



Banca Monte dei Paschi di Siena

Una storia italiana dal 1472

1H2015 GMPS Results

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6th August 2015



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

1H15 Results



- *Key messages*
- *1H15 Results - Balance sheet*
- *1H15 Results - P&L*
- *Final remarks*

Executive Summary



1H15 Results Highlights

- **Net profit** for the period **EUR 193.6mln** and **Pre-provision profit** at **EUR 1.1bn**
- In 2Q15, **Net income** at **EUR 121mln** and **Pre-provision profit** at **~EUR 620mln***, up **~1% QoQ**
- **Good performance from fees (+9.3% QoQ)**, driven by WM component (+9.6% QoQ)
- Continued focus on operating efficiency (overall costs flat QoQ and on steady downward trajectory YoY)
- **Positive trends in new loan origination** (approx. +EUR 2bn QoQ) in the context of continuing overall deleveraging (-2.7% QoQ)
- **Retail and Corporate funding** stable QoQ (+0.4%)
- **Strong liquidity position** with full reimbursement of LTRO; funding from ECB only related to TLTRO (EUR 7.8bn)
- First signs of improvement in overall credit quality; **NPE inflows** decrease in 2Q15** (approx. -50% QoQ excluding NPL sales) and Net NPEs down 0.3% QoQ

Capital Plan Implementation

- **Successful completion of the EUR 3bn capital increase**
- **CET1 ratio as at Jun-15 at 11.3%***** and **CET1 ratio fully loaded at 10.7%***** both well above the 10.2% SREP floor
- Ongoing implementation of NPL sales program with the sale of EUR 1.3bn portfolio completed in June
- **Fully reimbursed the remaining EUR 1.1bn of NFIs** ahead of schedule, originally envisaged by 2017

*Including the gain from the sale of the stake of 10.3% in Anima (~EUR 120mln)

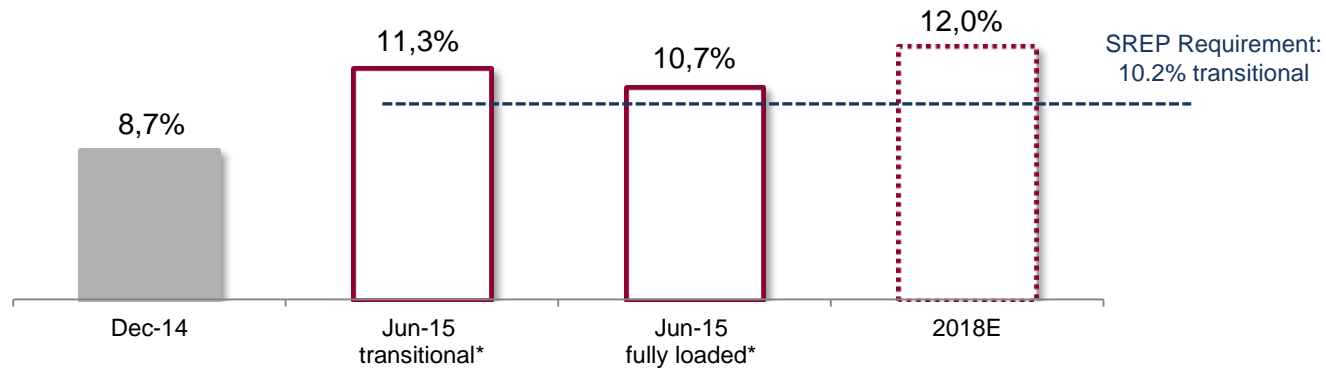
**Delta stock

***Basel 3 ratios, pro-forma including the payment of NFIs coupon through the issue of new shares. The Bis 3 fully loaded ratio has been estimated including the filter on AFS net reserves on European Government bonds, except for Alexandria transaction

Strengthened Capital Position



CET 1 ratio

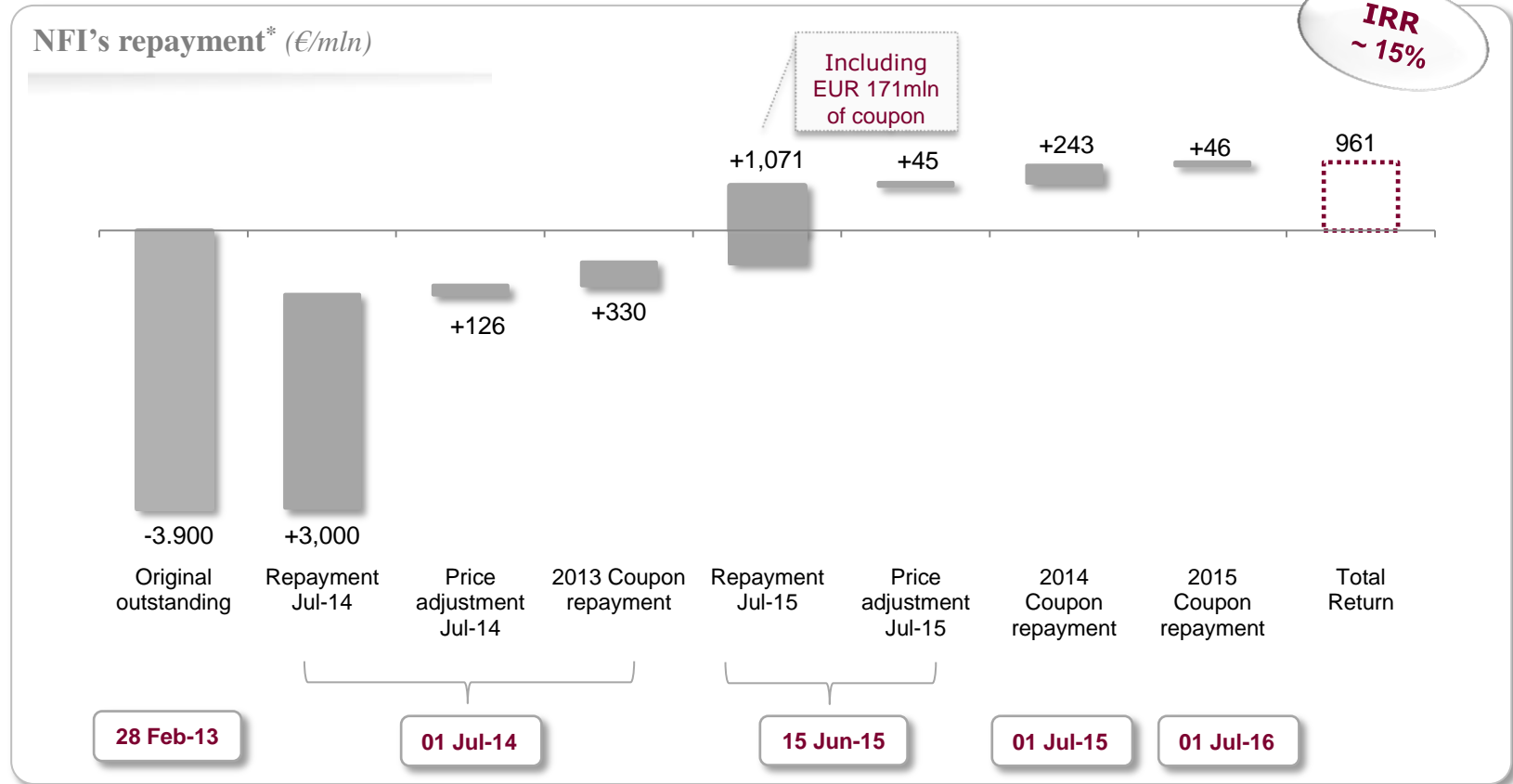


- ❑ **Successful completion of the EUR 3bn rights issue with a 99.6% take-up**
- ❑ Substantial buffer in capital ratios vs. SREP requirement
- ❑ Capital position in line with CET1 ratio transitional of Italian peers**

*Basel 3 ratios, pro-forma including the payment of NFIs coupon through the issue of new shares. The Bis 3 fully loaded ratio has been estimated including the filter on AFS net reserves on European Government bonds, except for Alexandria transaction

