MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

2017 – 2021 Restructuring Plan

5 July, 2017

Executive summary

❶ 2017-2021 Restructuring Plan approved by the European Commission in the context of the Bank's Precautionary Recapitalisation process

- Total recapitalization of EUR 8.1bn
- Net income above EUR 1.2bn*, with a ROE equal to 10.7%*
- Cost of risk at 58bps* (79bps in 2019) and gross NPE ratio at 12.9%*
- CET1 ratio at 14.7%* and loan/deposit ratio <90%*

❷ Comprehensive solution to BMPS asset quality issues through disposal of EUR28.6bn gross bad loans

- De-recognition of EUR 26.1bn GBV through a securitization to be completed by 1H2018. Binding commitment from Atlante II to acquire Junior and Mezzanine notes at a price of 21% of GBV
- Disposal of EUR 2.5bn GBV of leasing and unsecured small tickets through dedicated processes

❸ Restructuring Plan includes ECB requests of the 2017 SREP decision (including outcome of ECB credit inspection) and the commitments to DG Comp

- Enhanced focus on operating efficiency combined with prudent revenue growth
- Conservative provisioning

Restructuring Plan as basis to create a sustainable and profitable Bank

* 2021 target

Agenda

- **Precautionary Recapitalization**
- Bad Loans Disposal
- 2017-2021 Restructuring Plan
- Appendix

Overview of extraordinary State intervention

Context

- Submission in December 2016 of a request to access the Precautionary Recapitalization and Liquidity Support in accordance with Decree 237/2016*
- Precautionary Recapitalization eligibility criteria:
  - Viability of the Bank
  - Private means in excess of likely losses
  - Burden Sharing for equity and subordinated holders
  - Restructuring Plan approved by the European Commission
- Capital Shortfall set by ECB at EUR 8.8bn based on 2016 Stress Test in the adverse scenario

Key pillars

A Liquidity Support

- Government Guarantee over newly issued bonds, for an amount up to EUR 15bn of which EUR 11bn already issued

B Precautionary Recapitalization

- Mandatory conversion of EUR 4.3bn of subordinated debt into equity (Burden Sharing)
- Settlement exchange offer addressed only to retail holders satisfying certain requirements of 2008-2018 Upper Tier 2 bond included in the Burden Sharing
- EUR 8.1bn total recapitalization (EUR 3.9bn MEF direct capital injection and EUR 4.3bn burden sharing)

* Converted into Law 15/2017 on 17 February 2017

A Liquidity support

- Three Italian Government guaranteed bonds as per Italian Law 15/2017 issued by BMPS YTD

Government Guaranteed Bonds

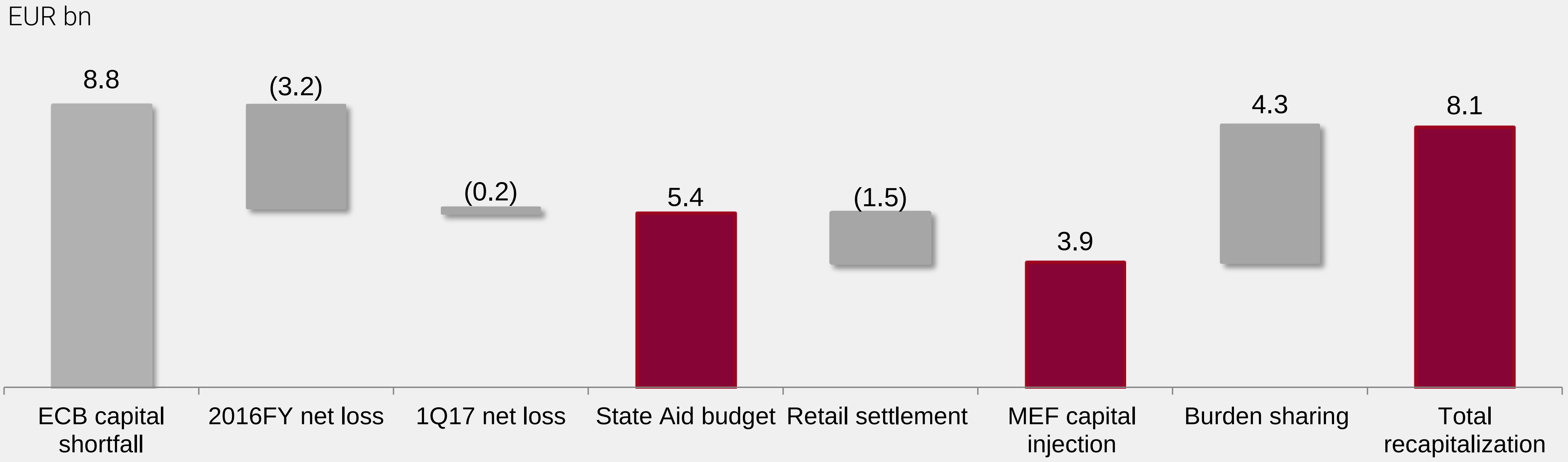
EUR bn

ISIN	*IT0005240491*	*IT0005240509*	*IT0005246423*
Issue date	*January 25, 17*	*January 25, 17*	*March 15, 2017*
Nominal	*EUR 3bn*	*EUR 4bn*	*EUR 4bn*
Coupon	*0.50%*	*0.75%*	*0.75%*
Maturity	*20/01/18*	*25/01/20*	*15/03/20*

- Fully underwritten by the Bank at issue and subsequently placed to investors or used as collateral for funding operations
- MEF authorization to issue another GGB with a maturity of 3 years, for a nominal amount of EUR 4bn, by 31 December 2017
- All-in running cost of ca. 140 bps and 190 bps for 1 and 3 years, respectively (including cost of the Government Guarantee)

B State Aid Budget and total recapitalization

- Capital shortfall of EUR 8.8bn calculated by ECB on the basis of the 2016 Stress Test results in the adverse scenario
- Shortfall adjusted to take into account 2016 and 1Q17 losses, hence resulting into EUR 5.4bn State Aid Budget
- Retail settlement exchange offer estimated at EUR 1.5bn, hence estimated maximum MEF direct capital injection into BMPS of EUR 3.9bn
- EUR 4.3bn mandatory conversion of T1 and T2 into equity under burden sharing
- Total recapitalization of EUR 8.1bn



B Burden sharing and retail settlement exchange offer

EUR bn

- Total EUR 4.3bn outstanding nominal amount of securities under burden sharing, of which up to EUR 2.1bn of UT2 2008-2018 (IT0004352586) potentially eligible for settlement exchange offer scheme
- MEF offers to buy shares resulting from the conversion of UT2 2008-2018 meeting the following criteria, in exchange for BMPS senior securities with same maturity (May 2018):
  - Investor classified as Retail under MIFID regulation
  - Acquired the securities before 1 Jan 2016
  - Acquired the securities through BMPS network
  - Offer price not to exceed investors' carrying value
- Eligible retail holders carrying value estimated at EUR 1.5bn*

ISINs		Outstanding	Price	
XS0122238115	T1	€54	75%	€41
XS0121342827	T1	€241	75%	€181
XS0131739236	T1	€107	75%	€80
XS0180906439	FRESH 2003	€29	18%	€5
IT0004352586	UT2	€2,057	100%	€2,057
XS0236480322	LT2	€368	100%	€368
XS0238916620	LT2	€104	100%	€104
XS0391999801	LT2	€76	100%	€76
XS0415922730	LT2	€500	100%	€500
XS0503326083	LT2	€369	100%	€369
XS0540544912	LT2	€379	100%	€379
	Total	**€4,283**		**€4,159**

* Including only BMPS clients

B Pro forma shareholders

Ordinary shares (PAZV)

According to art. 18 of Law 15/2017 pre-money fair value determined by the lower of:

a) The average reference price for the last thirty days during which the stock was traded (EUR 21)

b) Intrinsic value based on the company's assets, its profitability prospects, trading multiples, and considering any losses resulting from extraordinary transactions

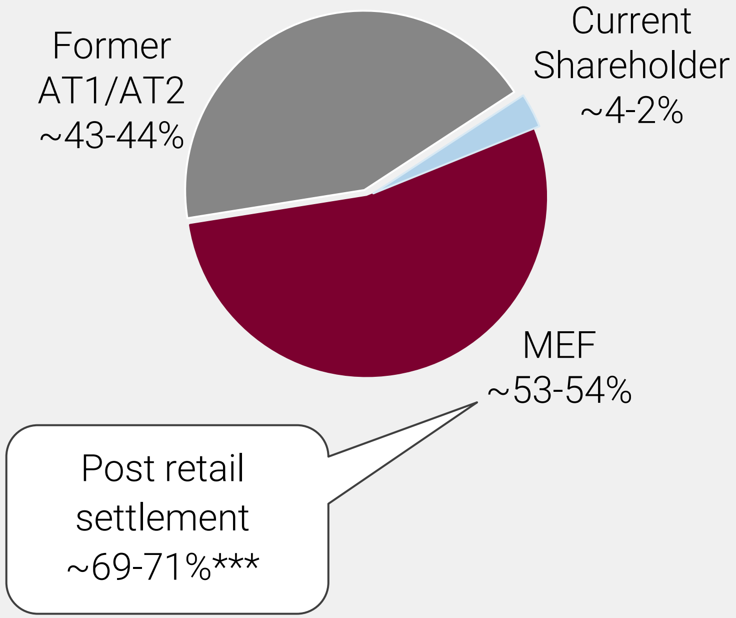
Shares allocated to AT1/T2 bondholders (PAZN)

PAZN = PAZV x 50%*

Shares allocated to MEF (PAZNMEF)

PAZNMEF = PAZN x (1-0.25)

Indicative pro forma shareholders (for illustrative purposes only)**



* Application of alternative simplified formula as discount factor (k) of 15% results in a negative PAZN

** Depending on PAZN as per Independent Expert appraisal (to be included in relevant implementation decrees to be issued by MEF)

*** Assuming EUR 1.5bn of take up

Agenda

- Precautionary Recapitalization
- **Bad Loans Disposal**
- 2017-2021 Restructuring Plan
- Appendix

Bad loans disposal

- Comprehensive solution to BMPS asset quality issues through commitment to dispose the vast majority of bad loans portfolio by 1H18

1 Main portfolio securitization*

- EUR 26.1bn GBV as of December 2016
- Price 21% of GBV
- Atlante II to acquire mezzanine and junior notes
- Application for GACS scheme
- No bridge financing
- De-recognition in 1H 2018 upon GACS obtainment

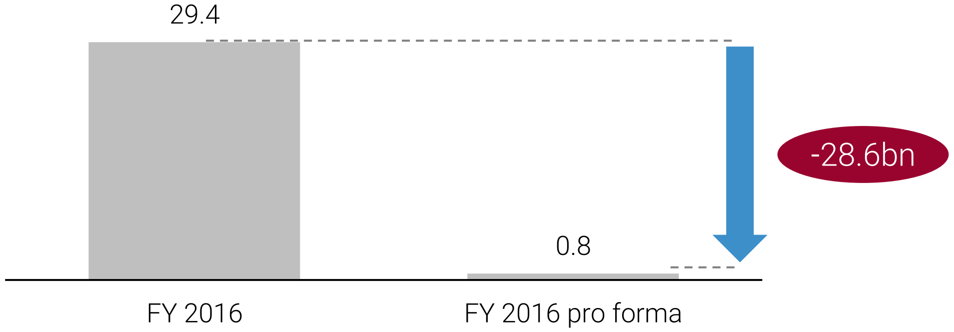
Main portfolio securitization breakdown

GBV	Total €/bn	Total %**	Secured (RE) €/bn	Secured (RE) %**	Guaranteed €/bn	Guaranteed %**	Unsecured €/bn	Unsecured %**
	26.1		**12.5**	**48.0%**	**7**	**26.8%**	**6.6**	**25.3%**
Vintage 1-3y	11.4	43.6%	5.8	22.3%	3.1	12.1%	2.4	9.3%
Vintage >3y	14.7	56.4%	6.7	25.7%	3.8	14.7%	4.2	16.0%

