

Submission date: 03 December 2018

SUBJECT: Credit Risk – Notification regarding an ex-ante non material change of range of application of use of a rating systems carried out in 2018: 2nd wave Widiba

Dear Sirs and Madams,

pursuant to Article 143, paragraph 4, of Regulation (EU) No.575/2013 and to EU Regulation 529/2014, paragraph 5, Banca Monte dei Paschi di Siena, as Parent Company, being already authorized to use the advanced IRB models since June 2008, hereby notifies its intention to make changes considered non-material to the internal rating system. In accordance with Delegated Regulation (EU) No 529/2014 – Annex 1, Part 1, Section 2 (Changes requiring prior notification to competent authorities), art. 1) "Reducing the range of application or the scope of use of a rating system", GMPS reduced the range of application of internal rating system.

The model change is part of the strategic projects for relaunching and repositioning BMPS Group, the Board of Directors approved on June 30th 2017 an operation aiming to reallocate banking contracts referring to a selected range of retail customers from Banca MPS to Banca Widiba.

The approved migration perimeter concerns the banking contracts of about 500 thousand customers belonging to the service model named "Valore". This transaction falls within the case of "banking contracts spin-off" regulated by the article n.58 of TUB (Italian Consolidated Law on Banking), which does not require the prior express consent of the client. The identifying criteria of the contracts set to be divested are objective: supervisory instructions, in fact, define as "wholesale identifiable legal relations" receivables, payables and contracts with a "common distinctive element" (*Title III, chapter V, section I, paragraph 3*).

The criteria used for the identification of the target are the following:

- important erosion in terms of economic amounts, with a related high risk of dropping out (in the last 3 years the amounts held by the BMPS Group has halved);
- customers high self-banking propensity;
- below-average customers marginality with recovery/development potential;
- compatibility of the products held by costumers with the current and future offering of Banca Widiba.

To date, two migration waves have been realized:

- the first one, on December 8th 2017, which involved 45 thousand customers for a total of € 145 million of funding; loans contracts were not involved. The notification of the transaction was published on Italian Republic Official Gazette on December 14th 2017;
- the second one, on October 20th 2018, which involved 106 thousand customers for a total of € 325 million of funding. This second wave also involved 280 customers with loans for a total amount of approximately € 29 million. The notification of the transaction was published on Italian Republic Official Gazette on November 8th 2018.

As to concerns loans, contracts included within the transfer block were:

- "simple" loans with fixed or variable rate;
- non-securitized;
- expiring in more than 60 months and with a residual debt of less than € 300 thousand;
- with revenues lower than € 800.

Further migration waves are planned for 2019 which could involve a marginal share of customers with loans. It is necessary to remark that the internal BMPS Group roll-out plan provides the extension of IRB approach to Widiba by the end of 2019.

The second migration has determined a reduction of the range of the application of the internal rating system by transfer of a limited portion of portfolio (n 280 retail mortgages, EAD € 29 million) from the Parent Company MPS to the subsidiary Widiba, with relative modification of treatment from Airb to Standard approach.

Pursuant the migration plan approved by the BoD and considering the immateriality of the portfolio involved (€ 29 million) with respect to the MPS Group EAD, the increase of the Group total RWAs as well as of the planned AIRB roll out of the subsidiary Widiba, the Internal Validation Function has authorized the submission of the notification.

This change was assessed as non-material on the basis of the regulatory principles included in the Delegated Regulation (EU) No.529/2014 that have been transposed in the internal model change policy (D02221 "Identificazione e gestione del model change - rischio di credito").

In attachment it is reported the application forms in accordance with the "Guidelines on submitting requests relating to internal models to the European Central Bank" reported in the ECB communication of June 7th 2018.

1. Model change 2018_3:

Current situation

Airb approach is currently adopted for Corporate and Retail exposure of Banca MPS, Banca L&F e MPS CS, while Banca Widiba is in roll-out by the end of 2019.



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Change Adopted

A limited portion of portfolio (n 280 retail mortgages, EAD € 29 million, which represents the 0.03% of total EAD) has been transferred from the Banca MPS to Banca Widiba, with relative modification of treatment from Airb to Standard approach.

The model change has been assessed as "non-material", according with Annex I, Part I, Section 2, Article 1. The verification of the quantitative criteria envisaged in the internal policy (D02221), carried out with data as of 30th September 2018, has confirmed the non-material classification of the intervention, as the model change has determined a relative reduction of 0.07% for AIRB RWA and an increase of 0.01% for total RWA: the small reduction in Airb RWA (- € 3 million) has been compensated by the increase in Standard RWA for an amount of € 10 million, thereby determining an overall increase in total RWA of € 7 million. Furthermore, the migration has not caused variations neither in CET1 value nor in TIER 1.

After two months from the date of this notification, and unless you communicate otherwise, GMPS will proceed with the implementation of the solution described.

For any further clarification regarding the solution submitted herein, please refer to:

- Lorenzo Boetti – Lending Risk Officer
- Giancosimo Petraglia – Credit Risk models Unit
- Stefano Moni – Risk System Validation Unit

Yours sincerely,

Gruppo Monte dei Paschi di Siena

Chief Risk Officer

DIREZIONE CHIEF RISK OFFICER
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