**Average Italian Banks: UCI, ISP, BAPO, BPM, UBI, BPER. Source 1Q15 Company reports

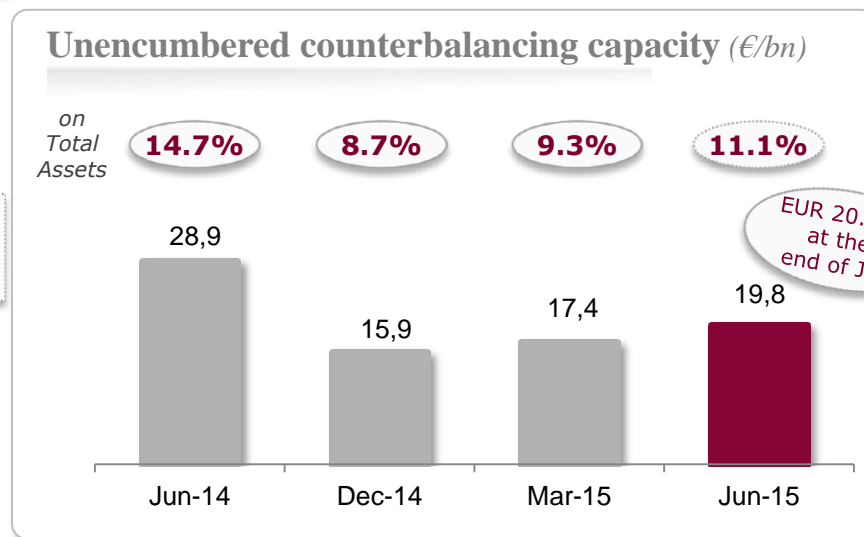
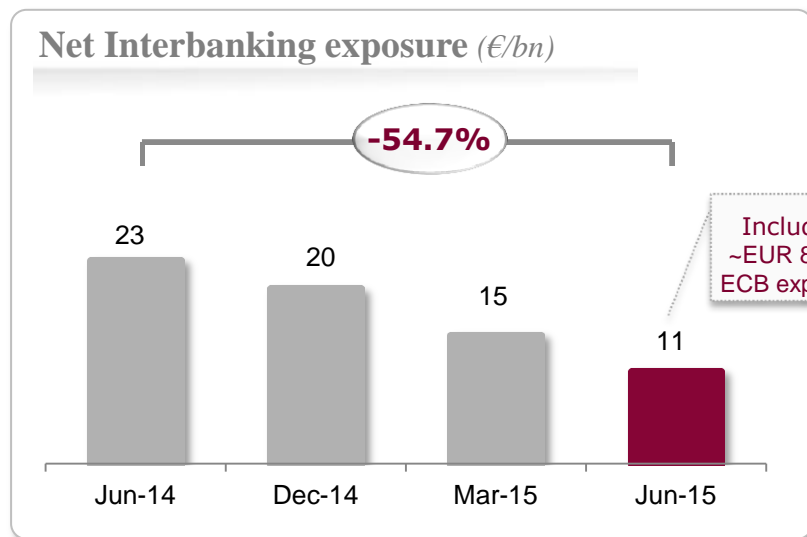
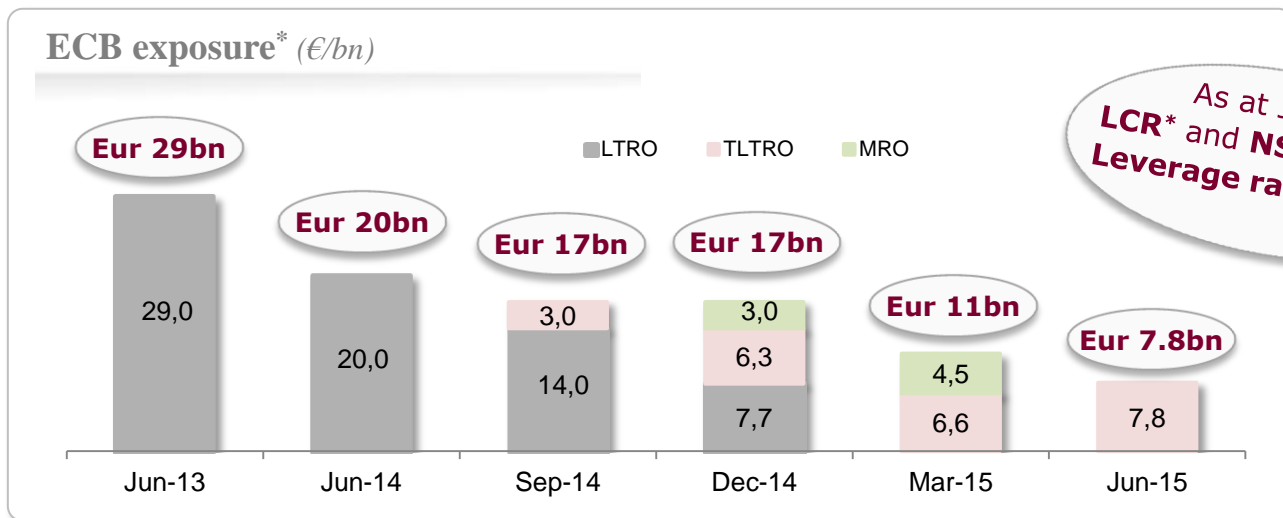
Full reimbursement of NFIs



□ Fully reimbursed all State aid ahead of schedule, originally expected by 2017

* Figures from operational data management system (ALM Department)

Strong liquidity position



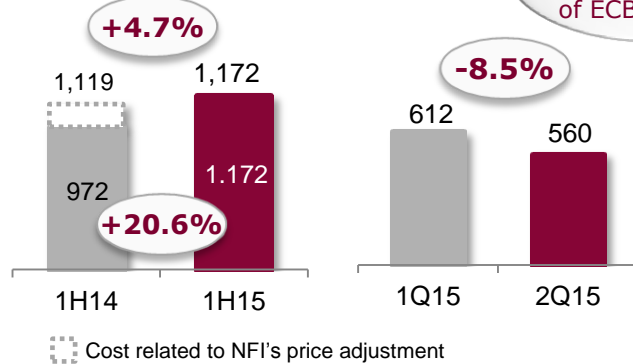
*Figures from operational data management system (ALM Department and Risk management)

**Leverage ratios for Jun-15 are based on the Capital Requirement Regulation definition considering the amendments introduced by EC Delegated Act

Core banking business trends

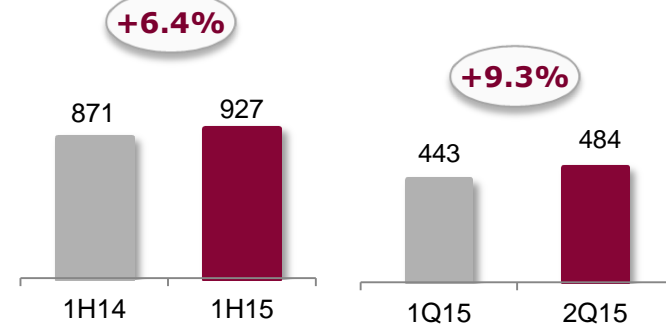


Net Interest Income (€/mln)



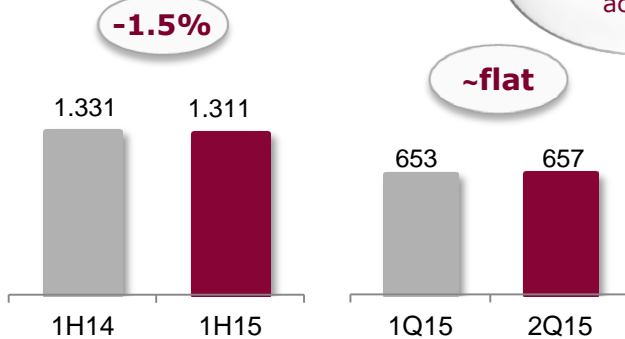
Deleverage of assets and reduction/substitution of ECB funding

Net Fees (€/mln)



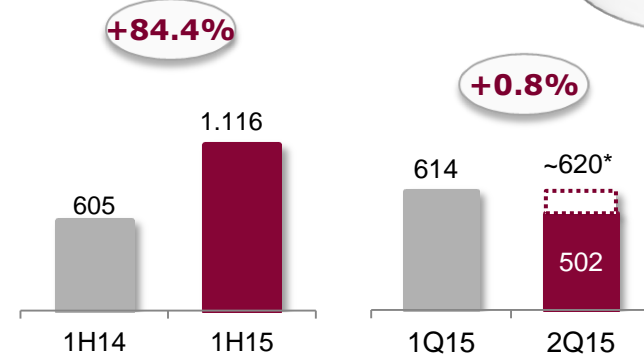
Strong result due to increase in productivity (-150 branches YoY and -1,550 FTEs YoY)

Operating Costs (€/mln)



Ongoing headcount reduction and cost containment actions

Pre Provision Profit (€/mln)



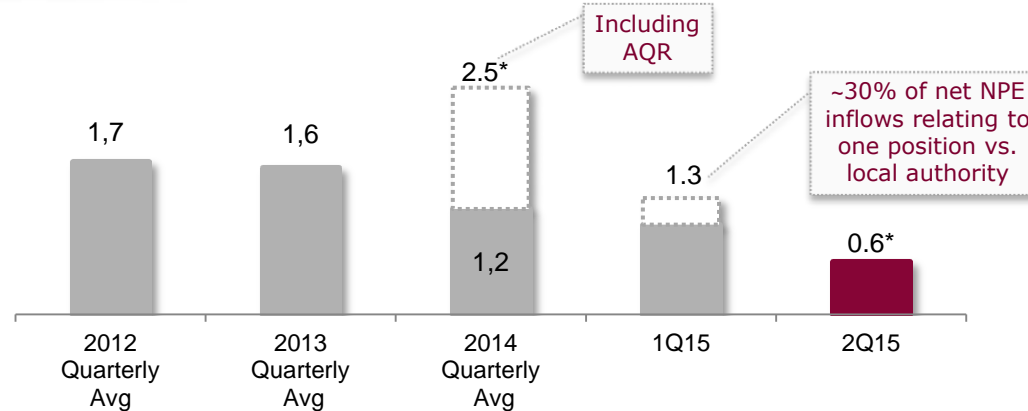
Strong operating performance YoY

* Including the gain from the sale of the stake of 10.3% in Anima (~EUR 120mln)

