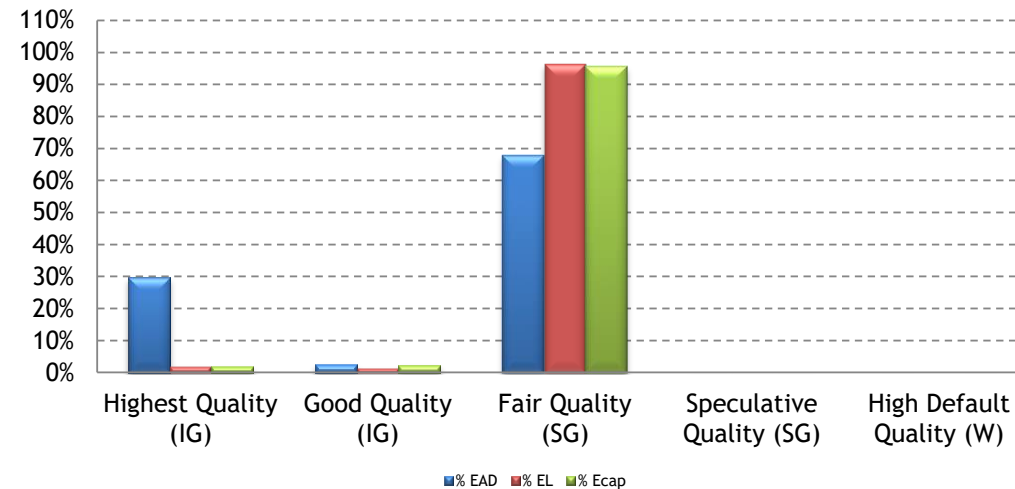
Credit Loans Portfolio – quality distribution – Bonis portfolio

Master Scale	Basis point		S&P's Rating	Description
	from	to		
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-	
High Default Quality (W)	1.774	10.000	CCC+ / D	Watch

On September 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 68% (see Fair and Speculative classes);
- Investment Grade about 32%.

Master scale distribution of borrowers



Credit Loans Portfolio – Default portfolio

Default portfolio

September 30, 2018 - London - €/mln

Counterparty Name	Drawn	EAD	EL	LGD
AL EZZ FLAT STEEL CO	0,52	0,52	0,31	59,01%
MONDIAL WINE LIMITED	0,23	0,23	0,15	67,19%
Total	0,75	0,75	0,46	61,47%

Defaulted loans exposures – at September 2018 – amount to 0,75 €/mln. Expected Loss (EL) is equal to 0,46 €/mln. LGD of Mondial Wine Limited, which represents almost 70% of total default exposures, is 59,01%.



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.



