



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

A new starting point

October 25th, 2016

**2016-2019 Business Plan:**

**Back to our customers and people, focused on execution**

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Moreover, the forward-looking statements included herein are based on the assumptions that the announced transaction, including the de-recognition of nearly the entire non performing loan portfolio and the recapitalization of the Bank, will be completed in the next few months, which may not occur. The forward-looking statements included herein do not incorporate any potential impacts of the ongoing Credit File Review.

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- **Fully deliverable Business Plan built around a structural and unprecedented solution** to BMPS asset quality legacy, based on the following **3 key pillars**:
  - **Sale and full de-recognition** of up to EUR 28.5 billion GBV Bad Loans
  - **Increased coverage on UTP & PD to ~40%** (the highest standards for asset quality in Italy) and **re-engineered credit risk management**
  - **5.0 EUR billion capital plan** to restore a solid capital position
- **De-risked bank** with strengthened liquidity and capital allows for potential re-rating and reduction of cost of funding
- **Business Plan based on our customers and people**, with BMPS finally focused on the commercial re-launch to deliver Return on Tangible Equity above 11%
- **New management team** committed to a **disciplined and timely implementation** of Business Plan initiatives

## Transaction at a glance

Key highlights of the Business Plan

MPS: the new starting point

Business Plan guidelines

Financial projections and target KPIs

Implementation plan



## Sale and de-recognition of Bad Loans

### Up to 28.5 EUR bn of gross Bad Loans

- Disposal of up to **28.5 EUR bn of gross Bad Loans**:
  - Up to 27.6 EUR bn to a securitization vehicle (“Sec.Co.”) at a price equal to 33% of GBV
  - ~0.9 EUR bn of leasing receivables not included in Sec.Co. and separately disposed
- Sec.Co. to be initially funded through<sup>1</sup>:
  - **Senior Bridge facility (up to 5.0 EUR bn)**
  - **Senior Mezzanine Bridge facility (up to 1.0 EUR bn) underwritten by BMPS**
  - **Junior Mezzanine Notes (ca. 1.6 EUR bn)** underwritten by Atlante
  - **Junior Notes residual amount** to be distributed to BMPS shareholders pre-capital increase
- The bridge facilities will be refinanced through a **term securitization assisted by GACS for the Investment Grade portion**
- Sec.Co. **deconsolidation conditional to the completion of the capital increase**

## Increased coverage on other NPEs

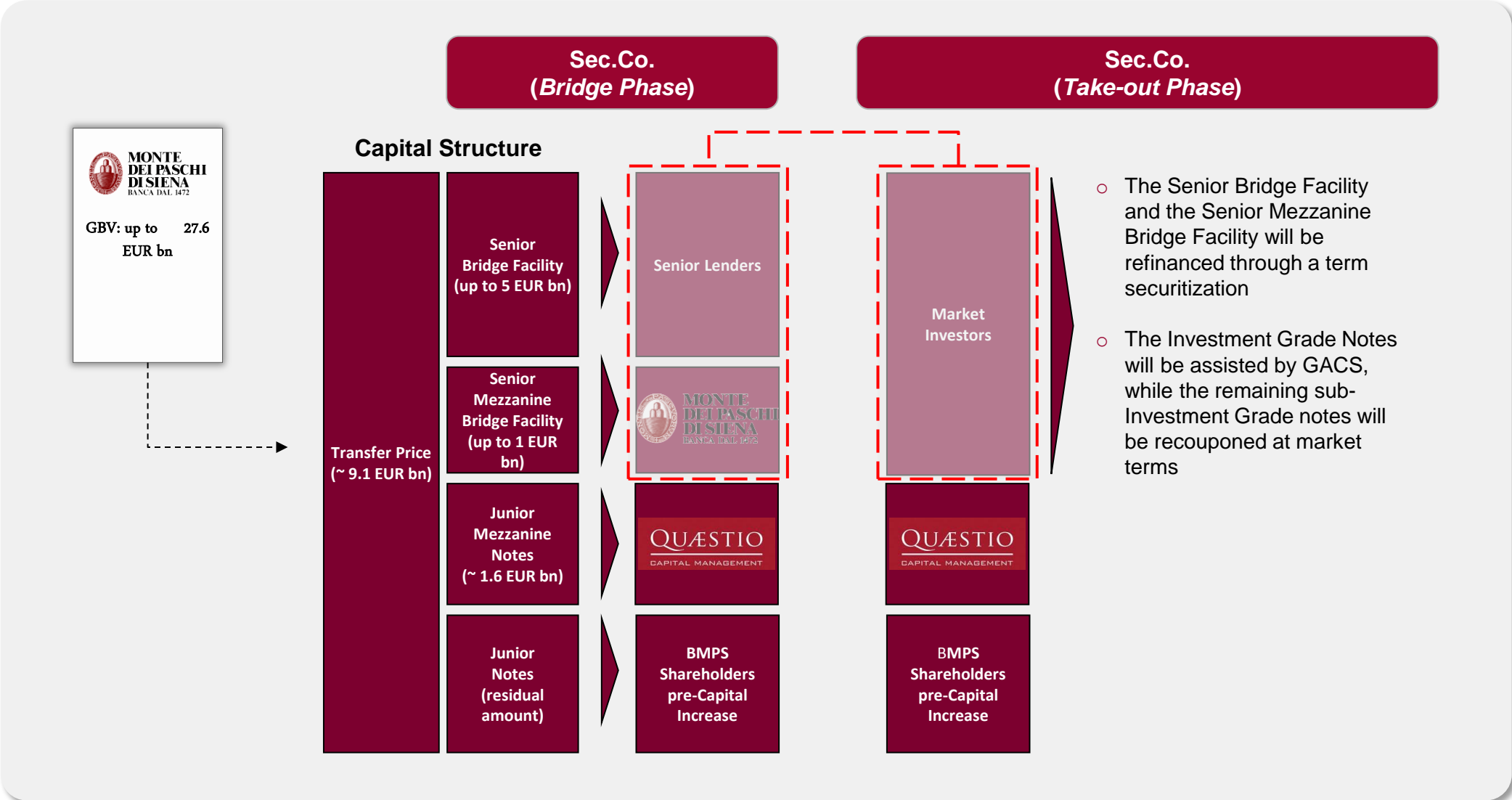
### 2.1 EUR bn LLPs on other NPEs

- BMPS to increase **other NPEs coverage to ~40%**, the highest level in the Italian market:
  - **2.1 EUR bn additional provisions on UTP** to achieve ~42% coverage (29% as of 1H16)

## Recapitalization of MPS

### 5 EUR bn capital plan

- **Up to 5 EUR bn recapitalization** in order to restore a solid capital position to be executed through:
  - Potential **tranche reserved for a voluntary Liability Management Exercise**
  - Potential **tranche reserved to cornerstone investor**
  - **Fully non pre-emptive<sup>2</sup> capital increase** assisted by a pre-underwriting agreement from a consortium of primary financial institutions
- Capital increase **conditional to the completion** of the Sec.Co. deconsolidation and EGM approval



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GBV: up to 27.6  
EUR bn

**Capital Structure**

**Sec.Co. (Bridge Phase)**

**Sec.Co. (Take-out Phase)**

Senior Lenders

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QUESTIO  
CAPITAL MANAGEMENT

BMPS Shareholders pre-Capital Increase

Market Investors

QUESTIO  
CAPITAL MANAGEMENT

BMPS Shareholders pre-Capital Increase

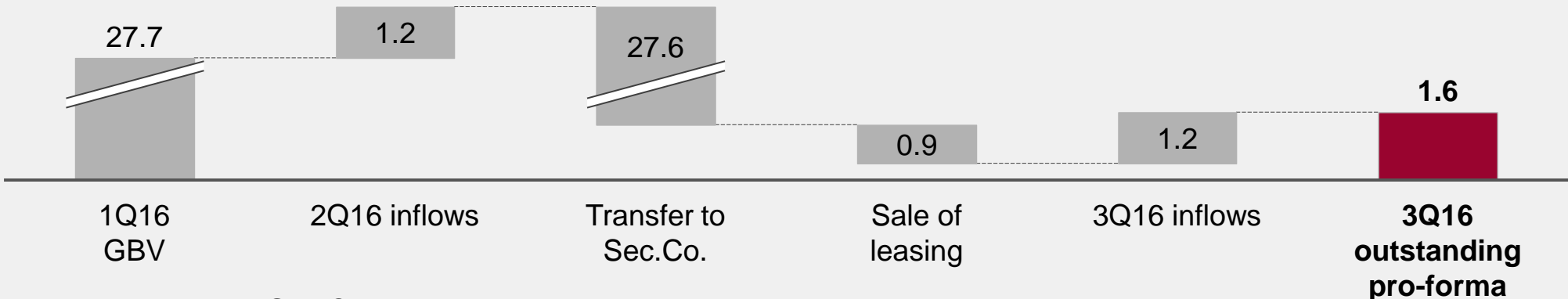
- The Senior Bridge Facility and the Senior Mezzanine Bridge Facility will be refinanced through a term securitization
- The Investment Grade Notes will be assisted by GACS, while the remaining sub-Investment Grade notes will be recouped at market terms



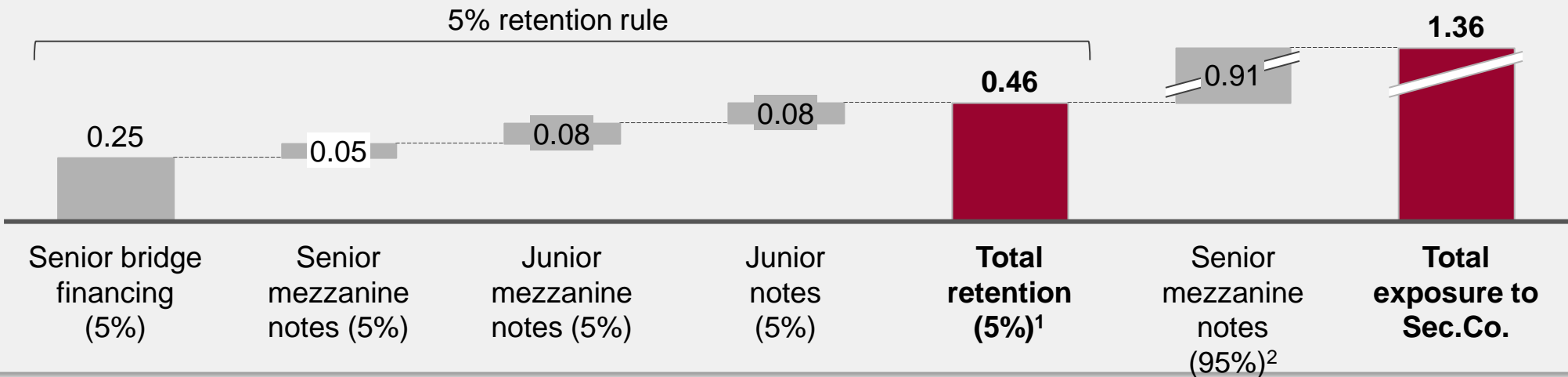
# BMPS remaining bad loans and exposure to Sec.Co.

EUR bn

## BMPS bad loans remaining exposure



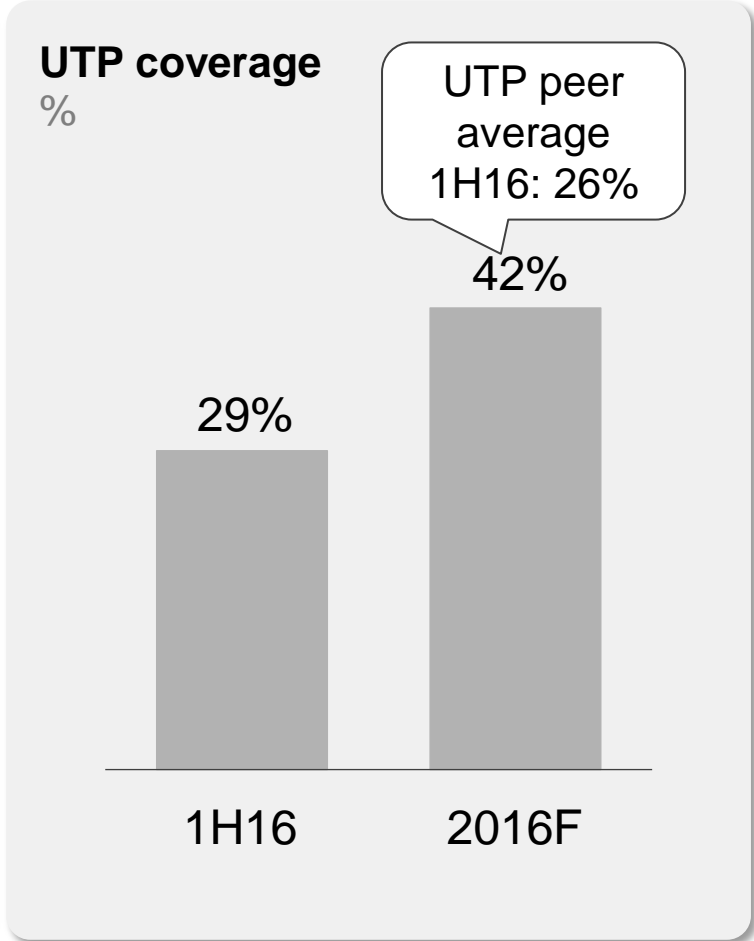
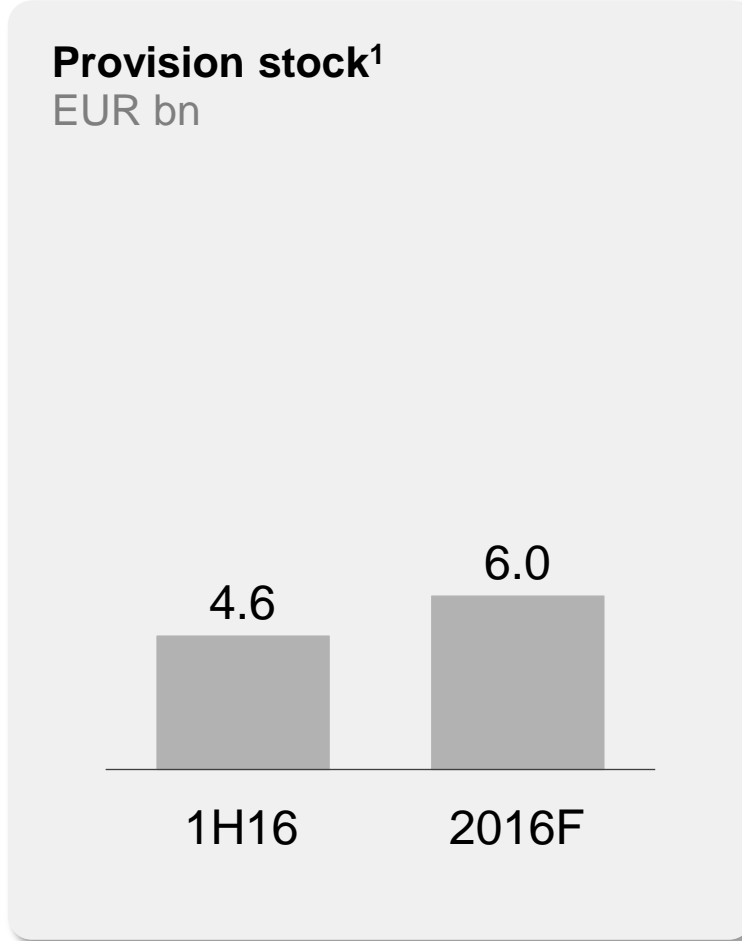
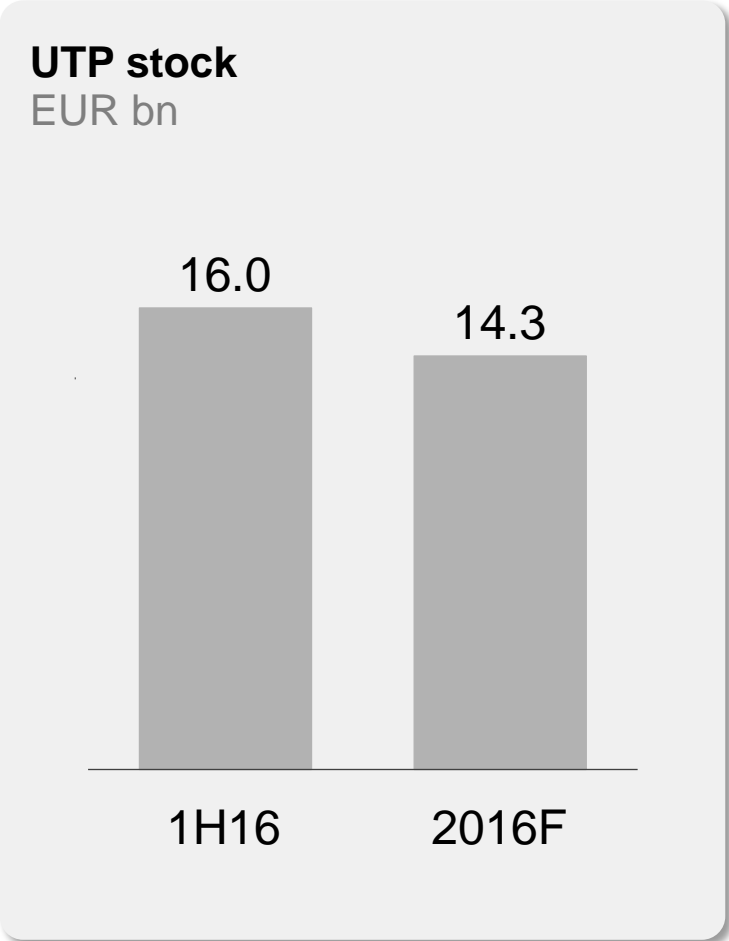
## BMPS gross exposure to Sec.Co.



<sup>1</sup> After markdown of retained notes, the implied price of the underlying portfolio would be equal to 26% of GBV  
<sup>2</sup> 0.11 EUR bn markdown already accounted for



# Increased coverage on UTP resulting in top positioning in the Italian market



<sup>1</sup> Delta stock of provision combined with the increase in cost of UTP which moves to bad loans in 2H16 sum up to EUR 2.1 bn



- **Up to 5 EUR bn capital plan** in order to restore a solid capital position post additional provisions on non-performing exposures and sale/de-recognition of Bad Loans
- Capital plan and Sec.Co. deconsolidation **conditional to each other**



## Liability Management Exercise

- Potential tranche reserved for a **voluntary Liability Management Exercise**
- Proceeds from the tender offer will be exclusively applied to subscribe for **newly-issued BMPS shares** in the context of the capital increase
- Approval process still **ongoing**



## Cornerstone process

- Potential tranche reserved to **cornerstone investors** interested in acquiring a significant stake
- **Dedicated process** envisaging limited Due Diligence access, aiming at gathering manifestation of interest from potential investors willing to acquire a significant stake in BMPS



## Capital increase

- **Non pre-emptive capital increase** assisted by a pre-underwriting agreement from a consortium of primary financial institutions
- Subscription price to be set through a **bookbuilding process**
- Warrants originally negotiated with Quaestio to be replaced by a **non dilutive solution**

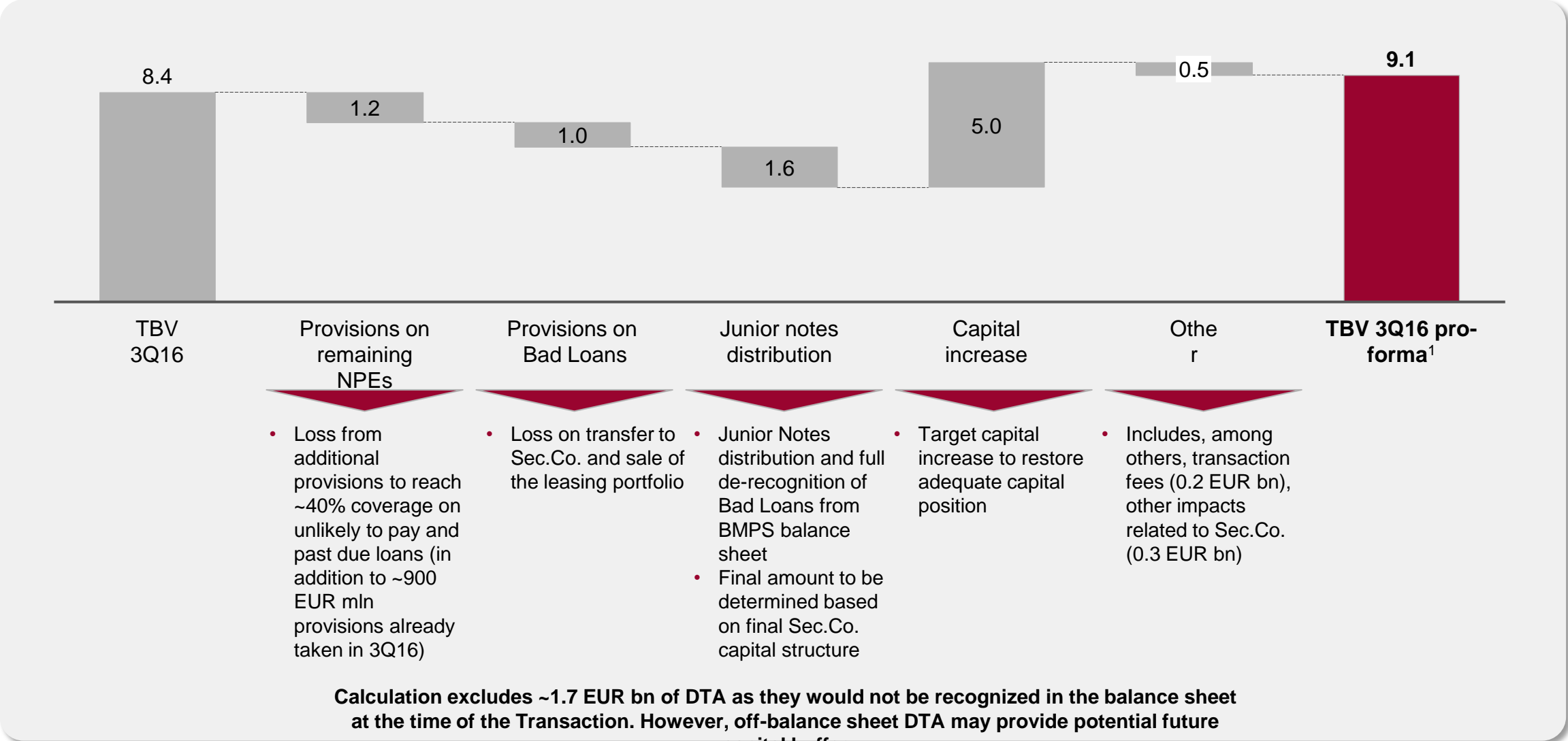


## Timeline

- Extraordinary Shareholders' Meeting for the approval of the Transaction to be held on **November 24<sup>th</sup>**
- Targeted completion of capital plan and de-recognition of Bad Loans portfolio **by year end 2016**

# Pro-forma Tangible Book Value

EUR bn



<sup>1</sup> Excluding any potential impact from LME. Final figures depending on the final recapitalization structure

Transaction at a glance

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Back to our customers and people, focused on execution



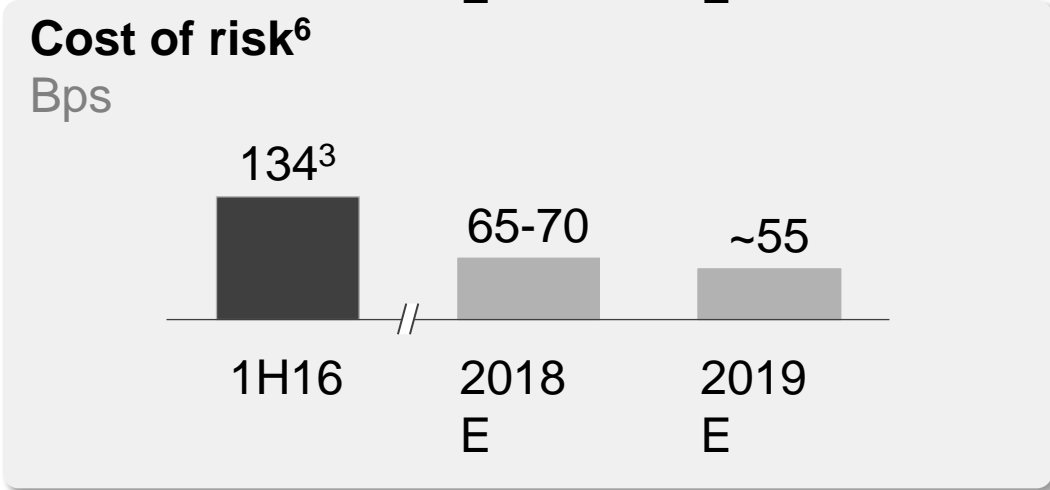
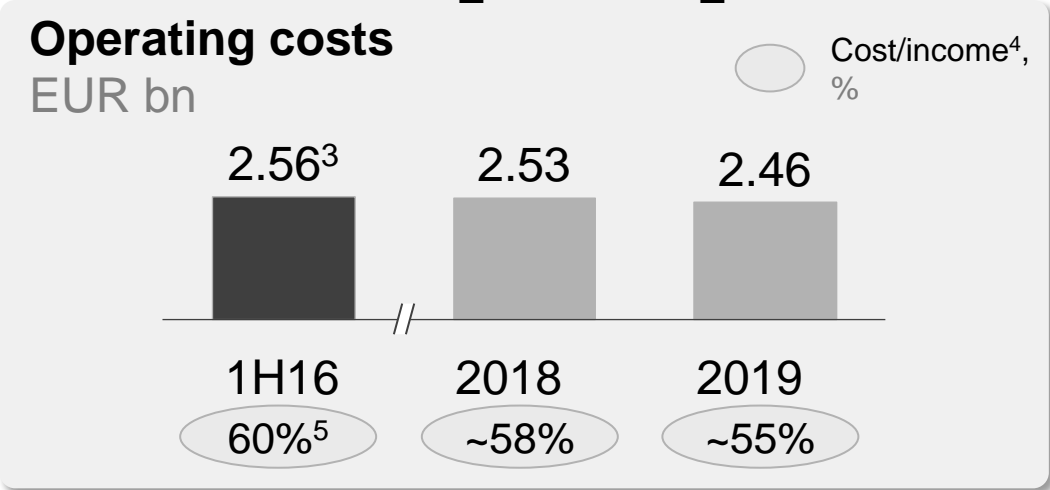
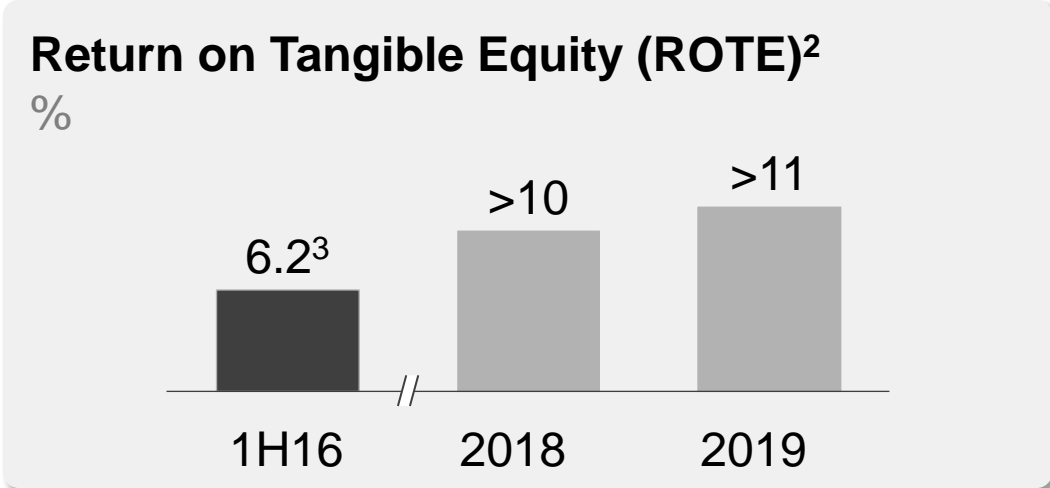
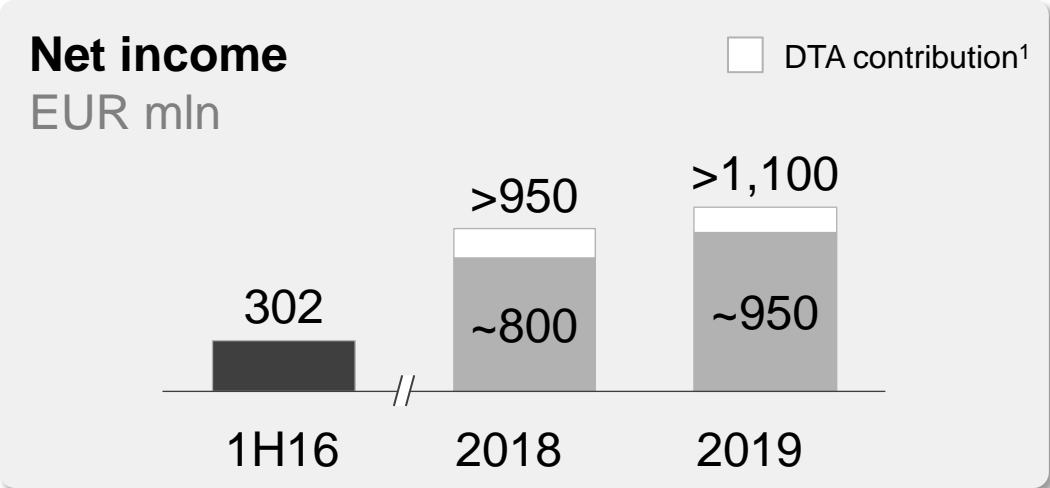
**1**   
Unlock the value embedded in our existing customer base