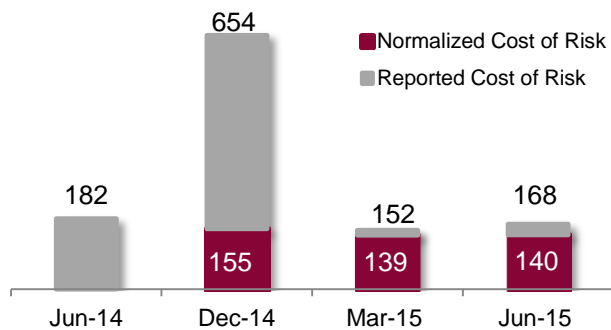
Impaired loans inflows and cost of risk



Net inflows of Gross NPE (Delta stock €/bn)



Annualized Cost of Risk (bps)



- **First signs of slowdown** in net inflows of gross NPE
- **1H15 annualized cost of risk**, net of non recurring components**, flat vs. 1Q15

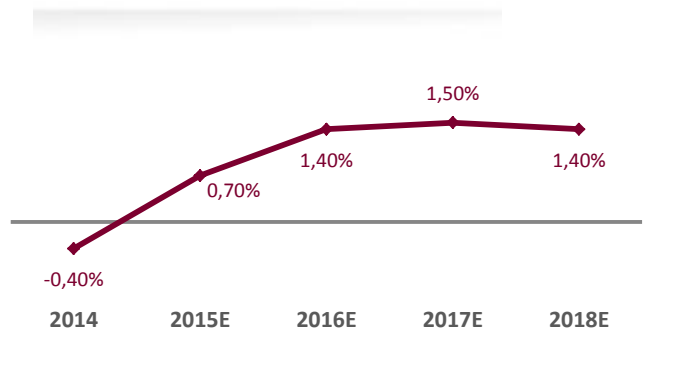
*Excluding effect of NPL sales

**Update of AIRB models and 1Q15 ECB loan file review

First results from new NPE management approach

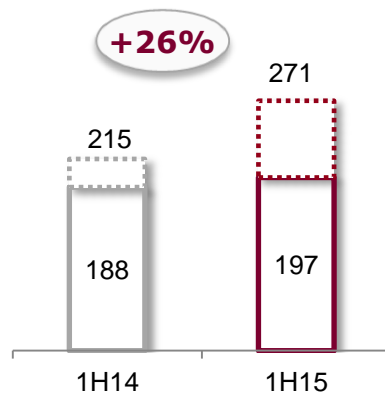


GDP* assumption (YoY %)



Bad loans Recovery Inflows** (€/mln)

Sale of NPLs portfolio



- Italian economy is improving in line with our expectations: consensus for GDP growth for 2015 at +0.7%, first growth since 1Q11 in investments +0.4% YoY
- The new strategy of the credit department is producing good results in recovery of bad loans, especially for small tickets outsourced

1H15 Results



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Assets & Liabilities trends



Total Assets

€/mln	Jun-14	Mar-15	Jun-15	QoQ%	YoY%
Customer loans	132,770	123,139	117,436	-4.6%	-11.5%
Loans to banks	8,638	7,856	8,327	6.0%	-3.6%
Financial assets	39,863	41,236	36,335	-11.9%	-8.8%
PPE and intangible assets	3,971	3,139	3,122	-0.5%	-21.4%
Other assets *	11,286	12,156	12,484	2.7%	10.6%
Total Assets	196,528	187,525	177,705	-5.2%	-9.6%

Total Liabilities

€/mln	Jun-14	Mar-15	Jun-15	QoQ%	YoY%
Deposits from customers and securities issued	130,777	131,511	126,238	-4.0%	-3.5%
Deposits from banks	31,810	22,519	18,831	-16.4%	-40.8%
Other liabilities **	22,864	27,000	23,239	-13.9%	1.6%
Group equity	11,048	6,471	9,373	44.8%	-15.2%
Minority interests	29	24	24	0.9%	-16.4%
Total Liabilities	196,528	187,525	177,705	-5.2%	-9.6%



- ❑ **Customer loans** down 4.6% QoQ with a decrease in repos (-EUR 3bn QoQ) used for temporary management of surplus liquidity in 1Q15
- ❑ **Financial assets** down due to market effect on AFS component (-EUR 1.4bn QoQ), and on HFT (-EUR 1.5bn QoQ) due to fluctuation in MPS Capital Service's broker activity on sovereign bonds
- ❑ **Direct funding** down 4.0% QoQ, mainly due to decrease in repos with institutional counterparties (-16.6% QoQ)
- ❑ **Net Interbank position improved** thanks to the reduction of ECB exposure
- ❑ **Shareholders' equity up** on the back of the capital increase and profit for the period

*Cash and cash equivalents, equity investments, DTAs and other assets

** Financial liabilities held for trading, provision for specific use, other liabilities

Lending



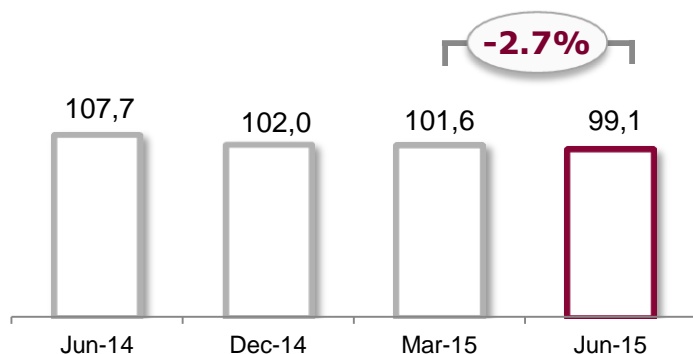
Total Lending

€/mln	Jun-14	Mar-15	Jun-15	QoQ%	YoY%
Current accounts	10,906	8,488	8,179	-3.6%	-25.0%
Mortgages	61,212	55,031	54,511	-0.9%	-10.9%
Other forms of lending	29,112	27,219	25,461	-6.5%	-12.5%
Reverse repurchase agreements	7,664	7,667	4,649	-39.4%	-39.3%
Loans represented by securities	1,434	961	938	-2.4%	-34.6%
Impaired loans	22,442	23,773	23,699	-0.3%	5.6%
Total	132,770	123,139	117,436	-4.6%	-11.5%



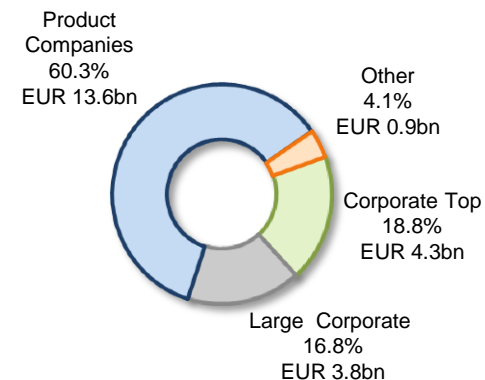
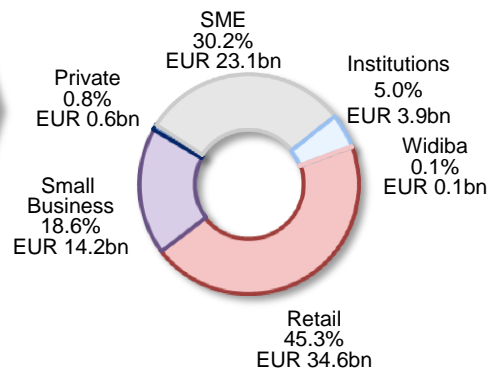
- ❑ **Commercial Customer loans** decrease QoQ, with **Retail lending** (-2.4% QoQ) impacted by the planned run-off of Consum.it also considering the full implementation of the distribution agreement in consumer credit; **Corporate lending** at EUR 22bn (-3.2% QoQ) due to low demand in medium/long term credit
- ❑ **Mortgages** slight decrease in the quarter (-0.9% QoQ), but strong increase in new loans origination (approx. EUR 2bn QoQ and EUR 4bn YoY)
- ❑ In April 2015, the Group launched the **new "Corporate Top" service model** (within Corporate Division), that includes about 3,000 small and medium sized companies with high expected potential growth