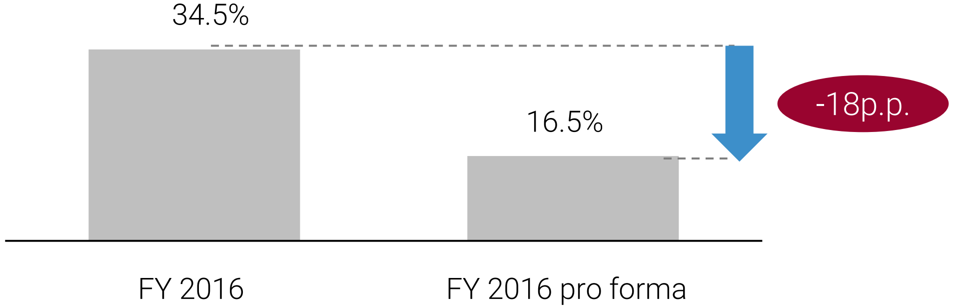
2 Remaining portfolio disposal*

- c. EUR 2.5bn leasing and small unsecured tickets (up to c. EUR 150k) to be sold through dedicated processes

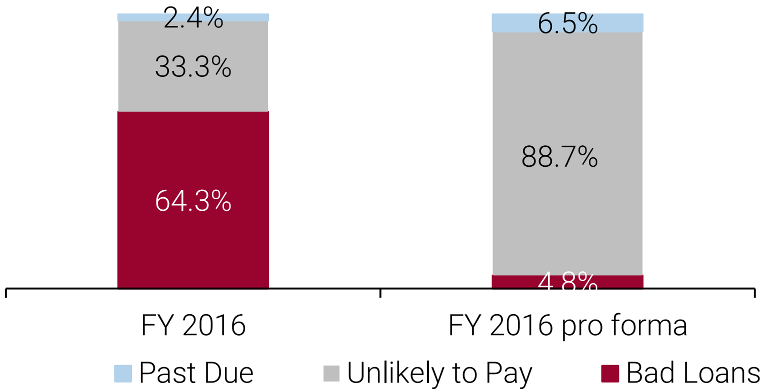
Bad Loans
EUR bn



Gross NPE ratio
%



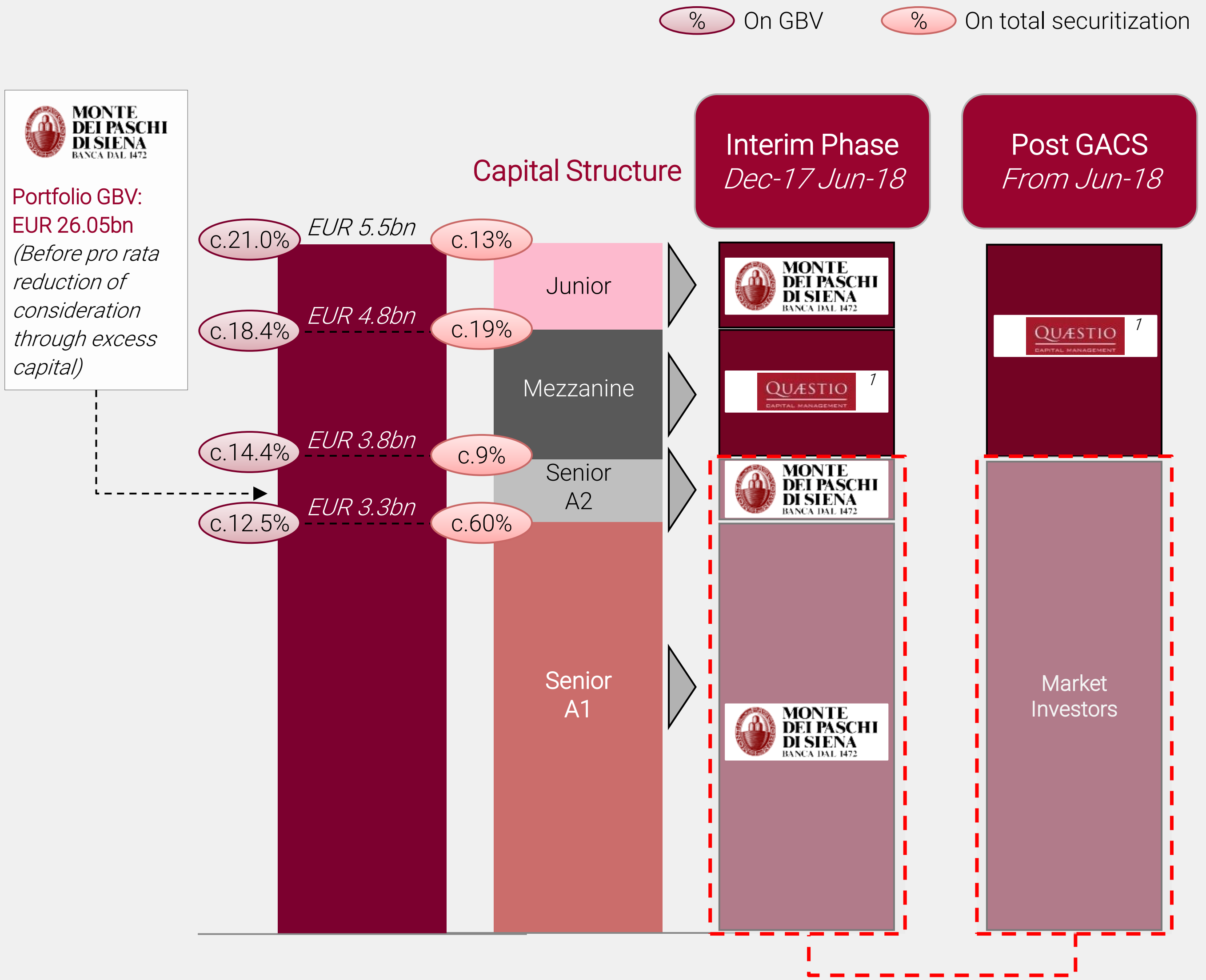
Gross NPE mix
%



* Excluding EUR 0.8bn of non transferrable bad loans
** % on Total GBV (€ 26.1bn)

Securitization structure

- Portfolio transfer into a vehicle ex. art. 130 ("Sec. Co.") at a price of 21% of GBV (EUR 5.5bn) with cut off date of 31 Dec 2016
- Sec.Co to be financed through:
  - Senior A1 notes (EUR 3,256m) to be financed with GACS once obtained
  - Senior A2 notes (EUR 500m / rate 4%) to be funded by BMPS and subsequently sold to potential investors
  - Mezzanine notes (EUR 1,029m / rate 7%) and Junior notes (EUR 686m) to be sold (for the 95%) to Atlante II
- Key steps of the Securitization Structure: (i) mark to market of the portfolio at 21% GBV transfer price (in 1H 2017), (ii) disposal of 95% Mezzanine notes by December 2017 and (iii) disposal of 95% of Senior A2 notes and Junior notes and full deconsolidation by 1H2018
- Excess cash at transfer date to be used to reduce consideration and applied pro rata to each tranche
- Earn-out (50% of the upside) in favour of BMPS if IRR on Junior above 12% annual threshold
- Exclusivity granted to Quaestio until mid September for the acquisition of BMPS servicing platform

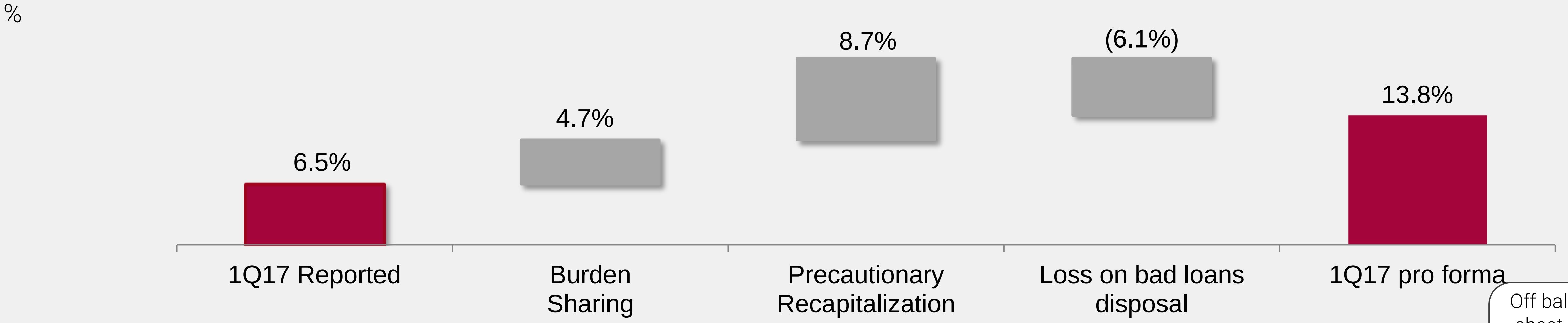


1. On behalf of Atlante II and potentially other private investors

Pro forma Capitalization structure

- ~ EUR 8.1bn positive impact from the precautionary recapitalization
- ~ EUR 3.9bn negative impact due to loss generated by bad loans disposal (mark to market at disposal price within 2017)

Pro forma CET1 ratio



	1Q17 Reported	1Q17 pro forma
TBV *(EUR bn)*	5.7bn	9.9bn
CET1 Fully loaded	5.8%	13.5%
TC	8.9%	14.0%
RWA *(EUR bn)*	64.5	66.3

Off balance sheet DTA of EUR 1.7bn (2017YE)

Indicative timeline

2017	- By July 2017: MEF implementation Decrees (ex art 18 Law 15/2017) - By July 2017: completion of burden sharing and precautionary recapitalization - Appointment of arrangers, master and special servicers, rating agencies - Completion of retail settlement exchange offer - Re-admission to listing in the stock exchange - Finalization of securitization structure (e.g. perimeter, tranching, business plans) - Sale of Mezzanine notes to Atlante II - Transferring of bad loan portfolio to SPV and issuance of Junior, Mezzanine, Senior A1 and A2 notes
1H 2018	- Completion of the rating process: analysis of datatape, of special servicers' business plan and of legal documentation - Approval of GACS - Sale of Junior notes to Atlante II - Sale of A1 and A2 notes - De-recognition of bad loans securitized portfolio

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2017-2021 Restructuring Plan – Key considerations (1/2)

A Recapitalization

- Total recapitalization of EUR 8.1bn
- Conversion of EUR 4.3bn of subordinated bonds into equity

B Bad loan disposal

- Disposal of EUR 26.1bn bad loans (EUR 9.4bn NBV) at a price of 21% of GBV with cut off date as at 31 December 2016
- Total investment by Atlante of EUR 1.6bn*
- Deconsolidation of bad loans by 1H18
- Assuming ECB granting a waiver on LGD model due to perimeter and one-off nature of the transaction

C Restructuring Plan

- Lower funding base due to commercial funding outflows in Q4 2016, partly recovered in 2017YTD
- Extended plan horizon (2021), given the extensive restructuring programme
- Prudent revenue growth trend, enhanced focus on operating costs reduction and conservative provisioning

D Commitments

- Cost reduction: in terms of number of branches, employees, cost/income and total operating costs, additional cuts up to a maximum of €100m in case net margin targets (before LLPs) are not met
- Disposals of non strategic assets: disposal of foreign banks, disposal of certain equity stakes provided that the disposal price results in a capital neutral impact and disposal of selected real estate properties
- Derisking: commitment to deconsolidate a portfolio of EUR 26.1bn of bad loans, strengthening of risk control, limitations on trading activity in terms of VAR and nature of the traded instruments
- Acquisition ban, salary cap