**2**   
Renew operating model with sustained focus on efficiency

**3**   
Radically improve Credit Risk Management

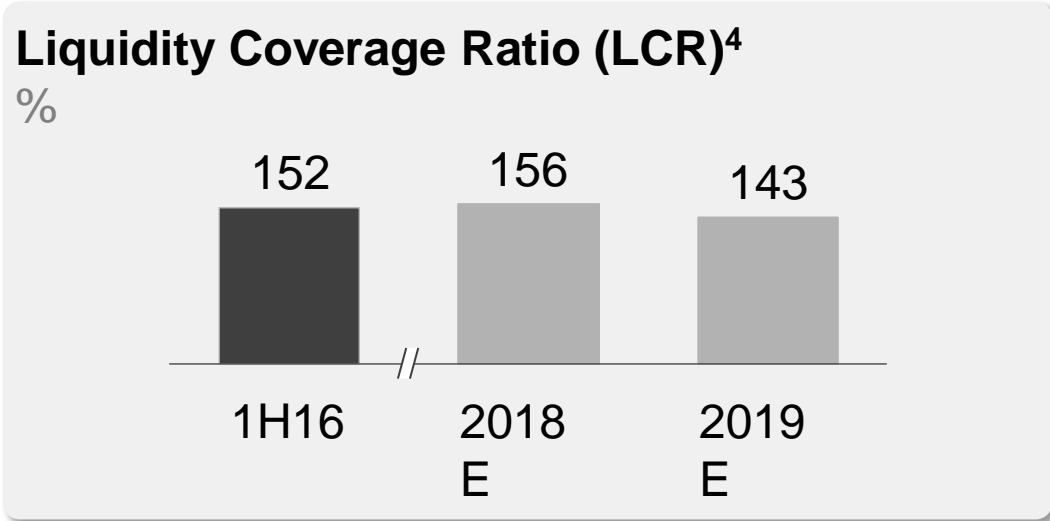
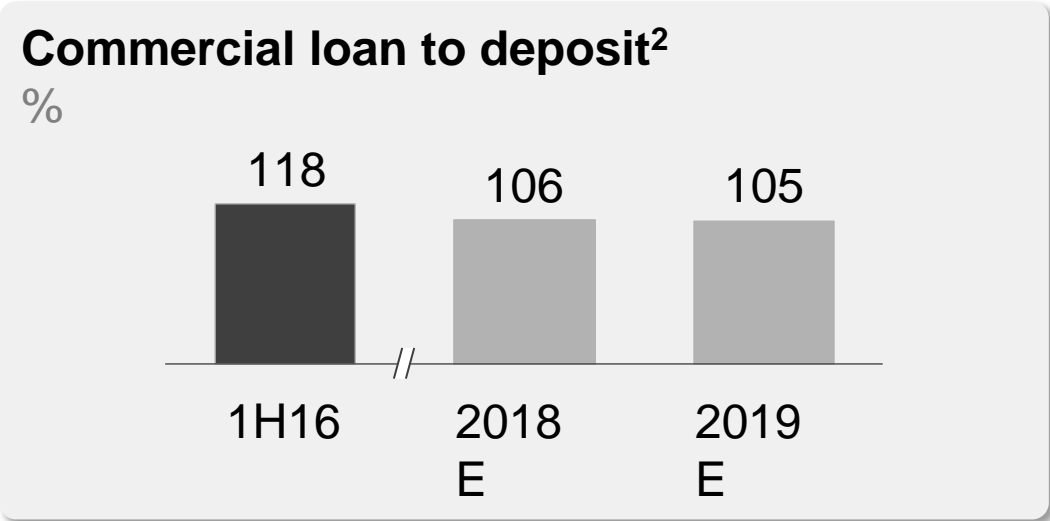
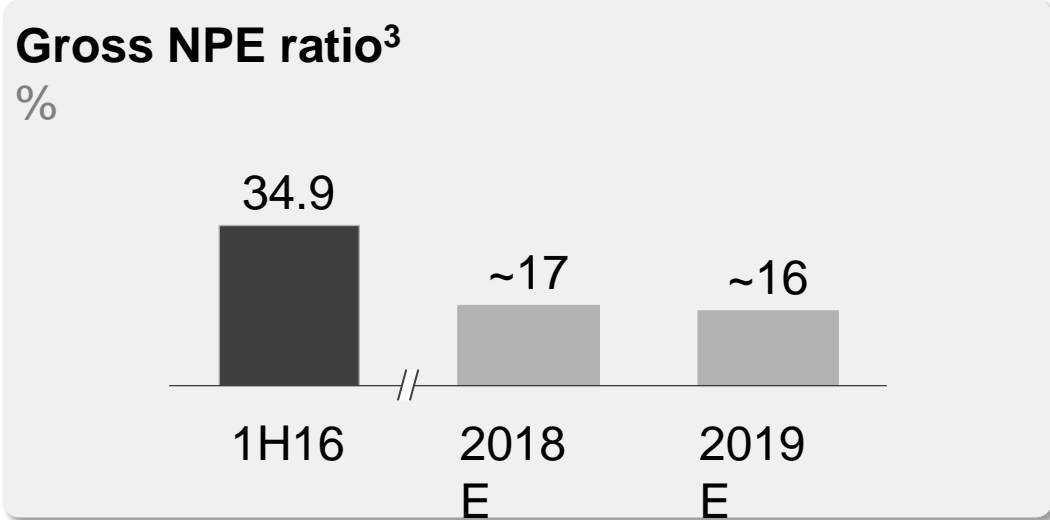
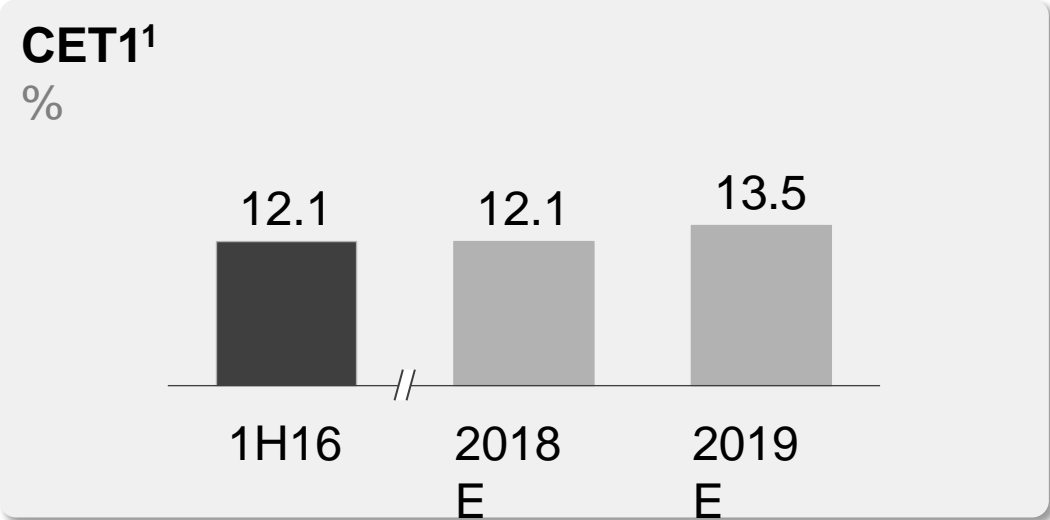
**4**   
Strengthen liquidity and capital position





1 Positive contribution from reassessment of DTA generated from previous years  
 2 Net Income / Tangible Equity  
 3 1H16 annualized  
 4 Operating costs / revenues  
 5 Expected FY16, Cost/income 1H16 at ~55%  
 6 Net LLPs / loans to customers (EoP)

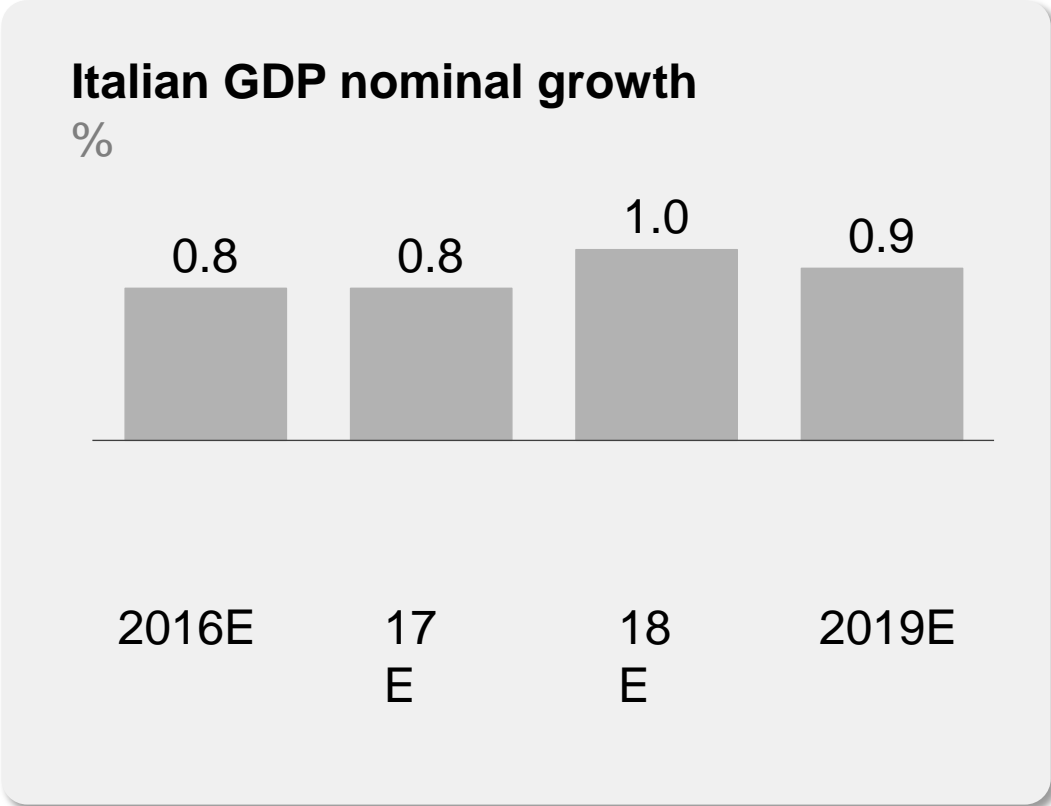




1 1H16 CET1 ratio phase in, 2018E and 2019E fully loaded  
 2 Commercial loans / commercial deposits  
 3 Gross Non Performing Exposures (NPE) / gross total loans  
 4 Stock of High Quality Liquid Assets / total net cash outflows over next 30 days



Conservative macroeconomic assumptions for the Business Plan



The Business Plan does not incorporate possible upsides from interest rate evolution while GDP nominal growth is reflected in key risk parameters evolution



Transaction at a glance

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A new starting point after the transaction

**Drastically strengthened balance sheet** positively affecting cost of risk going forward

**Significant improvement in credit risk management** already started

**Large and resilient client base** despite the challenging years

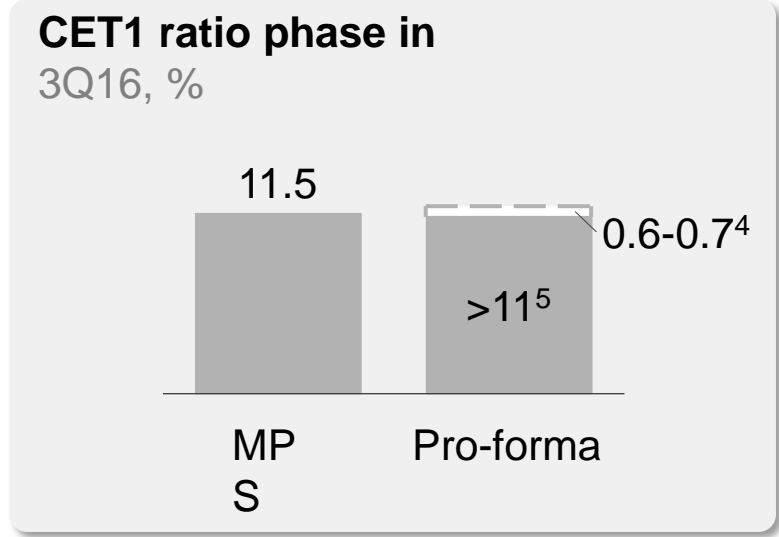
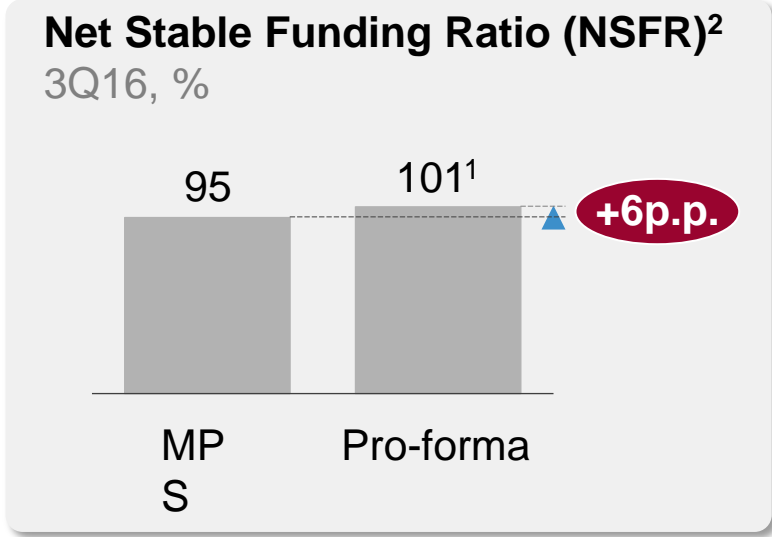
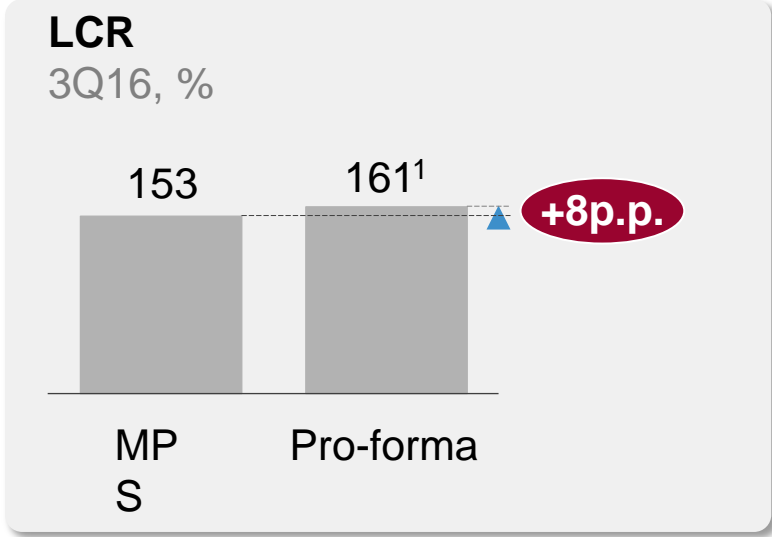
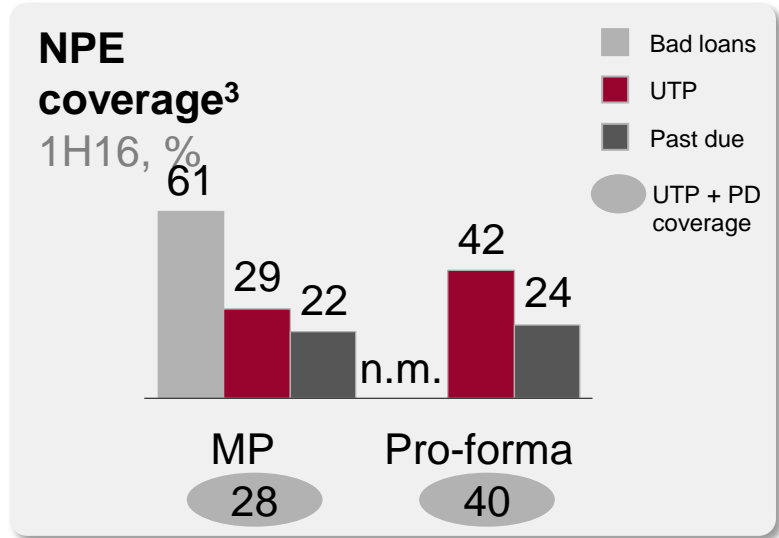
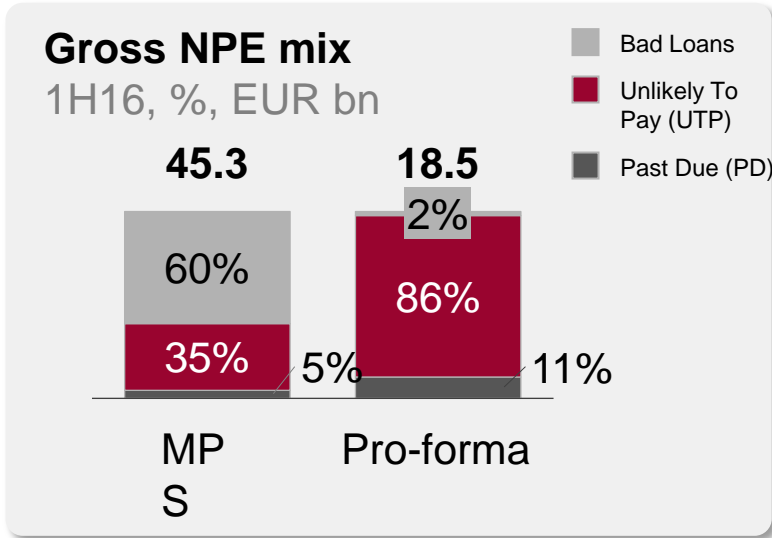
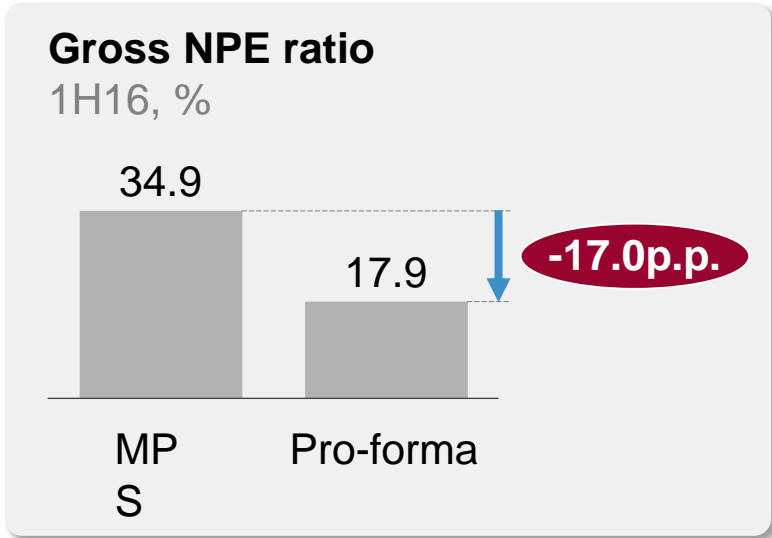
Significant **upside from re-rating effect** and **decreased cost of funding**

Strong potential in **commercial revenue generation**

Strong track record in **cost reduction** and **further upside going forward**



Positive impact of the transaction on key indicators...



1 2016F expected value

2 Available amount of stable funding / required amount of stable funding

3 LLP stock / Gross NPE

4 Considering upcoming disposals

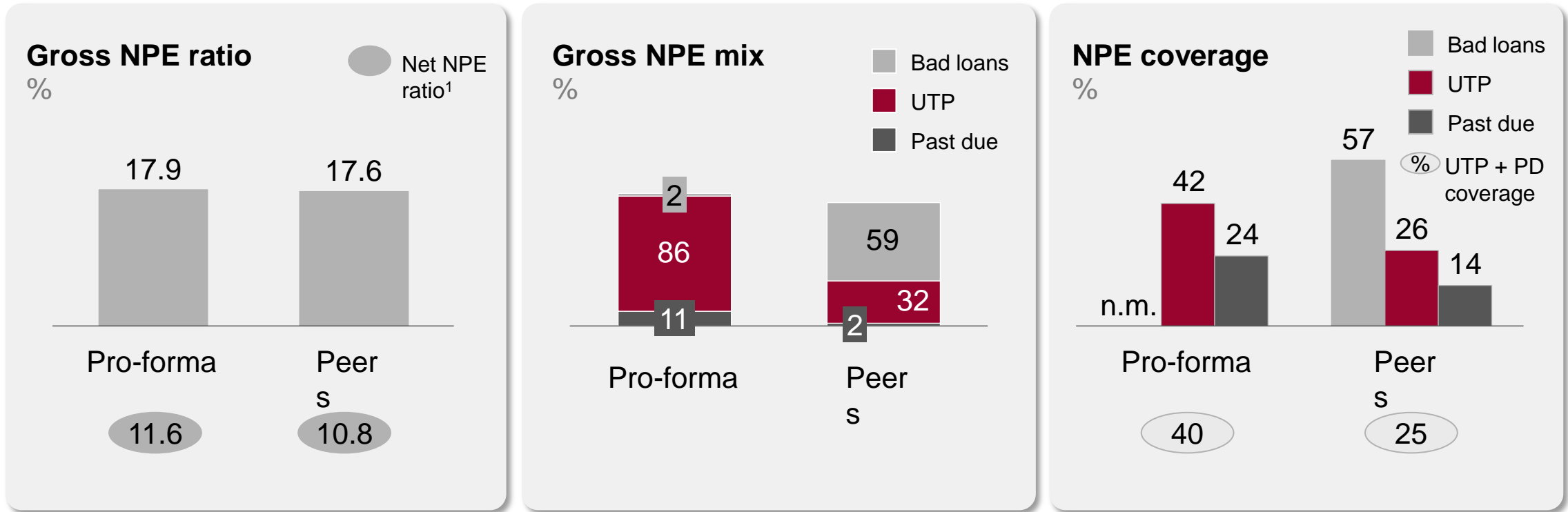
5 2016F expected value, final figures depending on the final recapitalization structure

NOTE: MPS pro-forma defined as MPS post transaction



... positioning MPS in line with Italian peers...

1H16, pro-forma

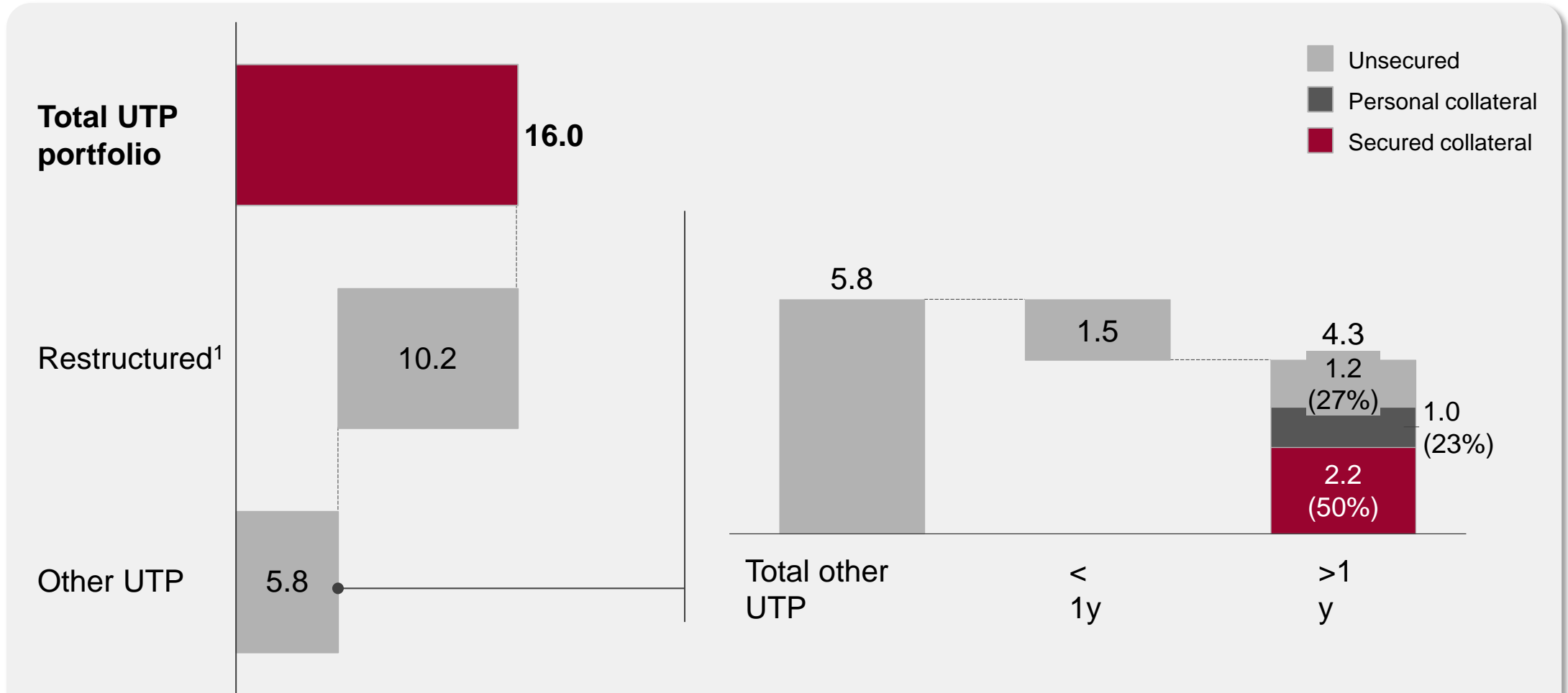


1. Sale of entire Bad Loans portfolio
2. Increase in other NPE provision, to achieve ~40% average UTP and Past Due coverage



... with over 60% of UTP portfolio under restructuring

1H16, pro-forma, EUR bn

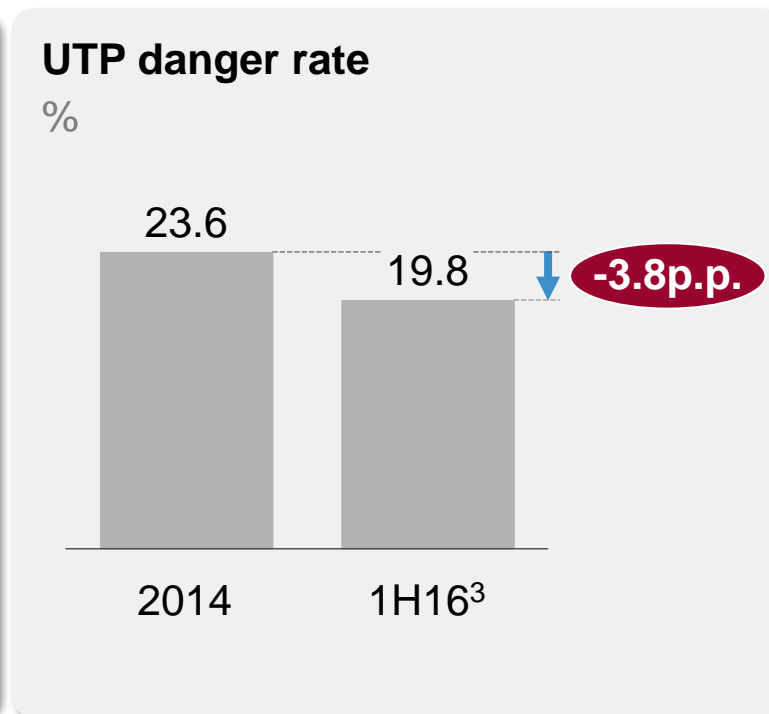
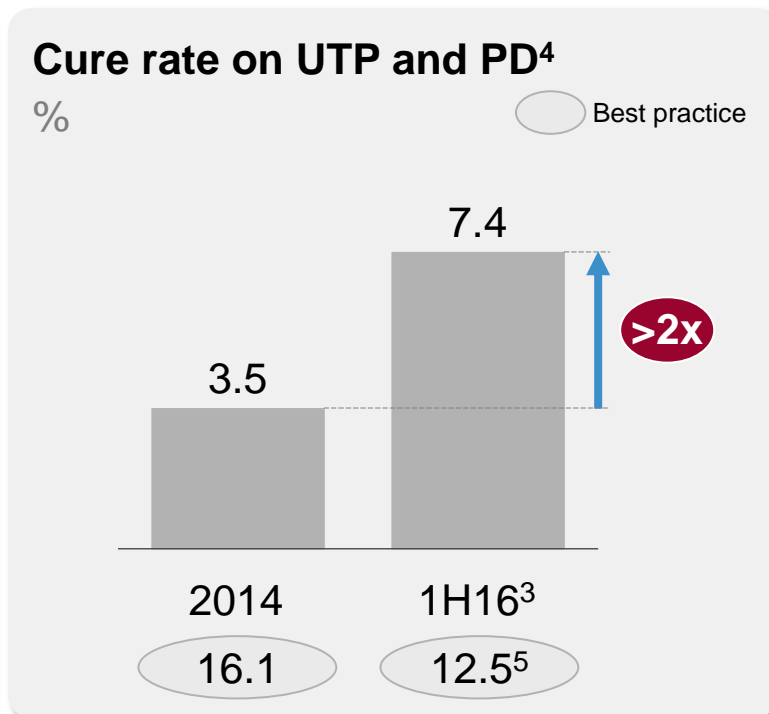
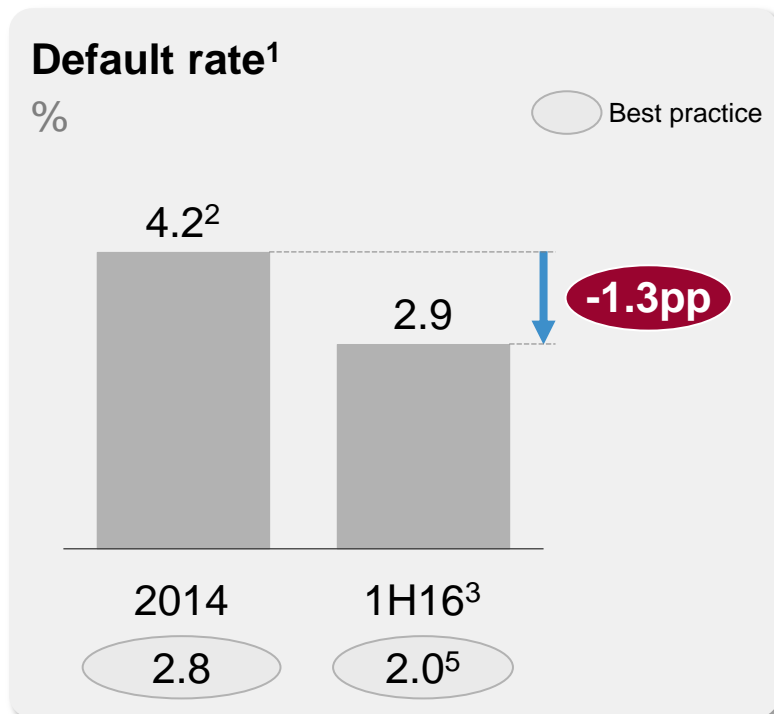


**Results of 1H16 Cerved analysis: out of 14.4 EUR bn Corporate UTP portfolio rated by Cerved, ~9.3 EUR bn outstanding (~65%) with operating companies or with high level of collateralization**



<sup>1</sup> Including positions under restructuring (EUR 2.3 bn)

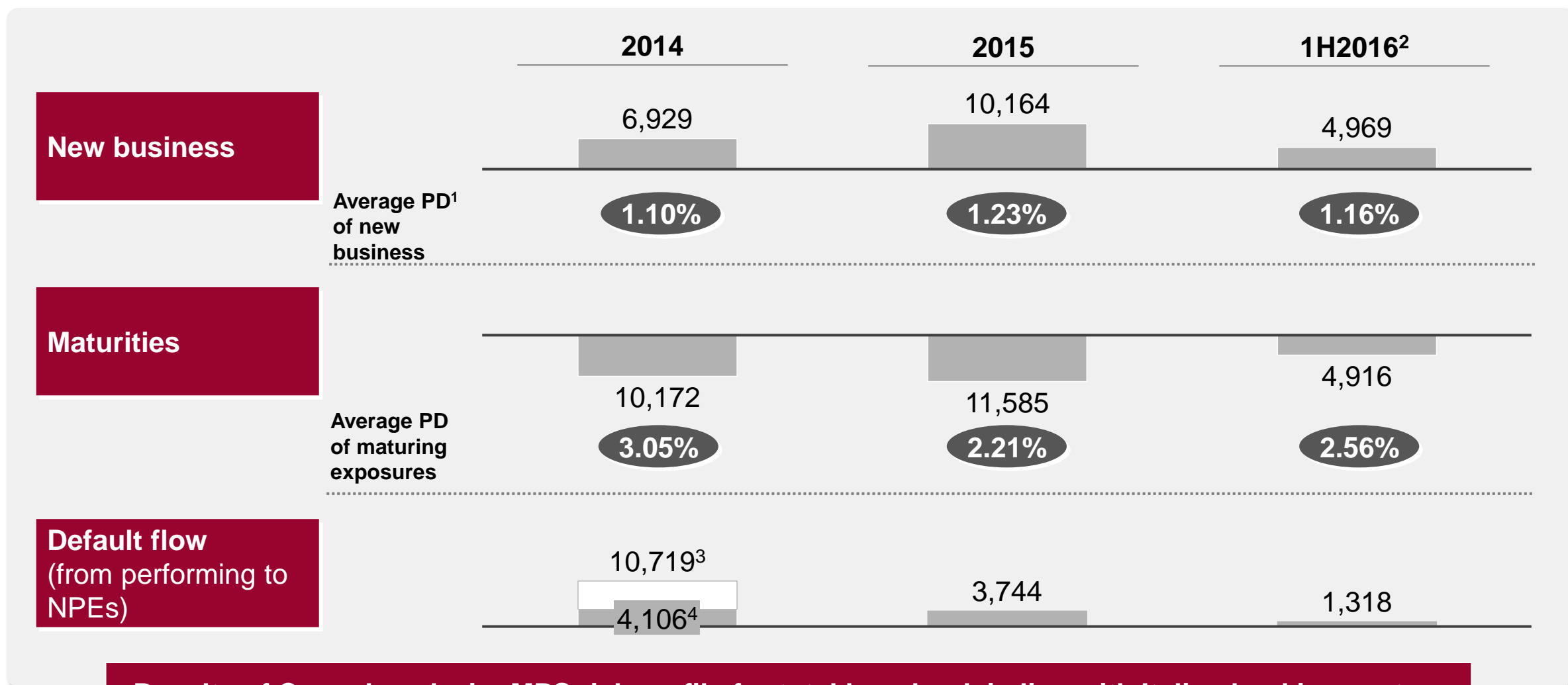
Significant improvement in credit risk management over the last years...