Retail & Corporate lending*



of which

Retail & Widiba: EUR 76.4bn Corporate: EUR 22.6bn



*Loans excluding net NPLs

Direct Funding



Direct funding

€/mln	Jun-14	Mar-15	Jun-15	QoQ%	YoY%
Current accounts	58,042	54,311	55,585	2.3%	-4.2%
Time deposits	10,406	12,657	13,122	3.7%	26.1%
Repos	14,478	21,069	17,561	-16.6%	21.3%
Bonds	36,396	32,690	31,200	-4.6%	-14.3%
Other types of direct funding	11,455	10,784	8,769	-18.7%	-23.4%
Total	130,777	131,511	126,238	-4.0%	-3.5%

Loan/Deposit Ratio* (%)

101.5

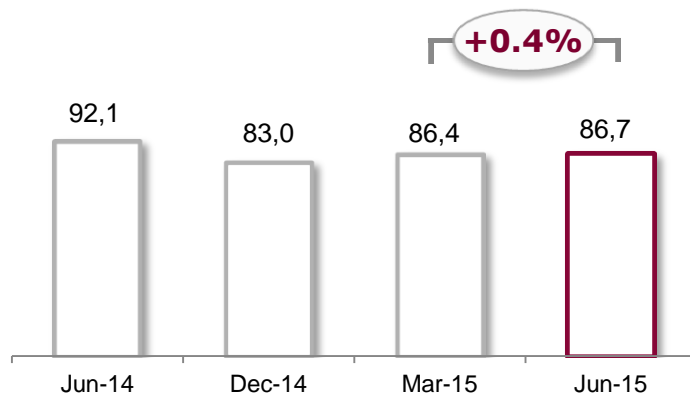
93.6

93.0

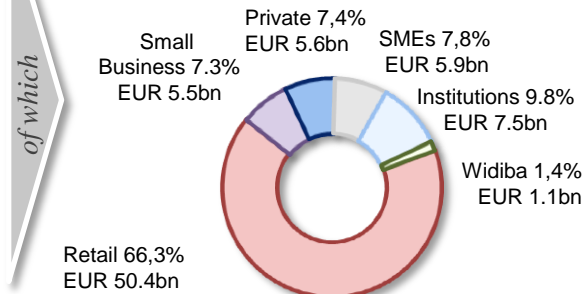
Target 2018
94

- ❑ **Direct Funding** down 4.0% QoQ due to decrease in repos with institutional counterparties, expiration of bonds (institutional and retail) and reduction in other forms of funding (reimbursement of EUR 1.1bn NFI in June)
- ❑ Slight increase in **Retail and Corporate funding** in 2Q14, +0.4% QoQ, thanks to recovery in Retail funding (+1.7% QoQ). Corporate funding down (-9.1% QoQ) driven by decrease in volumes in the second quarter, on sight and short-term deposits

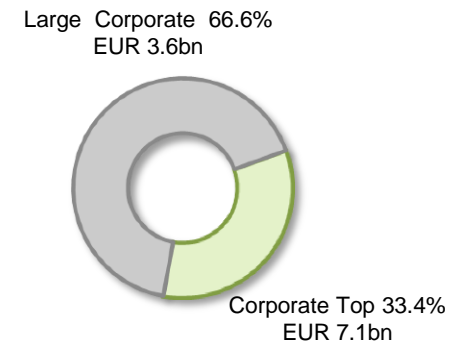
Retail & Corporate funding** (€/bn)



Retail & Widiba: EUR 76.1bn



Corporate: EUR 10.6bn



* Customer Loans/Deposits from customers and securities issued

**Customer accounts and securities - Distribution network

Indirect Funding



Wealth Management/Assets under Custody

€/mln	Jun-14	Mar-15	Jun-15	QoQ%	YoY%
Assets under custody	58,680	55,874	53,317	-4.6%	-9.1%
Wealth Management	48,535	55,300	54,969	-0.6%	13.3%
Total	107,215	111,175	108,286	-2.6%	1.0%

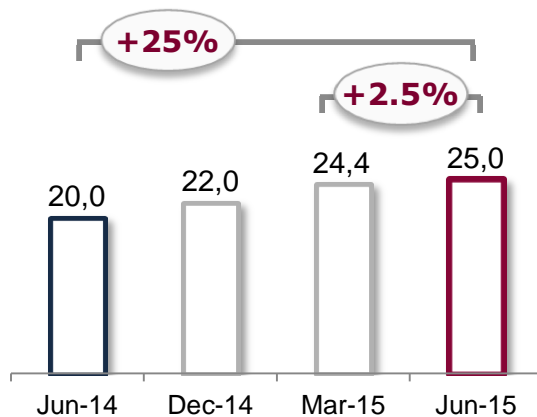


□ **Indirect Funding was up 1.0% YoY and down 2.6% QoQ:**

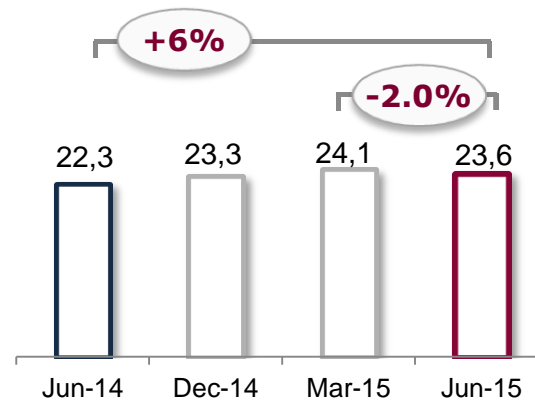
- **Assets under custody** down 4.6% affected by a negative market effect at the end of June (approx. -EUR 1.7bn) mainly driven by Greek crisis
- **Wealth Management** substantially stable in the second quarter, with continued positive inflows (+EUR 0.9bn) offset by negative market effect (-EUR 1.2bn)

Breakdown AuM
(€/bn)

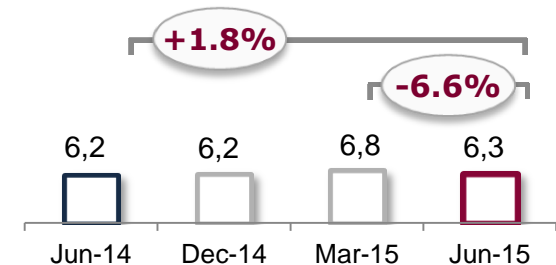
Mutual Funds/Sicav



Life insurance policies



Individual portfolios under mgmt



Asset Quality



Non Performing Exposures (NPE)

(€ mln)	Net	QoQ (%)	YoY (%)	Gross	QoQ (%)	YoY (%)
Bad loans (sofferenze)	9,048	+3.8	-5.6	25,357	+0.4	+10.6
Unlikely to Pay	12,037	-1.6	+69.8	17,501	-2.2	+89.5
NP past due / overdue exposures	2,614	-7.2	-54.7	3,388	-1.6	-45.8
Total NPE	23,699	-0.3	+5.6	46,246	-0.7	+20.4

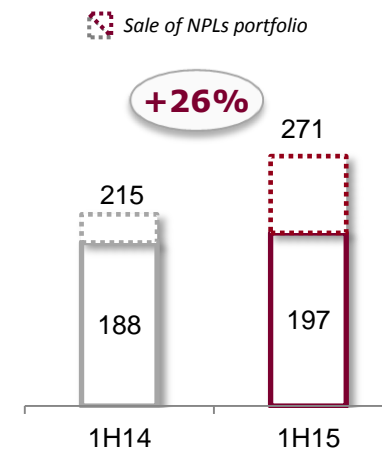


- Net decrease in net NPE, -0.3% QoQ
- NPE coverage substantially stable vs. 1Q15; bad loans coverage down 115bps due to sales of Consum.it NPLs
- Collective up due to update of AIRB models

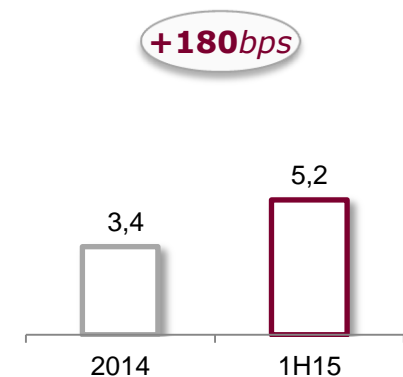
Non Performing Exposures Coverage

(€ mln)	Jun-14	Mar-15	Jun-15
Bad loans (sofferenze)	58.2%	65.5%	64.3%
Unlikely to Pay	23.3%	31.6%	31.2%
NP past due / overdue exposures	7.8%	18.1%	22.8%
Total NPE	41.6%	49.0%	48.8%

Bad loans Recovery Inflows* (€/mln)



Unlikely to pay Cure rate* (%)



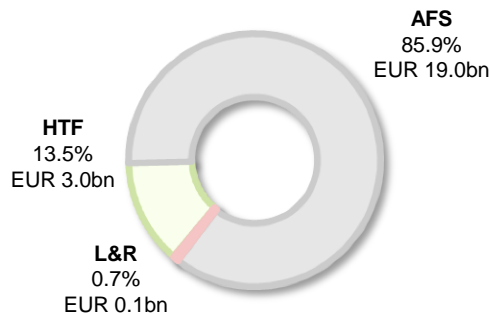
* Figures from operational data management system (Planning Area, Risk Management)