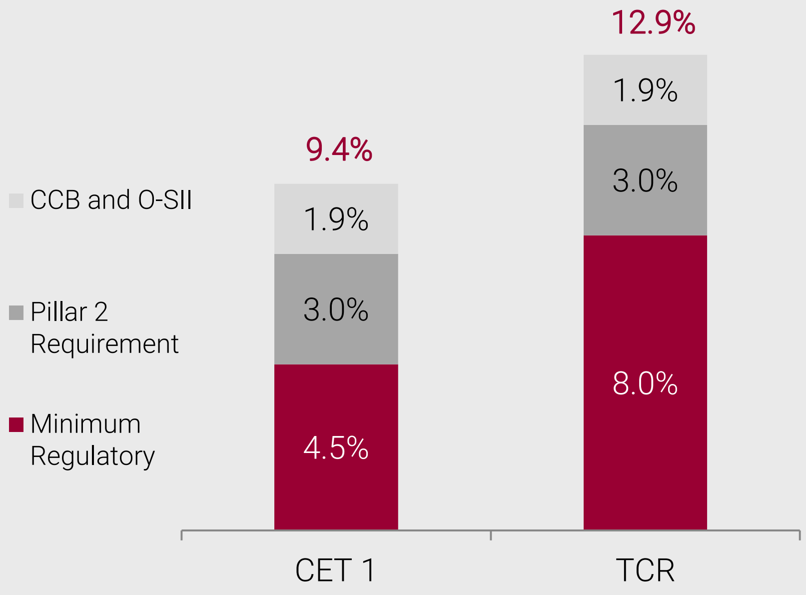
* Before excess cash pro rata deduction from consideration upon portfolio transfer

2017-2021 Restructuring Plan – Key considerations (2/2)

E SREP 2017

- Restructuring Plan consistent with the SREP decision (effective from 1 January 2018) and the ECB On-Site Inspection on the loan portfolio (reference date 31 Dec 2015), both on customer loans and provisioning
- On-Site Inspection results substantially overlap with 1) cumulated LLP since 31 Dec 2015, 2) impact of EUR 28.6bn bad loans disposal, 3) expected provisioning related to planned NPE reduction/disposal
- On-Site Inspection residual impact (ca. EUR 0.26bn) accounted for in the first years of the Restructuring Plan
- Derisking conditions
  - Bad loans mark to market to disposal price in 2017
  - Disposal of A2 notes by 1H18
  - De-recognition of bad loans in 1H18
  - Disposal of small tickets and leasing bad loans in 2018

SREP requirement for 2018



F IFRS 9

- Inclusion of IFRS 9 accounting standard preliminary estimate of EUR 1.2bn[1]
  - Fully reflected in the shareholders' net equity as at 1 January 2018 as First Time Adoption
  - CET1 impact spread over 6 years according to a phase-in mechanism[2]

1. Estimated on the basis of the project started by the Bank for the implementation of the new accounting principle
2. 5% in 2018; 15% in 2019%; 30% in 2020; 50% in 2021; 75% in 2022; 100% in 2023

Key pillars of the restructuring plan and main initiatives

Key pillars	Main initiatives
A Refocus on Retail banking activities	o Refocus on Retail and Small Business through a new simplified and highly digitized business model enabling value extraction from mass clients o Strong push on Wealth Management, with the creation of a dedicated business line for Private Customers enhancement o Central role of Widiba as innovation and digitization vehicle with exploitment of unexpressed potential o Rethinking of Corporate activities with complete revision of the business model, optimization of capital absorption and reshaping of product factories o Reduction of commercial liquidity mismatch over the Restructuring Plan horizon to reach a sustainable L/D ratio through a selective approach to new lending
B Renew operating model with sustained focus on efficiency	o Extensive digitization/automation of administrative processes and client interaction (with full leverage of the Widiba experience) o Streamlining of the domestic network, with further extensive closure of branches and simplification of network architecture o Rationalization of headquarters and legal entities o ~ 5,500 net headcount reduction o Further compression of other administrative expenses, notwithstanding the emerging costs related to restructuring projects and the decrease of the cost base already realized
C Radically improve credit risk management	o Complete re-organization of the CLO area, with internalization of decision mechanisms and direct reporting of territorial credit areas to enhance governance o Strong push on automated underwriting processes for small tickets and strengthening of credit standards and modus operandi with Business to enhance active risk management o Enforcing of proactive management of the riskiest exposures with the creation of a central dedicated credit unit within the Credit Division o Improvement in probability of defaults
D Strengthen liquidity and capital position	o Strengthening of the liquidity position and reimbursement of extraordinary liquidity over the Restructuring Plan horizon o Capture of benefits on cost of funding from expected re-rating o Divestment of non-strategic businesses, compatibly with market conditions and appetite

Restructuring Plan qualifying factors and execution pillars

Restructuring Plan qualifying factors

- Conservative plan following extensive negotiations with DG Comp and ECB review (including full impact of recently concluded ECB On-Site Inspection)
- Structural solution and sustainable approach to asset quality (bad loans disposal, bad loans servicing partnership, reorganization with strong NPE unit, NPE selective disposal/reduction)
- Enhanced focus on operating efficiency leveraging on track record and with full visibility on restructuring costs and execution
- IFRS 9 preliminary estimate in connection with performing portfolio and NPE disposal fully factored in Restructuring Plan[1]
- Significant DTA potential upside (EUR 1.7bn off balance sheet as at 2017YE)

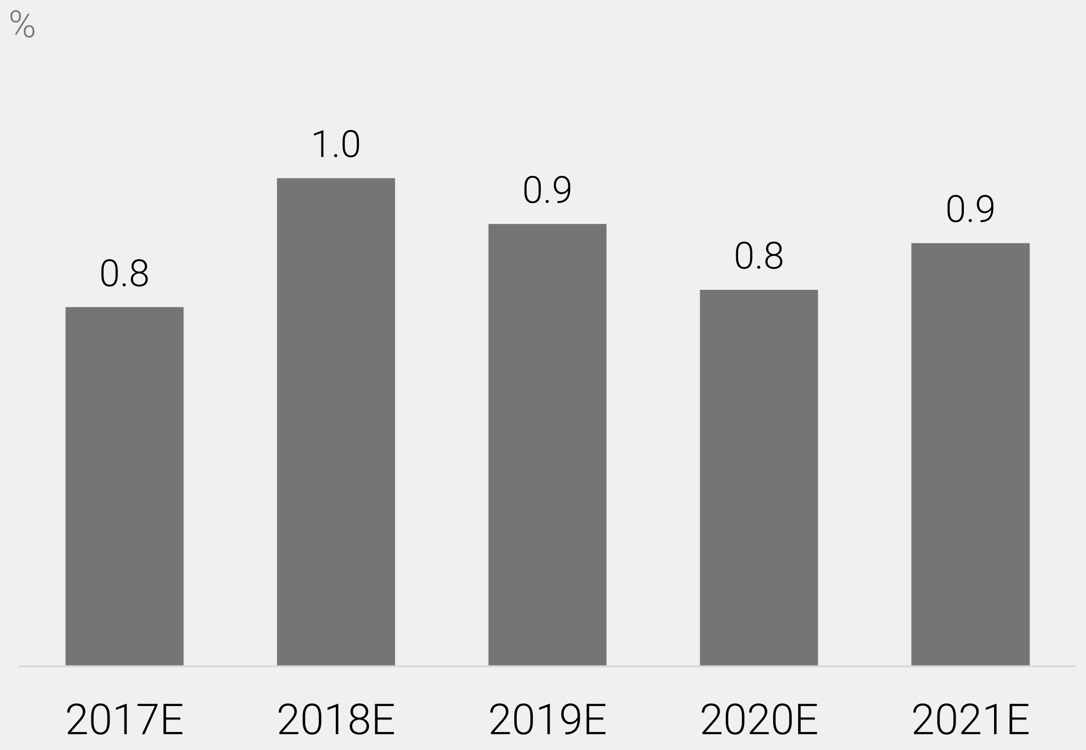
Pillars for Restructuring Plan execution

- Solid business positioning
  - Resilient client base
  - Effective salesforce
  - Strong commercial partnerships
  - High quality fee based income
- Efficient operating structure
  - Strong track record
  - Digital transformation leveraging on Widiba successful experience
  - Streamlined organizational structure
- Positive momentum
  - Agreement with all key stakeholders (DG Comp, ECB)
  - Binding commitment on bad loans disposal with Atlante II
- Committed top management
  - Rejuvenated and fully committed management team

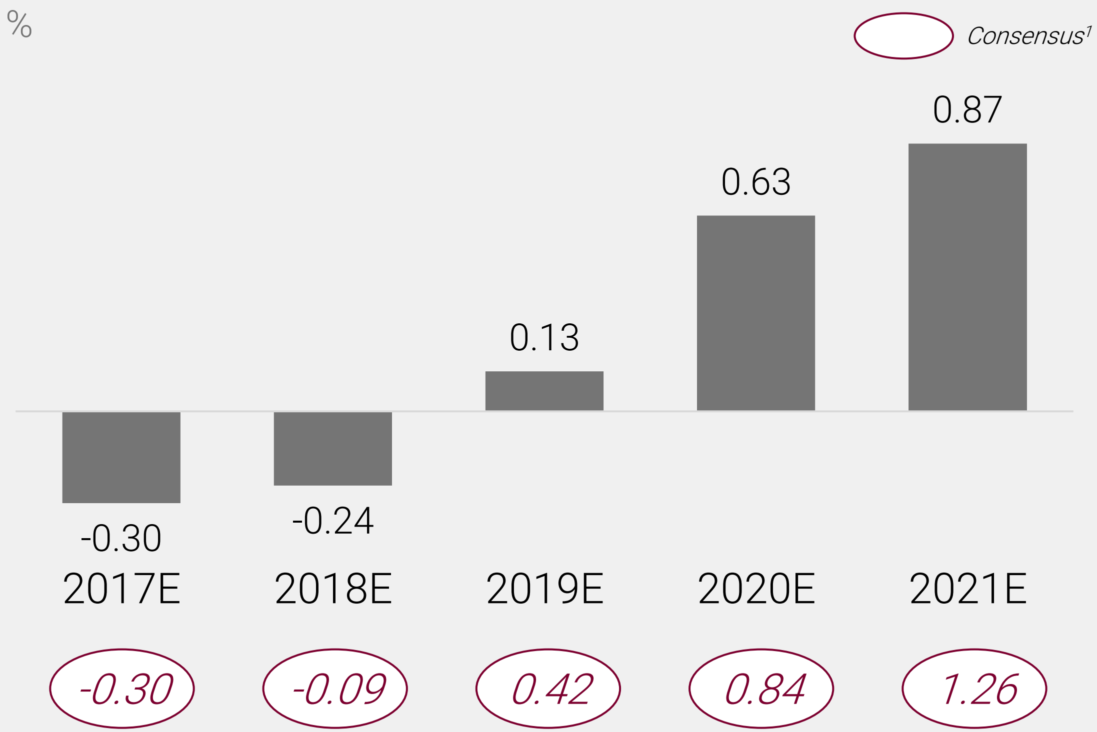
1. Estimated on the basis of the project started by the Bank for the implementation of the new accounting principle

2017 – 2021 Restructuring Plan – Key macro assumptions

Italian GDP real growth



Interest rates EURIBOR 3m (YE)