- 1. Centralization of UTP and restructuring units**, with introduction of specialized analysts and realization of synergies with the central NPE recovery unit
- 2. Upgraded Early Warning Systems** (e.g., introduction of additional triggers to intercept risky positions)
- 3. Enhanced and accelerated collection policy** (e.g., shortening of the time and extension of the early collection perimeter, with higher **leverage on external recovery services**)
- 4. Further strengthening of control systems**, empowering dedicated units within the commercial structure

... reflected in the positive evolution of key risk parameters

EUR mln

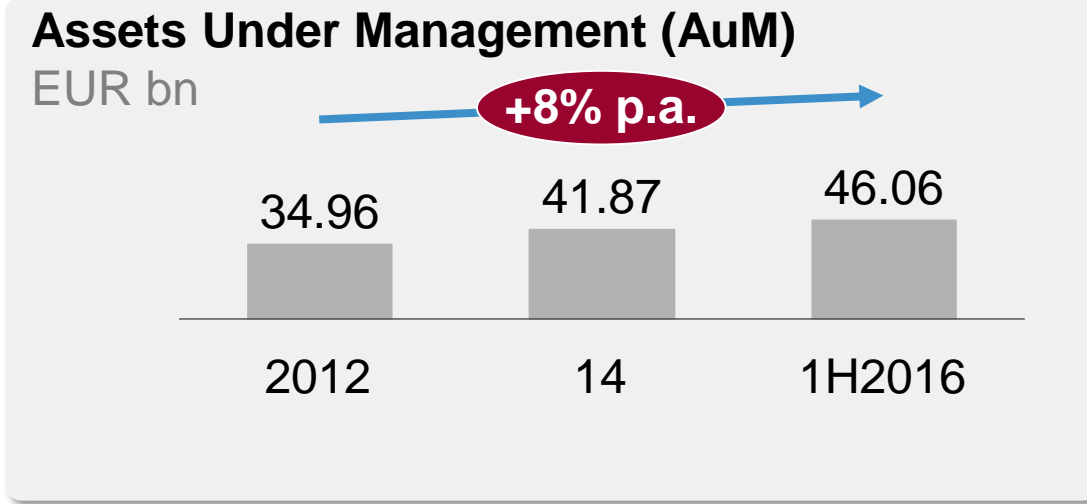
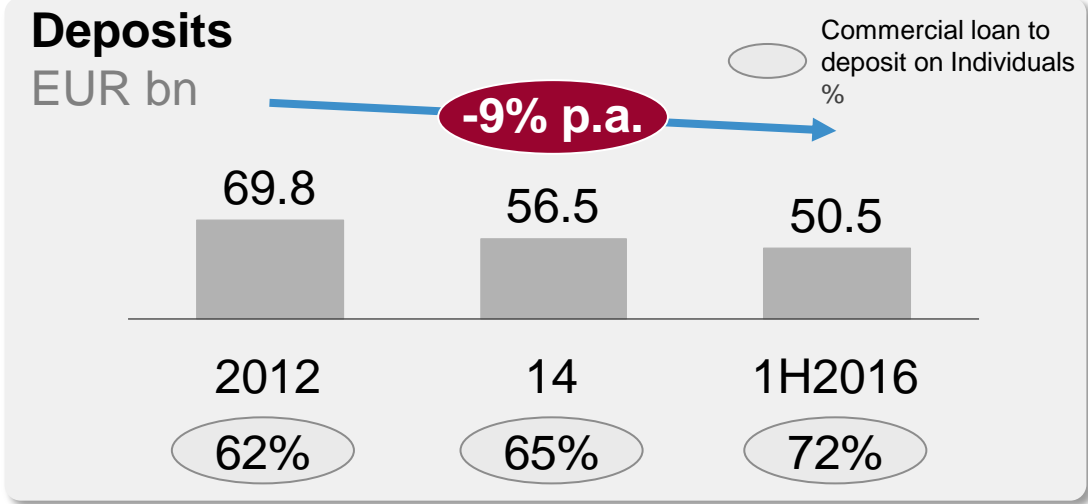
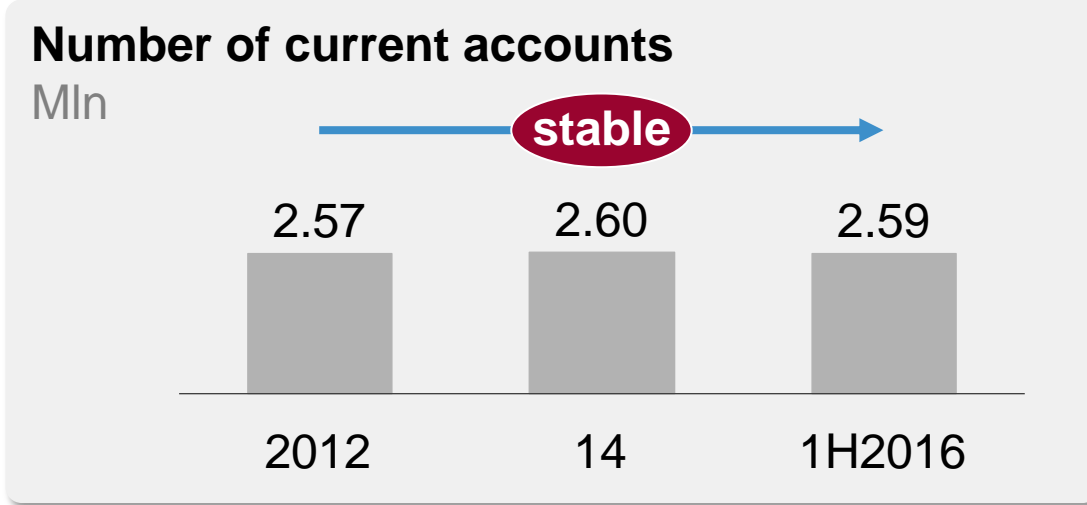
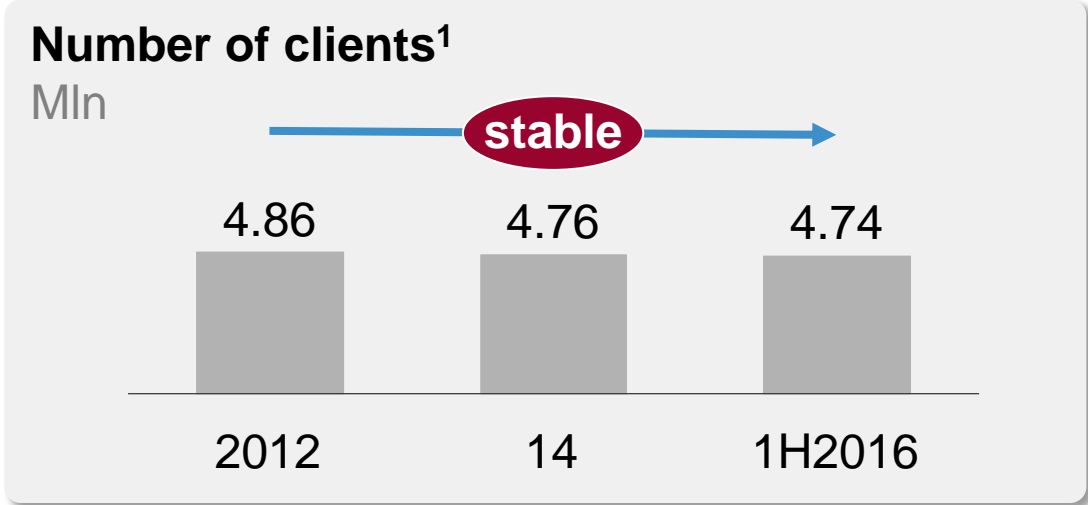


**Results of Cerved analysis: MPS risk profile for total loan book in line with Italian banking system**



# Large and resilient client base, despite the recent challenging period

Individuals – All client segments



<sup>1</sup> Number not including inactive clients, but including clients with products other than current accounts (1.5 mln) and clients with joint accounts (0.5 mln)

# Significant upside from re-rating and decreased cost of funding

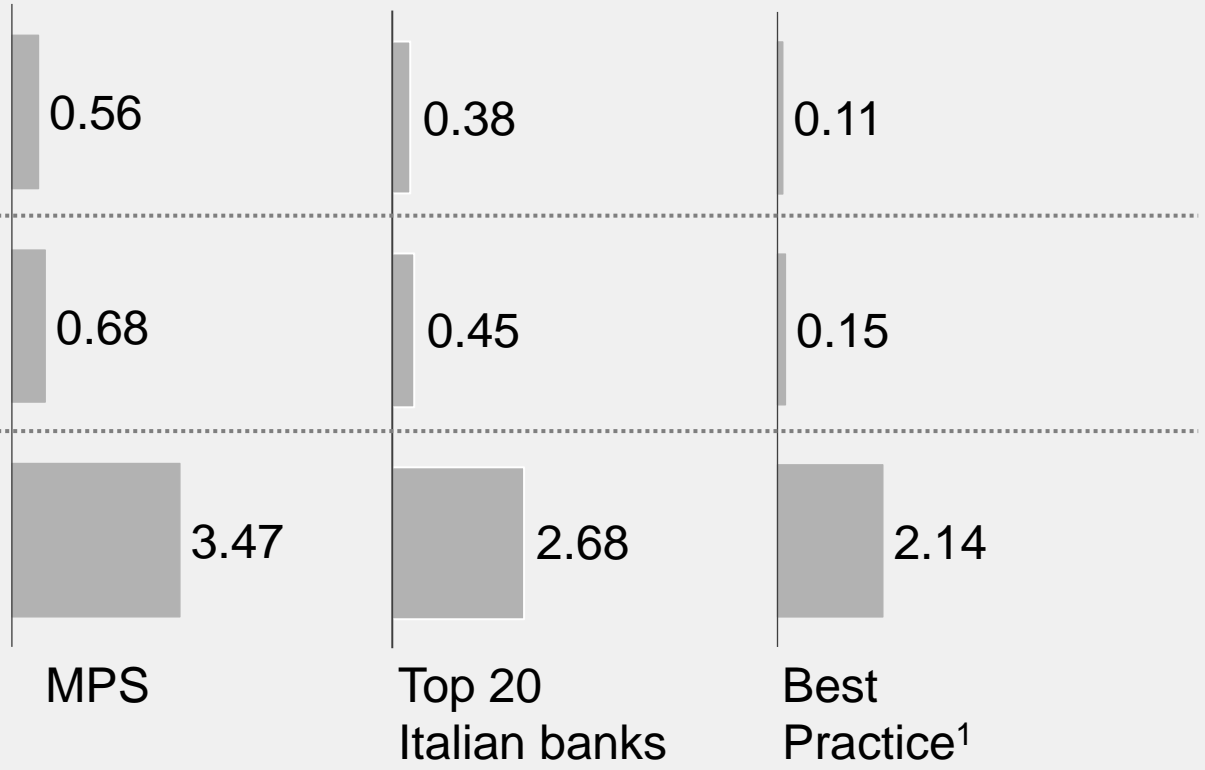
FY2015, %

## Cost of funding

**Due to banks**

**Due to customers**

**Securities issued**



- 1. ~200 EUR mln** potential from alignment of cost of funding due to customers to top 20 Italian banks
- 2. ~450 EUR mln** potential from alignment of cost of funding due to customers to best practice<sup>1</sup>



<sup>1</sup> Considering the best bank across the top 5 Italian banks: Intesa SanPaolo, UniCredit, Banco Popolare, BPM and UBI  
SOURCE: Bank of Italy, ABI

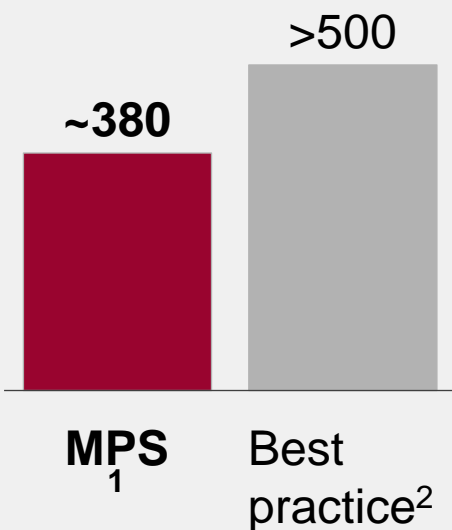


# Significant upside going forward in Retail...

FY2015

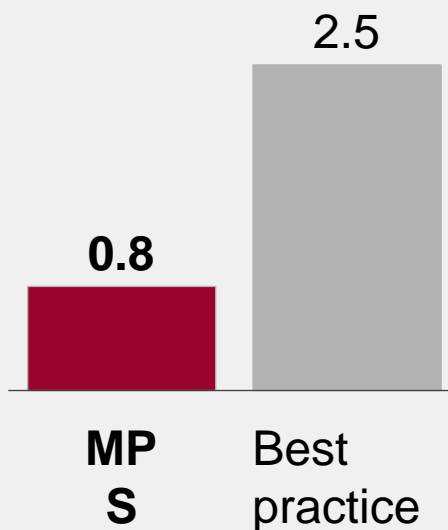
## Total Revenues/Client – Individuals

Revenues/Client, EUR



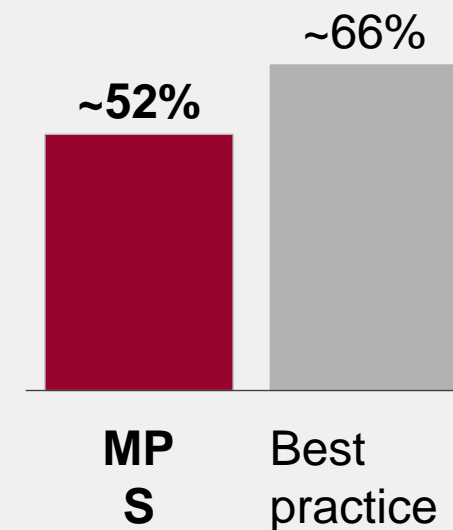
## Mortgages new flows per branch

EUR mln



## Indirect funding over total funding<sup>3</sup>

%



<sup>1</sup> Includes revenues from Valore (Mass segment) and Premium (Affluent segment)

<sup>2</sup> Upper quartile (Finalta benchmark)

<sup>3</sup> (Assets under Management + Assets under Custody) / (Assets under Management + Assets under Custody + direct funding)

SOURCE: Finalta for Individuals

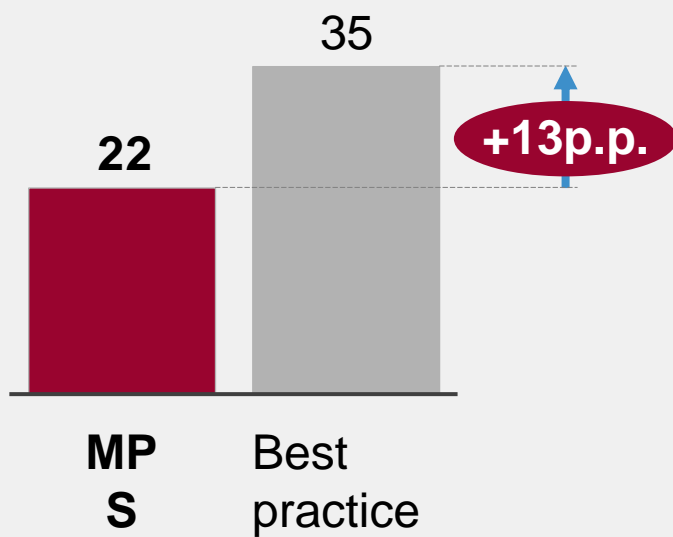


... as well as in Small Business and SMEs ...

FY2015

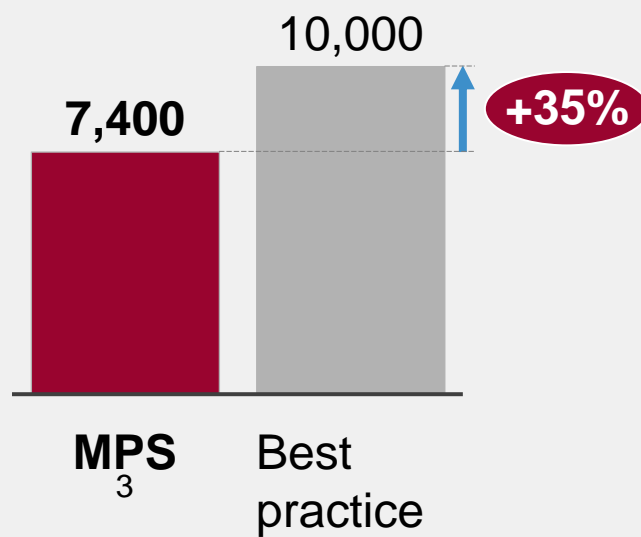
### Share of Wallet (SoW)<sup>1</sup> – Small Business

%



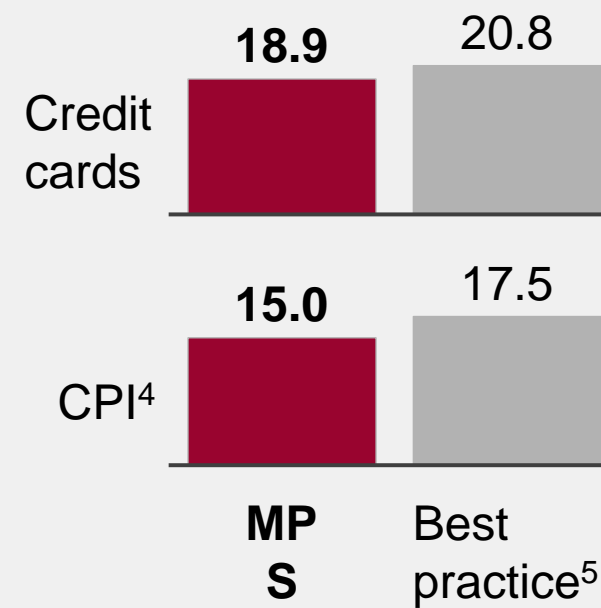
### Revenues from services – SMEs<sup>2</sup>

Revenues/Client, EUR



### SME product penetration<sup>3</sup>

%

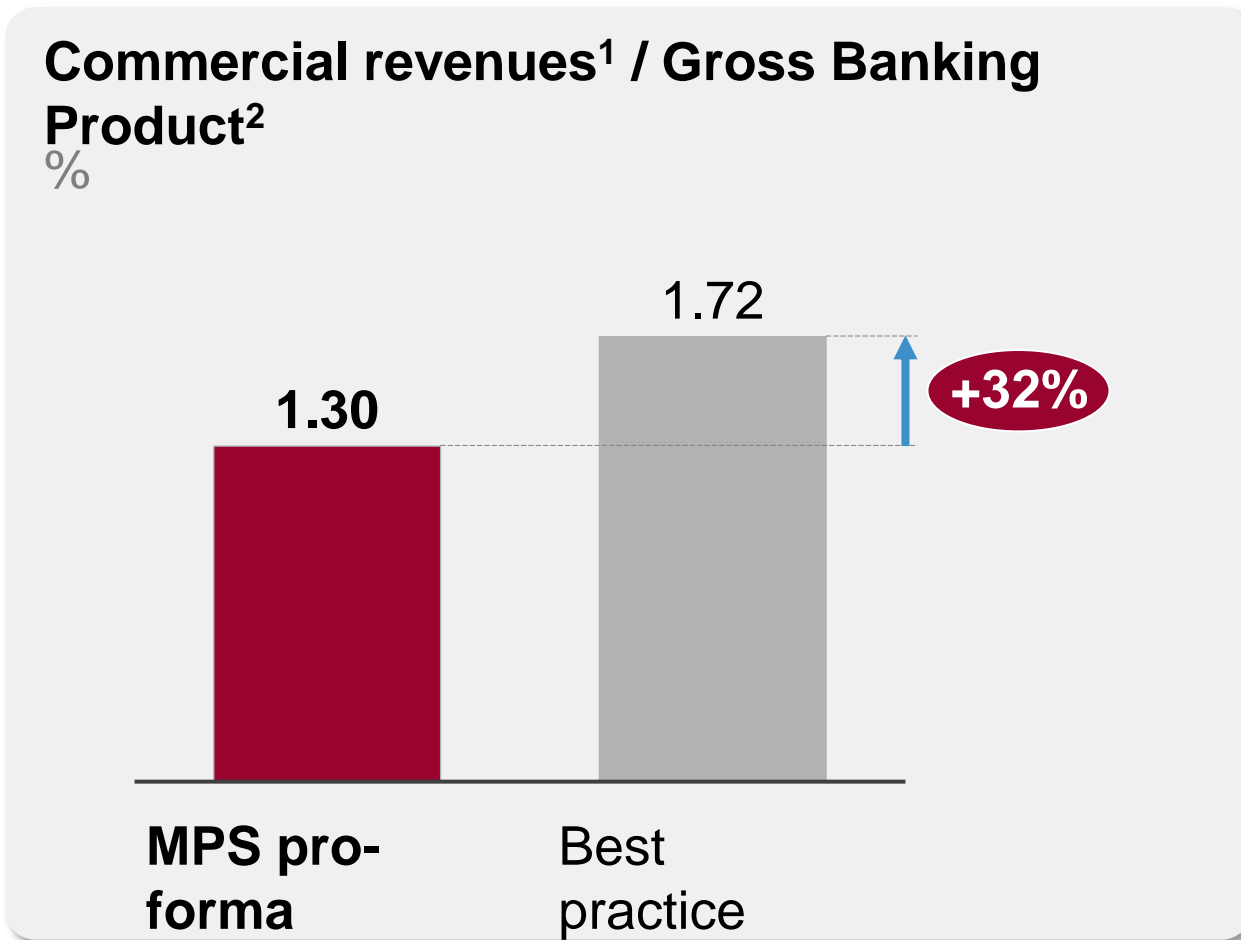


1 MPS lending / total client lending  
 2 Clients with turnover between EUR 5 mln and EUR 20 mln  
 3 Percentage of clients with specific product  
 4 Credit protection insurance  
 5 Upper quartile (Finalta benchmark)  
 SOURCE: Finalta for SMEs product penetration



... resulting in overall strong upside potential

1H16, annualized



**~1 EUR bn potential of revenue increase by filling the gap with best practice**

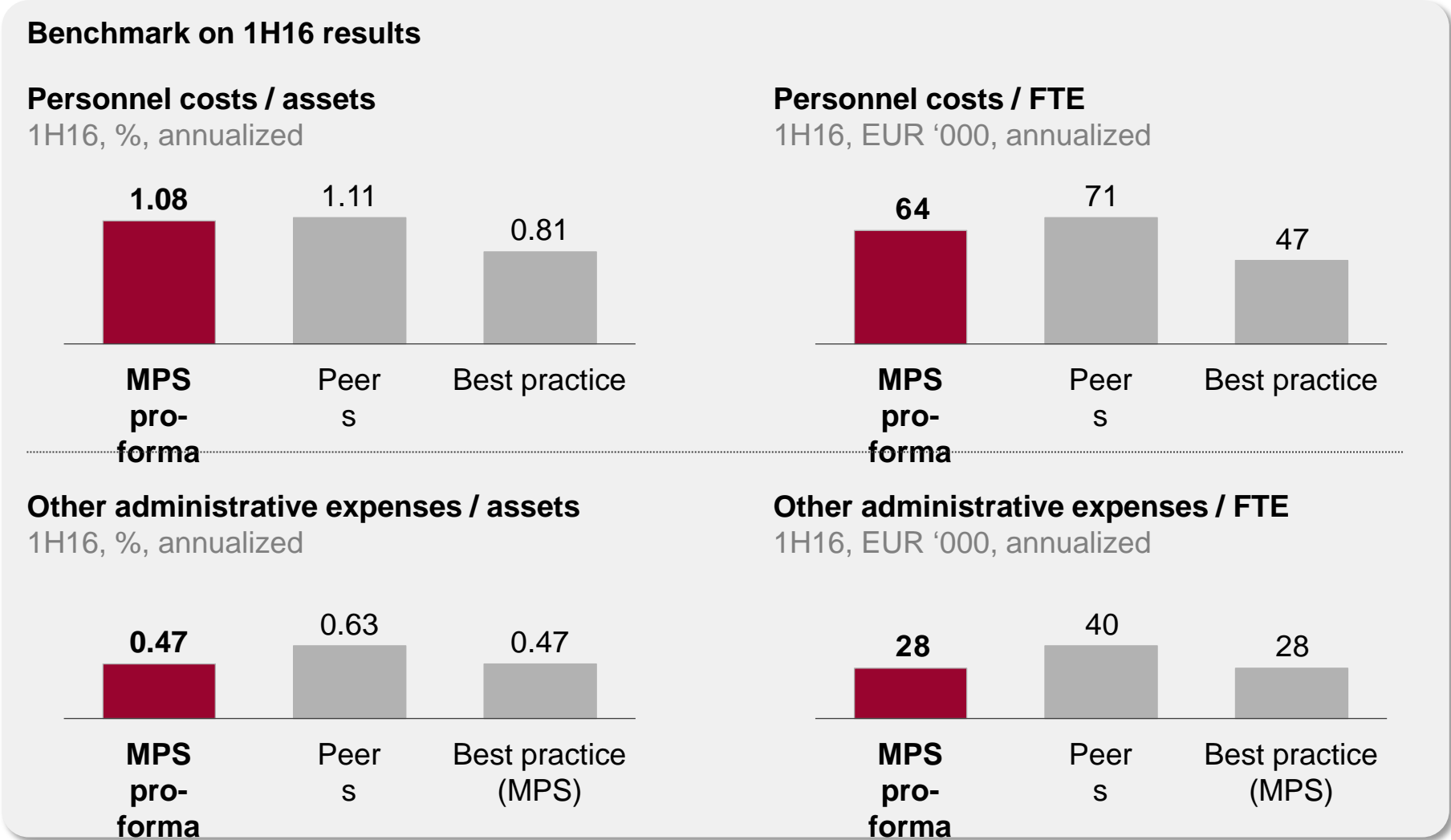
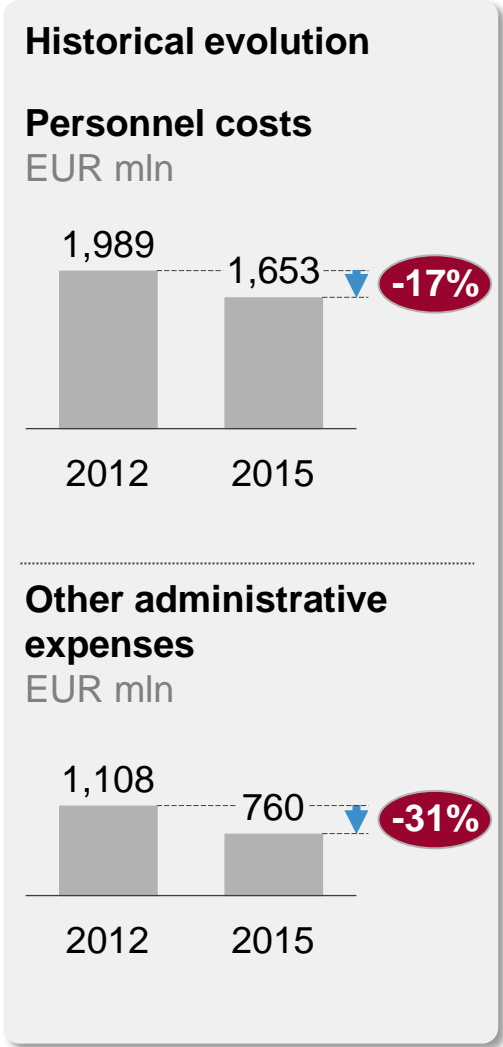
1 Net Interest Income (NII) + Net Commissions

2 Direct funding (deposits, securities in issue and financial liabilities held at fair value), indirect funding and loans to customers

NOTE: Peer set includes Banco Popolare-BPM (pro-forma), BPER, Credem, Intesa SanPaolo (Banca dei Territori only – estimate), UBI and UniCredit (Commercial Banking Italy only – estimate)



Solid track record in cost optimization with further potential ahead, especially on personnel costs



