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Testo del comunicato

Vedi allegato.

MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

PRESS RELEASE

BMPS PRESENTS THE NEW BUSINESS PLAN 2016/2019

Net Income greater than EUR 1.1bn at the end of the Plan, with target ROTE above 11% despite prudent revenue growth

Strengthening capital and liquidity position

Radical improvement of Credit Risk Management

New and efficient operating model to exploit the value of our resilient customer base

Accelerating digitalizing process to support commercial relaunch

Approved a new organizational structure

- **Unlock the full value embedded in our existing customer base with strong focus on Retail (mortgage new production of approximately EUR 6 bn in 2019), Small Business and Affluent channels (+ EUR 11 bn asset under management)**

- **Renewed operating model with strong focus on efficiency: cost/income of approximately 55% in 2019 and FTEs allocation to commercial activities to ca. 71% from current ca. 62%**

- **Improved Credit Risk Management marked by strong push towards automation and advanced analytics, early detection and proactive management as well as revamped cure and recovery activities leading to a sustainable cost of risk of approximately 55bps and a gross NPE ratio of 16.2% in 2019**

- **Strengthen capital and liquidity position, with a CET1 phased-in of ca. 13.5%, Liquidity Coverage Ratio over 140% and loan to deposit down to 105% in 2019 coupled with significant P&L benefits from the expected reduction in cost of funding**

Milan, 25 October 2016 – The Board of Directors of Banca Monte dei Paschi di Siena S.p.A. approved the Business Plan 2016-2019 of the Bank. The Business plan 2016-2019 assumes the completion of the transaction (the "Transaction") which includes (i) the de-recognition of EUR 28.5bn, of which EUR 27.6 bn bad loan portfolio through its transfer to a securitization vehicle at a price equal to EUR 9.1 bn and the subsequent assignment, free of changes, of the junior tranche to BMPS shareholders (pre recapitalization), and (ii) the recapitalization of the remaining BMPS for up to EUR 5 bn.

The Business Plan of the Bank will leverage on the large and resilient client base of BMPS, consisting of 4.7 million customers substantially stable since 2012, and a significant commercial relaunch of the Retail and Small Business channels which are expected to lead to a strong growth potential for the Bank.

The Business Plan is based on 4 main pillars:

1. **Unlock the full value embedded in our existing customer base**

The relaunch of the commercial business is based on the acceleration of the digitalization process and an higher focus on the Retail, Small Business and Affluent channels.

Low-value / mass customers transactions will be migrated to digital, online and self-directed channels, while the relationship managers will be highly focused on Affluent/Premium/SMEs with the target to increase the share of wallet.

The relaunch of the traditional BMPS mortgage business (EUR 6bn annual flow in 2019 from EUR 2.3bn in 2016) will be carried out mainly through an increased use of automatic decisions for the underwriting, a new attractive offer and the creation of a dedicated mortgage factory. The product offer to Small Business will be standardized with modular packages, with new loan procedures designed for online channels and with a continuous focus on underwriting and risks.

The growth in asset under management (EUR 68bn in 2019 from EUR 57bn in 2016) will be led by the renewed online platform, a dedicated in-branch Affluent professional advisory service to the over 500,000 Affluent clients of the Group and the bancassurance partnership in both Life/Financial protection and P&C.

The Business Plan includes also a refocus of Corporate activities with a complete redesign of the product factories universe: MPS Capital Services will be focused only on capital markets business, Leasing & Factoring will be more integrated with the network.

Evolution of gross Loans

(Eur bn)	2016F	2019E
Retail	32,0	35,5
Small Business	13,2	16,2
Corporate	41,7	38,3
Other components	10,7	9,8
Total	97,6	99,9

2. Renew operating model with strong focus on efficiency

The new operating model will be focused on increasing efficiency with the reduction of ca. 2,600 FTEs, the increasing allocation of remaining FTEs to commercial activity and the closing of ca. 500 branches.

Personnel expenses are expected to decrease by ca. 9% to EUR 1.5 bn in 2019 from EUR 1.6 bn in 2016 through the reduction of 2,600 FTEs, which will be implemented throughout natural turnover and the use of Fondo di Solidarietà.

In line with the objectives, the development plan of human capital is focused on strengthening and integration of skills supporting the new Bank model, on the implementation of development plans, job rotation and managerial continuity with purpose of improving the allocation of resources allocation, on the new variable remuneration model.

Other administrative expenses are expected to decrease by 4% to ca. EUR 710 mln in 2019 from ca. EUR 740 million in 2016 mainly resulting from the network rationalization, reduction in the number of branches (to ca. 1,500 in 2019 from ca. 2,000 in 2016) differentiated between Hub (ca. 500) and Spoke (ca. 1,000), and related expenses

The FTEs allocated to commercial activity will increase to ca. 71% in 2019 from ca. 62% in 2016

3. Radically improved Credit Risk Management

The Bank has already implemented several actions in order to improve its asset quality and credit risk management that, together with the impacts arising from the Transaction, will lead to a sustainable lower cost of risk.

In terms of underwriting, the Business Plan includes the full separation of the Commercial Divisions from the Credit Division which will be responsible for the new underwriting excluding automatic decisions. The automatic credit decisions of individuals will increase to 70% in 2019 (from 20% in 2016) and for Small Business to 50% (from 15% in 2016). In addition, the commercial division will be supported by new advanced analytics tools in order to assess the risk profile and to identify best product offering.