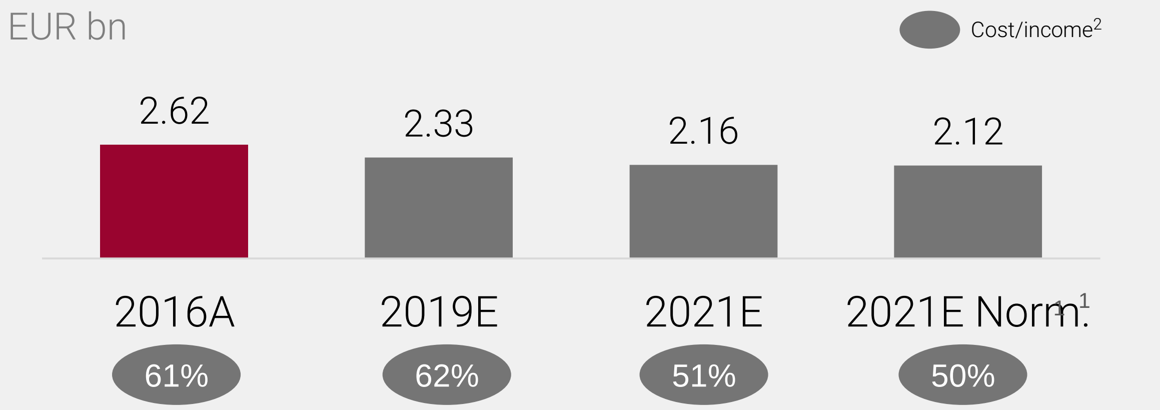
1. FocusEconomics Consensus Forecast – May 2017

Source: Prometeia for Italian GDP growth

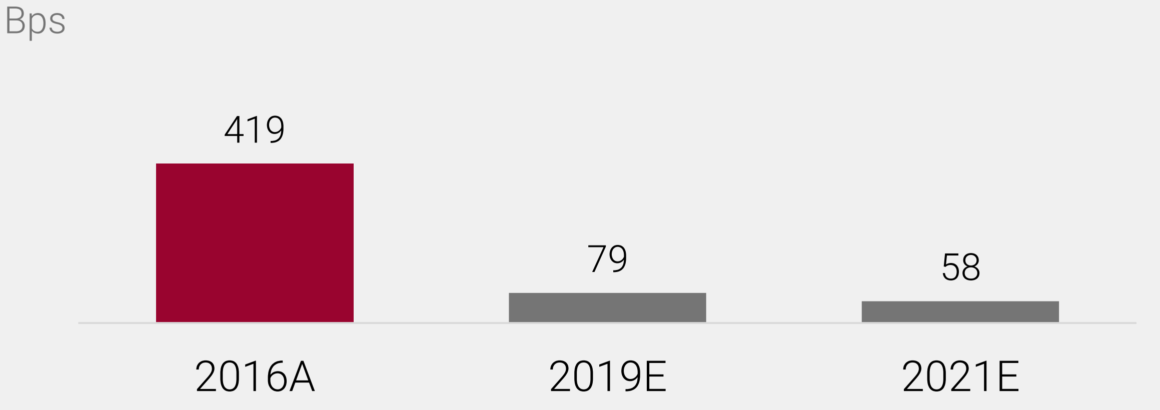
Solid and realistic targets (1/2)

Net income

Operating costs



Cost of risk[3]



Return on equity (ROE)[4]

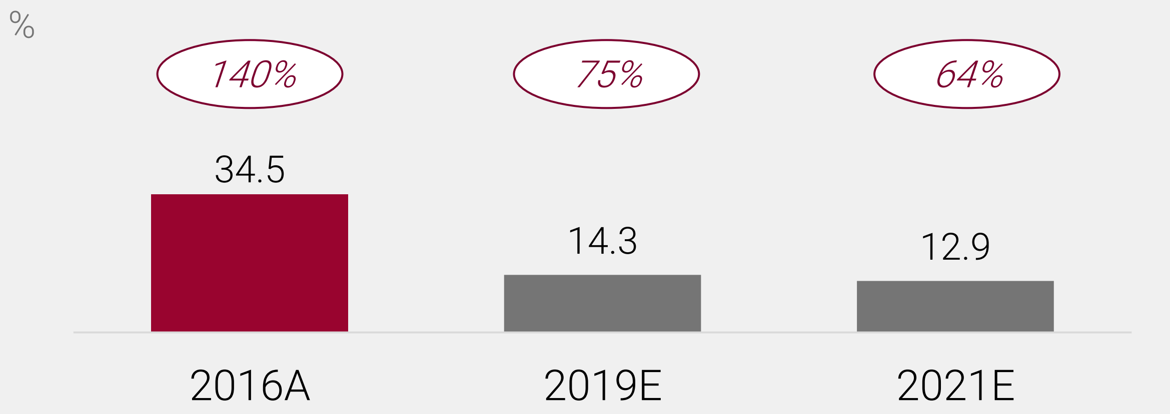
1. Considering full effect of early retirement of personnel executed throughout 2021
2. Operating costs / Revenues
3. Net LLPs / Loans to customers (EoP); 2019E and 2021E CoR does not include impacts from other NPE disposals foreseen in the Restructuring Plan as already accounted on Book Value and CET 1 according to preliminary estimate of IFRS 9 first time adoption
4. Net income / average equity

Solid and realistic targets (2/2)

CET1 ratio[1]

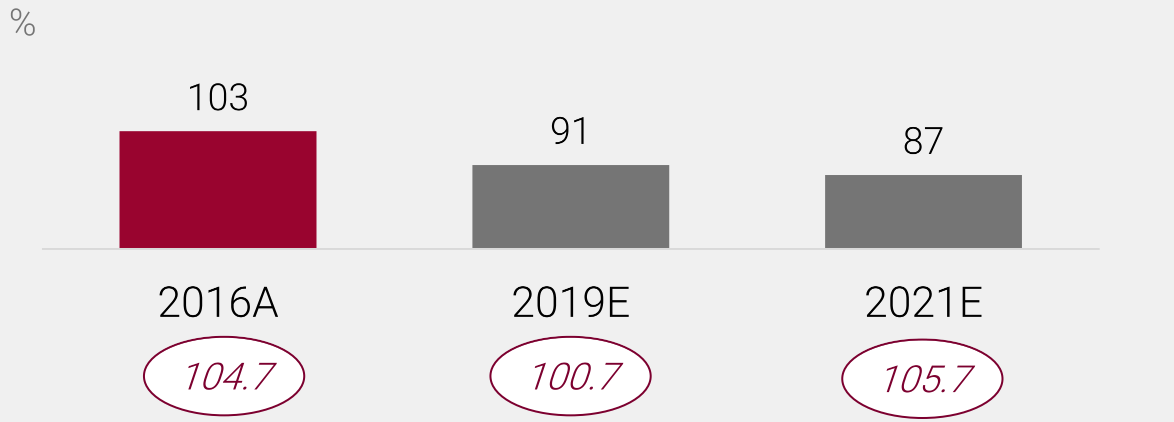
Gross NPE ratio[2]

Texas Ratio [3]



Loan to deposit ratio

Direct funding (EUR bn)



Liquidity coverage ratio (LCR)[4]

1. 2016 transitional, 2019E and 2021E fully loaded
2. Gross non performing exposures (NPE) / gross customer loans
3. Gross NPEs / tangible equity + provision funds for NPEs
4. Stock of high quality liquid assets / total net cash outflows over next 30 days

Financial projections – Income statement

Financial projections

EUR bn

	2016A	2019E	2021E	2021E *Norm.* [1]	CAGR 16-21	CAGR 16-21 Norm.
Net Interest Income	2.02	1.72	1.98	1.98	-0.4%	-0.4%
Net Fees and Commission	1.84	1.81	2.01	2.01	1.8%	1.8%
Other Income	0.44	0.22	0.29	0.29	-7.8%	-7.8%
Operating Income	**4.28**	**3.75**	**4.27**	**4.27**	**-0.1%**	**-0.1%**
Personnel Costs	-1.61	-1.45	-1.32	-1.28	-3.9%	-4.4%
Other Administrative Expenses	-0.79	-0.63	-0.59	-0.59	-5.9%	-5.9%
Depreciation & Amortization	-0.22	-0.25	-0.26	-0.26	3.2%	3.2%
Operating Costs	**-2.62**	**-2.33**	**-2.16**	**-2.12**	**-3.8%**	**-4.1%**
LLP	-4.50	-0.72	-0.53	-0.53	-34.7%	-34.7%
Net Operating Results	**-2.84**	**0.71**	**1.58**	**1.61**	**n.m.**	**n.m.**
Pre-tax income	**-3.18**	**0.40**	**1.36**	**1.40**	**n.m.**	**n.m.**
Tax expenses	0.00	0.00	-0.41	-0.42	82.0%	82.8%
DTA reassessment	0.00	0.27	0.27	0.27	n.m.	n.m.
Net income	**-3.24**	**0.57**	**1.22**	**1.25**	**n.m.**	**n.m.**

Key ratios

(Bps, %)	2016A	2019E	2021E
Cost/Income (%)	61.2%	62.0%	50.6%
Cost of risk (bps)	419	79	58
ROE (%)	n.m.	5.7%	10.7%
CET1 Ratio (%)	8.2%	12.7%	14.7%
Gross NPE Ratio (%)	34.5%	14.3%	12.9%
L/D Ratio (%)	103%	91%	87%
LCR (%)	108%	153%	154%
NSFR (%)	88%	108%	114%

1. Considering full effect of early retirement of personnel executed throughout 2021

Financial projections – Balance sheet

Financial projections

EUR bn

	2016A	2019E	2021E	CAGR '16-21'
Total Assets	**153.2**	**134.0**	**134.2**	**-2.6%**
Of which:				
Loans to Customer	106.7	90.7	91.5	-3.0%
Financial Assets	25.9	23.8	23.6	-1.9%
Total Liabilities	**153.2**	**134.0**	**134.2**	**-2.6%**
Of which:				
Direct Funding	104.7	100.7	105.7	0.2%
Equity[1]	6.5	10.3	11.9	13.1%

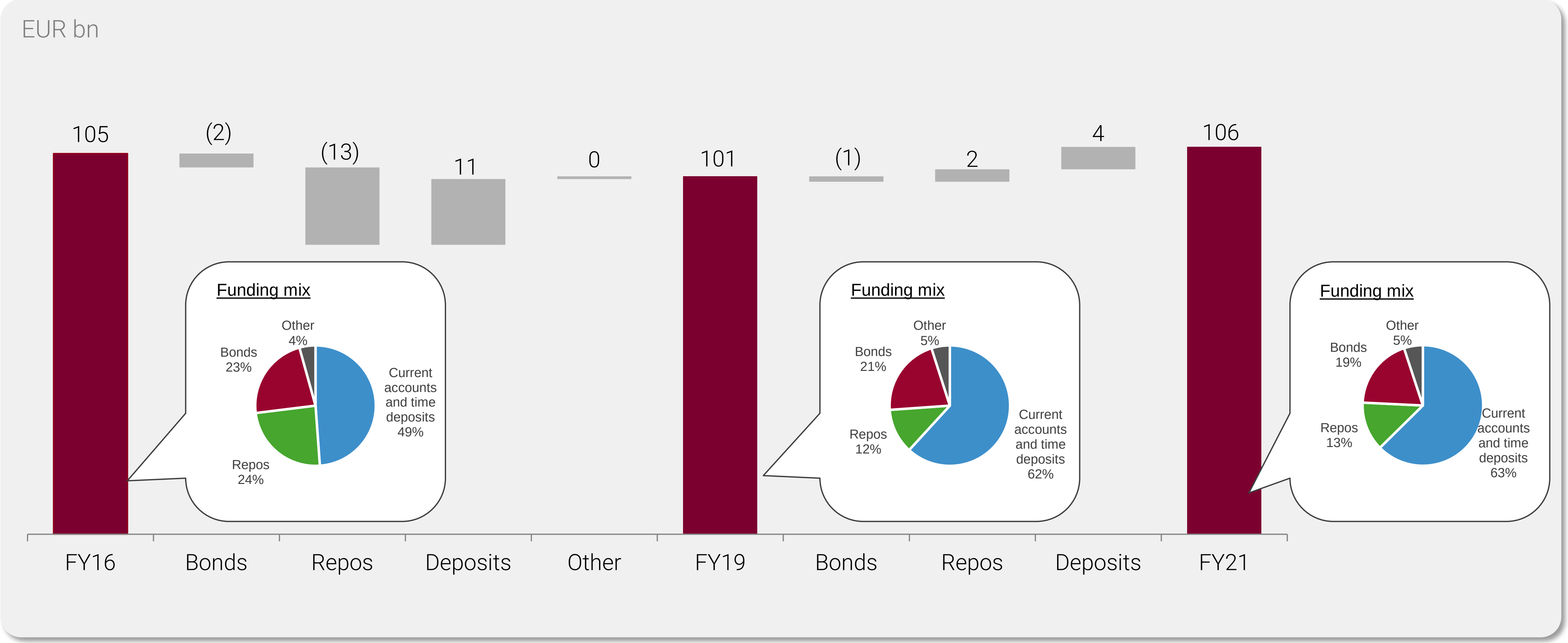
NPE evolution

(EUR /m, %)	2016A	2019E	2021E
Bad Loans Coverage Ratio (%)	64.8%	67.4%	67.3%
UTP Coverage Ratio (%)	40.3%	40.7%	41.7%
Past Due Coverage Ratio (%)	23.3%	19.7%	18.7%
Total NPEs (EUR /bn)	45.8	14.3	12.8
Gross NPE Ratio (%)	34.5%	14.3%	12.9%
Texas Ratio (%)[2]	140%	75%	64%