Transaction at a glance

Key highlights of the Business Plan

MPS: the new starting point

**Business Plan guidelines**

Financial projections and target KPIs

Implementation plan

Back to our customers and people, focused on execution



1 

Unlock the value embedded in our existing customer base

2 

Renew operating model with sustained focus on efficiency

3 

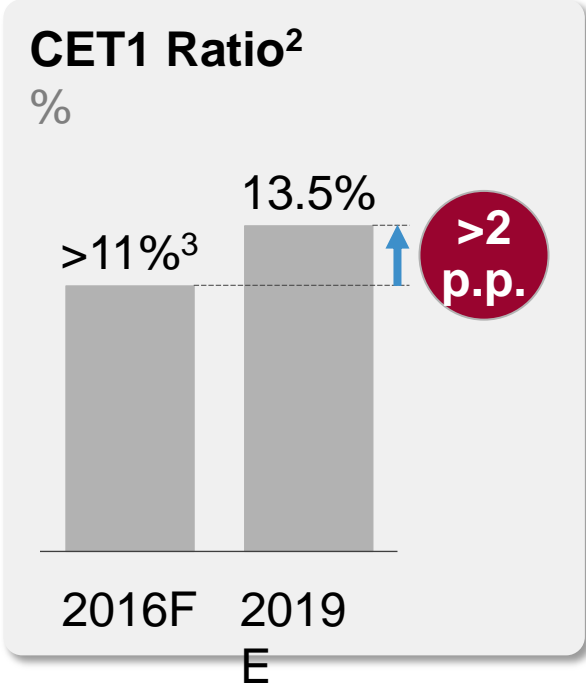
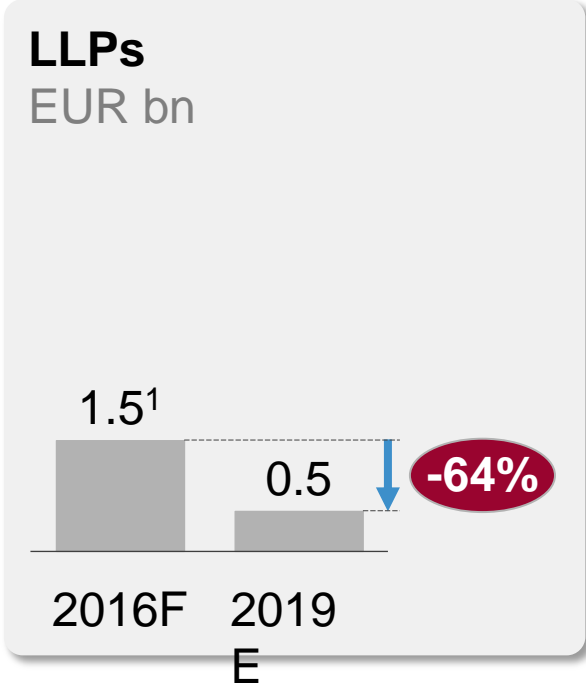
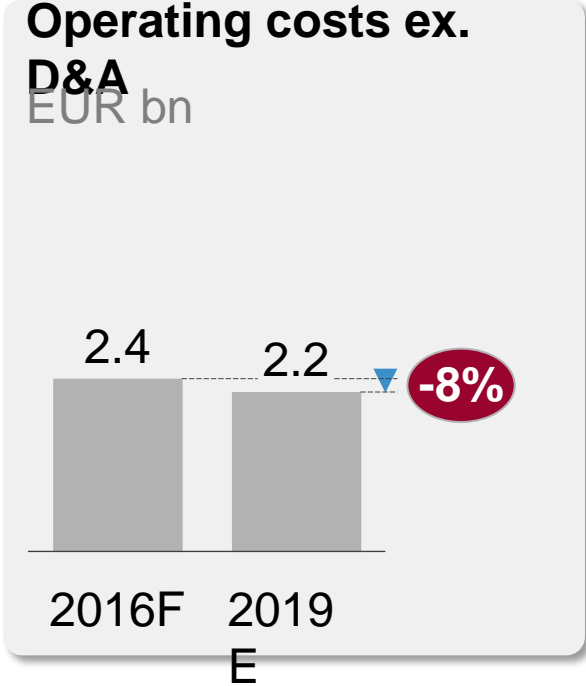
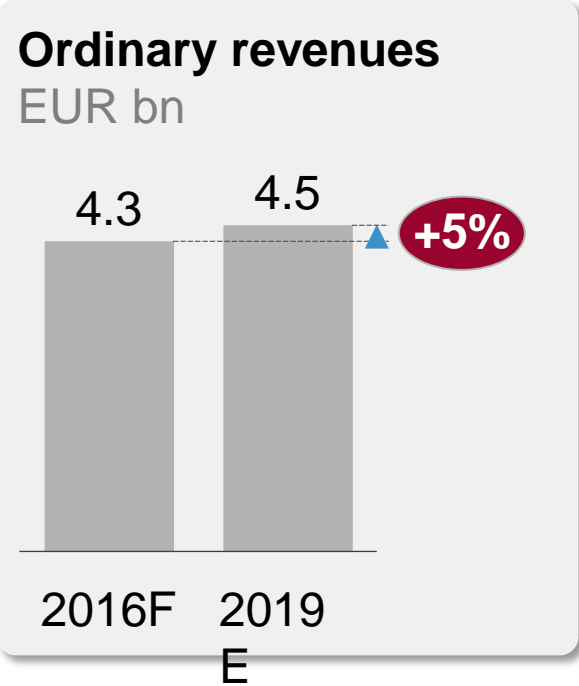
Radically improve Credit Risk Management

4 

Strengthen liquidity and capital position

# Synthesis of impact of key pillars

EUR bn, %



**1** 


**Unlock the value embedded in our existing customer base**

**2** 

**Renew operating model with sustained focus on efficiency**

**3** 

**Radically improve Credit Risk Management**

**4** 

**Strengthen liquidity and capital position**



1 Ordinary LLPs excluding transaction impact  
 2 Post transaction  
 3 Final figures depending on the final recapitalization structure

Back to our customers and people, focused on execution

<b>1</b>	<b>Unlock the value embedded in our existing customer base</b>
2	Renew operating model with sustained focus on efficiency
3	Radically improve Credit Risk Management
4	Strengthen liquidity and capital position

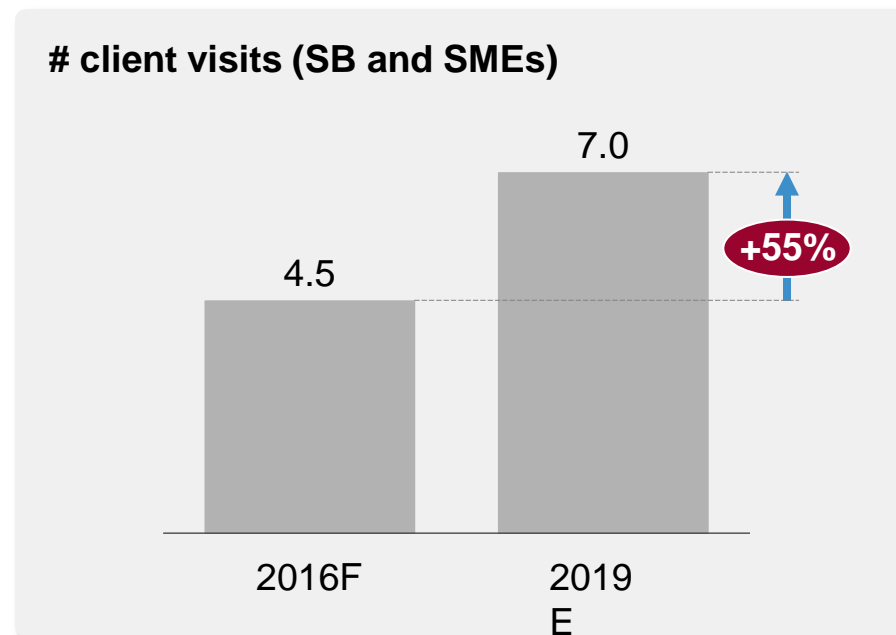
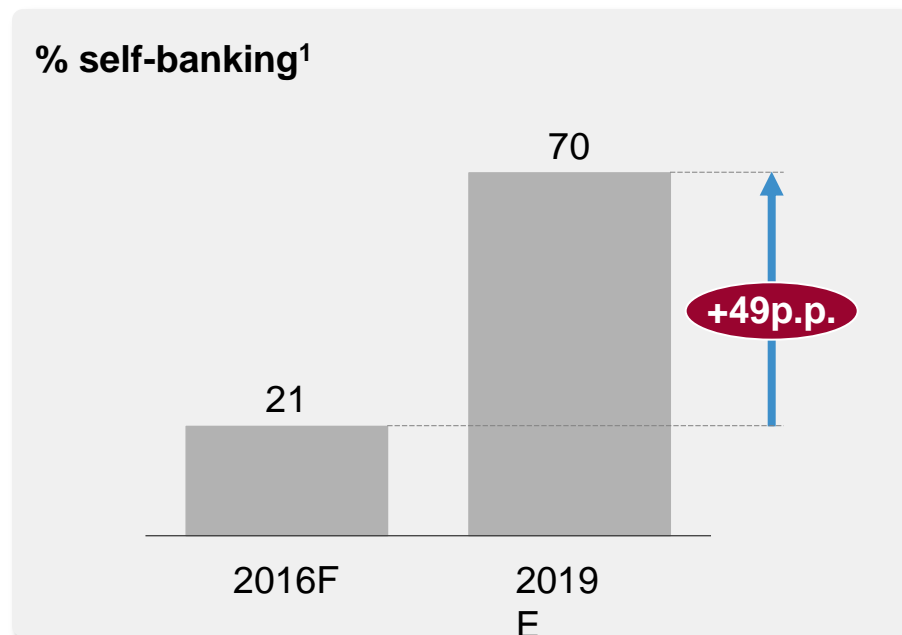


- A** Relaunch of commercial effectiveness, also through the migration of **low-value/mass customers to digital, online and self-directed channels**
- B** Strong growth on **mortgages and consumer finance**
- C** Strong push on **Affluent and Private customers leveraging Wealth Management and Insurance offering and professional advisory**
- D** Launch of a **new way of serving small business with radical simplification of product offering**
- E** Refocus of **Corporate activities with consolidation of product factories**
- F** Full leverage of **Widiba as innovation and digital vehicle for the Group**





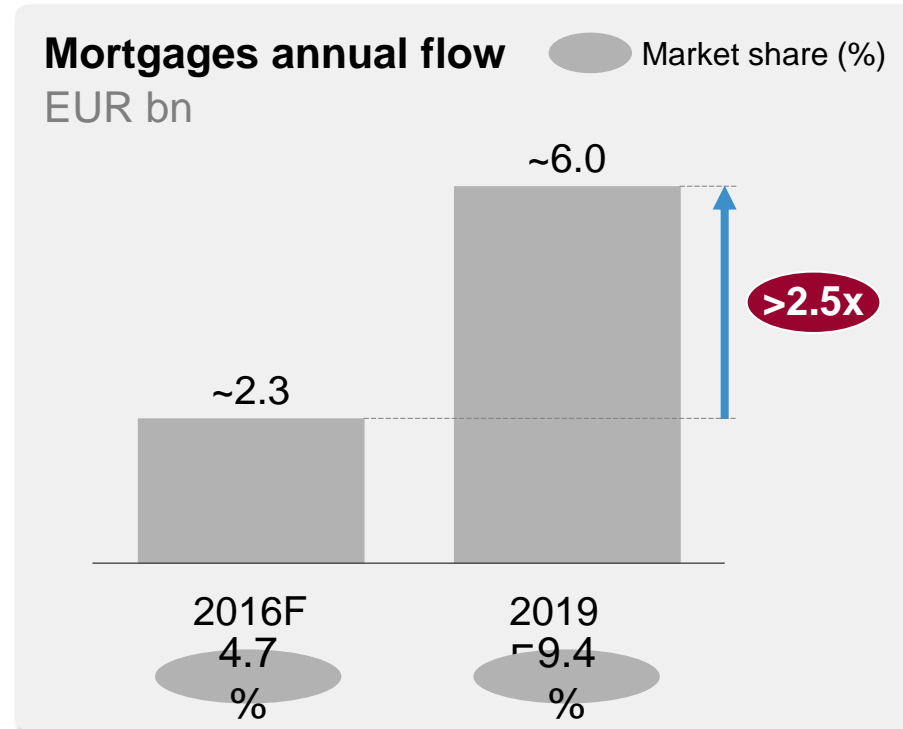
**1A** Relaunch of commercial effectiveness, also through the migration of low-value/mass customers to digital, online and self-directed channels



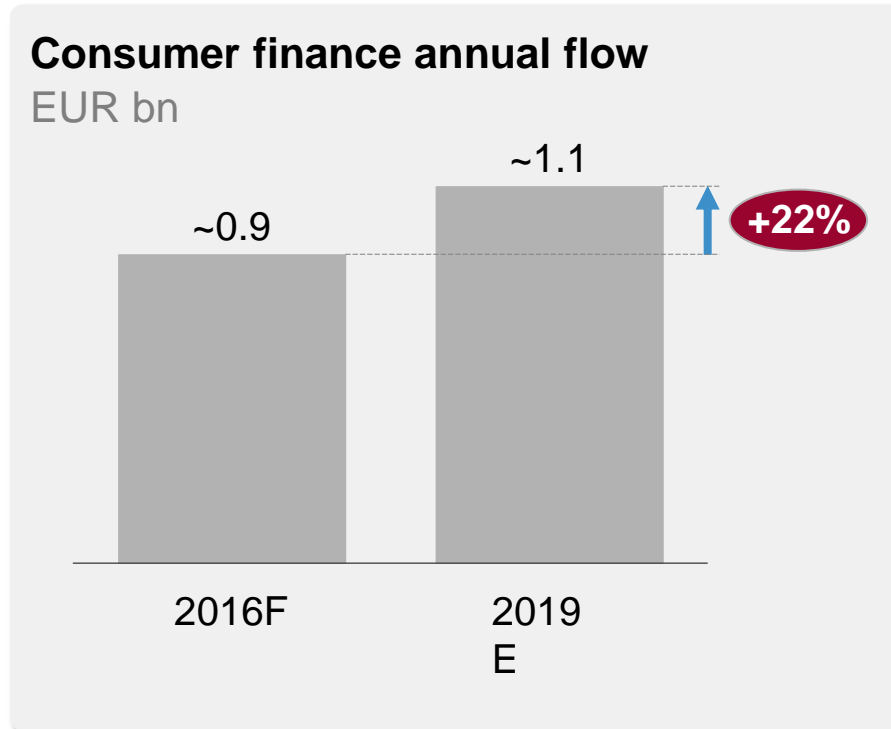
- 1. Migration plan** for a low-value/ mass customers transaction to **digital, online and self-directed channels**
- 2. Accelerate digitization** "Widiba-like"

- 1. Increase in number of Relationship Manager (RM) visits to clients**, refocusing network on value-added clients with a shift of ~200k clients to a self-directed channel
- 2. Increase in number of sales** following the **refocus of RMs on core clients** and the radical simplification of the product offering based on **modular products** (e.g., 1 current accounts with 2/3 modules)

## 1B Strong growth in mortgages and consumer finance



1. Re-positioning of the Bank within the **top 3 national players for mortgages**
2. **Increase of automatic decisions** and creation of a **mortgage factory**
3. Strong push on mortgages, with a **new attractive offer** including credit protection

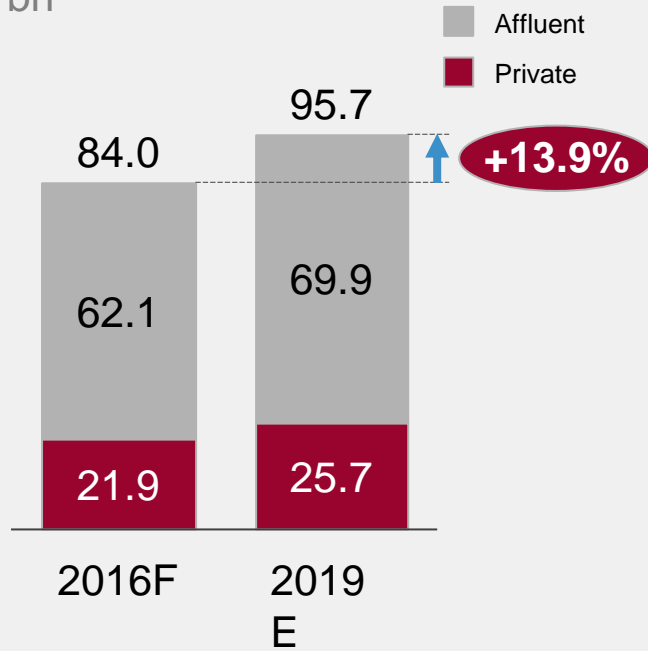


1. **Strengthening the relationship with Compass**, with higher volumes over the Business Plan horizon
2. **Offer enhancement** to include revolving card and salary loans ("cessione del Quinto")

**1C** Strong push on Affluent and Private customers leveraging Wealth Management, Insurance offering and professional advisory

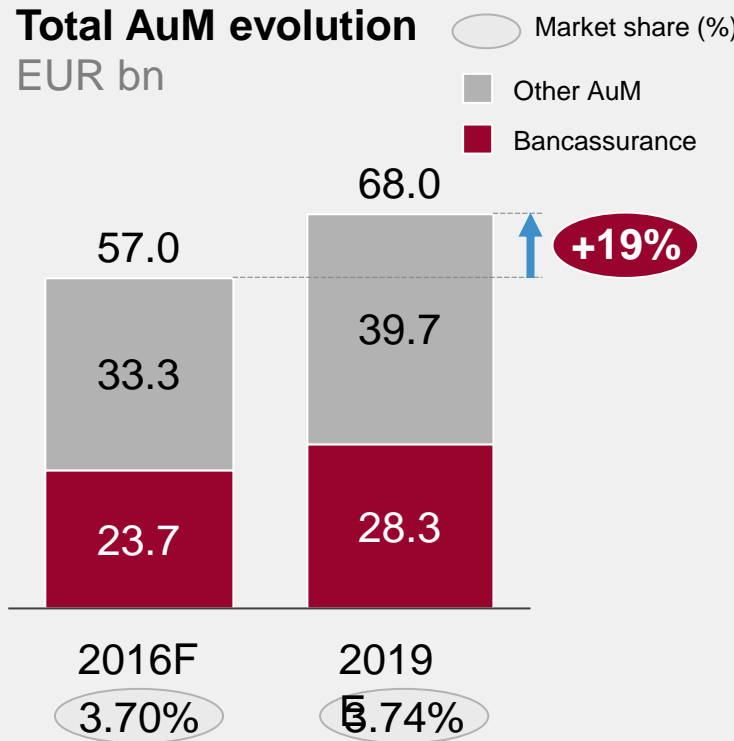
**Total Client Assets for Individuals<sup>1</sup>**

EUR bn



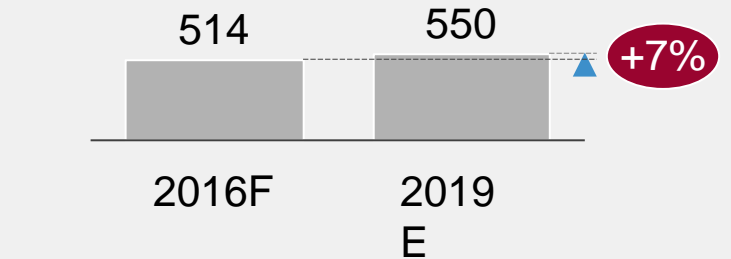
**Total AuM evolution**

EUR bn



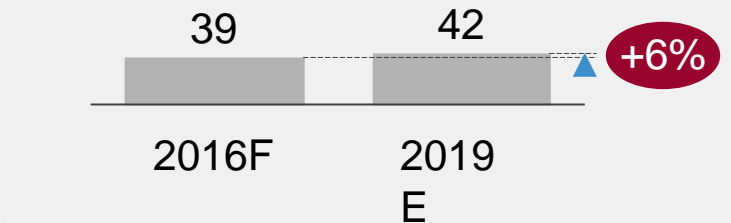
**Number of Affluent clients**

'000



**Number of Private Clients**

'000



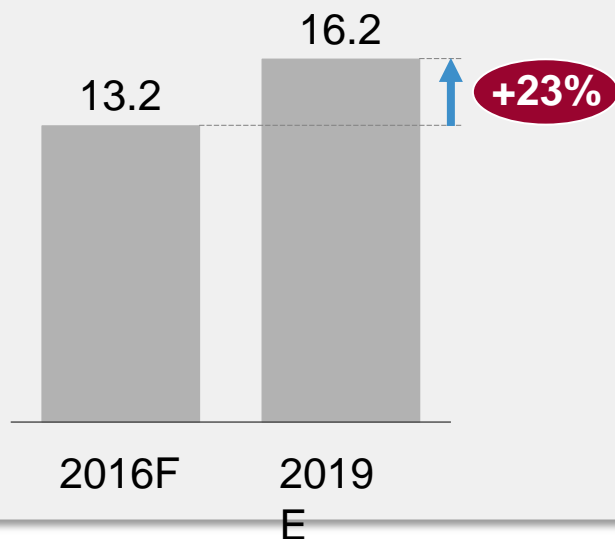
1. Completely **renewed and enhanced online platform**
2. Integration of the **customer experience** across all channels, also building on a **professional remote advisory service** (e.g., 100+ remote advisors)
3. Dedicated **highly professional 'in branch' advisory service** for upper Affluent and Private customers
4. Continuous leverage on the **Bancassurance partnership with AXA** to reinforce **strong positioning both in savings and protection** (life and P&C)
5. Continuous leverage on the **long-term relationship with Anima**



# 1D Launch of a new way of serving Small Business with radical simplification of product offering

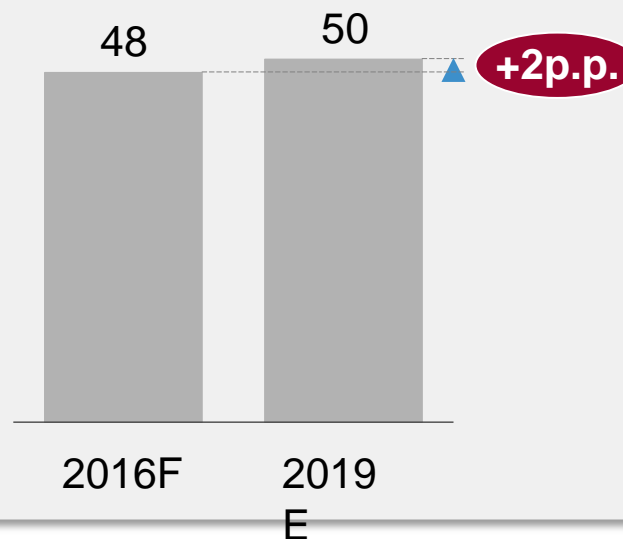
## Loans volumes

EUR bn



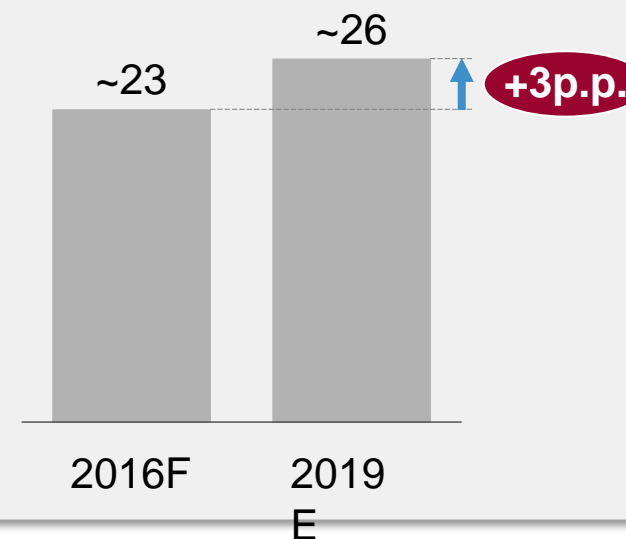
## Commission penetration<sup>1</sup>

%



## Average SoW

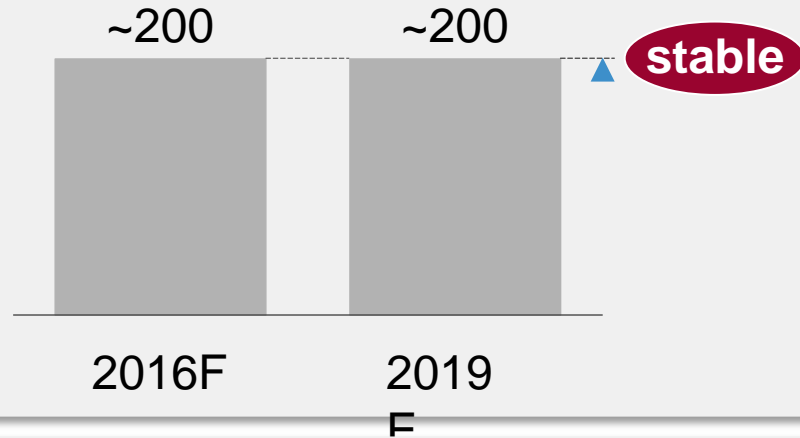
%



1. Introduction of a **standardized product offering** based on **modular packages** tailored on customer needs and including insurance offer
2. Development of a **4-click to disbursement offer** on mobile and online channels
3. **Strengthening of current commercial targeting capabilities**, with strong push on data analytics
4. Continuous focus on **cost of risk for new lending**

### Corporate fee income – SME

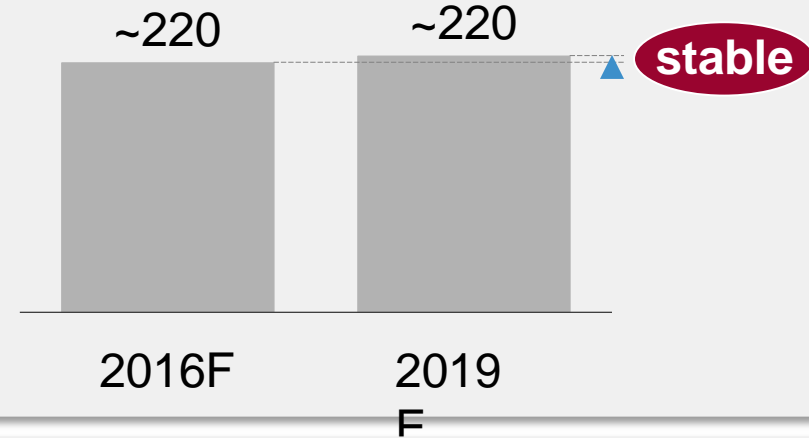
EUR mln



1. **New segmentation** of SME with **higher threshold**
2. **Strong push on value-added products** thanks to a specialized commercial force

### Revenues from Capital Markets activities

EUR mln



1. Complete **restructuring of MPS Capital Services** with full focus on **capital markets** activities, with no credit book
2. Full revision of **leasing and factoring** and **increasing level of integration** with the Network

**Closure of MPS foreign branches and sale of foreign banks over Business Plan horizon**



Widiba today as a key value in the market...

- **150K clients** with ~7 EUR bn AuM (1H16) and ~600 Financial Advisors (FAs)



- **Top class customer and advisor platform:**
  - 4,500+ funds with continuous evolution of product and service range
  - 18 financial markets connected
  - Advanced multi-device systems
  - 88% of FAs would recommend the network to other promoters
  - Customer rating 4.7/5 (220k contributions)



- **Recognized leader in marketing and innovation**
  - Winner of 2016 **ABI prize for innovation in banking distribution**
  - **Efma's Innovation award** July 2015 – top 5 most disruptive innovation worldwide 2015 and 2016
  - Winner of “**Premio dei Premi per l'Innovazione**”



Created in less than 18 months

...to be extended to the entire Group

Tech solutions

- Extensive **import of Widiba tech solutions**, with multiple possible applications, for example:
  - Online banking platform
  - RoBo-4-advisory platform
  - Advisor advanced kit
  - Advanced analytics for targeting campaign

Processes

- Strong push on **digital processes**, for example:
  - Paperless account opening
  - Digital signature
  - Digital portability

Back to our customers and people, focused on execution

1	Unlock the value embedded in our existing customer base
2	<b>Renew operating model with sustained focus on efficiency</b>
3	Radically improve Credit Risk Management
4	Strengthen liquidity and capital position



**A** Complete **redesign of the network architecture**, with full deployment of the modular Hub and Spoke approach to **significantly reduce the cost to serve**

**B** **Launch of a Group Digital Program**, with the set-up of a digital factory, to transform processes end-to-end

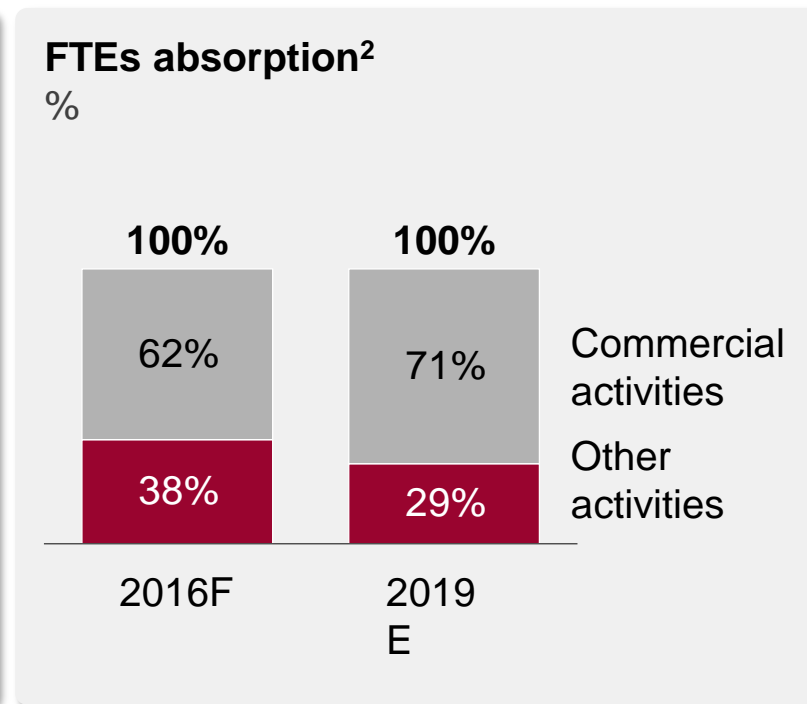
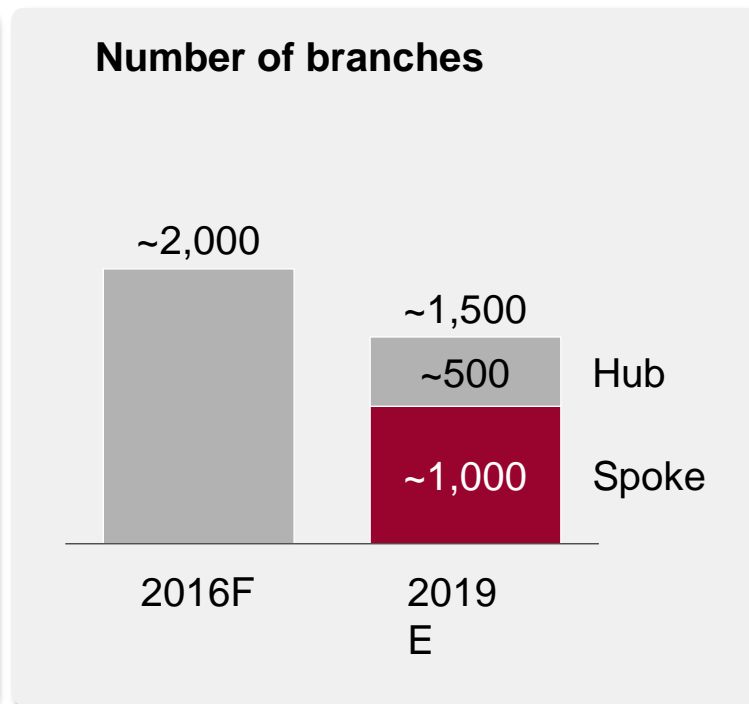
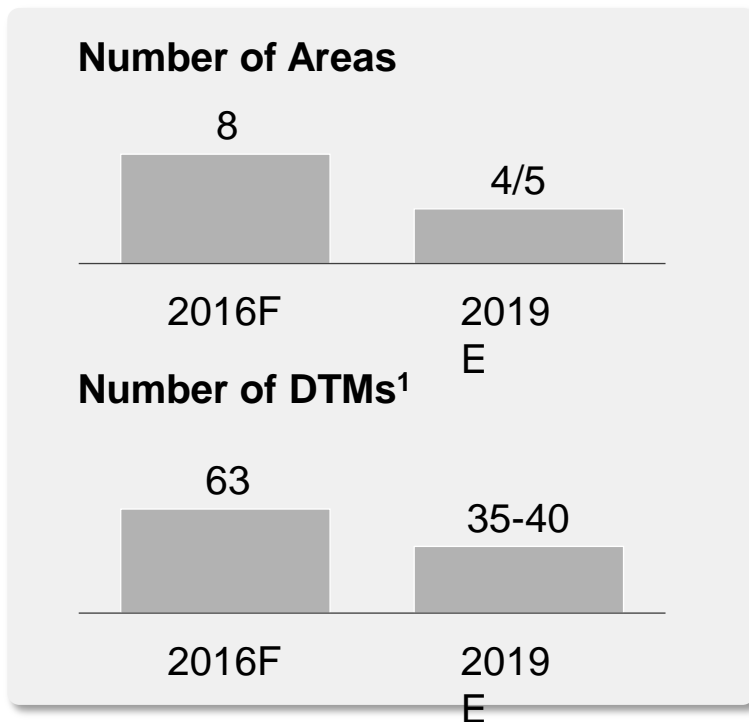
**C** Simplification of **headquarters and legal entities**, with the adoption of a **new organizational model**