Financial assets: focus on Italian Govies portfolio

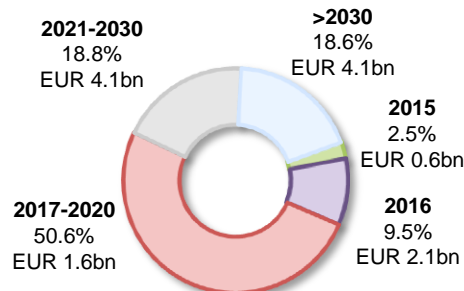


Italian Government Bonds: ~EUR 22bn*

Breakdown by IAS category



Breakdown by maturity



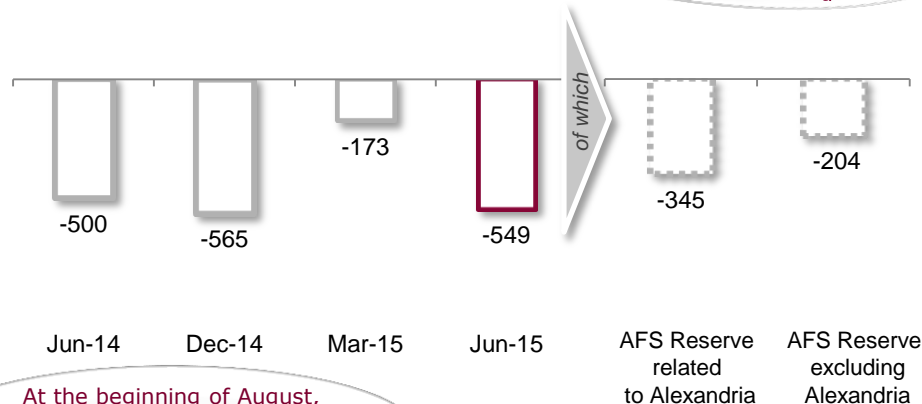
of which

- ❑ **Securities and Derivatives Portfolio** at EUR 30.8bn in 2Q15, decreased 8.9% QoQ, mainly in HFT component (-EUR 1.5bn) driven by market making activity of MPS Capital Services
- ❑ **Nominal Value of the Italian Government Bond Portfolio in AFS:** EUR 16.7bn in 2Q15, +1.0% QoQ (sold approx. EUR 3bn of Italian Govies offset by the same amount of purchase) to optimize contribution to P&L
- ❑ **Derisking strategy** in progress with reduction of overall duration from 6.6 years as at 1Q15 to 6.0 years as at 2Q15 and credit spread sensitivity from EUR 17mln as at 1Q15 to EUR 14mln as at 2Q15

AFS Italian Government Bonds**: Nominal Value

	Nominal Value (€mln)	Duration (years)	AFS Net Reserve (€mln)
Outright	7,936		-12
in ASW	8,801		-537
<i>in ASW ex Alexandria</i>	5,750		-192
Total	16,737	6.6	-549

EBA AFS Reserve** (€mln)



Credit spread sensitivity (to 1bp change) is about EUR 14mln of which EUR 5mln related to Alexandria

At the beginning of August, AFS reserve at -EUR 209 mln, of which -EUR 211mln related to Alexandria

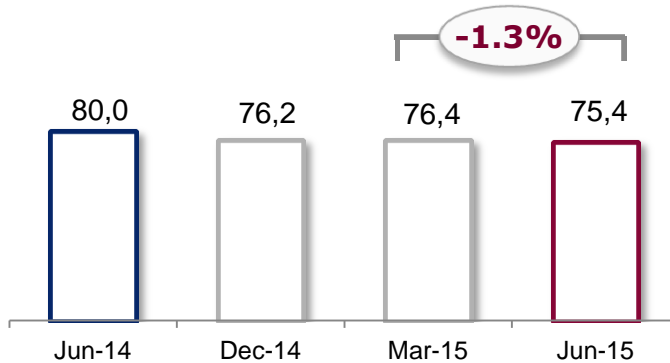
*Market Value

** Figures from operational data management system (Risk Management)

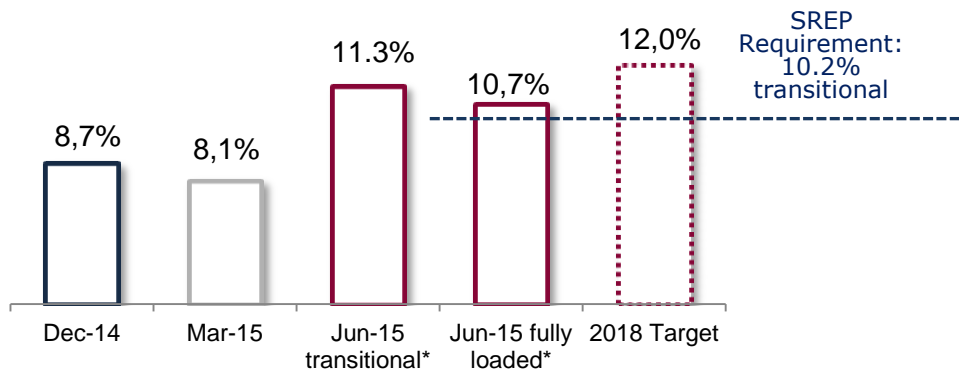
RWAs and Capital ratios



RWAs over time (€/bn)



CET 1 ratio



❑ **RWAs decrease** (-EUR 974m QoQ) due to the conversion of approx. EUR 2bn of DTA in tax credits offset by the increase in market risks and in RWA's due to the update of AIRB models and RWA from CET1 threshold

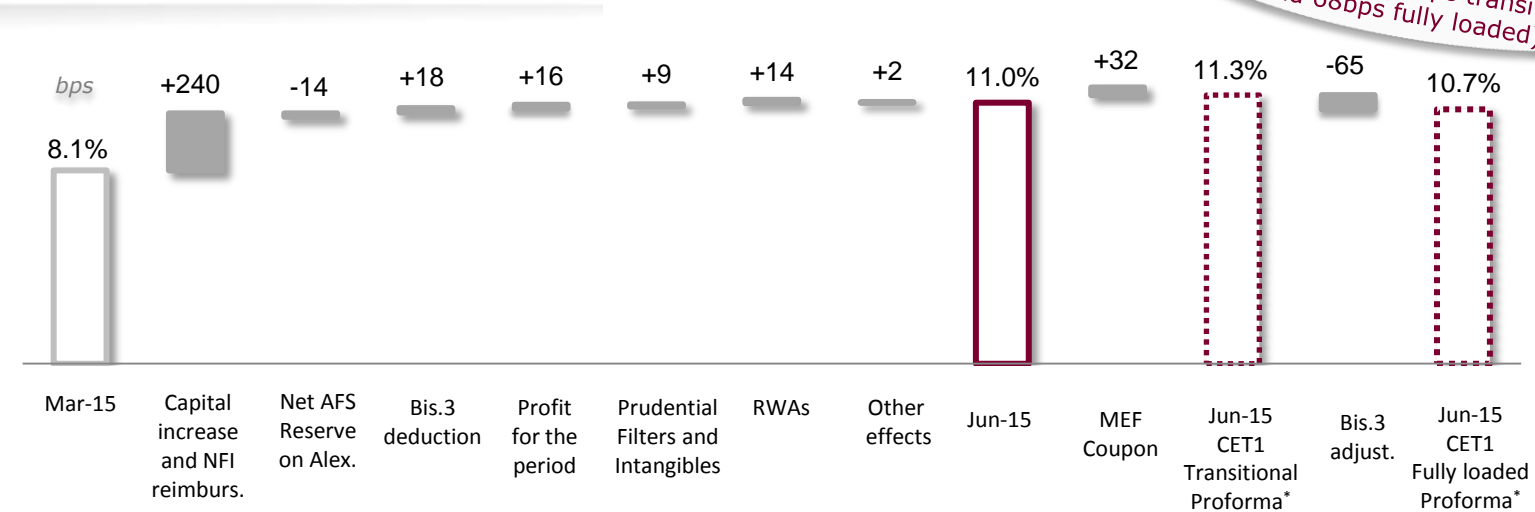
❑ Main drivers QoQ of **CET1 evolution:**

- Positive: rights issue net of NFI repayment; net income generated during the period; reduction of Basel III deductions and reduction of intangible and other prudential filters
- Negative: worsening of approx. EUR 100m of the negative AFS reserve related to Alexandria deduction from CET1