1. Includes minorities
2. Gross NPEs / equity + provision funds for NPEs

Direct funding

- Re-balance of funding mix towards higher quality sources such as current accounts vs. repos
- Increase in repos for 2019-2021 in order to match TLTRO/GGB maturities



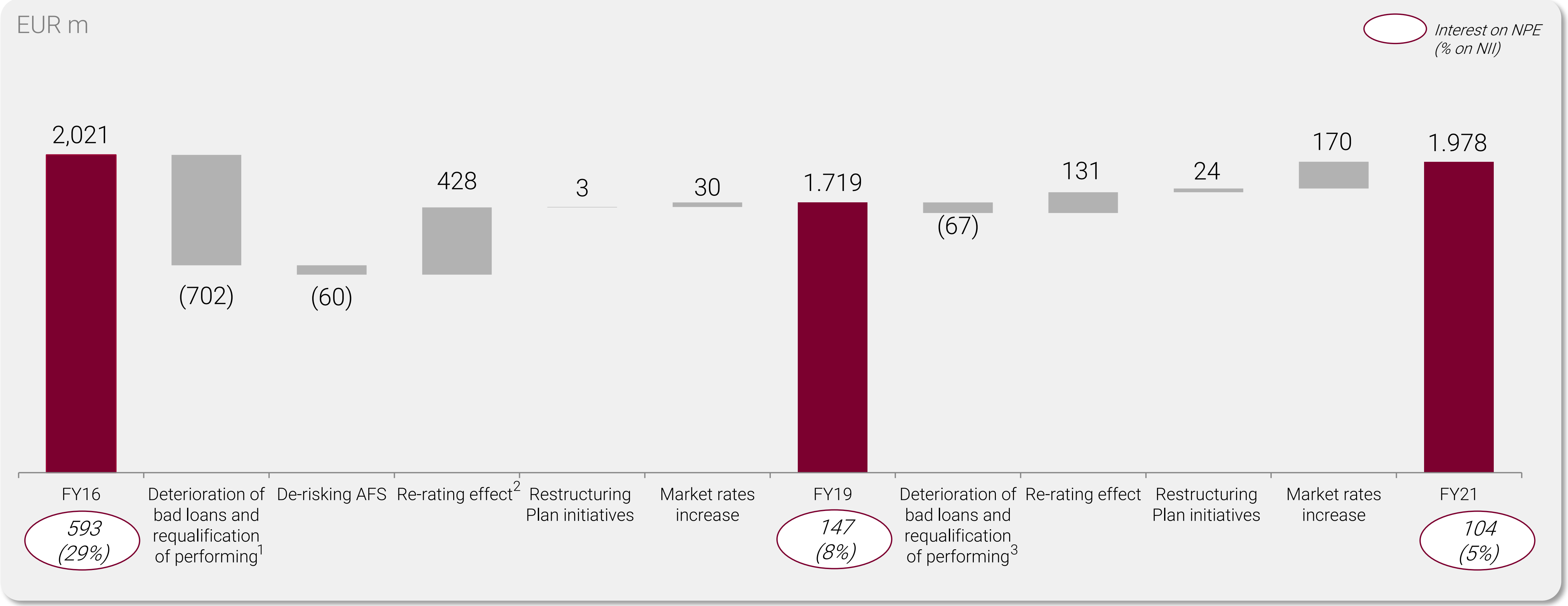
Gross customer commercial loans

- Improvement of the risk-profile of the commercial loan portfolio by reducing corporate exposures
- Concerning small business and corporate segment, focus on short term loans (with higher fee margins) rather than on medium/long term loans

1. Gross Commercial Loans + Bad loans - Provisions

Net interest income

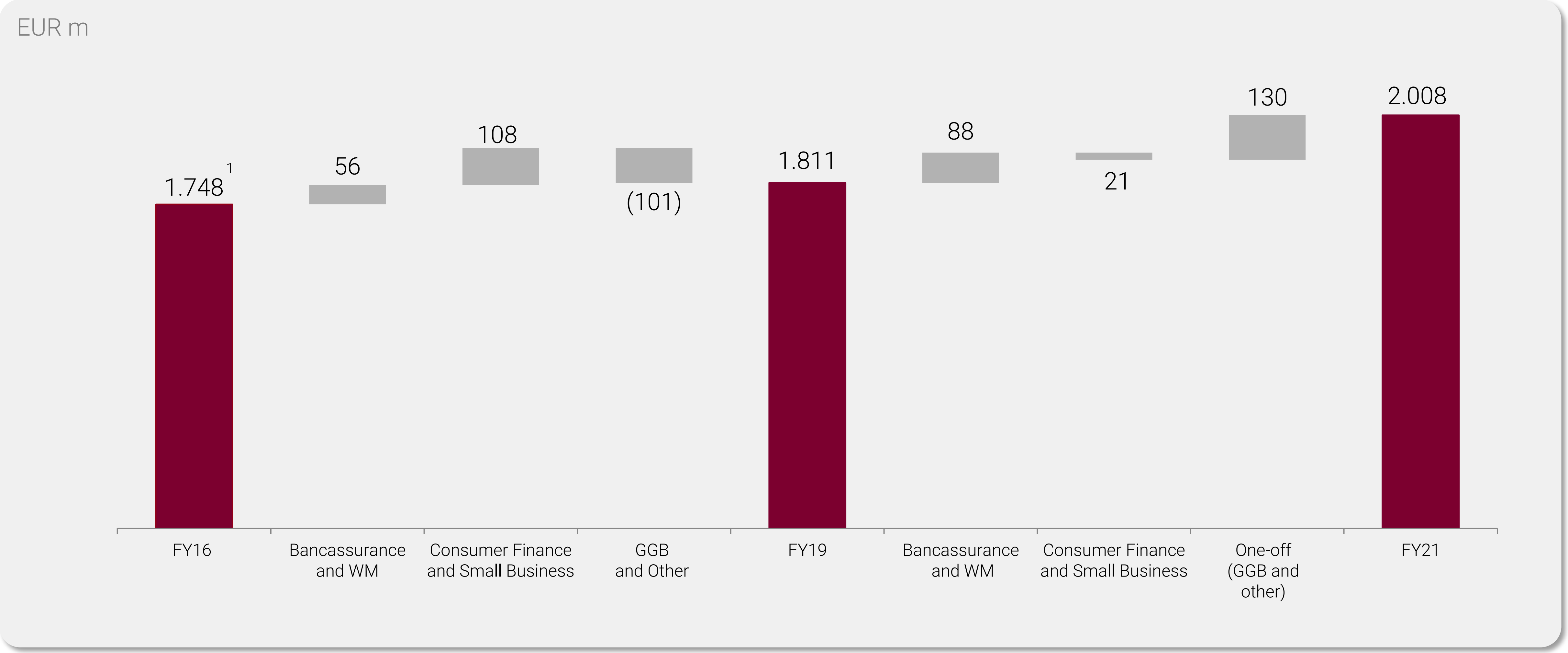
- Negative impact from de-risking of the loan portfolio, thanks to the UTP/Past due reduction and the lower rates on loans to customer (due to lower PD), coupled with the reduction of interest rates on the AFS portfolio (short maturities and highly rated issuers)
- Drastic reduction of interest income from NPE, partially compensated by a decrease in cost of funding, thanks to the improved perception of the Bank by the market
- +100bps in interest rates would increase interest margin by EUR 130-150m (before taxes) per annum



1. Includes ca. EUR 250mln due to requalification of performing
2. Includes ca. EUR 130mln due to lower cost of subordinated bonds
3. Includes ca. EUR 11mln due to requalification of performing

Net fees and commission

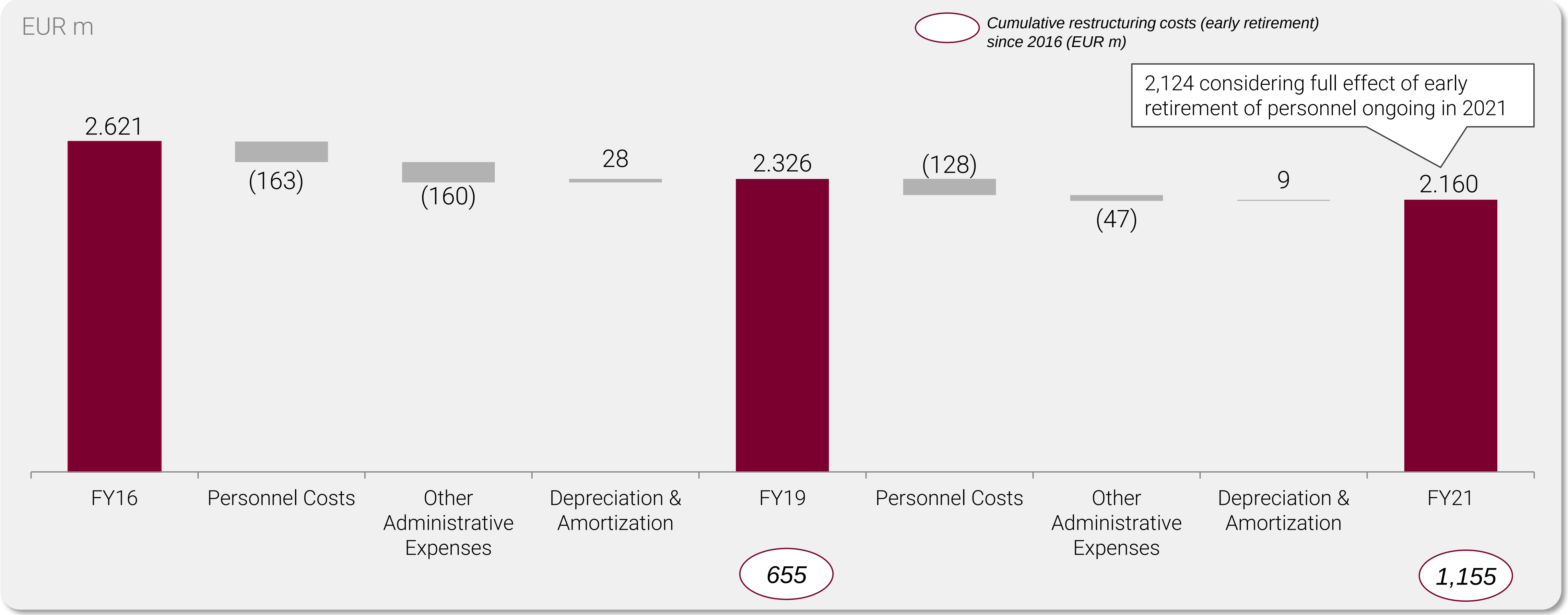
- Growth mainly driven by the wealth management activity further development and from the increase in small business loans (with higher fee margins)