**D** **Further optimization of other Administrative Expenses**, following the revision of the business and operative model

**E** HR program as **key enabler to streamline** the operating model



**2A** Complete redesign of the network architecture, with full deployment of the modular Hub & Spoke approach



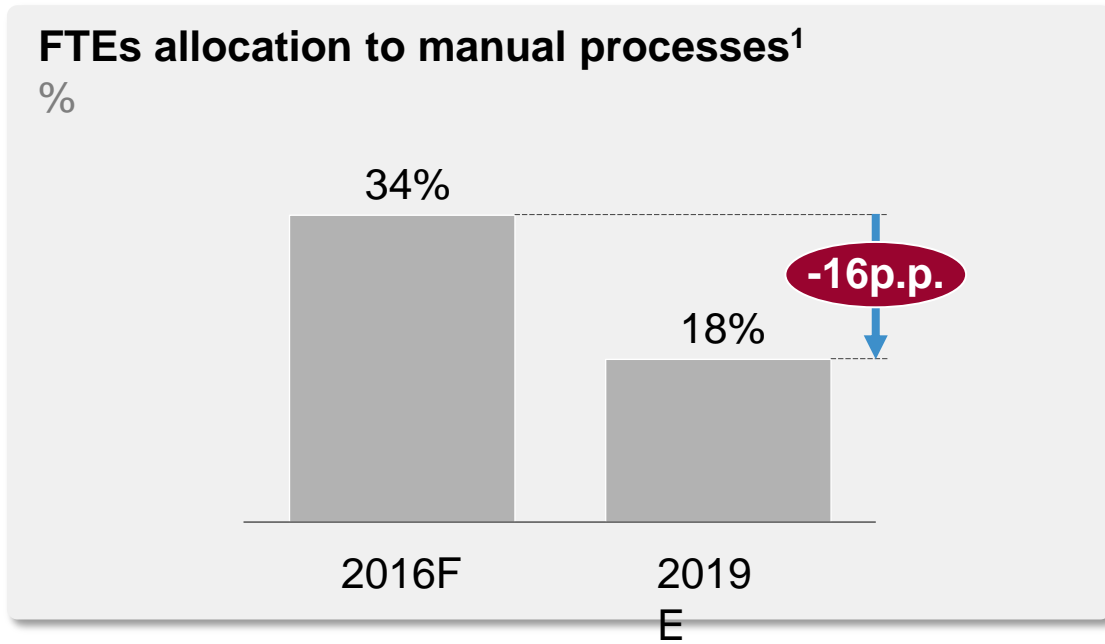
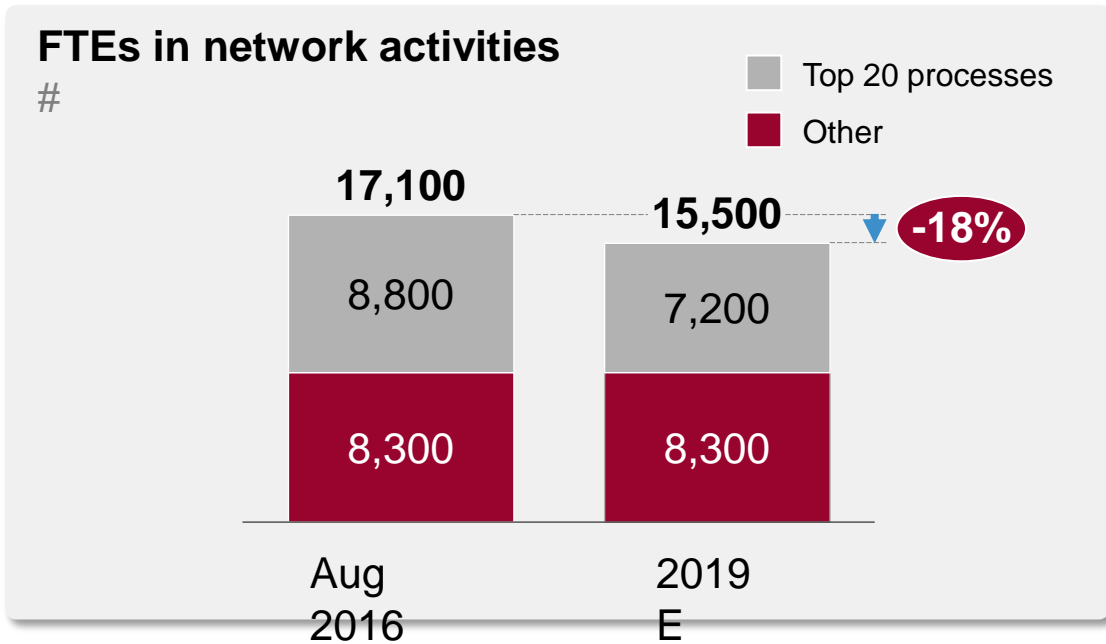
1. **Credit and middle office activities** to be spun off
2. Areas to focus on **commercial activities for all clients**

1. Significant **reduction of the number of branches**, down to ~1,500, **differentiated by range of services offered**
2. Strong simplification, with the reduction in the **number of branch roles** (from current 17 to 5)

1. Significant **release** of FTEs from back-office, to be dedicated to **commercial activities**



**2B** Launch of a Group Digital Program, with the set-up of a digital factory, to transform processes end-to-end

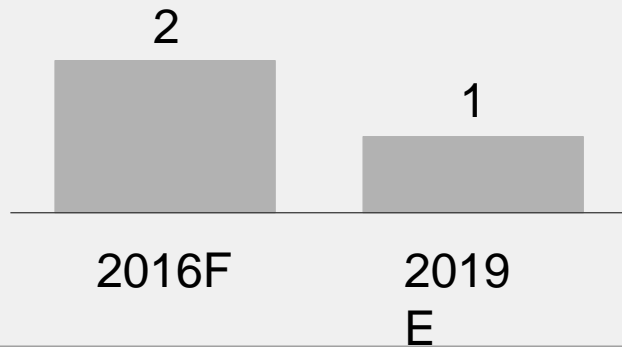


1. Invest in **IT infrastructure and data analytics** to enable process automation
2. Enhance digital front-end to promote **shift transactions to digital channels** (e.g., leveraging Widiba tech solutions)
3. Automate and digitize key customer journeys to **transform the top 20 FTEs absorbing processes** (e.g., administrative activities supporting commercial relation with client, lending, commercial planning, accounting)
4. **Reduce** the number of FTEs absorbed by **manual processes**
5. Set-up a Group Digital Factory **to drive** the digital revolution



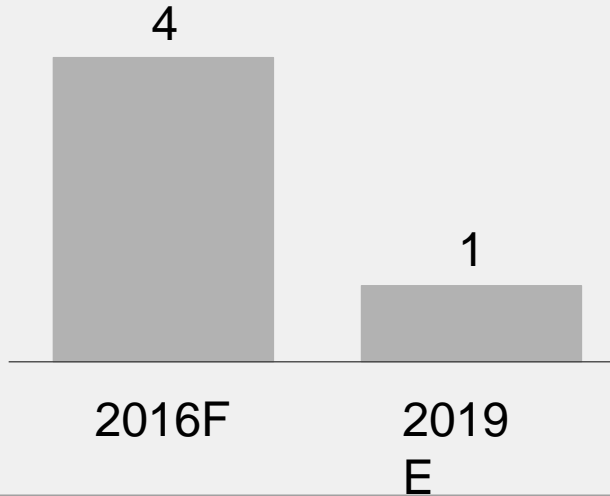
<sup>1</sup> Excluding client relation

### Commercial divisions



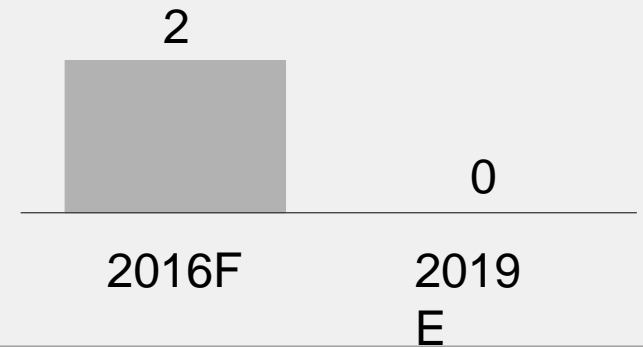
### Foreign branches

Number



### Foreign banks

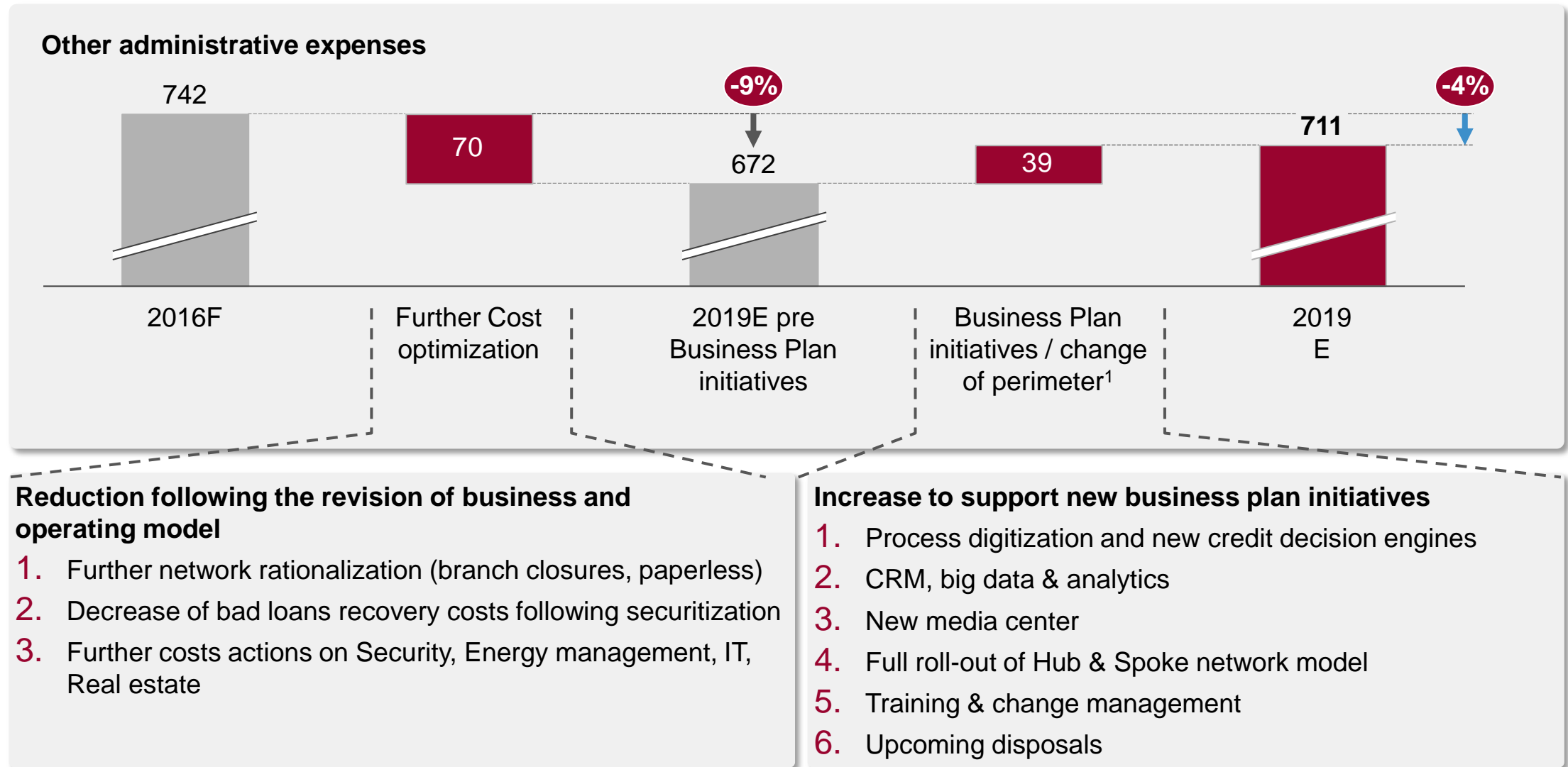
Number



- 1. Streamlining of the legal entities**, with the closure of foreign branches and sale of foreign banks of the Group (subject to market conditions and detailed feasibility assessment)
- 2. Creation of a single Commercial Division**, fully responsible for all business segments
- 3. Refocus of MPS Capital Services on Capital Markets activities and increased operating synergies between MPS L&F and the network**

## 2D Further optimization of other administrative expenses

EUR mln



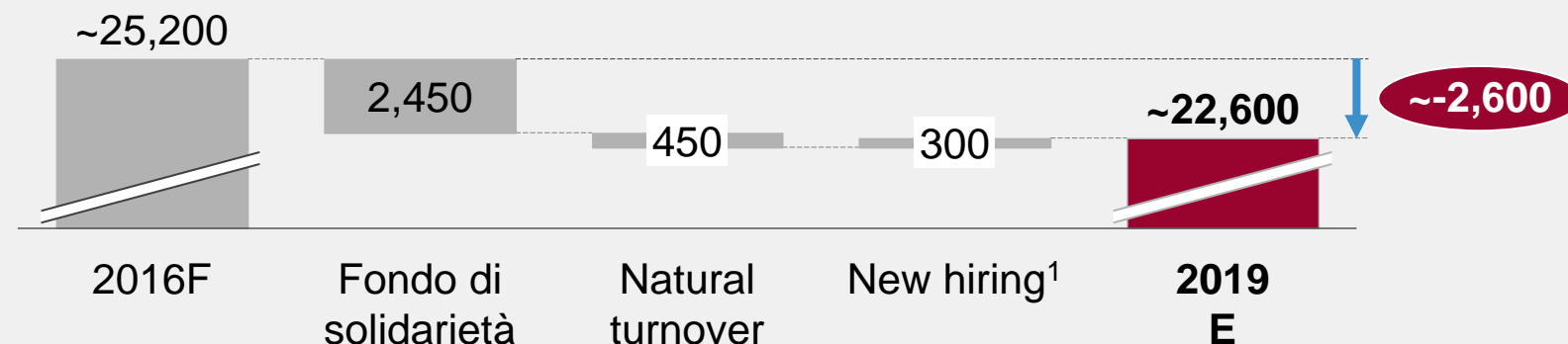
<sup>1</sup> Exclusive negotiation for merchant Acquiring and ongoing disposal process for NPE unit

### Key drivers

- Activation of the “Fondo di solidarietà”, with ~550 EUR mln HR severance
- Exit of ~450 FTEs due to natural turnover
- Introduction of ~300 new resources to facilitate the generational shift (1.5y average age reduction in 2019E after HR program)

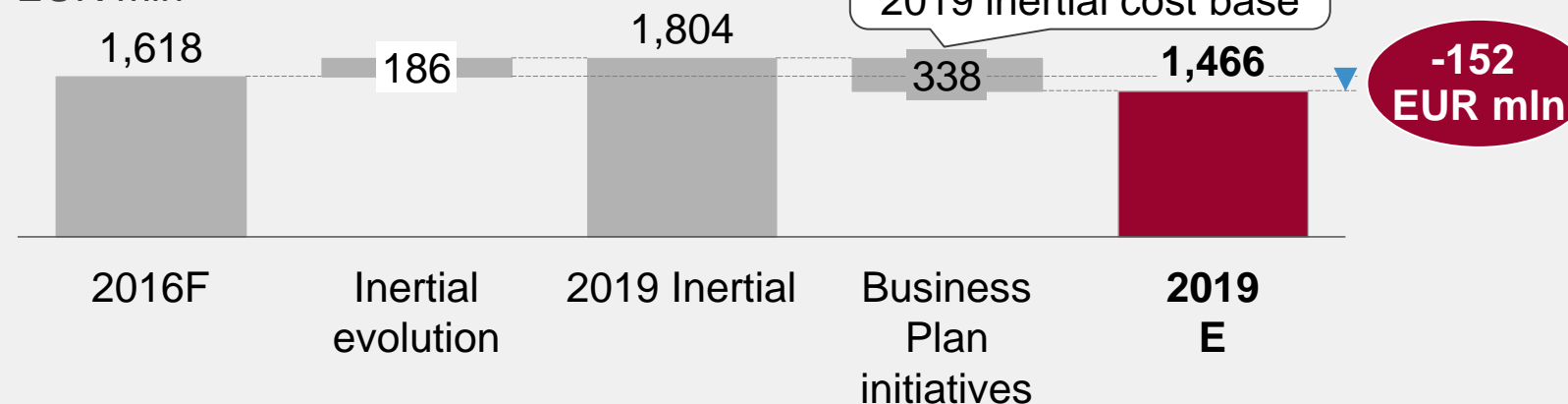


### Evolution of the bank's FTEs



### Evolution of the bank's Personnel expenses

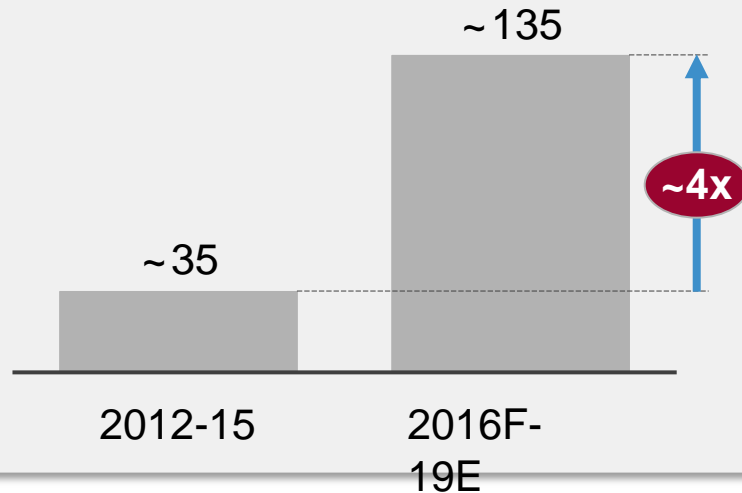
EUR mln



<sup>1</sup> Excluding ~450 new hires with temporary contracts in 2017-18

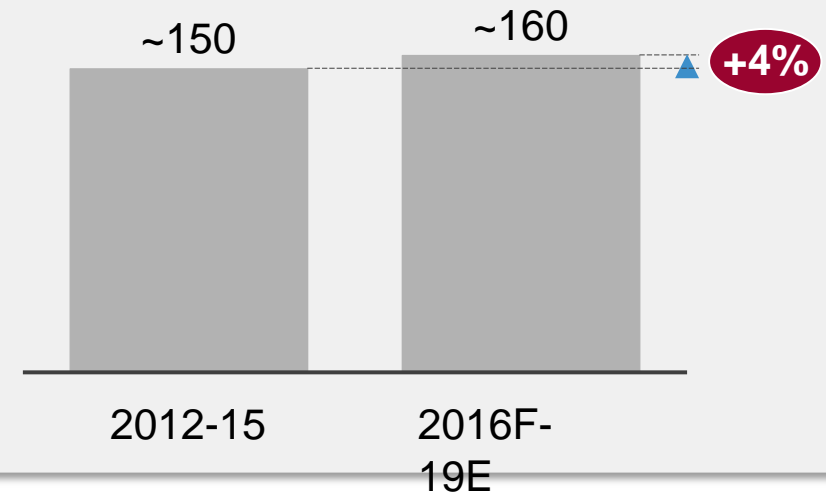
### Variable compensation

EUR mln



### Training hours per FTE

Number of hours



1. **Investment on workplace welfare** through both strengthening of traditional welfare systems and adoption of new measures (e.g., flexible benefit platform, smart working)
2. **Strengthening of our people's competencies** in line with the evolution of the operating model leveraging on the MPS Academy
3. **Promotion of a goal-oriented mindset**, through a Performance Management model and a new variable compensation system ("*Premio variabile di risultato*")
4. **Development of our professionals** through ad-hoc development plans and job rotation programs, integration and growth of figures and managerial continuity plans

Back to our customers and people, focused on execution

1	Unlock the value embedded in our existing customer base
2	Renew operating model with sustained focus on efficiency
<b>3</b>	<b>Radically improve Credit Risk Management</b>
4	Strengthen liquidity and capital position

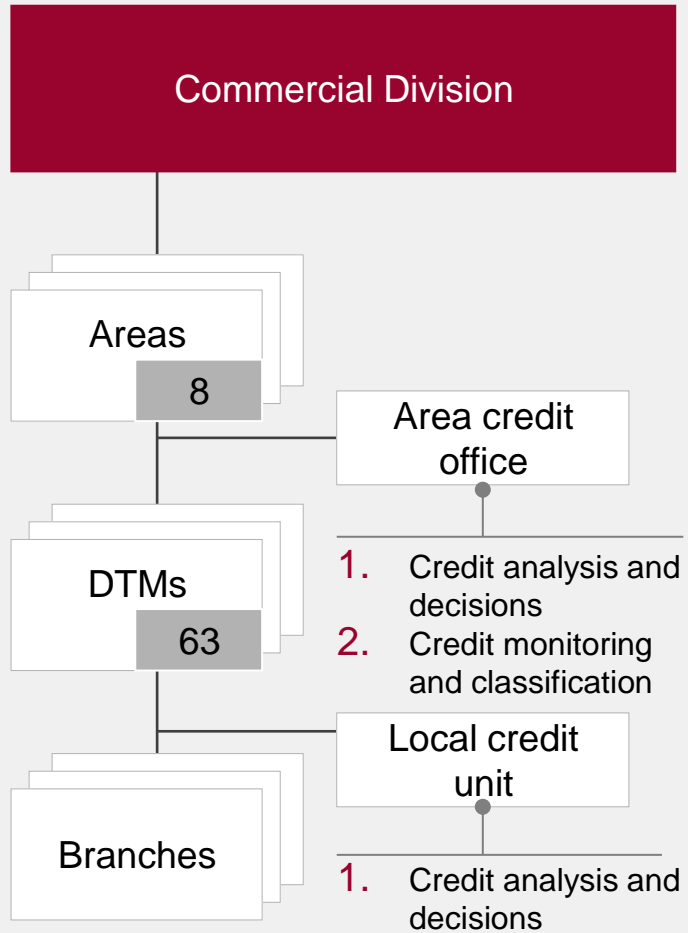


- A Complete segregation of the Credit division from the Business Division**
- B Strong push on automation** and strengthening of credit standards
- Strengthening of **early detection and proactive management** for early delinquencies/problematic exposures to keep the **performing portfolio under strict control**
- D Spin-off of the recovery unit** with outsourcing of the 80% of new flows
- E Double down on cure of UTP portfolio**, refocusing freed-up resources previously dedicated to NPE management
- F Creation of a center of excellence for recovery of complex/large bad loans**

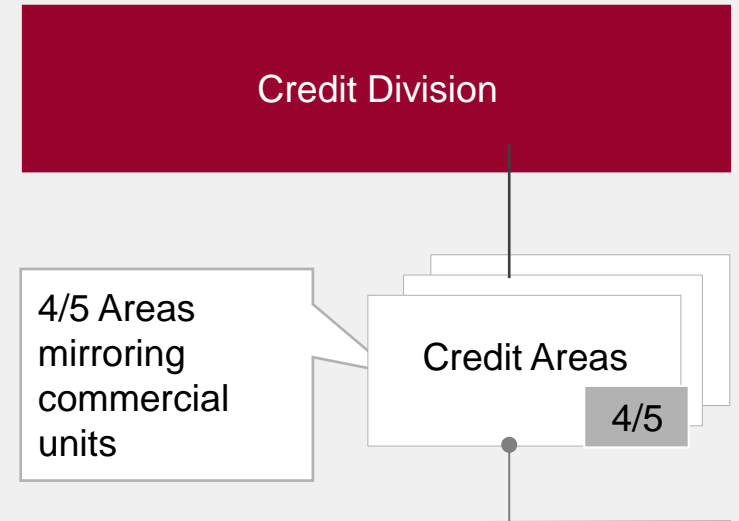
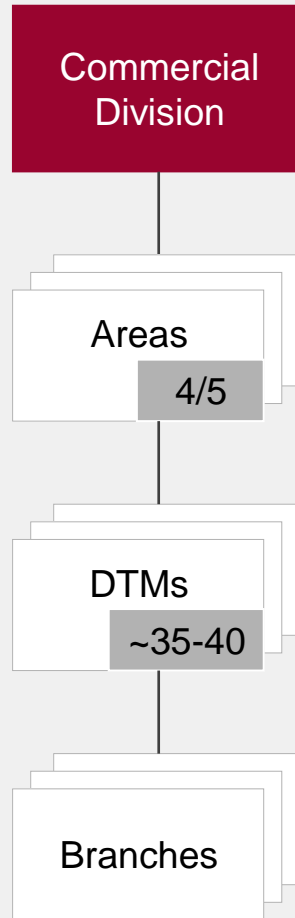
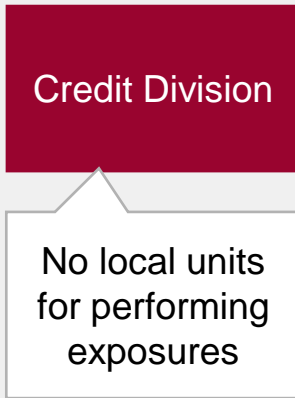
### 3A Complete segregation of the Credit Division from the Business Divisions

X # units

From ...



