



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

## **Risk Management Report**

**London Branch September 2017**

**Direzione Chief Risk Officer**

## Contents

### **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**



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

## Regulatory RWA and Internal RWA as at 30-09-2017

(Eur mln)	LONDON					
Regulatory / Internal RWA	dic-16	mar-17	giu-17	set-17	ΔQ	ΔQ%
Credit and Counterparty Risk	305,19	309,86	283,12	200,19	-83	-29,3%
Credit Risk	264,95	269,72	243,42	160,71	-83	-34,0%
<i>AIRB</i>	0,01	0,01	0,01	0,03	0	187,0%
<i>Standard</i>	264,94	269,71	243,41	160,67	-83	-34,0%
Issuer Risk Banking Book	40,24	40,14	39,70	39,48	0	-0,6%
Operational Risk	15,43	15,35	16,75	17,06	0	1,8%
REGULATORY RWA	320,63	325,21	299,87	217,25	-83	-27,6%
INTERNAL RWA	320,63	325,21	299,87	217,25	-83	-27,6%



## **Contents**

**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**



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

## Credit Loans Portfolio – Regulatory measures

		Credit Risk					
Values in €/mln		dec-16	mar-17	jun-17	sep-17	dec-17	
RWA	TOTAL	264,9	269,7	243,4	160,7		
	Standard	264,9	269,7	243,4	160,7		
	- of which Bonis	264,8	267,9	241,9	159,5		
	- of which Default	0,1	1,8	1,5	1,2		
	AIRB	0,0	0,0	0,0	0,0		
	- of which Bonis	0,0	0,0	0,0	0,0		
	- of which Default	0,0	0,0	0,0	0,0		
Values in €/mln		dec-16	mar-17	jun-17	sep-17	dec-17	
EAD	TOTAL	280,0	285,4	262,8	167,0		
	of which Intragroup	0,0	0,0	0,0	0,0		
	of which no Intragroup	280,0	285,4	262,8	167,0		
	Standard	280,0	285,4	262,7	167,0		
	- of which Bonis	279,9	284,1	261,7	166,1		
	- of which Default	0,1	1,2	1,0	0,8		
	AIRB	0,1	0,1	0,1	0,1		
	- of which Bonis	0,1	0,1	0,1	0,1		
	- of which Default	0,0	0,0	0,0	0,0		

The decrease of RWA and EAD, from the previous quarter (-34%, -83 €/mln), is due to the standard Corporate segment, in particular at the closing of several positions as «MASHREQBANK PSC», «EXPORT CREDIT BANK OF TURKEY» and «ZF FRIEDRICHSHAFEN AG» exposures.



## **Contents**

**Regulatory RWA and Internal RWA**

**Credit Risk Analysis of the Lending Portfolio**

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

**Operational Risk Management**

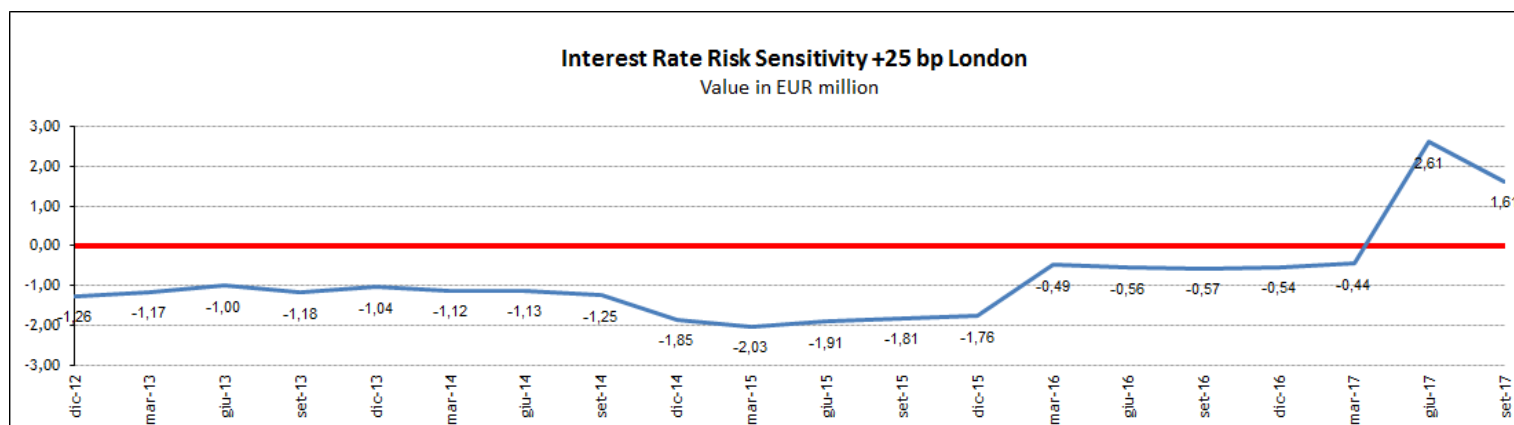
**Monitoring of credit risk by internally implemented portfolio model**



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

## Interest Rate Sensitivity

Interest rate sensitivity September 2017						Value in €/ mln
	shock+25bp	shock-25bp	shock +100 bp	shock -100 bp	shock +200 bp	shock -200 bp
London Branch	1,61	-1,65	6,11	-6,88	10,42	-14,95



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

## **Contents**

**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**



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



## 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 3,000GBP/year) and are related to errors/delays in executing operations.

In the last years (2010-2017) 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 2017**.