1. Excluding EUR 90m of Acquiring

Operating costs

- Strong headcount reduction, with ~4,800 employees to exit through Fondo di Solidarietà and 750 headcount reduction from natural turnover (in addition to 450 headcount reduction from disposal of foreign banks) for a net headcount reduction of 5,500[1]
- Further optimization of other administrative expenses arising from the revision of the operating model (e.g. network rationalization, decrease of bad loans recovery costs and other costs actions on Logistics, Security, Energy management, IT and Real estate)

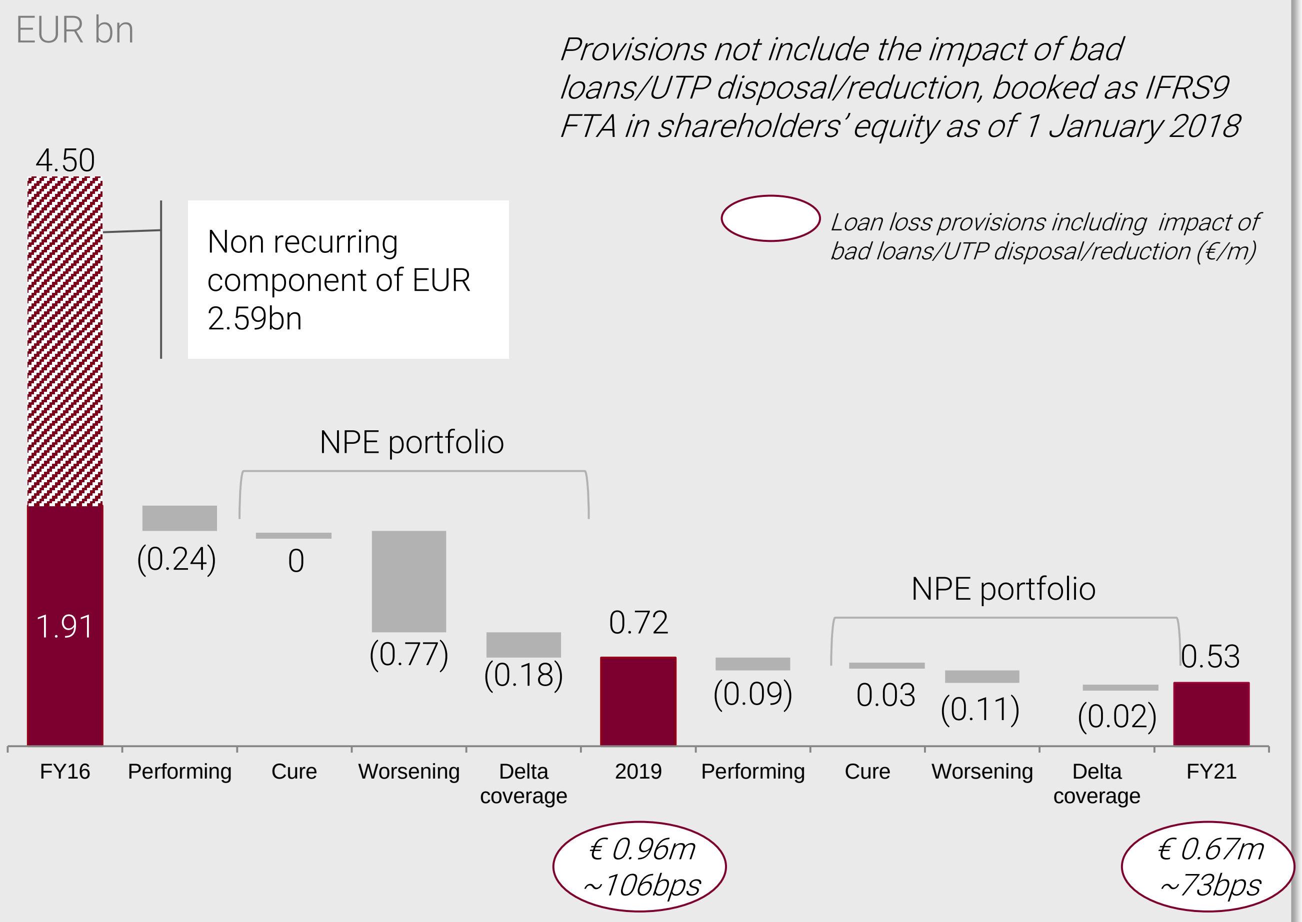


1. Including EUR 500m from hiring.

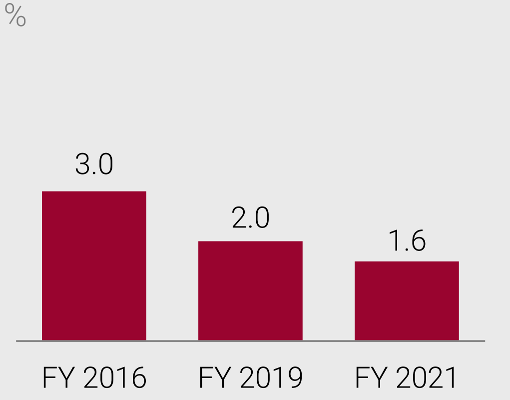
Cost of risk

- LLP and impact of bad loans/UTP disposals/reduction in 2018-2021 include the outcome of the ECB Inspection concluded in June 2017
- A reduction of -0.10% of the GDP would increase LLP by EUR 35-45m (before taxes) per annum

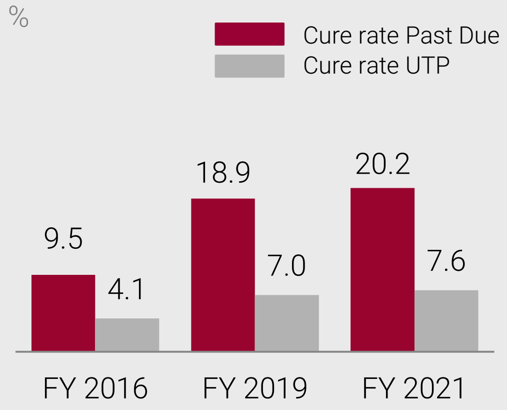
Loan loss provisions



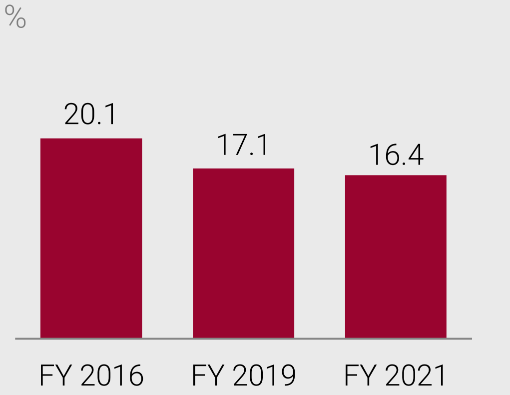
Default rate



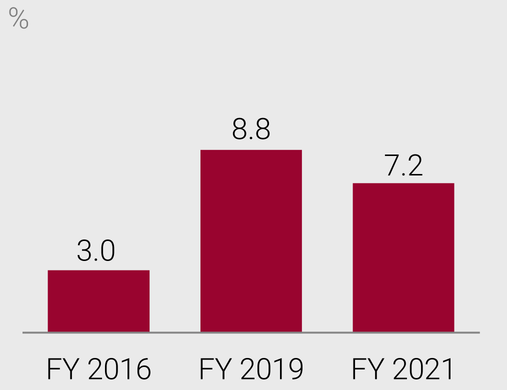
Cure Rate of Past Due and UTP[1]