»» ... To

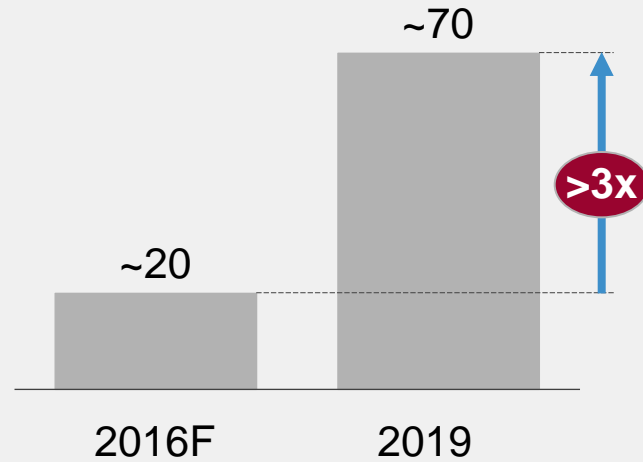


1. Credit decisions on all portfolio excluding automatic decisions
2. Credit monitoring on all segments
3. Management of the UTP portfolio

- Large UTP exposures managed centrally within Credit Division
- Structured lending to be centralized in a dedicated specialized unit

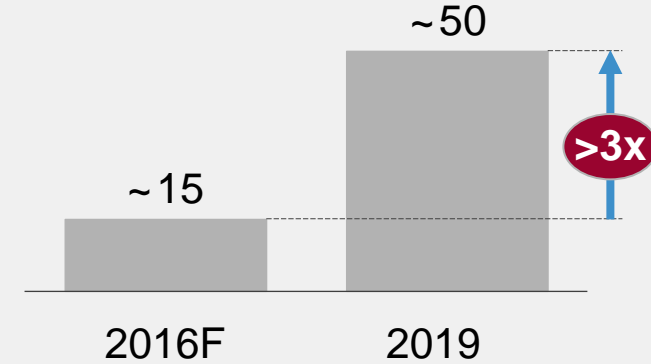
### Percentage of automatic credit decisions on mortgages – Individuals

%



### Percentage of automatic credit decisions – Small Business

%

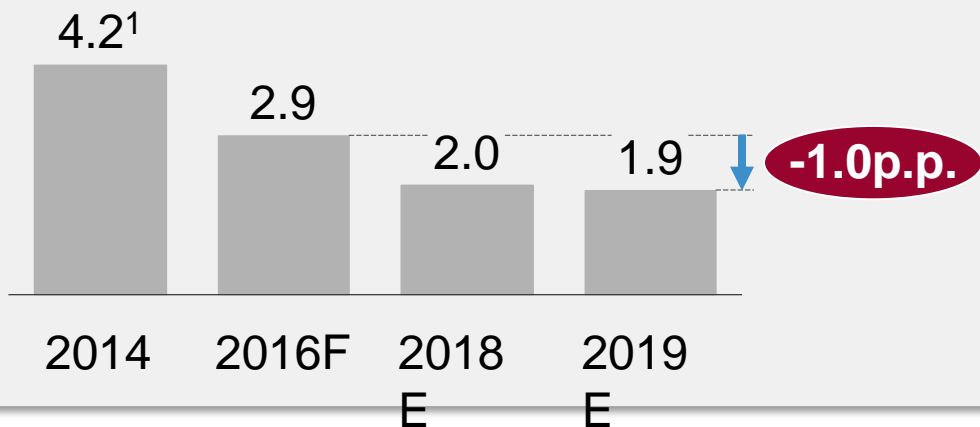


1. **Strengthening of credit standards** and **revision of modus operandi** with business, with definition of key rules (shared between credit and business) for credit application and credit assessment
2. **High automation of credit decisions** on individuals and small business (i.e., ~70% for mortgages for individuals and ~50% for small business) through improved models and process management
3. **Separation of credit decision units** into credit division and enhancement of underwriting process
4. **Deployment of advanced analytics** to support client targeting (e.g. development of risk-adjusted approach to identify best commercial lending offer)



### Default rate

%

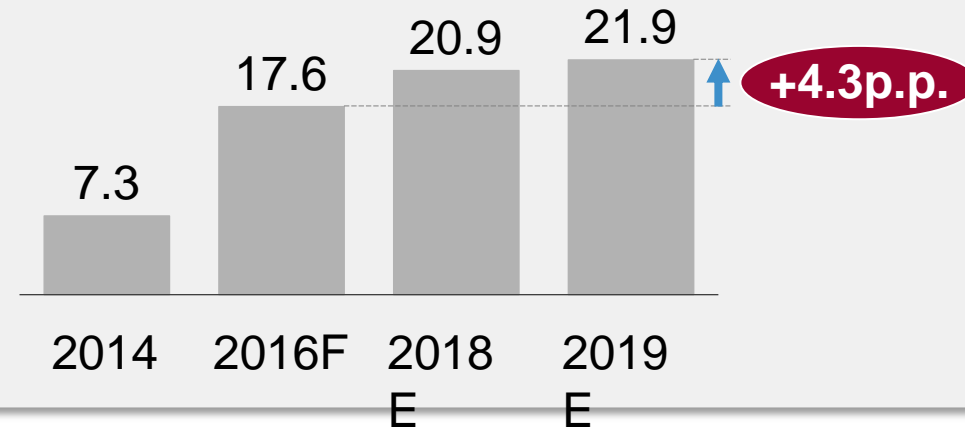


#### Internalization of early management of overdraft / arrears for small-ticket exposures:

- Strengthening of a **dedicated unit in charge of the end-to-end process** (from early warning to collection)
- **Automated activation of the process**

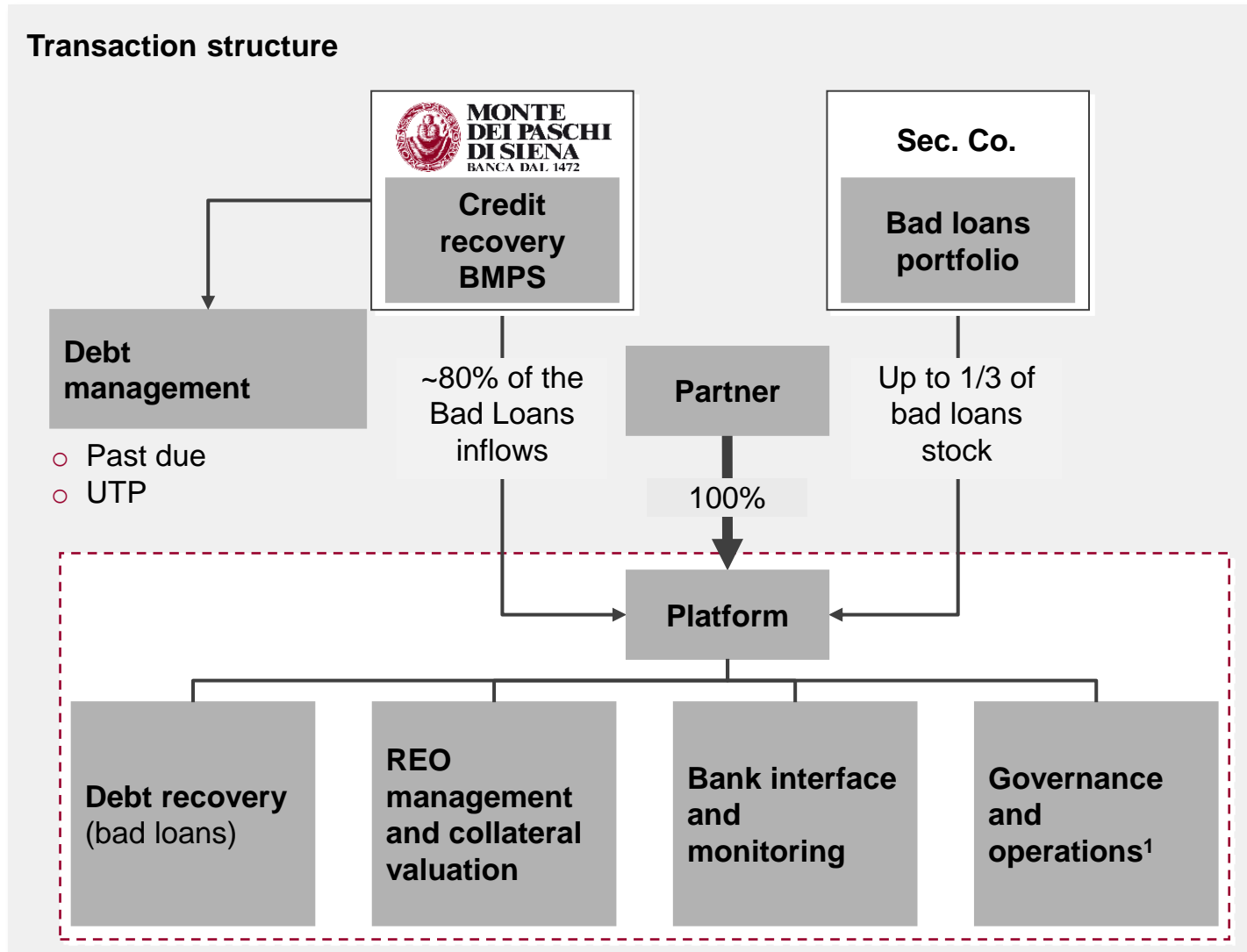
### Cure Rate of Past Due

%



#### Enforcing proactive management of riskiest large-ticket exposure:

- **Introduction of a High-Risk Relationship Manager**, within the commercial network, to focus on the riskiest customers
- Creation of a central **dedicated Credit unit** within the Credit Division, in charge of approving High-Risk Relationship Manager's proposals



**Key benefits**

- **Long term exclusive Servicing Agreement** for the management of  $\geq 80\%$  of the new inflows in Bad Loans
- **Framework Agreement** for the management of 1/3 of the assets of Sec.Co.
- **Retainability** of all the early remedial/going concern **restructuring operations** and the credit recovery unit dedicated to the **management and general monitoring of the Platform activities** and performance

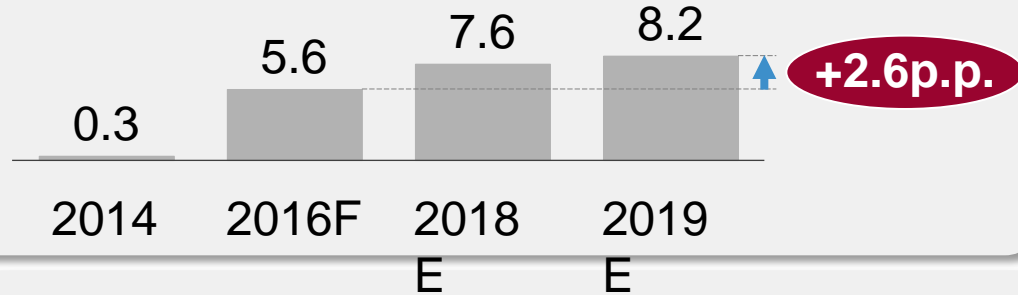
**Re-focus of ~100 resources from the NPE management unit on UTP to boost cure rate evolution**



<sup>1</sup> "Governance & Operations" division is included in the carve-out perimeter for illustrative purposes only; these activities are expected to be provided by the potential Partner within the context of Juliet transaction

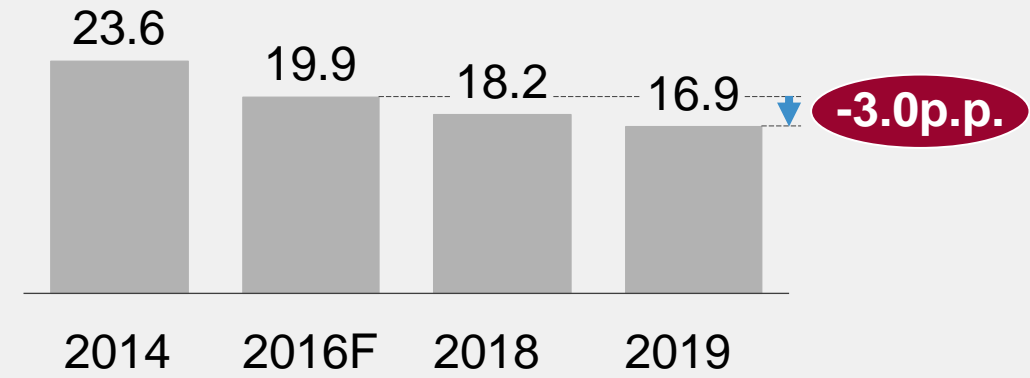
### Cure rate of UTP

%



### Danger rate for UTP<sup>1</sup>

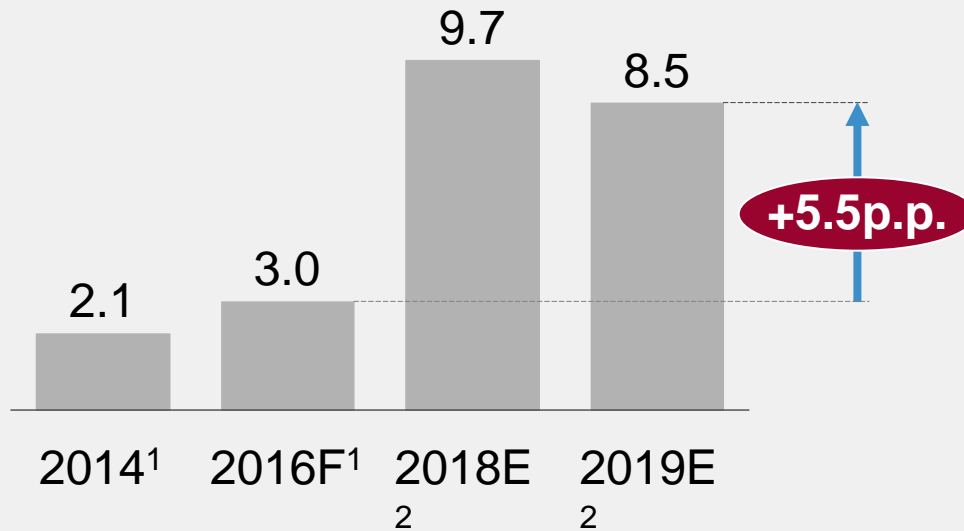
%



1. Significant number of **new resources** dedicated to **UTP management** (+100 FTEs) thanks to the release of resources granted by the disposal of the bad loans workout platform
2. Introduction of a **center of competence**, supporting UTP unit on **legal topics**
3. Introduction of **new cure/restructuring strategies** based on a systematic segmentation of UTP portfolio (e.g., by size, segment, collateralization, vintage, level of risk) leveraging also the higher coverage of new UTP positions
4. Adoption of a “**business unit**” approach for resource steering, with the **introduction of a dedicated performance management system** to strengthen monitoring activities

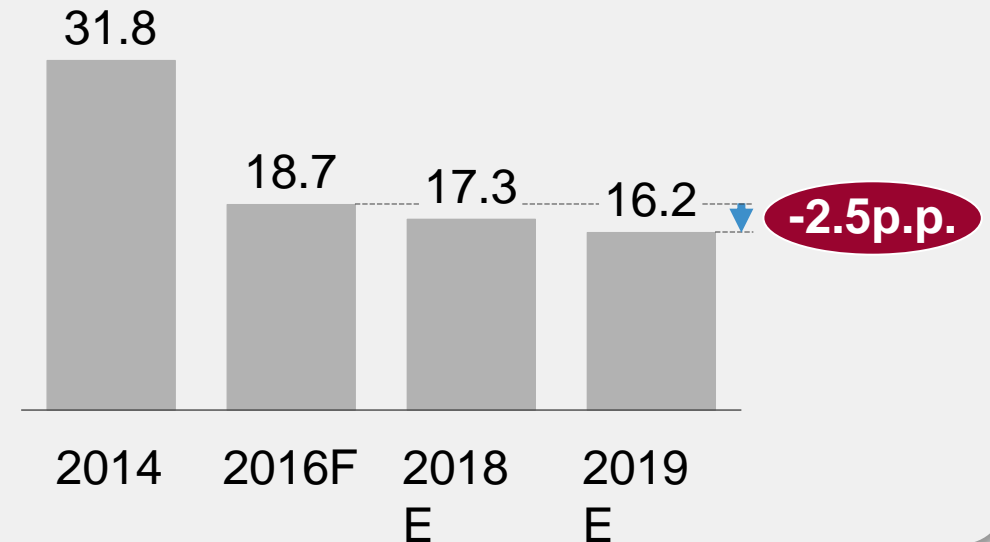
### Recovery rate on bad loans

%



### Gross NPE ratio

%



1. Setup of a **centralized center of excellence** staffed with **~30 top performers** of current structure for larger/more complex cases (~20% of new flow)
2. Outsourcing of **~80% of new flow** of bad loans to **third party provider** with stringent performance linked Service Level Agreement (SLA)

<sup>1</sup> Recovery flow equal to ~470 EUR mln in 2014 and ~750 EUR mln in 2016

<sup>2</sup> Relative to new flows with lower vintage compared to the previous stock

Back to our customers and people, focused on execution

1	Unlock the value embedded in our existing customer base
2	Renew operating model with sustained focus on efficiency
3	Radically improve Credit Risk Management
4	<b>Strengthen liquidity and capital position</b>



**A** Strengthening the liquidity position to support business plan growth

**B** Capture of **benefits on cost of funding from expected re-rating** and sustainability of the liquidity profile

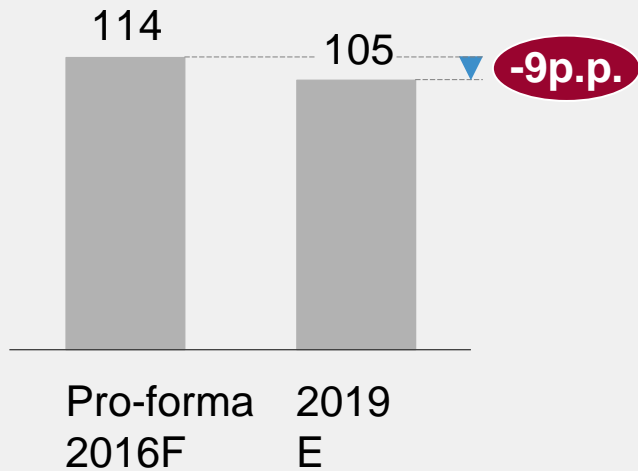
**C** Selective **evaluation of potential divestments**



## 4A Strengthening the liquidity position to support Business Plan growth

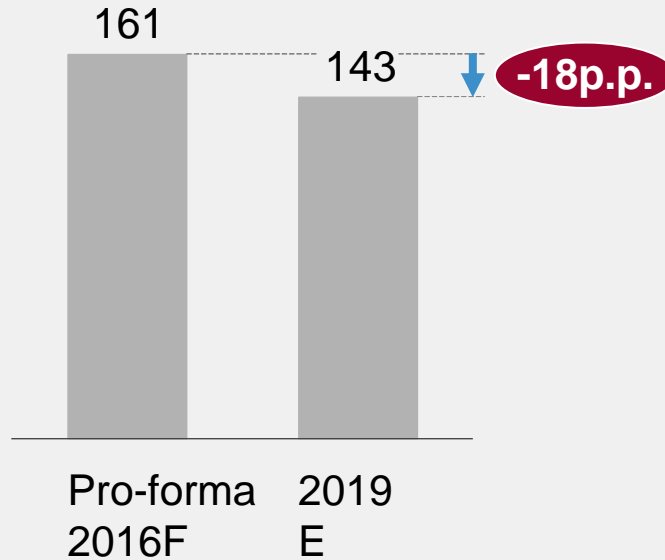
### Commercial Loan to Deposit

%



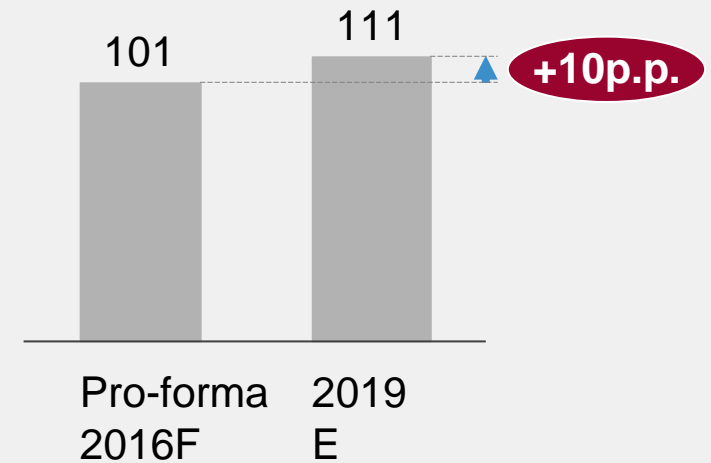
### LCR

%



### NSFR

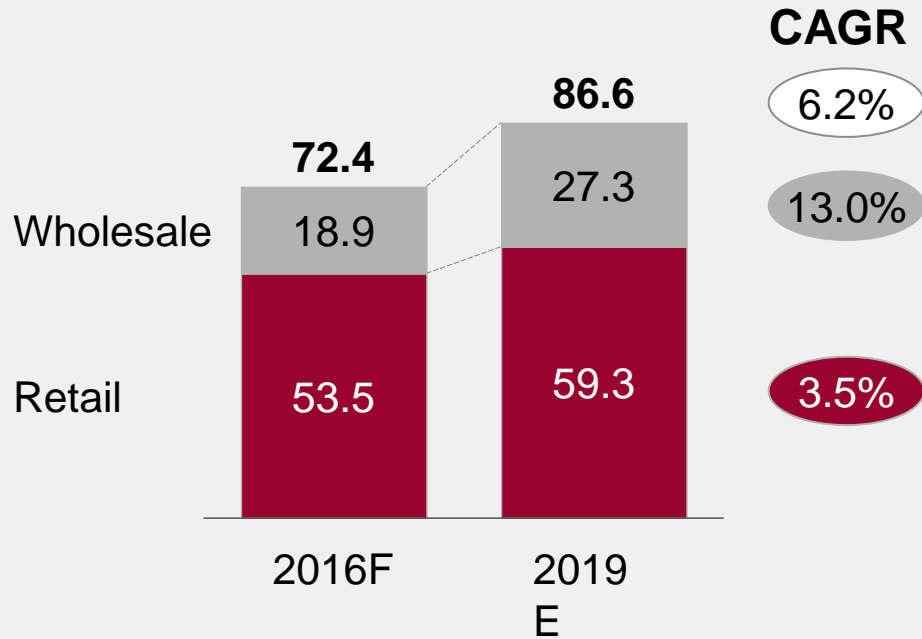
%



1. **Positive impact of the transaction** on key liquidity indicators
2. **Rebalancing of the commercial mismatch** thanks to an increase in **direct funding by ~14 EUR bn**, coupled with an increase in total loans of ~8.5 EUR bn
3. **LCR and NSFR values well above 100% target level**

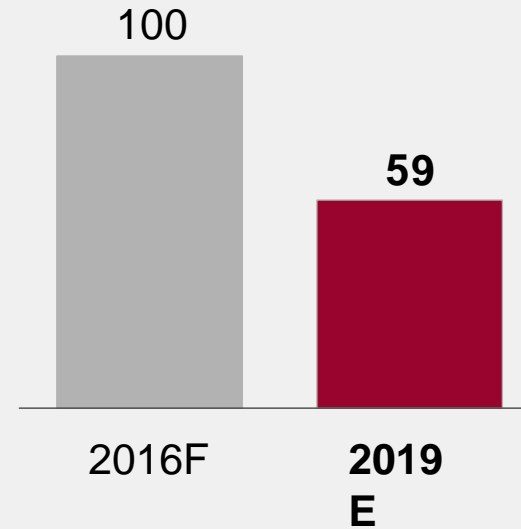
### Direct funding

EUR bn



### Funding cost – Analysis on EoY stock

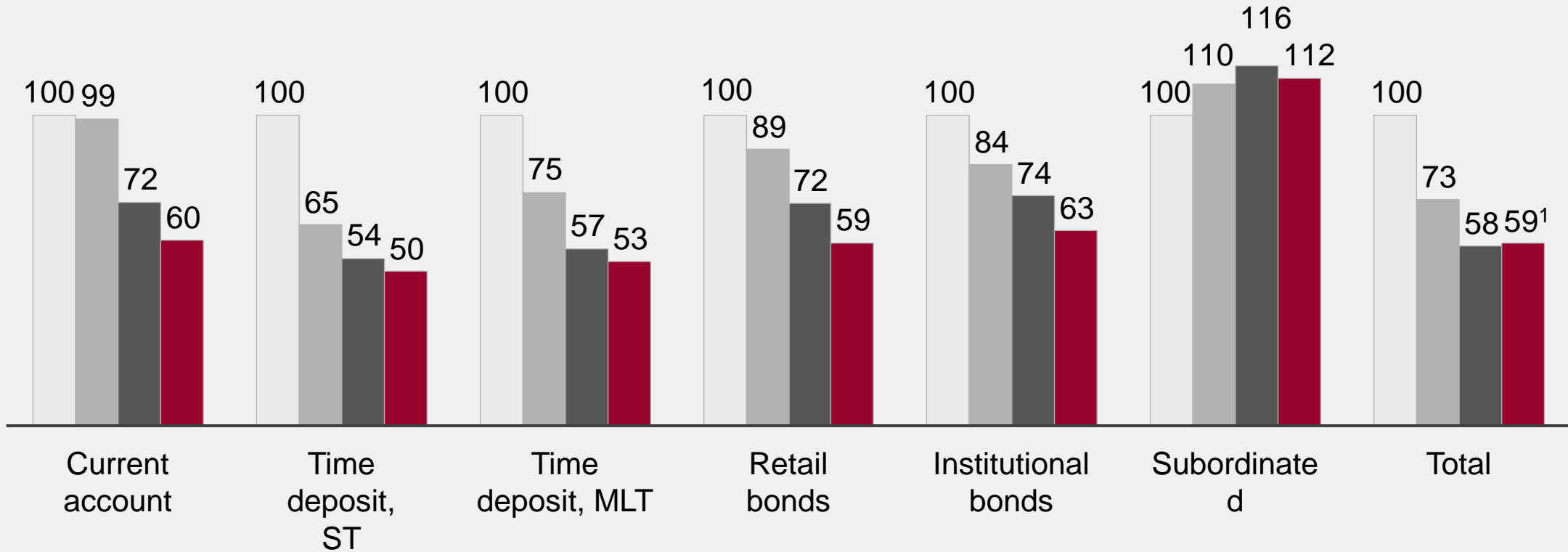
Indexed as of 2016F



1. Increased direct funding by ~14 EUR bn driven by restored credibility on the market
2. Lower cost of funding thanks to expected re-rating effect after the transaction

### Funding cost – analysis on EoY

**Stock**  
Indexed as of 2016F



<sup>1</sup> Delta 2019E-2018E driven by increase in subordinated debt



Transaction at a glance

Key highlights of the Business Plan

MPS: the new starting point

Business Plan guidelines

**Financial projections and target KPIs**

Implementation plan

# Financial projections and key ratios

## Financial projections

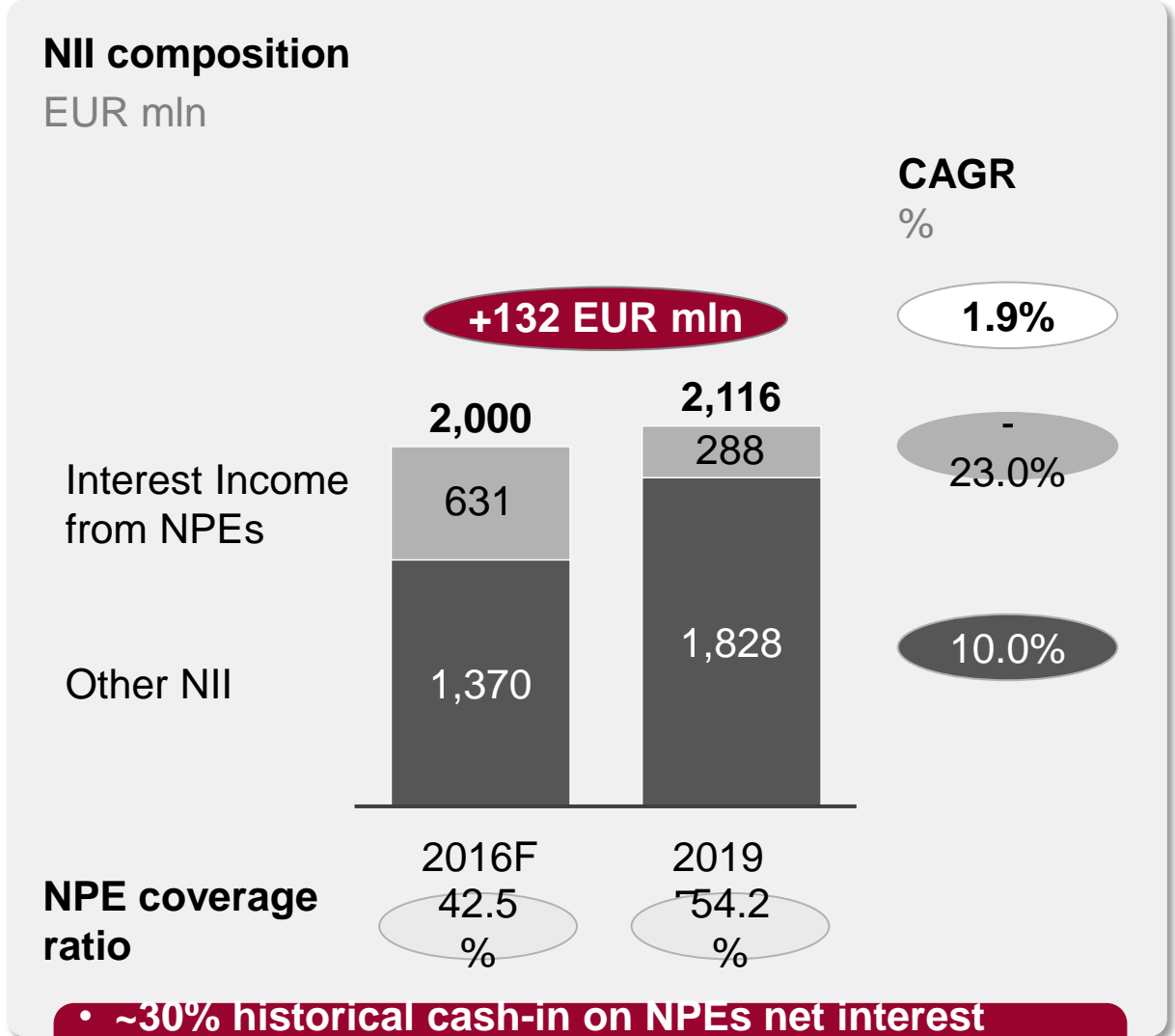
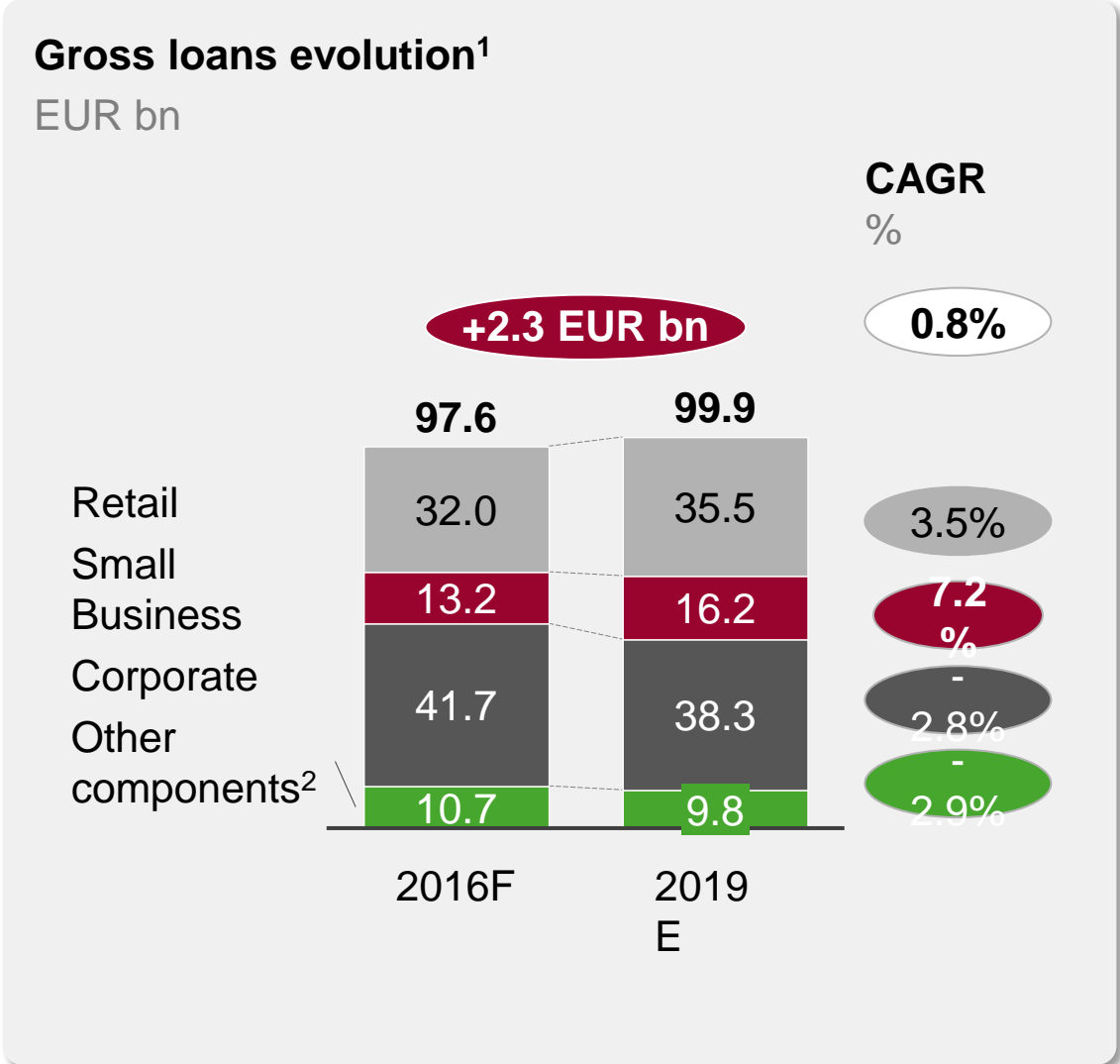
EUR mln	2016F	2018E	2019E	CAGR 16-19, %
(EUR mln, %)	Post transaction			
Net Interest Income	2,000	2,076	2,116	1.9%
Net Fees and Commission	1,843	1,981	2,097	4.4%
Other Income	-2,177	303	305	n.m.
<b>Operating Income</b>	<b>1,667</b>	<b>4,360</b>	<b>4,518</b>	<b>1.8%<sup>1</sup></b>
Personnel Costs	-1,618	-1,550	-1,466	-3.2%
Other Administrative Expenses	-742	-727	-711	-1.4%
Depreciation & Amortization	-220	-251	-286	9.1%
<b>Operating Costs</b>	<b>-2,580</b>	<b>-2,528</b>	<b>-2,462</b>	<b>-1.5%</b>
LLP	-3,631	-636	-549	-29.0% <sup>1</sup>
<b>Net Operating Result</b>	<b>-4,556</b>	<b>1,196</b>	<b>1,507</b>	<b>&gt;100%<sup>1</sup></b>
<b>Pre-tax income</b>	<b>-4,902</b>	<b>996</b>	<b>1,317</b>	<b>n.m.</b>
Tax expenses	199	-164	-338	n.m.
DTA reassessment	-94	174	156	n.m.
<b>Net income</b>	<b>-</b>	<b>978</b>	<b>1,109</b>	<b>&gt;100%<sup>1</sup></b>
	<b>4,831</b>			<b>1</b>