CET1 ratio and RWAs evolution

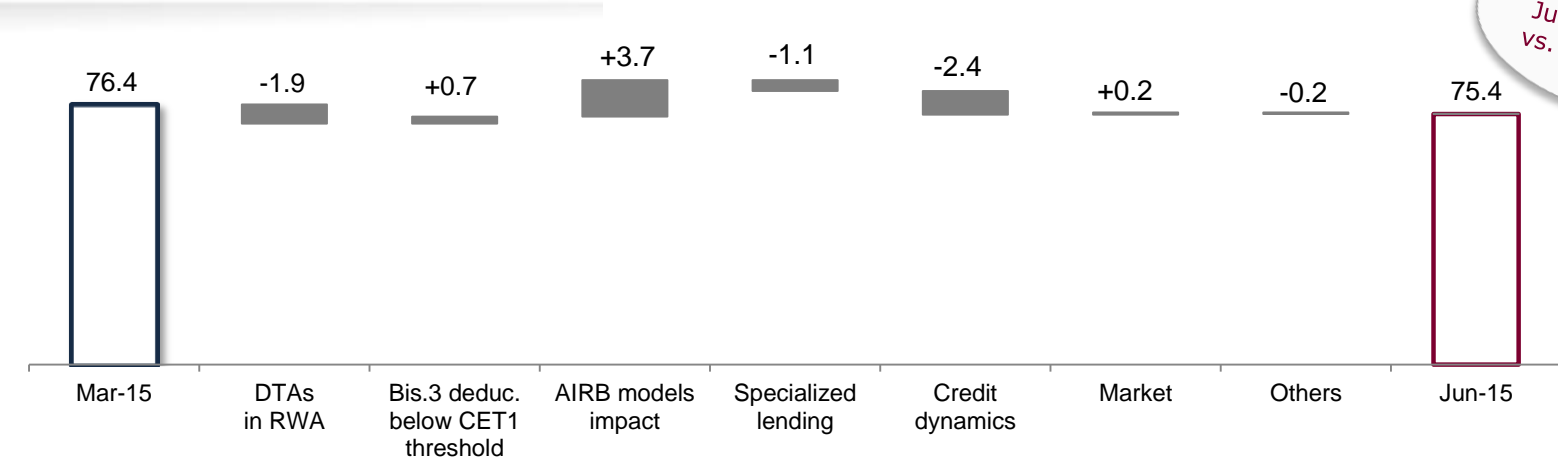


CET 1 ratio evolution



CET1 ratio transitional at 11.3*%, notwithstanding deduction of Alexandria restructuring (55bps transitional and 68bps fully loaded)

RWAs evolution (€/bn)



RWA/Total Assets as at Jun-15 42.4% vs. 40.7% as at Mar-15

*Basel 3 ratios, pro-forma including the payment of NFIs coupon through the issue of new shares. The Bis 3 fully loaded ratio has been estimated including the filter on AFS net reserves on European Government bonds, except for Alexandria transaction

1H15 Results



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1H2015 P&L: Highlights



€ mln	1H14	1H15	Change (YoY %)
Net Interest Income	972.0	1,171.7	20.6%
<i>NII ex. one-off* on NFIs</i>	<i>1,119.1</i>	<i>1,171.7</i>	<i>4.7%</i>
Net Fees	871.0	927.1	6.4%
Other revenues from financial activities	93.6	327.9	<i>n.m.</i>
Total Revenues	1,936.5	2,426.8	25.3%
<i>Total Revenues ex. one-off* on NFIs</i>	<i>2,083.6</i>	<i>2,426.8</i>	<i>16.5%</i>
Operating Costs	(1,331.2)	(1,310.7)	-1.5%
Personnel costs	(851.3)	(833.8)	-2.0%
Other admin expenses	(381.1)	(374.8)	-1.7%
Pre provisions profit	605.3	1,116.0	84.4%
<i>PPP ex. one-off* on NFIs</i>	<i>752.4</i>	<i>1,116.0</i>	<i>48.3%</i>
Total provisions	(1,226.9)	(982.4)	-19.9%
Non operating items	94.6	77.0	-18.6%
Profit (Loss) before tax	(527.0)	210.6	<i>n.m.</i>
Taxes	193.9	5.2	-97.3%
PPA & Other items	(19.9)	(22.2)	11.6%
Net income	(353.0)	193.6	<i>n.m.</i>



□ **1H15 Results:** main underlying trends

- **Total revenues up (+25.3% YoY)** due to strong operating performance in commission income (+6.4% YoY driven by WM fees increase +16,7% YoY) and financial

- **Net Interest Income** net of one off on NFIs up (+4.7%) notwithstanding significant deleverage activity

- **Pre provision profit** up 84.4% YoY;** net of one-off in 2014 related to NFIs +48.3% YoY

- **Decrease in provisions (-19.9% YoY),** dynamics affected by non recurring components: AQR in 2014 and update of AIRB models in 2015

- **Taxes:** overall level of taxation impacted by application of participation exemption on the sale of the 10.3% stake in Anima, sales of NPLs and ACE***

*One-off related to NFI's price adjustment (approx. EUR 147mn)

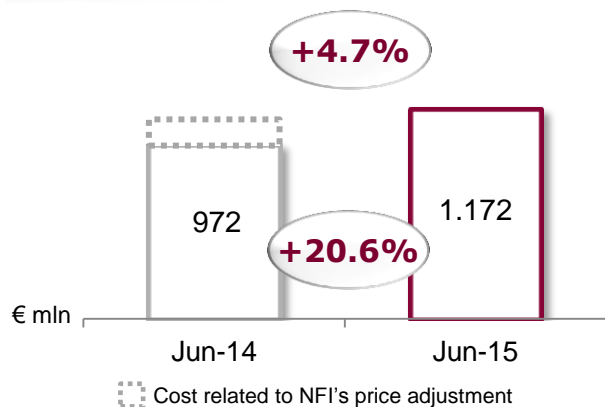
**Not including the gain from the sale of the stake of 10.3% in Anima

***The ACE (Aid to growth) is a measure introduced by art.1 of the Decree Save Italy (Decree Law no. 201 of 2011) to stimulate business capitalization triggered by BMPS recent rights issues

Net Interest Income

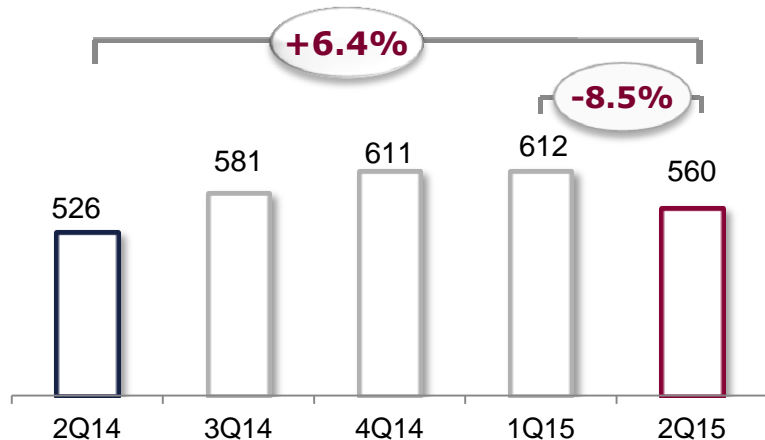


Net Interest Income (YoY)

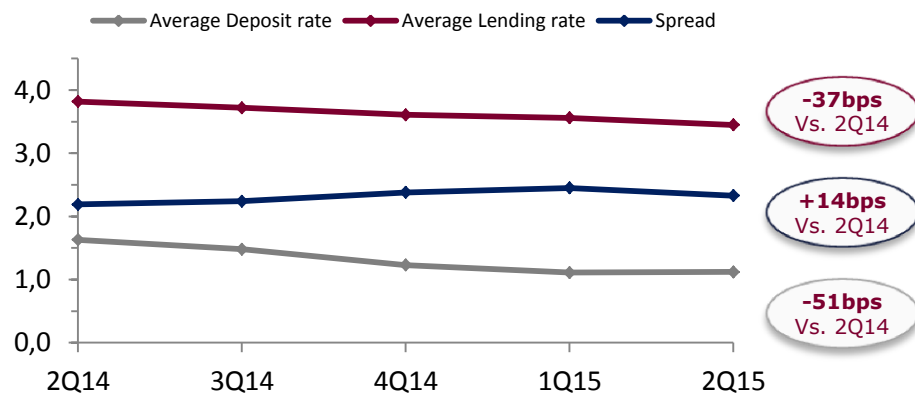


- **Net Interest Income** net of NFIs, increased 4.7% YoY thanks to improving funding/lending spread (approx. +20 bps)
- Negative quarterly evolution mainly driven by:
 - Interest-bearing assets reduction
 - Repricing of loan book and AFS portfolio in lower rate environment
 - Change in funding structure with reduction of ECB exposure, leading to increased cost of funding

Net Interest Income (€/mln)