UTP danger rate



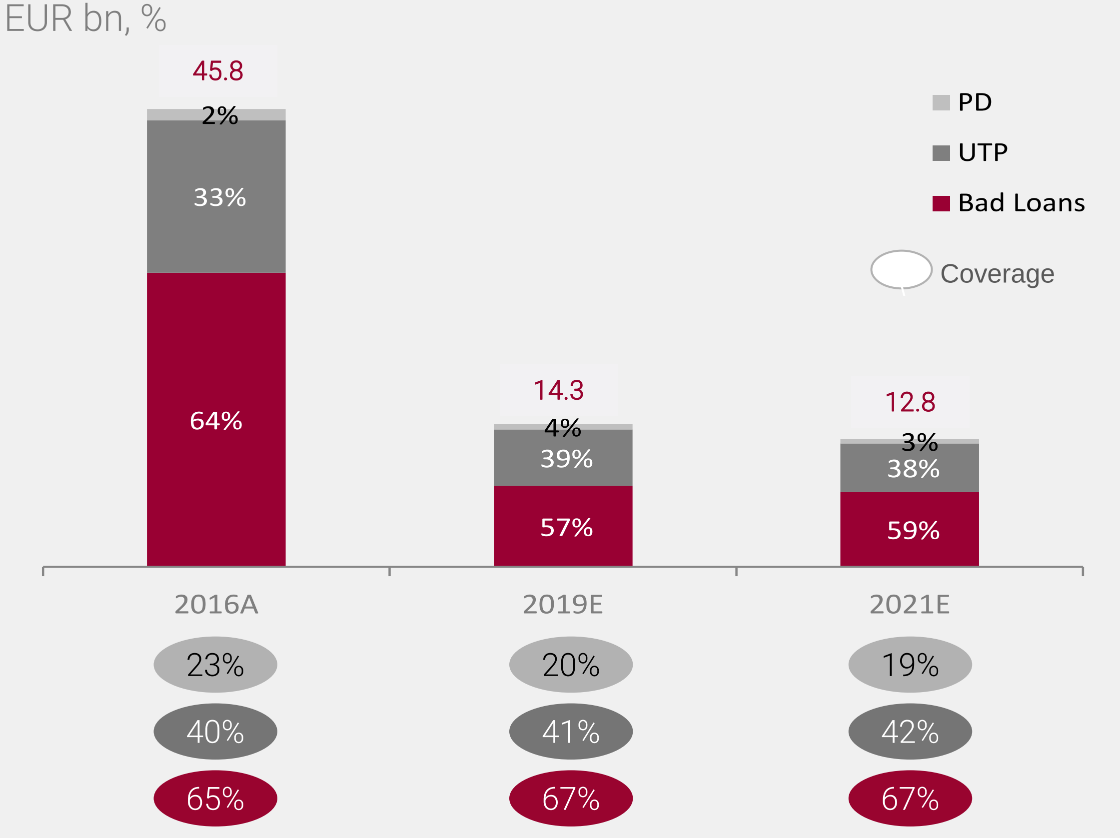
Recovery rate on Bad Loans



1. Excluding sale of UTP

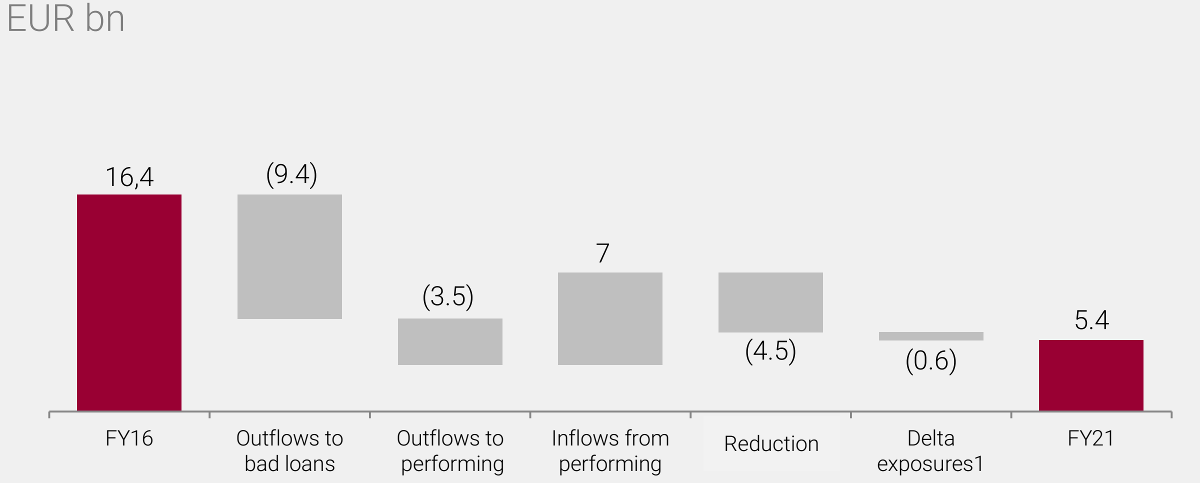
Asset quality

Gross NPE mix

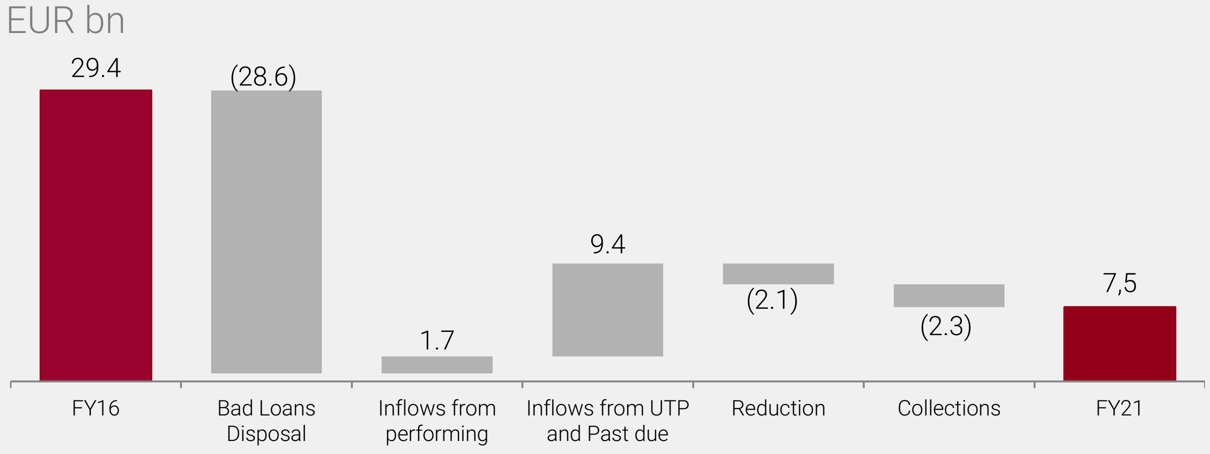


- Additional UTP and Bad Loans reduction:
  - ~EUR 4.5bn UTP in 2017, 2018 and 2019
  - ~EUR 2.0bn Bad Loans in 2020 and 2021

UTP and Past Due



Bad Loans



1. Net effect of decrease of PD/UTP exposure due to recovery and increase of exposure due to interest on PD/UTP positions

Agenda

- Precautionary Recapitalization
- Bad Loans Disposal
- 2017-2021 Restructuring Plan
- **Appendix**

Appendix

- Annex 1: Key business drivers
- Annex 2: Details on UTP portfolio
- Annex 3: DTAs

Key business drivers – Refocus on Retail Banking activities

1	**Refocus on Retail Banking activities**
2	Renew operating model with sustained focus on efficiency
3	Radically improve Credit Risk Management
4	Strengthen liquidity and capital position

A

- Refocus on Retail and Small Business through a new simplified and highly digitized business model enabling value extraction from mass clients
- Strong push on Wealth Management, with the creation of a dedicated Business line for Private Customers enhancement
- Central role of Widiba as innovation and digitization vehicle with exploitment of unexpressed potential

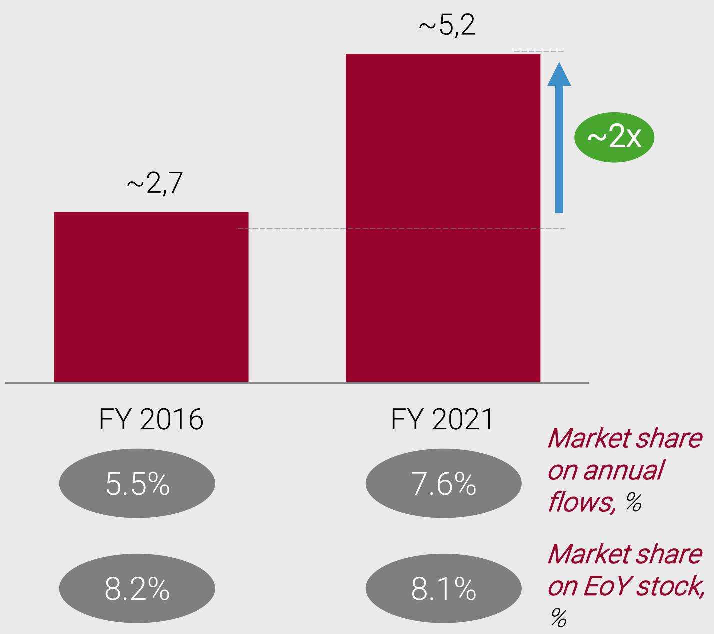
B

- Rethinking of Corporate activities with complete revision of the business model, optimization of capital absorption and reshaping of product factories

1A Refocus on Retail and Small Business through a new simplified and highly digitized business model and strong push on AUM

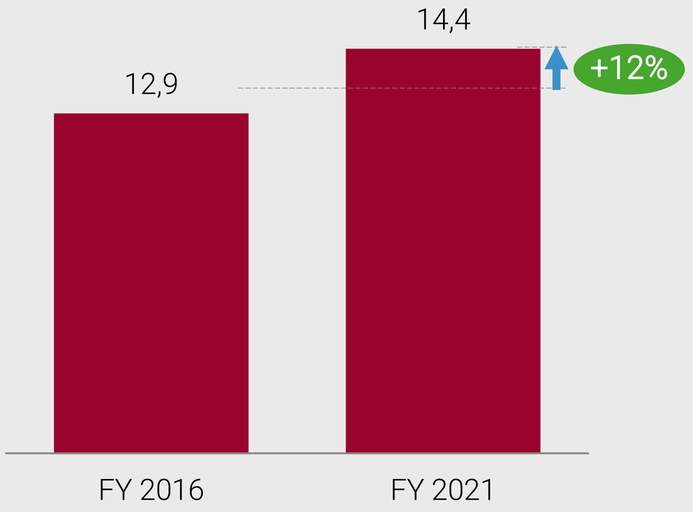
Individual[1] mortgages annual flow

EUR bn



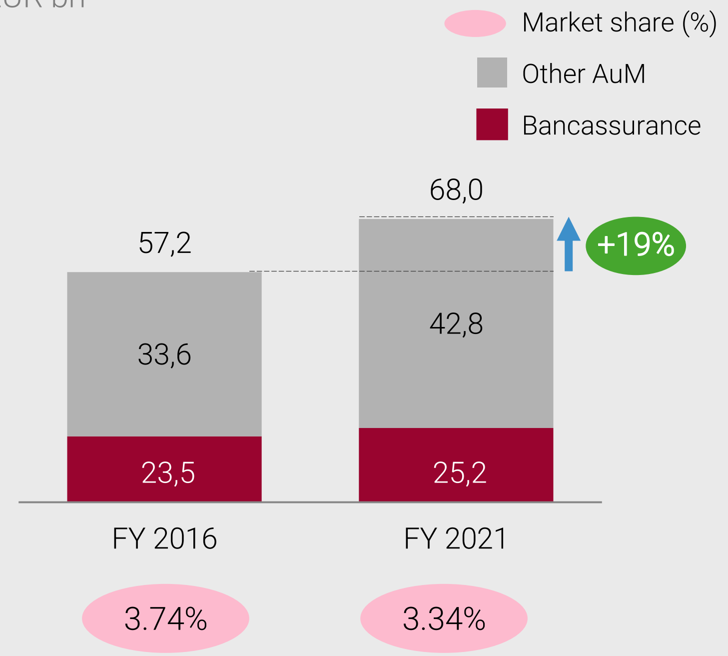
Loans[2] to Small Business

EUR bn



Total AuM evolution

EUR bn



- Launch of a dedicated program for the Retail Division, with specific Service Lines designed to meet customer needs and place the Bank as key interface for the client within multiple ecosystems (e.g., home, protection, working capital):
- Complete redesign of the branch layout with dedicated spaces for specialized services and self-directed areas
- Launch of a new way of serving Small Business with strengthening of current targeting capabilities (through strong push on data analytics) and continuous focus on cost of risk for new lending
- Continuous leverage on the Bancassurance partnership with AXA to reinforce strong positioning both in savings and protection (life and P&C) and Anima
- Dedicated highly professional 'in branch' advisory service for upper Affluent

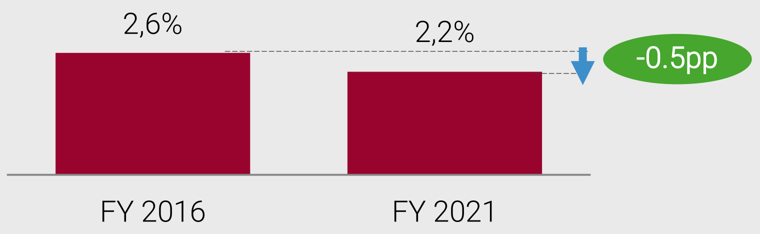
1. Valore, Premium, Private, Family Office and Wiidba; 2.Gross commercial loans, excluding Bad Loans; 3. Retail clients with access to Internet Banking / total c/c; 4.Clients with at least one access in the last 180 days

SOURCE: Prometeia for market shares

1B Rethinking of Corporate activities – Revision of the business model and optimization of capital absorption

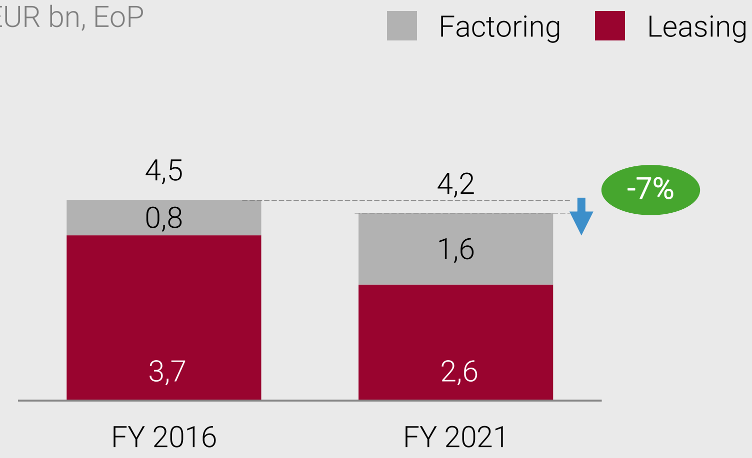
PD of Corporate stock[1]

%



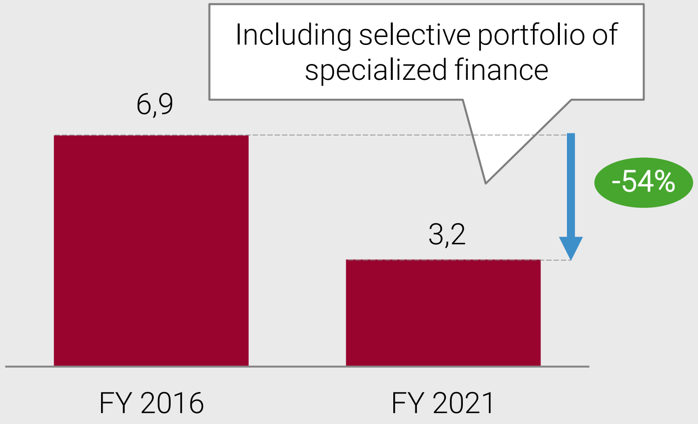
MPS Leasing & Factoring – Gross commercial loans[2]