## Key ratios

(Bps, %)	2016F	2018E	2019E
Cost/Income (%)	60.2% <sup>1</sup>	58.0%	54.5%
Cost of risk (bps)	168 <sup>1</sup>	65-70	~55
ROTE (%)	0.6% <sup>1</sup>	>10%	>11%
CET1 Ratio <sup>2</sup> (%)	>11% <sup>3</sup>	12.1%	13.5%
NPE Ratio (%)	19%	~17%	~16%
L/D ratio (%)	114%	106%	105%
LCR (%)	161%	156%	143%
NSFR (%)	101%	111%	111%



Details on Net Interest Income composition



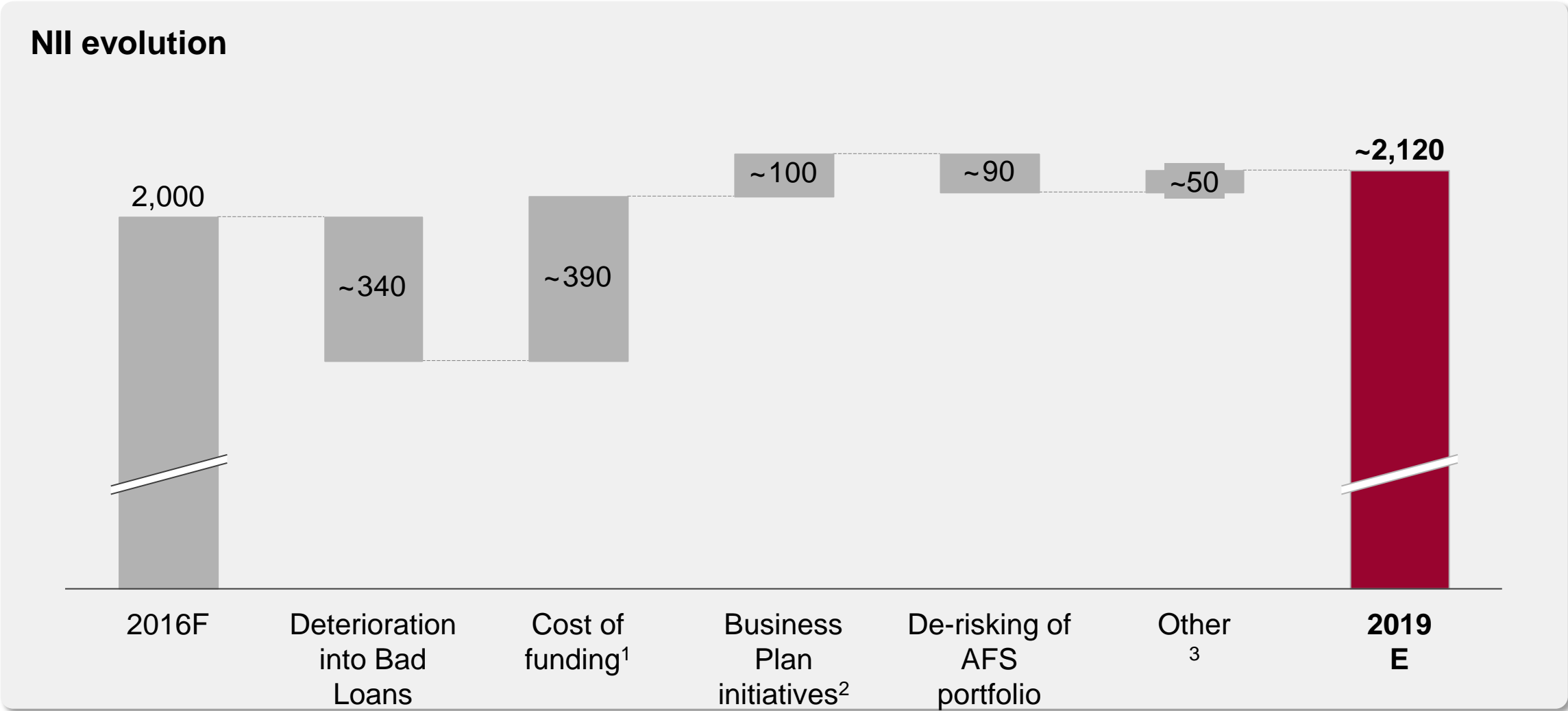
- ~30% historical cash-in on NPEs net interest income
- ~40% NPE coverage post-transaction



<sup>1</sup> Excluding bad loans  
<sup>2</sup> Repos, securities, delayed payment  
 NOTE: Figures might not add up due to roundings

# Detail on Net Interest Income evolution

EUR mln



<sup>1</sup> Including mix effect on liabilities

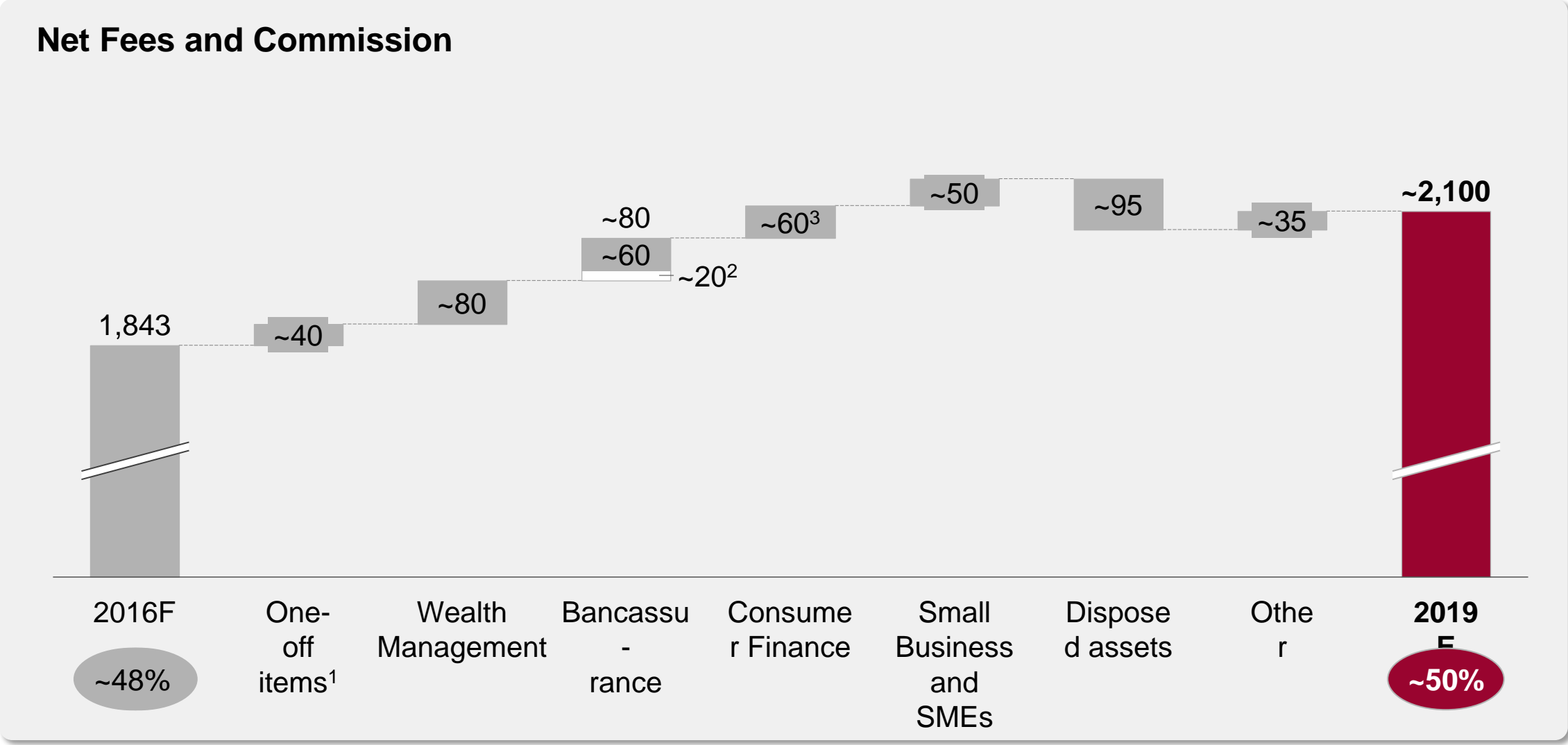
<sup>2</sup> Including Small Business, mortgages on Individuals, Factoring and Leasing, Capital Services

<sup>3</sup> Including Conumit run-off, TLTRO reimbursement and static production

Detail on Net Fees and Commission evolution

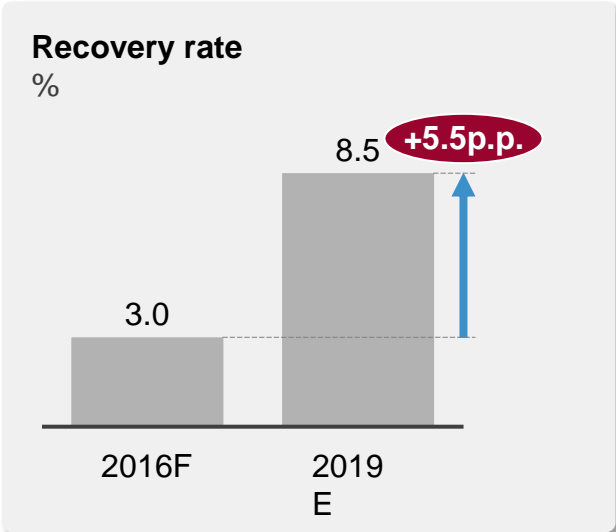
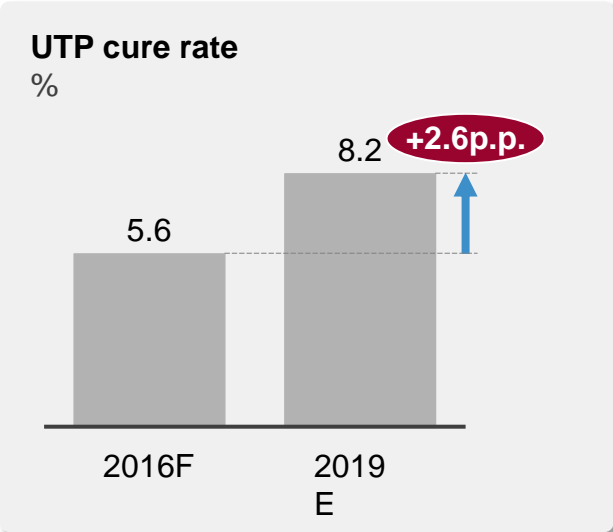
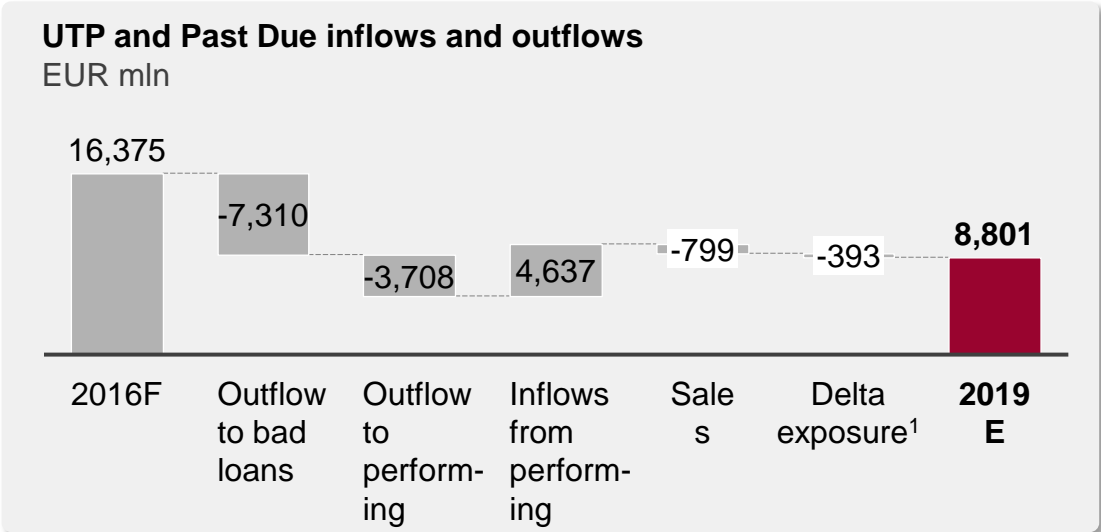
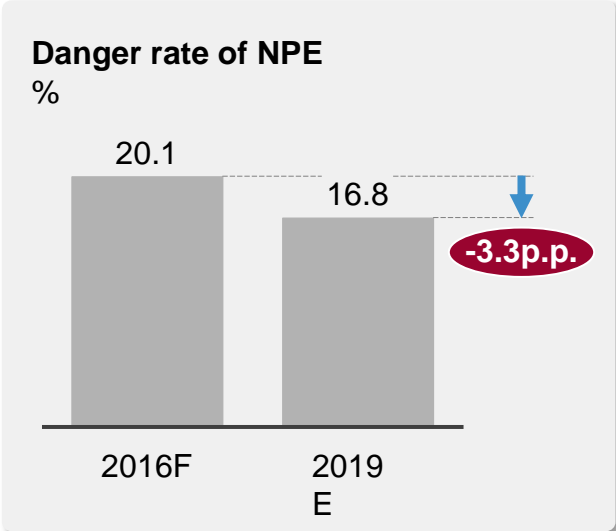
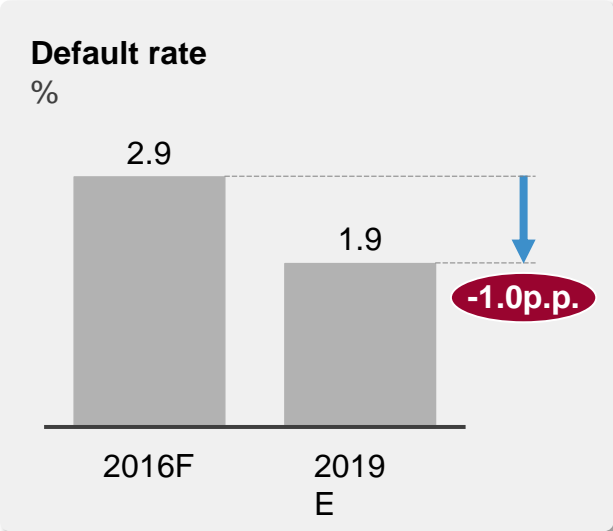
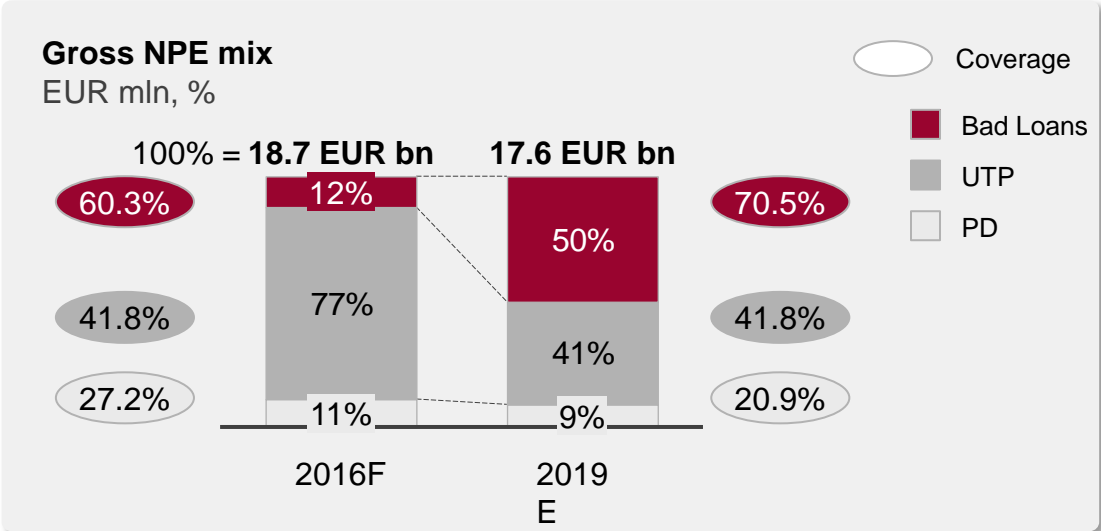
EUR mln

Net Commission/Commercial Revenues %



1 Including GGB  
 2 Credit Protection Insurance  
 3 Including ~55 EUR mln from renegotiation of the contract with Compass

# Details on NPE flows and key ratios



<sup>1</sup> Net effect of the decrease of PD/UTP exposure due to recovery and increase of exposure due to interests on PD/UTP positions

Transaction at a glance

Key highlights of the Business Plan

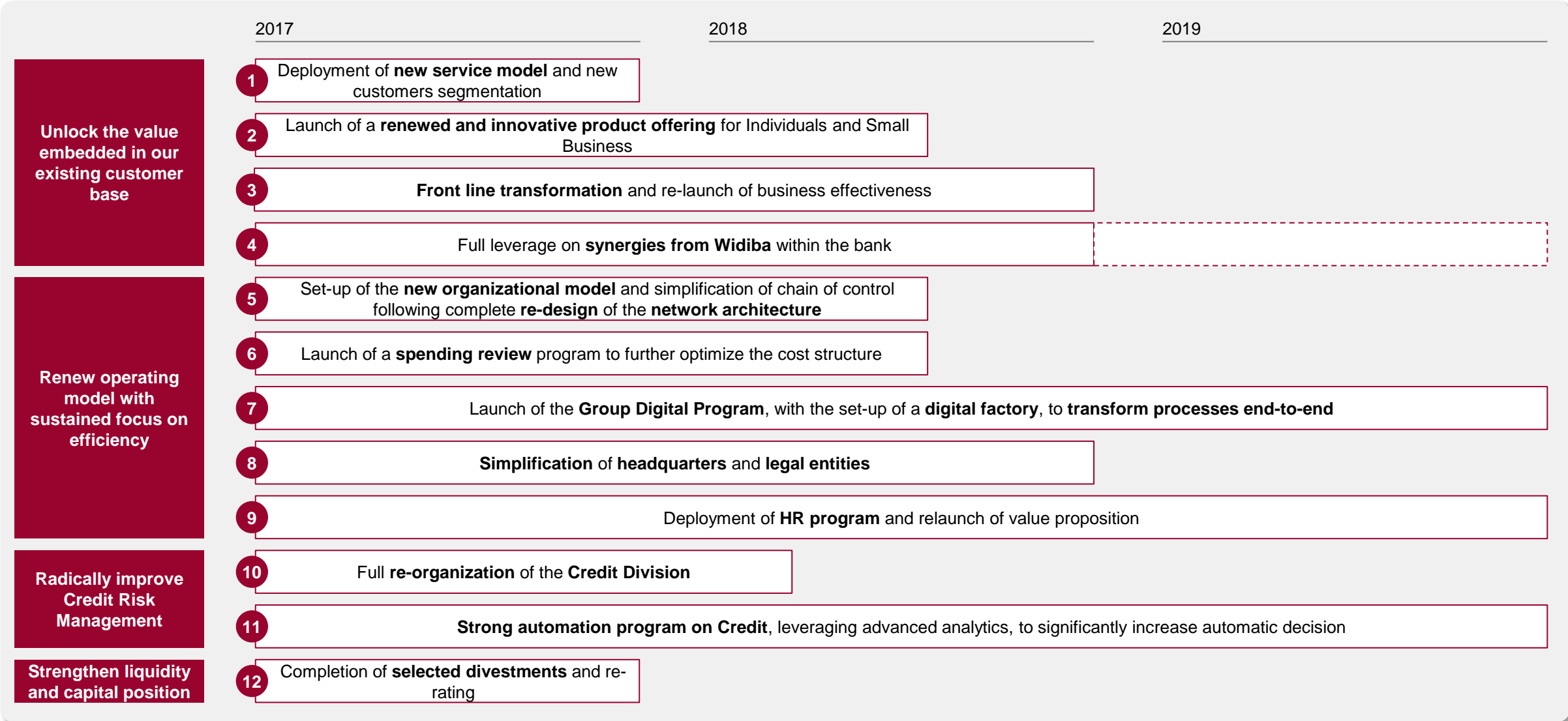
MPS: the new starting point

Business Plan guidelines

Financial projections and target KPIs

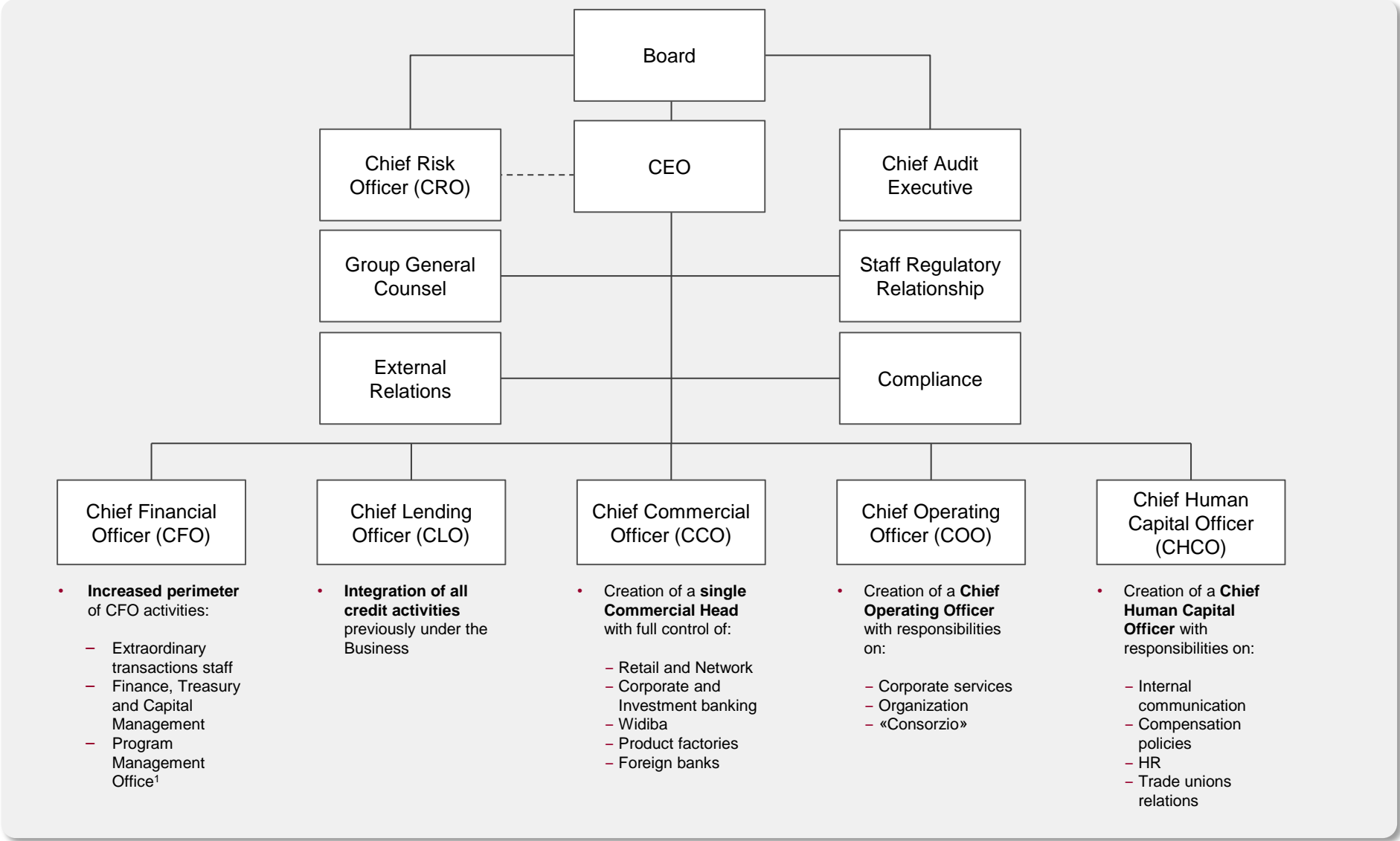
**Implementation plan**

The Business Plan implementation is based on a balanced mix of short-term and transformational initiatives





# Set-up of the New organizational model to support business plan implementation...



Back to our customers and people, focused on execution

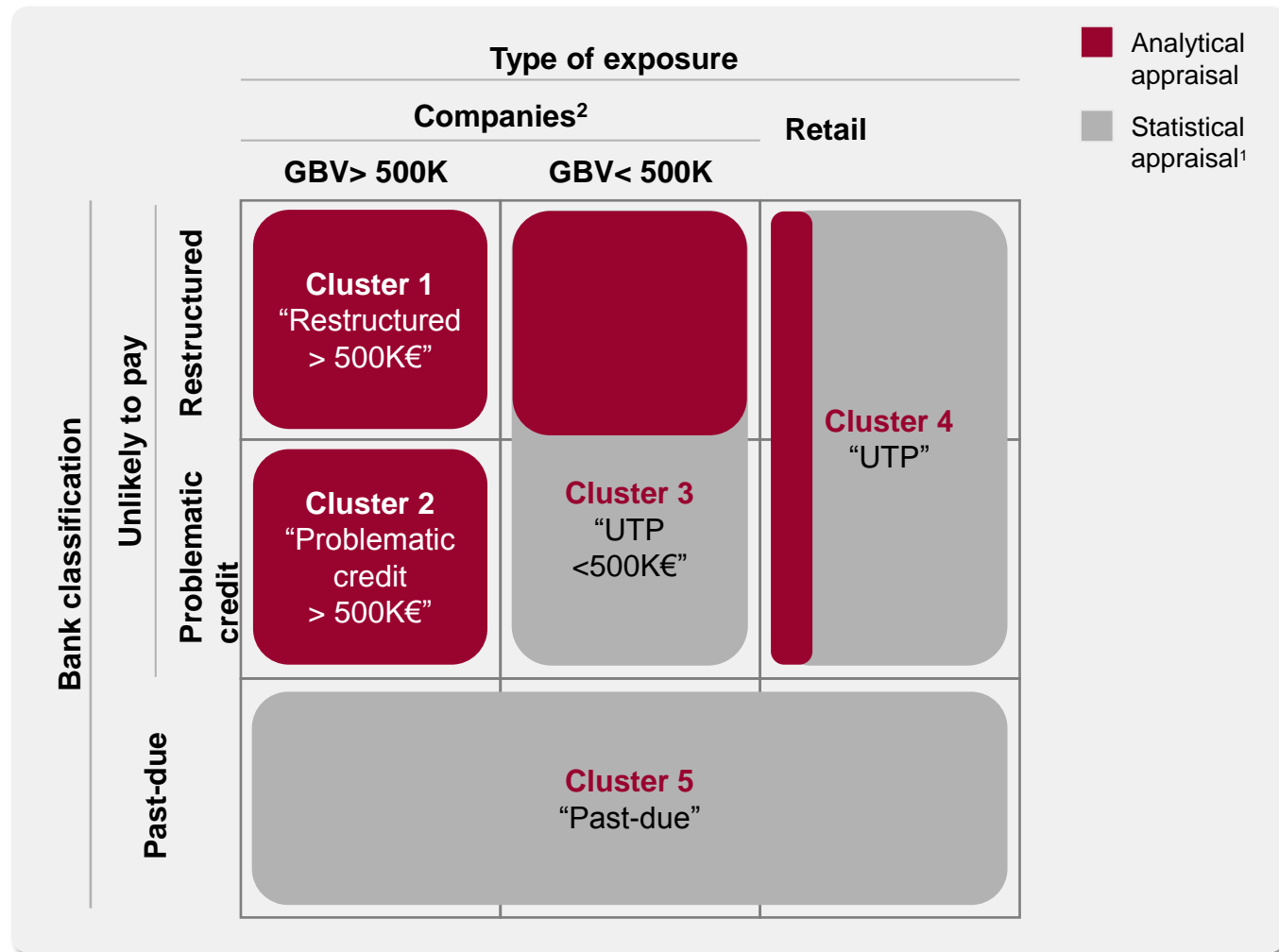


*Thank you for your attention*





# Cerved analysis – Clustering of the bank portfolio



- The analyses have been performed on clusters built based on the **risk classification of the bank** (Past-due, Problematic credit and Restructured) and by using the **GBV ranges** that determine the use of **statistical vs. analytical approaches** (future threshold 500K EUR)
- Clusters have been defined based on:
  - **Significance**: exposure of a single cluster higher than at least 10% of the portfolio
  - **Analysis methodology**: separation between clusters for which structurally different analyses are applicable
  - **Characteristics of exposures**: the cluster "Past-due" has been isolated due to the structurally different characteristics of these positions (average GBV: 14K EUR vs. 212 EUR)

<sup>1</sup> Currently all positions with GBV <20K EUR are appraised statistically; the new methodology will increase the threshold to 500K EUR

<sup>2</sup> Cerved companies include ~50K clients categorized as Retail by MPS, but corresponding to one-person companies in the Cerved database

# Cerved analysis – Distribution by risk class on UTP Corporate exposures

Cluster 1,2,3 of CERVED analysis<sup>1</sup>, EUR mln

	<u>Definition criteria of risk class<sup>1</sup></u>	<u>Positions</u>	<u>GBV</u>
<b>Operating companies (safe or solvent)</b>	<ul style="list-style-type: none"> <li>• Operating companies with low risk</li> <li>• <math>CGS^2 \leq 5</math></li> </ul>	6.636	2.261
<b>Vulnerable operating companies</b>	<ul style="list-style-type: none"> <li>• Operating companies with higher risk</li> <li>• <math>CGS^2 = 6 \text{ o } 7</math></li> </ul>	10.755	3.590
<b>Risky companies with adequate collateral</b>	<ul style="list-style-type: none"> <li>• Risky companies, e.g. with <math>CGS^2 = 8,9,10</math></li> <li>• Presence of real collateral with appraisal &gt; 120% GBV</li> </ul>	3.108	3.420
<b>Risky companies with potentially not adequate collateral</b>	<ul style="list-style-type: none"> <li>• Risky companies, e.g. with <math>CGS^2 = 8,9,10</math></li> <li>• Presence of real collateral with appraisal &lt; 120% GBV</li> </ul>	440	1.265
<b>Risky company without real collateral</b>	<ul style="list-style-type: none"> <li>• Risky companies, e.g. with <math>CGS^2 = 8,9,10</math></li> <li>• Absence of real collateral</li> </ul>	27.323	3.901
<b>Total</b>		<b>48.262</b>	<b>14.438</b>

<sup>1</sup> As defined at page 69

<sup>2</sup> Cerved Group Score; a high CGS corresponds to a high risk factor. Risk is assessed on a company by company base, by combining information from e.g. financial statements, company records, negative events, press, macro scenarios for the segment