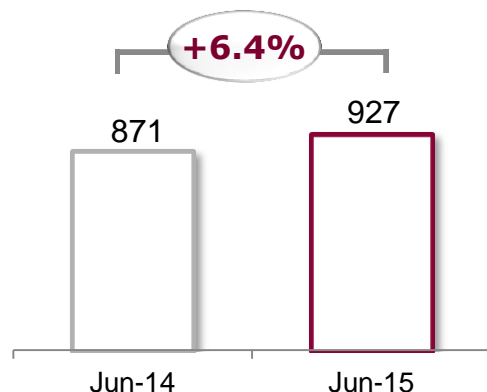
Spread trend (%)



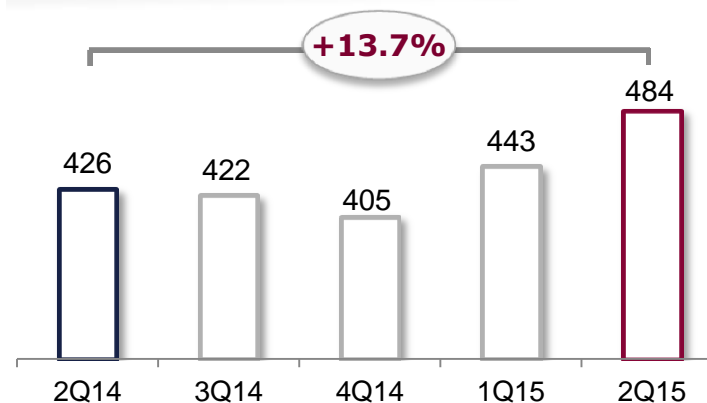
Fees and Commissions Income



Fees YoY (€/mln)



Fees QoQ (€/mln)



Fees Breakdown

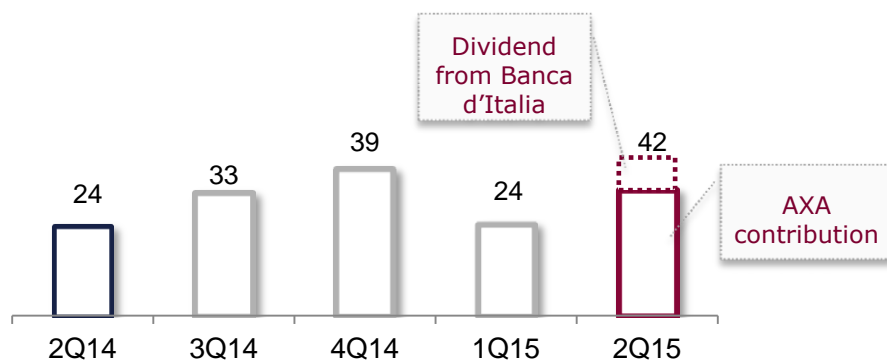
- **Net fees and commissions** +6.4% YoY driven by WM fees increase (+16.7% YoY) that more than offset the reduction in traditional banking fees
- Continuing/Total Fees as at 2Q15 15.8% vs. 15.0% as at 1Q15. Good increase in fees on credit facilities (+6.7% QoQ) thanks to improvement in new loan generation and strong performance in consumer credit distribution (+52.6% QoQ)

€/mln	1H14	1H15	YoY	1Q15	2Q15	2Q15 vs 1Q15
Wealth Management fees, o/w	355	415	16.7%	198	217	9.6%
<i>AuM Placement</i>	188	217	15.6%	104	114	9.8%
<i>Continuing</i>	118	143	21.1%	67	77	14.9%
<i>Bond Placement</i>	36	35	-1.2%	18	18	0.5%
<i>Protection</i>	13	19	42.5%	10	9	-11.3%
Traditional Banking fees, o/w	633	625	-1.2%	304	321	5.7%
<i>Credit facilities</i>	303	299	-1.2%	145	155	6.7%
<i>Trade finance</i>	38	44	14.6%	21	23	6.6%
<i>Payment services and client expense recovery</i>	292	282	-3.3%	138	144	4.4%
Other	-117	-113	-3.5%	-59	-54	8.1%
Total Net Fees	871	927	6.4%	443	484	9.3%

Dividends and Trading Income

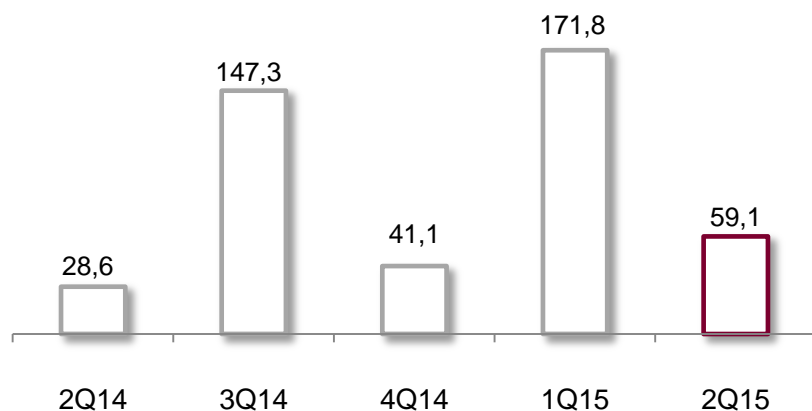


Dividends /Profit from investments (€/mln)



- ▣ **Dividends, similar income and gains (losses) on investments** at EUR 42mln thanks to the contribution from AXA-MPS and Banca d'Italia stake
- ▣ **Trading:** QoQ decrease mainly due to slowdown of results in the optimization of AFS portfolio (EUR 36mln 2Q15, EUR 124mln 1Q15) and to the sales of the Consum.it NPL portfolio

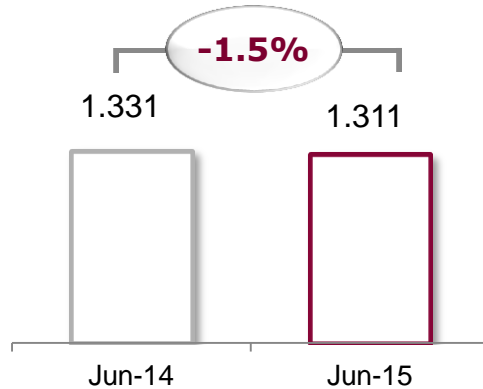
Trading/disposal/valuation of financial assets (€/mln)



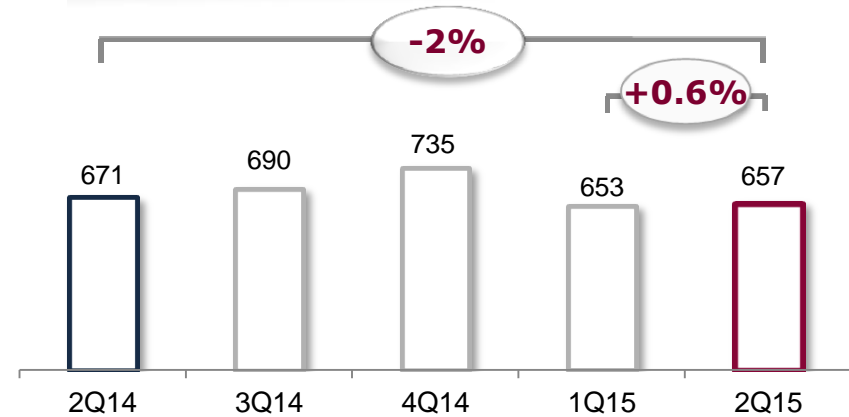
Operating Costs



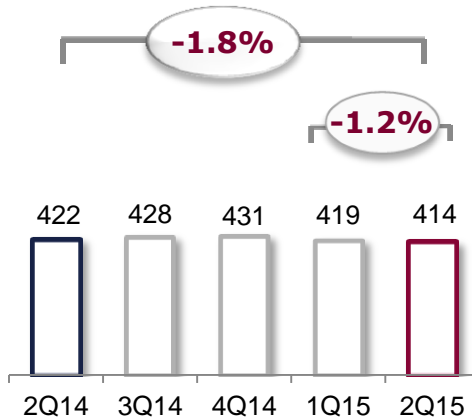
Operating Costs (€/mln)



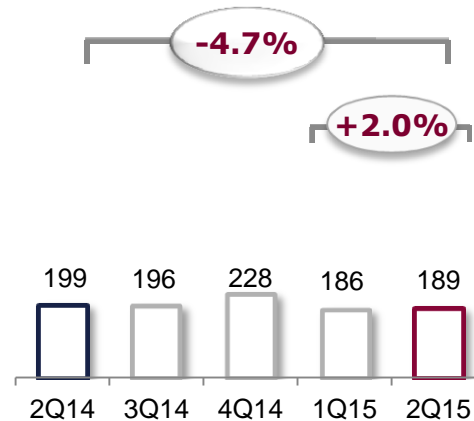
Operating Costs QoQ (€/mln)