To improve the cure and recovery activity, the Bank will strengthen its early detection process through the use of automated processes for lower exposures and the creation of dedicated units both in the Commercial and in the Credit division for larger exposure. The disposal of the bad loans workout platform is expected to release ca. 100 resources that are expected to be allocated to unlikely to pay management along with the introduction of new cure/restructuring strategies based on a systematic segmentation of the portfolio (e.g. by size, segment, collateralization, vintage, level of risk). As a result, the cure rate of unlikely to pay is expected to increase to 8.2% in 2019 (5.6% in 2016) and the danger rate of unlikely to pay is expected to decrease to 16.9% (19.9% in 2016).

In terms of recovery, the Bank is moving forward with the spin-off and disposal of the Credit Recovery Unit, to which approx. 80% of new flow of bad loans will be outsourced and which will manage also 1/3 of the derecognized bad loans. The Bank will retain all the early remedial/going concern restructuring operations, the general monitoring activities of the Credit Recovery Unit in outsourcing and selected credit recovery capabilities in relation to new flow of bad loans exceeding the 80%. The Bank recovery activity will be carried out case by case, with a full involvement of the other banking units (e.g. private, corporate) to facilitate the recovery process. The recovery rate on bad loans is expected to increase to 8.5% (from 3.0% in 2016), driven by the better quality of new flow into bad loans, with lower vintage and lower risk.

Non Performing Exposures Key Ratios

(%)	2016F	2019E
Default Rate	2,9%	1,9%
Danger rate of NPE	20,1%	16,8%
Unlikely to Pay Cure Rate	5,6%	8,2%
Recovery Rate	3,0%	8,5%

4. Strengthened liquidity and capital position

The sale and de-recognition of the bad loans and the capital plan will have positive impacts in terms of key liquidity ratio (e.g. LCR over 130% and NSFR > 100%), which would be further reinforced by EUR 14 bn increment in the *funding sources* over the Business Plan horizon.

The re-rating effect and the recovery of the direct funding are expected to provide approximately EUR 0.4 bn increase in net interest income in 2019.

(%)	2016F	2019E
CET1 ratio	>11%	13,5%
LD ratio commercial	114%	105%
LCR	161%	143%
NSFR	101%	111%

With the reference to the disposal included in the plan, to further strengthen the CET1, on October 21 2016 BMPS received an offer from Istituto Centrale delle Banche Popolari Italiane S.p.A. ("ICBPI") for the potential acquisition of BMPS' Merchant Acquiring business activities for a total consideration of Euro 520 million and a proposal for a commercial partnership in this business. The offer is subject to the negotiation and execution of the relevant contractual documentation and to the authorization from relevant authorities. The Board of Directors has taken note of the proposal and has resolved to perform the necessary analyses and, to this extent, has agreed to grant ICBPI with an exclusivity period until December 31 2016 in order to perform the described activities.

Financial Projections and key ratios

(Eur mln)	2016F post transaction	2018E	2019E
Net Interest Income	2.000	2.076	2.116
Net fees and commission	1.843	1.981	2.097
Other income	-2.177	303	305
Operating Income	1.667	4.360	4.518
Personnel costs	1.618	1.550	1.466
Other admin expenses	742	727	711
D&A	220	251	286
Operating costs	2.580	2.528	2.462
LLP	3.631	636	549
Net operating results	-4.556	1.196	1.507
Taxes	199	-164	-338
Net Income	-4.831	978	1.109

Other revenues for 2016 negative for EUR 2,177, include some extraordinary items among which the loss from disposal of bad loans and the impairment of the equity tranch.

(%)	2016F	2018E	2019E
Cost / Income	60%	58%	55%
Cost of risk (bps)	168	65-70	~55
ROTE	0,60%	>10%	>11%
CET1 ratio	>11%	12,1%	13,5%
NPE ratio	19%	~17.1%	~16%
LD ratio	114%	106%	105%
LCR	161%	156%	143%
NSFR	101%	111%	111%

The Board of Directors also approved the new organizational model which is characterized by the allocation of large and defined perimeters of responsibility to senior managers consistent with the Business Plan expected results in terms of Revenues, Operating Costs, Risk and Capital Cost.

In this context, the new organizational structure of the parent company speeds up decision making and reduces the number of direct reports of the CEO allowing for an higher focus on defining strategies and risk management.

The CEO and General Manager Marco Morelli will have five direct reporting functions: the Chief Financial Officer, Francesco Mele; the Chief Commercial Officer, as already communicated, Antonio Nucci; the Chief Lending Officer, Fabrizio Leandri currently Chief Audit Executive (who will start in the new role of the new CAE); the Chief Human Capital Officer, new constitution, Ilaria

Dalla Riva; the Co-Chief Operating Officer, new constitution, Enrico Grazzini and Maurizio Pescarini.

The control functions will also report to the CEO: the Chief Risk Officer, Andrea Rovellini, reporting to the Board and functionally to the CEO; Head of Compliance, Alessandro Papaniaros; the Group General Counsel, new constitution, Riccardo Quagliana; Head of External Relations, Marco Palocci, new constitution; Head of Staff Regulatory Relationship, Pierfrancesco Cocco.

The Deputy General Manager Angelo Barbarulo will strenghten its role with coordination responsibilities to support the CEO and General Manager. Angelo Barbarulo will be also CLO until the appointment of Fabrizio Leandri

With the new managerial organization, the current CFO Arturo Betunio will leave the company on 25 November; up to that day he will maintain the Financial Rporting Officer.

The CEO on behalf of the Bank, thanks Arturo Betunio for the important contribution in these years.

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*This press release will be available at www.mps.i*i

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Fine Comunicato n.0035-96	Numero di Pagine: 9