SOURCE: Cerved

## Cerved analysis - Analysis of risk by type of segment of the whole MPS portfolio

Segment	Total companies	MPS total companies	MPS penetration	Market average CGS <sup>1</sup>	MPS average CGS
1 - Agriculture	226,931	15,035	6.6%	5.14	5.44
2 - Commerce	901,495	56,729	6.3%	5.90	6.10
3 - Constructions	427,862	24,741	5.8%	6.17	6.50
4 - Financial corp.	32,834	763	2.3%	4.52	5.36
5 - Industry	382,392	31,064	8.1%	5.76	5.86
6 - Real estate	146,913	8,705	5.9%	4.76	5.33
7 - Services	760,153	42,207	5.6%	5.70	5.98
8 - TPU <sup>2</sup>	113,961	7,586	6.7%	6.04	6.24
9 - Other	113,630	4,356	3.8%	6.13	6.55
<b>Total</b>	<b>3,106,171</b>	<b>191,186</b>	<b>6.2%</b>	<b>5.74</b>	<b>6.00</b>

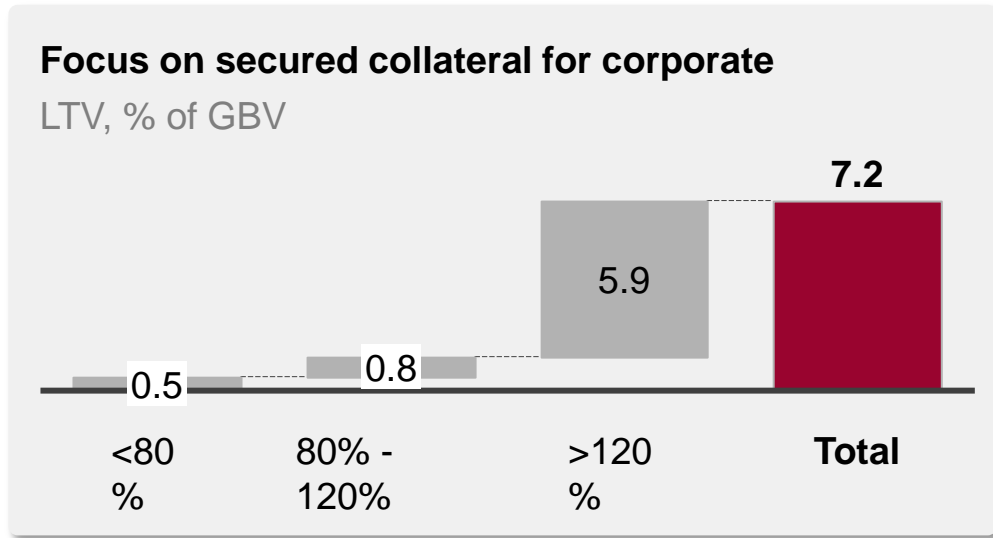
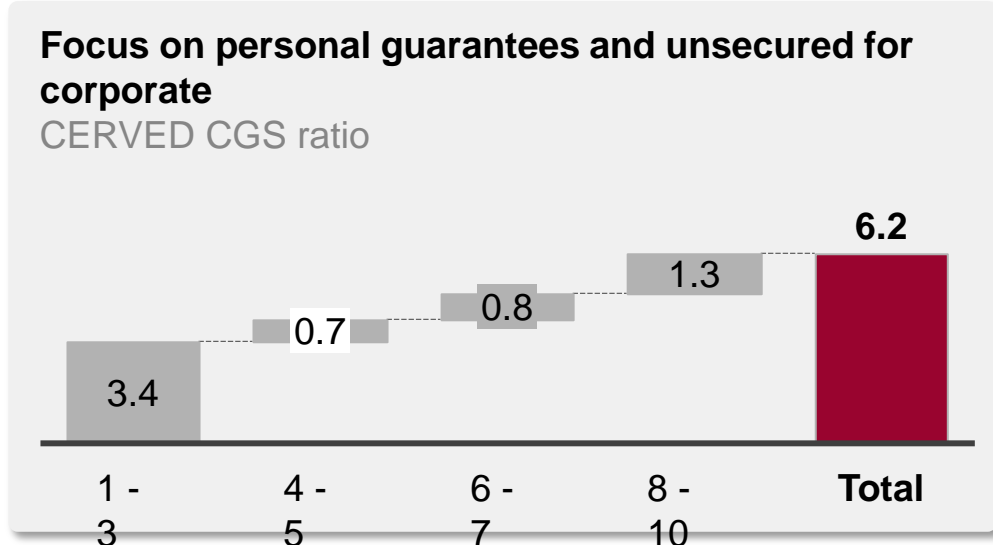
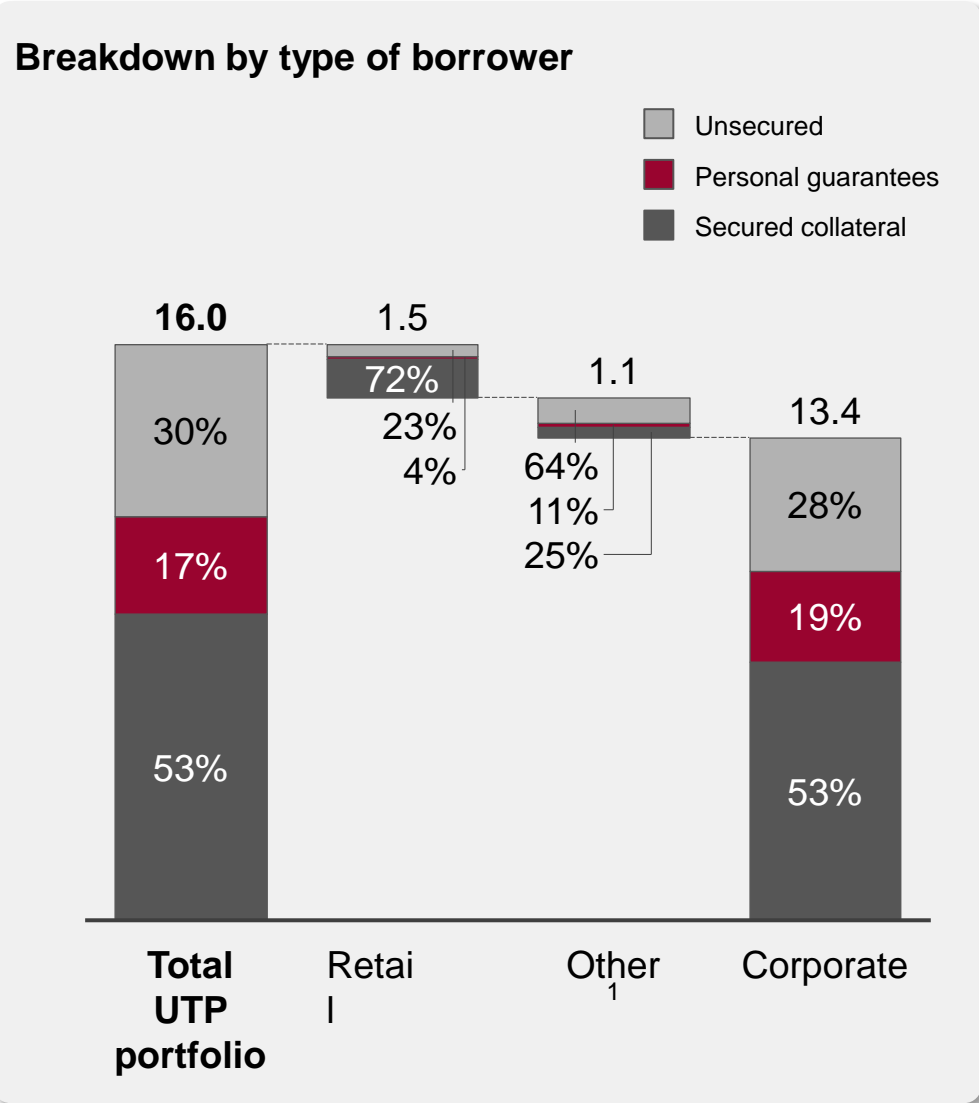
<sup>1</sup> Cerved Group Score; a high CGS corresponds to a high risk factor. Risk is assessed on a company by company base, by combining information from e.g. financial statements, company records, negative events, press, macro scenarios for the segment

<sup>2</sup> Transport and public utilities

SOURCE: Cerved

# Assessment of Unlikely to Pay exposure

EUR bn, %

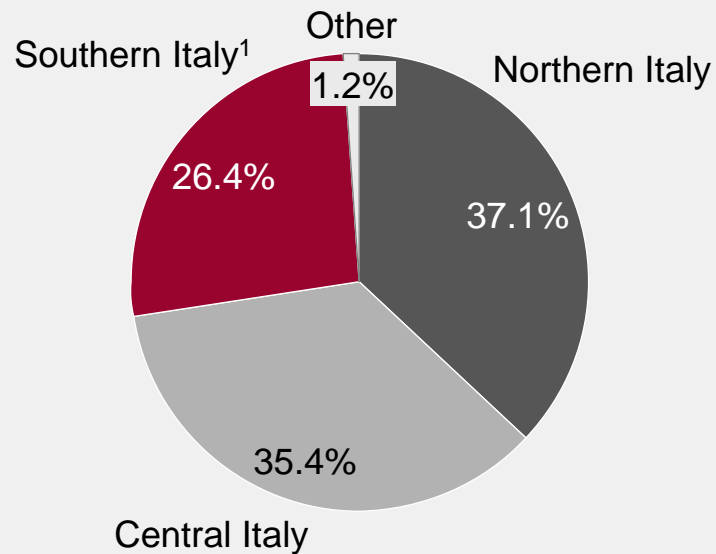


1 Public institutions and financial corporations excluding banks

# Details on Unlikely to Pay – 1H16

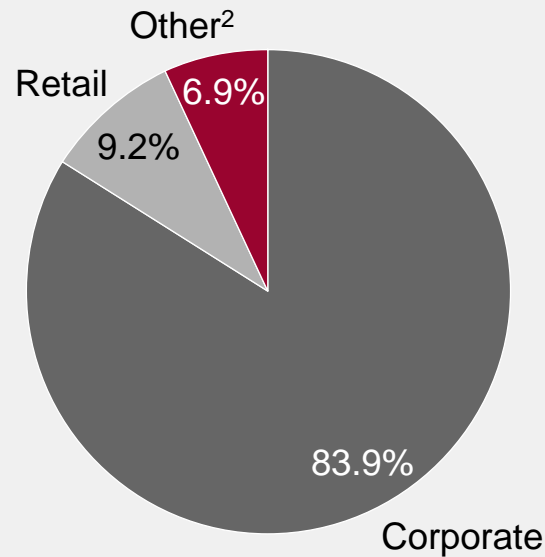
## MPS gross book value breakdown by region

%



## MPS gross book value breakdown by borrower

%



## MPS gross book value breakdown by segment<sup>3</sup>

Segment	Unlikely to Pay (%)
Agriculture	4%
Commerce	8%
Construction	25%
Manufacturing	20%
Services	41%
Other	2%
<b>Total (%)</b>	<b>100%</b>
<b>Total (EUR mln)</b>	<b>13.386</b>

## MPS Gross Book Value by ticket

EUR mln	Unlikely to Pay (%)
0 - 0.1	8%
0.1 - 0.5	13%
0.5 - 1	5%
1 - 5	19%
5 - 10	11%
10 - 20	13%
>20	31% <sup>4</sup>
<b>Total (%)</b>	<b>100.0%</b>
<b>Total (EUR mln)</b>	<b>15.964</b>

1 Includes also Islands

2 Institutional clients and financial corporations

3 Only for Corporate borrowers

4 Due to a small numbers of large exposures

NOTE: Figures from operational data management system



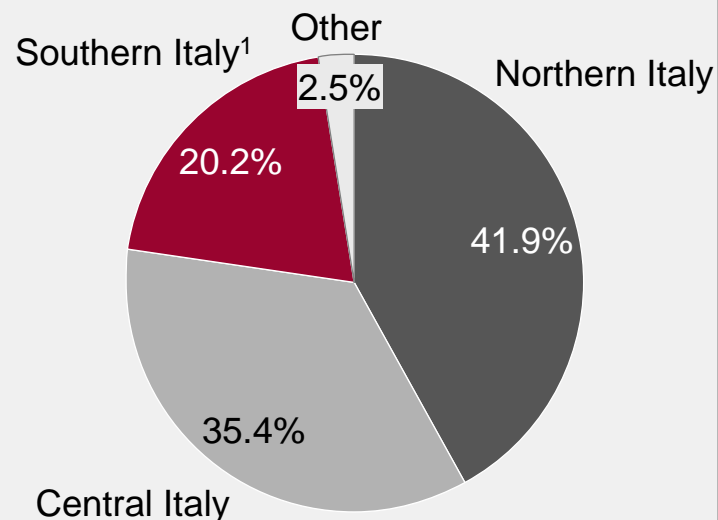


# Cerved analysis - Assessment of restructured exposures

1H16, EUR bn, %

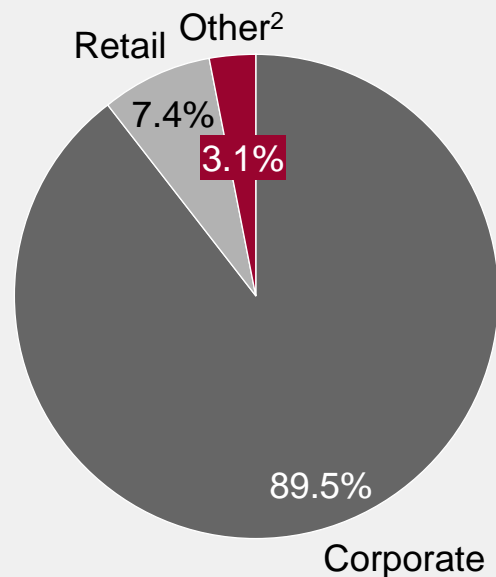
## MPS gross book value breakdown by region

%



## MPS gross book value breakdown by borrower

%



## MPS gross book value breakdown by segment<sup>3</sup>

Segment	Unlikely to Pay (%)
Agriculture	4.5%
Commerce	4.5%
Construction	19.3%
Manufacturing	23.9%
Services	44.2%
Other	3.6%
<b>Total (%)</b>	<b>100%</b>
<b>Total (EUR mln)</b>	<b>7,062</b>

## MPS gross book value by ticket

EUR mln	Unlikely to Pay (%)
0 - 0.1	2,9%
0.1 - 0.5	9,1%
0.5 - 1	3,8%
1 - 5	18,9%
5 - 10	11,8%
10 - 20	15,3%
>20	38,2%
<b>Total (%)</b>	<b>100.0%</b>
<b>Total (EUR mln)</b>	<b>7,887</b>

<sup>1</sup> Includes also Islands

<sup>2</sup> Including e.g. loans to institutional clients and financial corporations

<sup>3</sup> Only for Corporate borrowers

NOTE: Figures from operational data management system

# Highlights of the current setup for NPL management at MPS

## Area

## Main highlights

### Organizational structure and Governance

- **The NPL organizational structure is well defined** with separate and dedicated NPL workout units (WUs) differentiated from the origination units. After the recent creation of the Direzione Crediti e Asset Problematici and the centralization of the UTP Anomalo positions management, the bank structure is made by three different NPL WUs for the different phases of the NPL life cycle (Rstrutturati, Inadempienze Probabili Credito Anomalo, Recupero Specialistico). In addition, **the bank is planning to create a new value chain of RMs dedicated to the high risk performing positions** (arrears, past due and UTP managed by commercial RM) in line with ECB requirements
- Even within a business plan focused on cost control, **the bank will place significant investments in upgrading even further its NPL management organization and capabilities:**
  - The UTP teams will be enriched by one third of the FTEs currently managing bad loans, resulting on average in 30-35 large ticket files/FTE and 130-140 small/medium ticket files/FTE
  - One third of the FTEs currently managing bad loans will keep working in the same WU despite the bad loans management will be mostly outsourced going forward, resulting in the mid term in 35-40 files/FTE
  - The restructuring team is well positioned to manage an increased number of restructured position, counting at the moment 17 large tickets file/FTE
- **The internal control framework** (3 lines of defense, roles, escalation process) **is already fully in line** with the key principles of the ECB Guidance

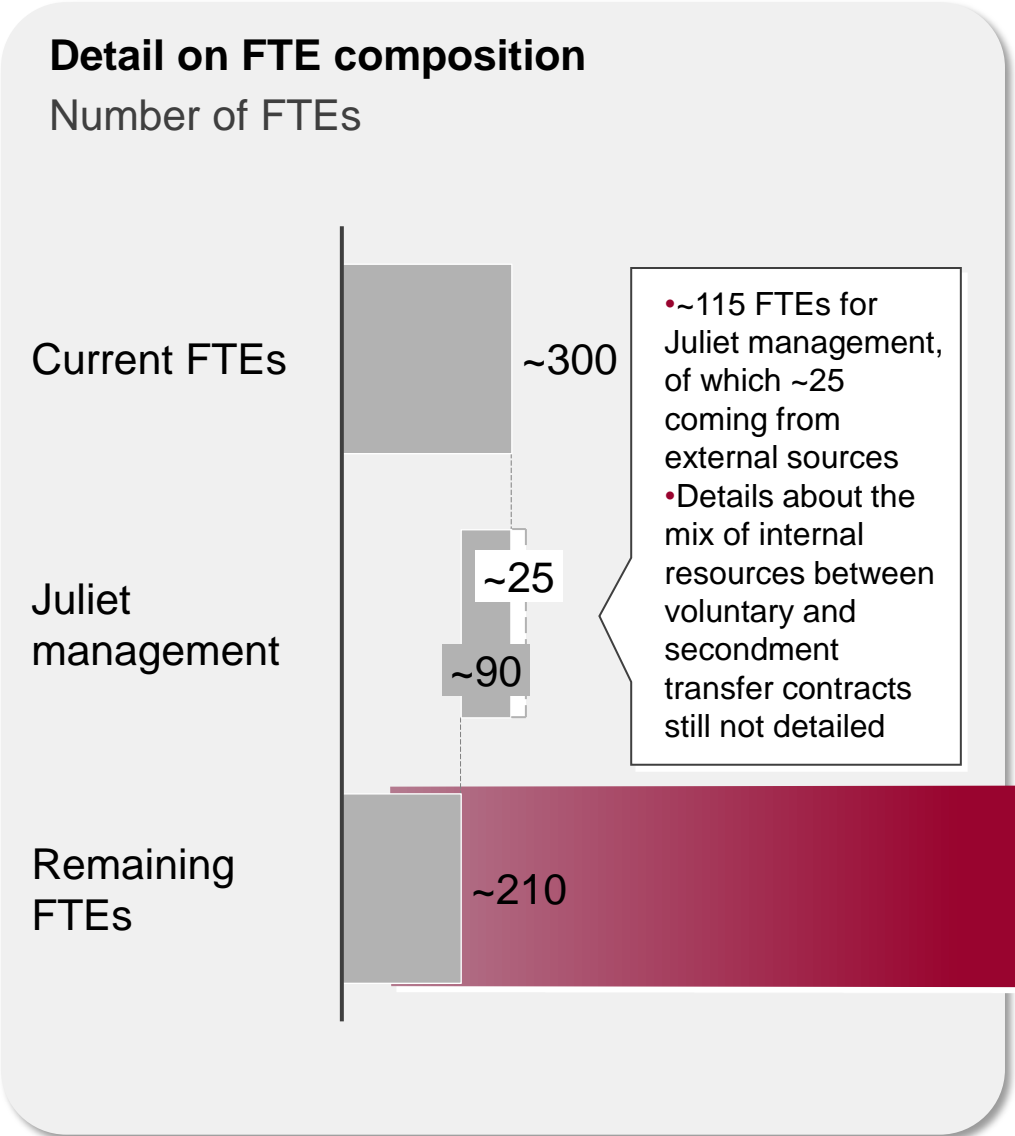
### Methodologies, processes and recovery strategies

- **The key NPE management processes are all in place, monitored and well documented**, (early warning, forbearance, UTP management, bad loan management)
- **There is a dedicated process and methodology for restructuring, through dedicated specialized resources**
- **The bank is aware of the strategic importance of best-in-class NPE management and will therefore continue to invest in further upgrading credit recovery methodologies, process, strategies and overall skills of the NPE management specialists**

### Database and IT infrastructure

- **The bank is constantly investing to strengthen the database and the tools** supporting the NPL management. In this space, the bank launched the CDO project 1 year ago, created a best in class loan tape for the bad loans which is now key to support the sale of the entire bad loan portfolio and which will be used as a basis for future flows to NPL. An IT management system is being created specifically for the UTP positions (expected by end of the year)

Possible allocation of resources freed up by the spin-off of the recovery unit (Juliet)



Description	# of FTEs
<b>Juliet coordination</b>	~50
<b>Complex bad loan management</b>	~30
<b>Industrialized recovery</b>	~30
<b>UTP management</b>	~100
	<b>~210</b>



The classification and evaluation of unlikely to pay and bad loans is a standardized and formal process integrated into a specific procedure, with defined criteria integrated in the IT system - Continuous process update to facilitate cure and recovery rates

**Unlikely to pay**

"Going concern"	<p>Positions for which it is considered unlikely that the borrower will pay its obligations in full (i.e. refinancing and restructuring loans, loans vs. clients in financial distress and forborne)</p> <ul style="list-style-type: none"> <li>• Forbearance measures are concessions (modification of the previous terms and conditions of a contract or a total or partial refinancing of a debt contract) towards a debtor facing financial difficulties</li> <li>• Several large group restructuring are performed together by several Italian banks and classified homogeneously</li> </ul>
Inflows from performing loans	<p>The classification into unlikely to pay loans is triggered by certain parameters (i.e. market information and borrower financials provided by the borrower, the Central Credit Bureau, public database and other providers) and, depending on the severity of the situation can lead to mandatory classification or to a classification reviewed by the Relationship Manager and an internal committee including representatives of Credit department.</p> <p>The classification into unlikely to pay, once triggered, should be carried out in ca. 1 month. More complex positions are managed by Credit Recovery Division (of witch Small tickets are managed in outsourcing) ; simple positions are managed by Commercial Division.</p>
Outflows to performing loans	<p>The reclassification to performing is carried out when the borrower's financial condition are aligned with performing status and considered able to pay its obligations in full For forborne unlikely to pay loans when the borrower has carried out regular payment of principle and interest instalments during a defined probation called "Cure Period"</p>
Provisioning	<p>Provisions reflect the total net assets of the borrower or the borrower's ability to continue generating cash flows to be allocated to debt repayment Collateral valuations performed by independent appraisers. Appraisals are updated at defined timeframe, based also on loan size Provisions are estimated by an analytical or statistical methodology, based on loan size</p>

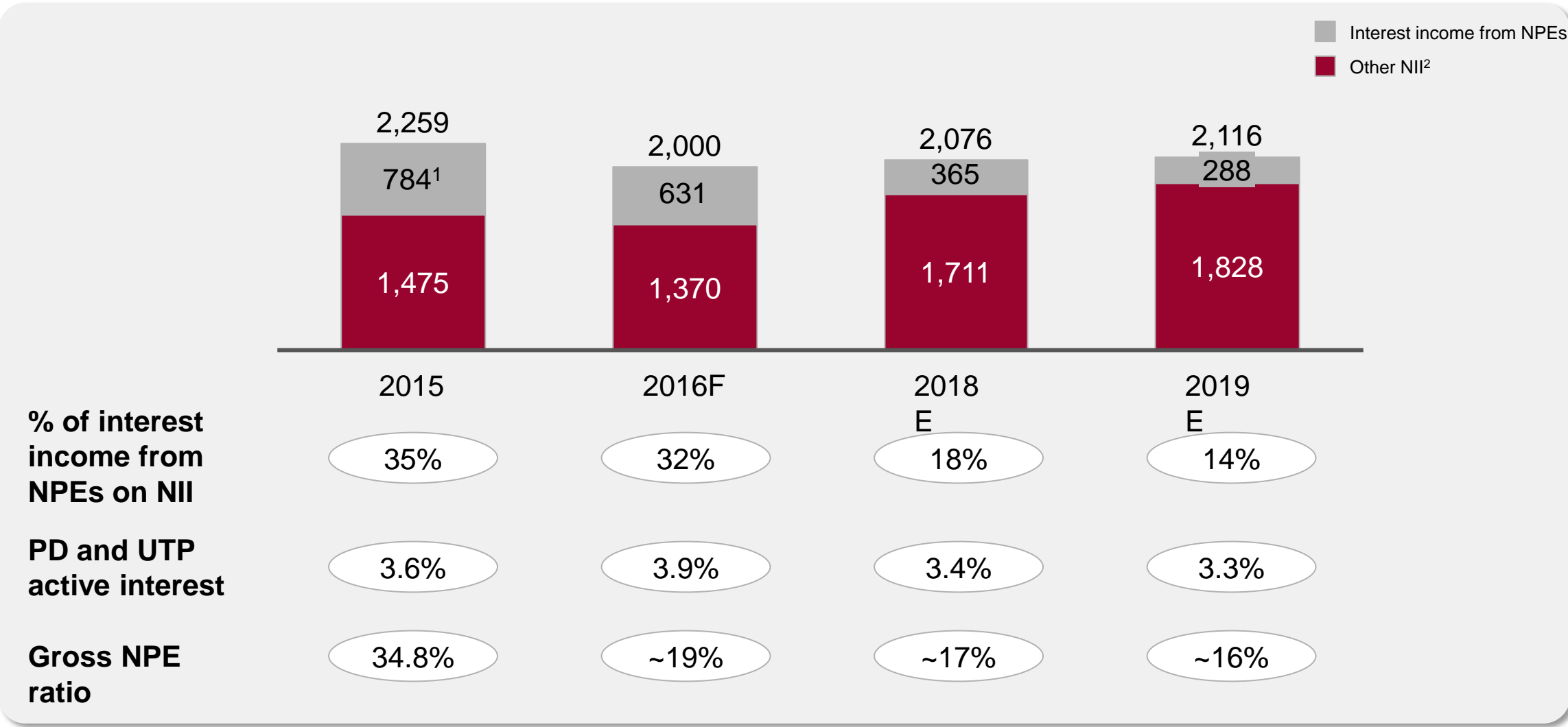
**Bad loans**

"Gone concern"	<p>Positions where a borrower's inability to repay its debt is manifested and the borrower is in gone concern, with judicial activity already activated. The judicial activity timeframe is ca. 3 times European average</p>
Inflows into bad loans	<p>The classifications into bad loans is triggered by certain parameters (i.e. market information and borrower financials provided by the borrower, the Central Credit Bureau, public database and other providers) and, depending on the severity of the situation, can lead to mandatory classification or to a classification reviewed by the Relationship Manager (who can be part of the Credit Recovery Division or of the Commercial Division depending on the severity of the situation) and an internal committee including representatives of Credit Department</p>
Provisioning and recovery	<p>Provisions based on the recovery business plan performed by the Relationship Managers based on collateral value, the expected timeframe of the judicial activity, the net asset of the borrower, ect. A discount rate is applied to the recovery cash flows. Collateral value and recovery business plan updated at defined timeframes</p>



# Details on NII evolution – Non-Performing Exposures

EUR mln, %



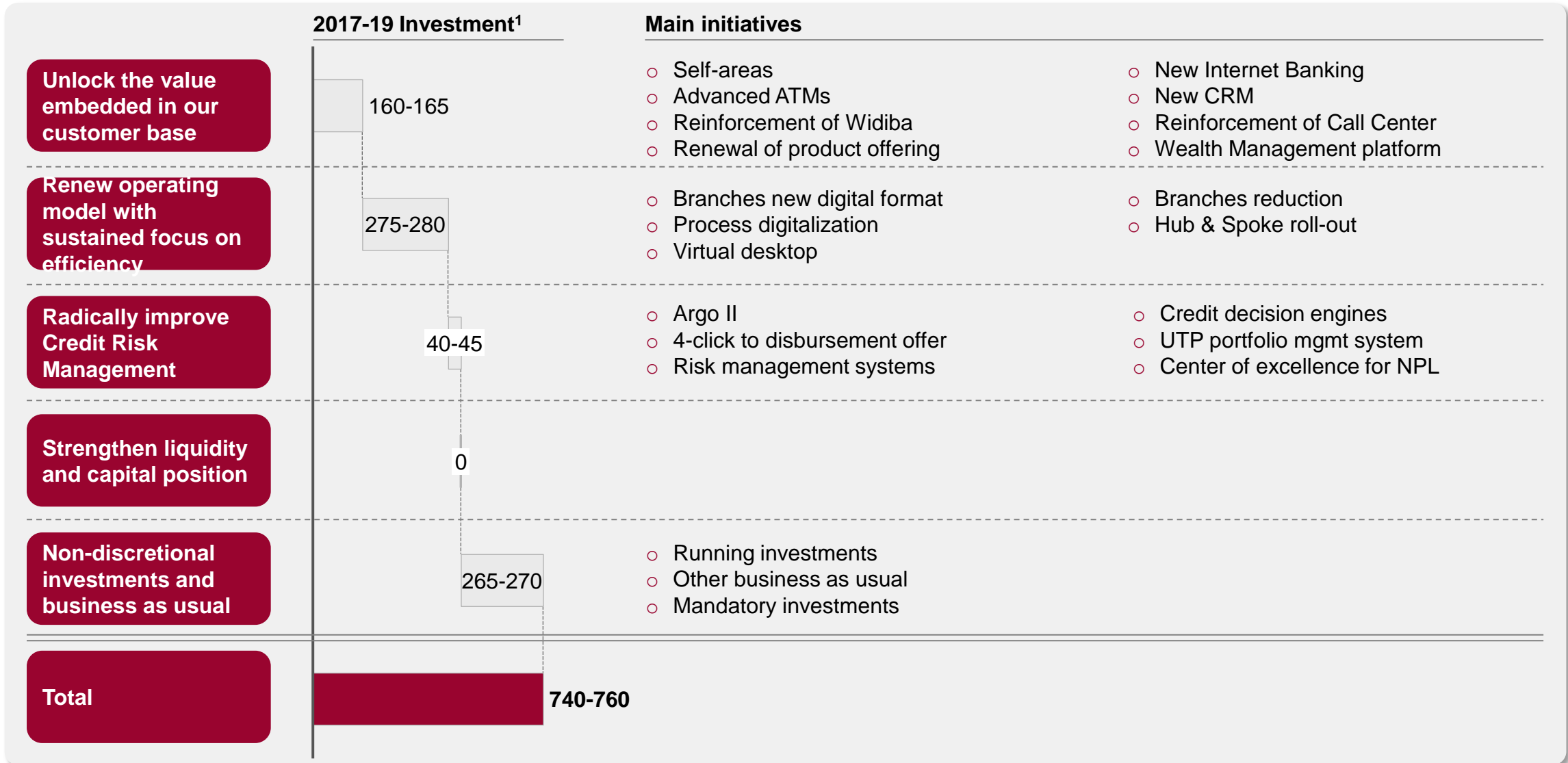
1 Includes -49 EUR mln interests from bad loans, projected at 0 for 2017-19E

2 Includes passive interests from NPEs

NOTE: Figures might not add up due to roundings

# Details on the investment plan

EUR mln



<sup>1</sup> Including IT personnel