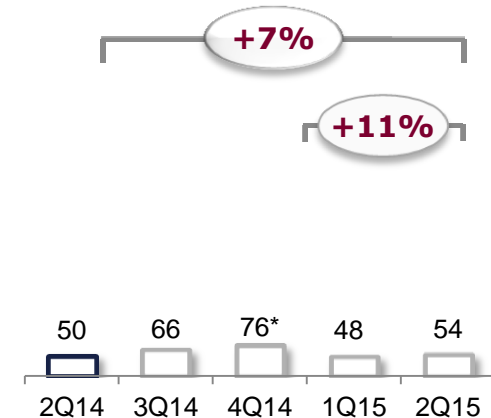
Personnel expenses (€/mln)



Admin expenses (€/mln)



Amortization and Depreciation (€/mln)

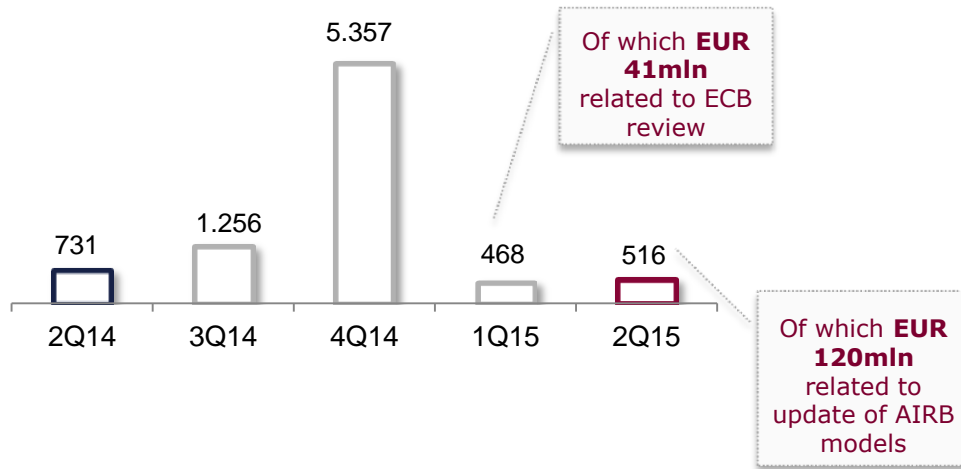


*Approx. EUR 25mln due to real estate writedowns following the Asset Quality Review

Provisions and Cost of Risk

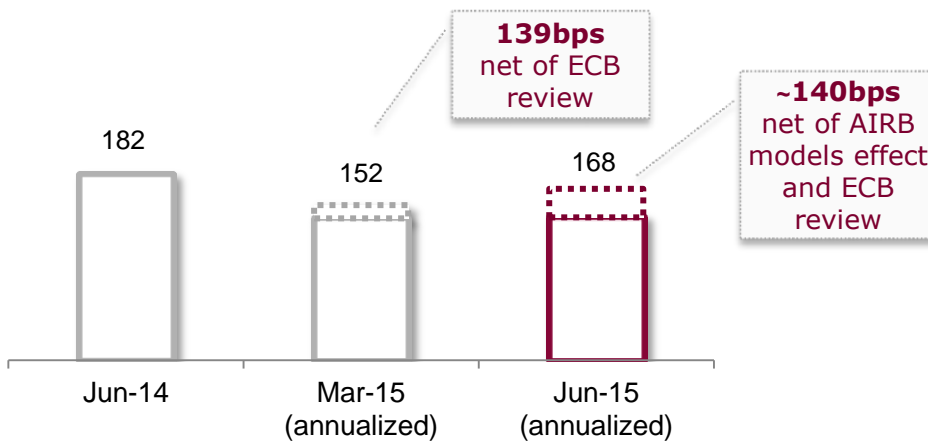


Net loan loss provisions (€/mln)



- Net loan loss provisions include EUR 120mln impacted from update of Probability of Default (PD) and Loss Given Default (LGD) parameters for AIRB models
- Cost of credit of 168bps decreasing YoY (182bps as at June 2014) and substantially stable QoQ net of AIRB model effect

Cost of Risk (bps)



1H15 Results



- *Key messages*
- *1H15 Results - Balance sheet*
- *1H15 Results - P&L*
- *Final remarks*

Final remarks



- ***Strong capital base with successful completion of EUR 3bn rights issue and no more reliance on State Aid***
- ***Return to profitability in 1Q15 confirmed in 2Q15***
- ***Full reimbursement of LTRO and strong liquidity***
- ***Ongoing normalization of cost of credit with firm commitment to continue to reduce the high level of NPEs (EUR 1.3bn of NPL sales already executed process for sale of additional EUR 1bn in 2H15 underway)***
- ***Milestones of M&A process approved by the BoD to identify potential value-enhancing opportunities for all stakeholders***



Thank you for your attention

Q&A

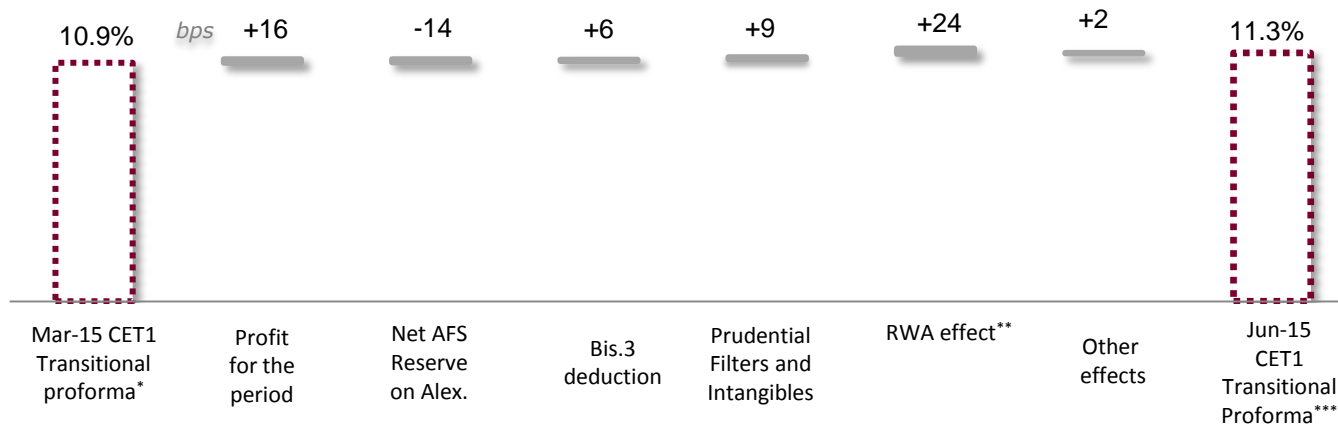


Annexes

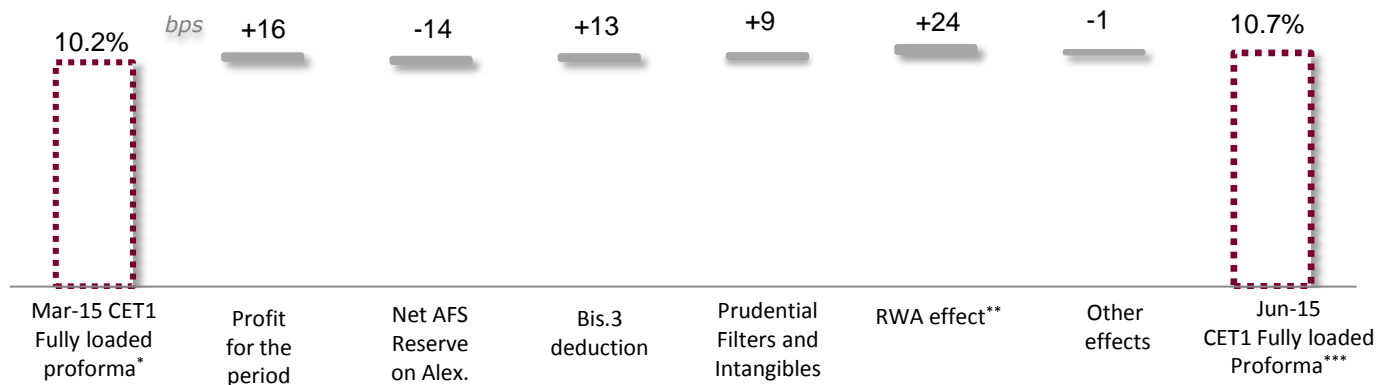
CET1 ratio proforma evolution



CET 1 ratio Transitional proforma evolution



CET 1 ratio Fully loaded proforma evolution



*Basel 3 ratios pro-forma including EUR 3bn capital increase, the payment of NFIs coupon through the issue of new shares and the repayment of the remaining EUR 1,1bn NFIs

**Mainly due to the conversion of approx. EUR 2bn of DTA in tax credits

***Basel 3 ratios pro-forma including the payment of NFIs coupon through the issue of new shares

The Bis 3 fully loaded ratio has been estimated including the filter on AFS net reserves on European Government bonds, except for Alexandria transaction

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Pursuant to para. 2, article 154-bis of the Consolidated Law on Finance, the Financial Reporting Officer, Mr. Arturo Betunio, declares that the accounting information contained in this document corresponds to the underlying documentary evidence and accounting records.



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