## **Contents**

**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**



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

## 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 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 possible scenarios.
5. 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.
6. 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

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

September 30, 2017 - London - €/mln

Portfolio	Drawn	EAD	EL	Ecap	EL / EAD (bp)	Ecap / EAD %	AVG PD %
<i>Corporate</i>	127,32	129,69	0,81	7,92	62	6,11%	1,50%
<i>Institutional</i>	28,75	28,95	0,08	0,38	27	1,32%	0,63%
<b>Total</b>	<b>156,07</b>	<b>158,63</b>	<b>0,89</b>	<b>8,31</b>	<b>56</b>	<b>5,24%</b>	<b>1,35%</b>

Loans\* exposures – at September 2017 – amount to 156,07 €/mln. Expected Loss (EL) and Economic Capital (ECap\*\*) are respectively 0,89 €/mln and 8,31 €/mln.

127,32 €/mln of exposure, almost 82% of whole portfolio, is represented by Corporate counterparts.

In terms of relative credit risk ratios, EL/EAD ratio is equal to 56 bps while ECap/EAD is 5,24%.

\* 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, 2017 - London - €/mln

Counterparty Name	Drawn	EAD	EL	Ecap	EL / EAD (bp)	Ecap / EAD %
INTERVIAS FINCO LIMITED	11,34	11,34	0,29	1,35	258	11,87%
MINISTERIUM CAPITAL SA	11,02	11,48	0,05	0,65	44	5,67%
B & M EUROPEAN VALUE RETAIL SA	10,05	10,24	0,04	0,27	43	2,64%
ORPEA SA	10,00	10,00	0,04	0,57	44	5,66%
PIGMENTS II BV	9,19	9,19	0,04	0,51	43	5,59%
PEER HOLDING B.V.	9,00	9,00	0,04	0,51	44	5,66%
JACOBS DOUWE EGBERTS INTERNATION	7,99	7,99	0,05	0,56	66	6,95%
GLOBAL BLUE ACQUISITION B.V.	6,00	6,00	0,03	0,34	44	5,66%
HSBC BANK P.L.C.	5,79	5,79	0,00	0,01	1	0,09%
DELFO ILFORD LIMITED	5,72	5,89	0,03	0,33	44	5,67%
WATERLOGIC FINANCE LIMITED	5,67	5,71	0,02	0,32	43	5,59%
CORIALIS GROUP LIMITED	5,41	5,61	0,02	0,31	43	5,54%
TURKIYE VAKIFLAR BANKASI T.A.O.	5,00	5,00	0,02	0,05	31	0,98%
YAPI VE KREDI BANKASI A.S.	5,00	5,00	0,02	0,05	31	0,98%
SPIE SA	5,00	5,00	0,02	0,28	43	5,52%
TI EXPANSION SA	4,67	4,67	0,02	0,27	44	5,71%
PLINIUS LIMITED	4,54	4,56	0,02	0,26	44	5,76%
QATAR LIQUEFIED GAS COMPANY LIM	4,34	4,34	0,00	0,03	1	0,64%
ACR II B.V.	3,53	3,88	0,02	0,22	43	5,66%
1908 ACQUISITION BV	3,50	3,50	0,02	0,20	43	5,62%
<b>Total</b>	<b>132,75</b>	<b>134,19</b>	<b>0,79</b>	<b>7,07</b>	<b>59</b>	<b>5,27%</b>

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



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

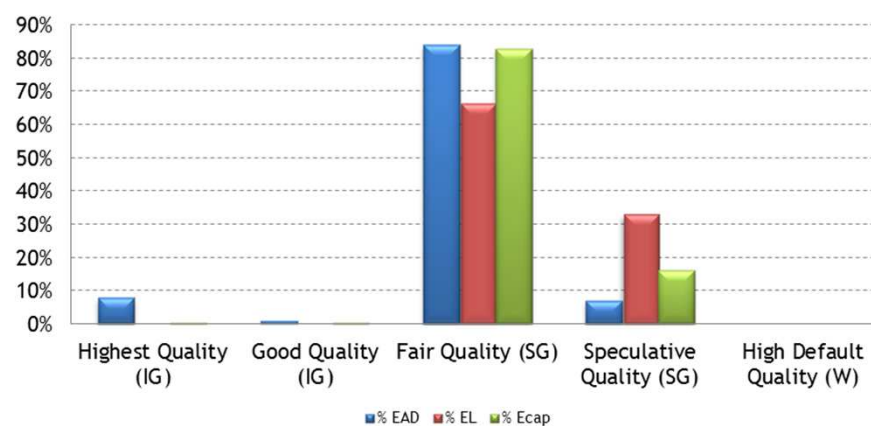
## Credit Loans Portfolio – quality distribution – Bonis portfolio

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-	
Hight Default Quality (W)	1.774	10.000	CCC+ / D	Watch

On September 2017, 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 91% (see Fair and Speculative classes);
- Investment Grade about 9%.

Master scale distribution of borrowers



## Credit Loans Portfolio – Default portfolio

### Default portfolio

September 30, 2017 - London - €/mln

Counterparty Name	Drawn	EAD	EL	LGD
MONDIAL WINE LIMITED	0,97	0,97	0,55	56,46%
AL EZZ FLAT STEEL CO	0,63	0,63	0,36	56,40%
Total	1,60	1,60	0,90	56,44%

Defaulted loans exposures – at September 2017 – amount to 1,60 €/mln. Expected Loss (EL) is equal to 0,90 €/mln. LGD of Mondial Wine Limited, which represents almost 61% of total default exposures, is 56,46%.