EUR bn, EoP



MPS Capital Services – Gross commercial loans[2]

EUR bn, EoP



- Focus on high risk-adjusted profitability clients through segment based commercial strategies:
  - Tactical approach on Large Groups
  - Tailor made service for high-value mid corporates
  - "Low touch" engagement model for smaller/low value enterprises
  - Progressive run-off of non-core (including performing exposures)
- Strong cross selling culture through adoption of "one-Network" approach
- Push on specialization and excellence of core competencies:
  - Dedicated unit for MLT financing (all deals above a certain threshold to be executed centrally)
  - Accelerated growth of factoring
  - Very selective leasing as cross-selling lever, with strict refocus coupled with risk fragmentation, still pursuing opportunities for sale of the business and/or distribution agreements with third parties
  - Refocus of MPS Capital Services on Capital Markets with selective portfolio of specialized finance - i.e., leverage for PE, real estate for SGR, acquisitions finance and project

1 PMI, Corporate Top, Enti and Grandi Gruppi
2 Excluding Bad Loans
3 Average ticket for leasing exposures opened during the year

Key business drivers – Renew operating model with sustained focus on efficiency

1	Refocus on Retail Banking activities
2	**Renew operating model with sustained focus on efficiency**
3	Radically improve Credit Risk Management
4	Strengthen liquidity and capital position

A
- Extensive digitization/automation of administrative processes and client interaction (with full leverage of the Widiba experience)

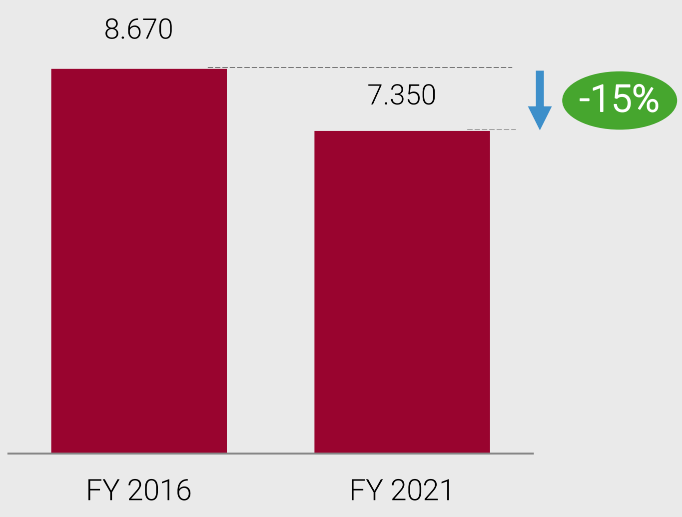
B
- Streamlining of the domestic network, with further extensive closure of branches and simplification of organizational structure
- Rationalization of Headquarters and Legal Entities

C
- Strong reduction of headcounts, with ~4,800 employees involved in "Fondo di Solidarietà"

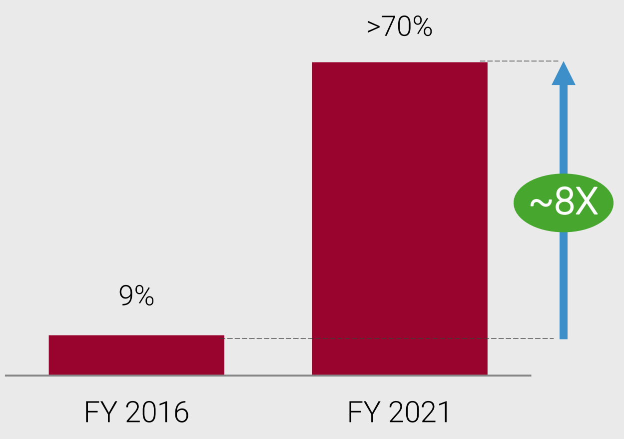
D
- Further compression of other administrative expenses, notwithstanding the emerging costs related to restructuring projects and the decrease of the cost base already realized

2A Launch of a Group Digital Program to enhance Digital Migration and transform processes end-to-end

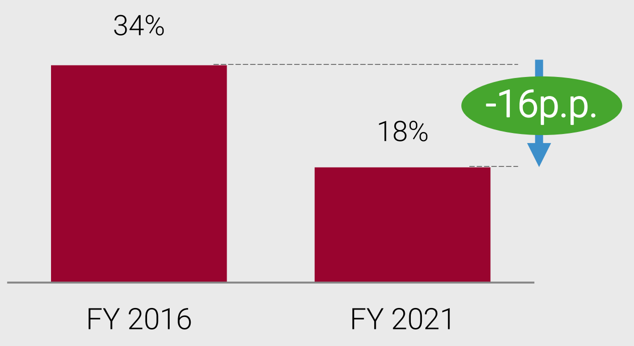
FTEs absorption by top 20 processes
#



Self deposits[1]
%



FTEs allocation to manual processes[2]
%

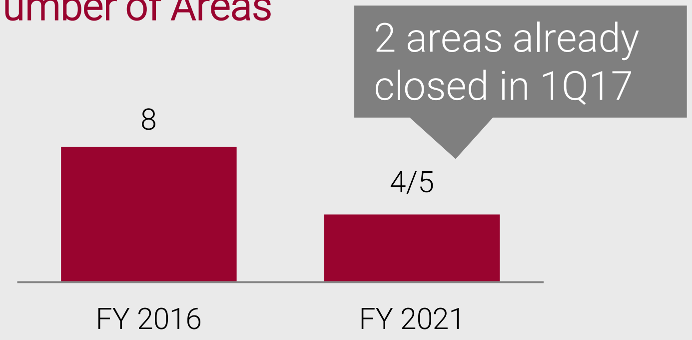


- Digitization of key customer journeys to transform top 20 FTEs absorbing processes (e.g., administrative activities supporting commercial relation with client, commercial planning)
- Enhancement of digital front-end to promote shift transactions to digital channels (e.g., leveraging Widiba tech solutions)
- Investment in IT infrastructure and data analytics to enable process automation

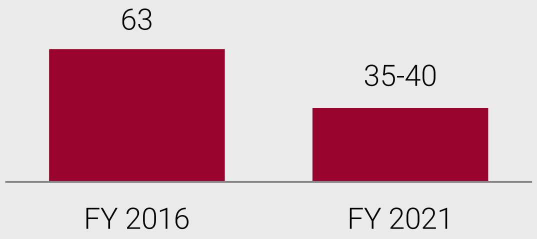
1. Self-directed deposits (advanced ATMs)/ total deposits. Process with largest FTE absorption.
2. Excluding client relation

2B Streamlining of the domestic Network and refocus on commercial activities

Number of Areas

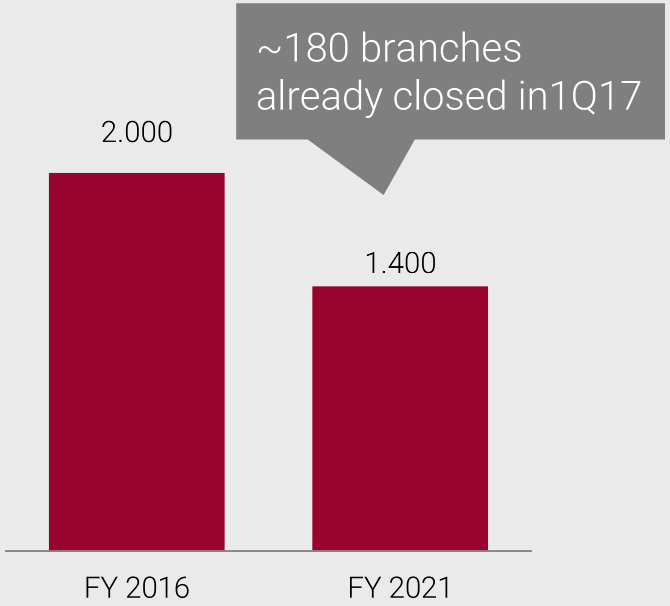


Number of DTMs[1]



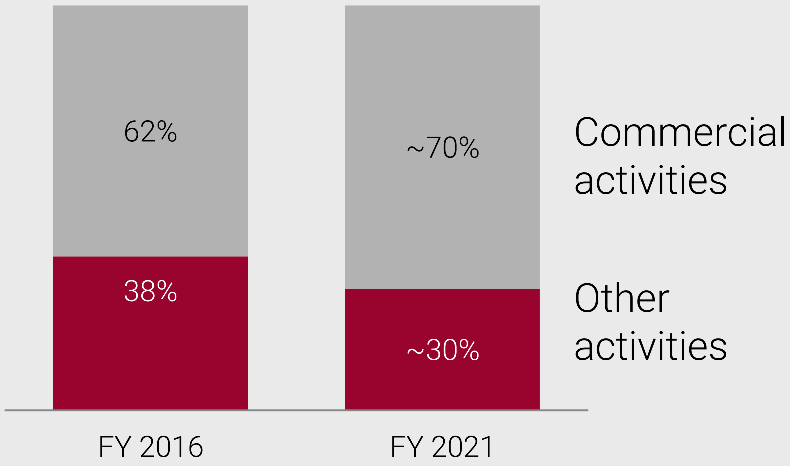
- Credit and middle office activities to be spun off
- Areas to focus on commercial activities for all clients

Number of branches



- Significant reduction of the number of branches, down to ~1,400 differentiated by range of services offered
- Complete redesign of the branch layout to meet modified customer needs

FTEs absorption[2], %



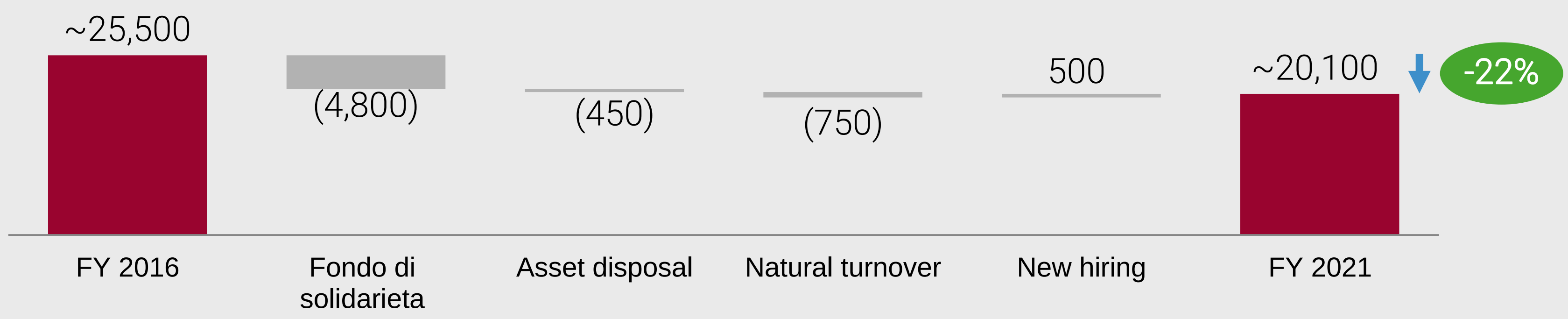
- Significant release of FTEs from back-office, to be dedicated to commercial activities
- Strong push on self-directed channels also within the branch

1. Direzione Territoriale Mercato
2. FTEs in network absorbed in process / total FTEs in network

2C Strong headcount reduction, with ~4,800 employees in Fondo di Solidarietà

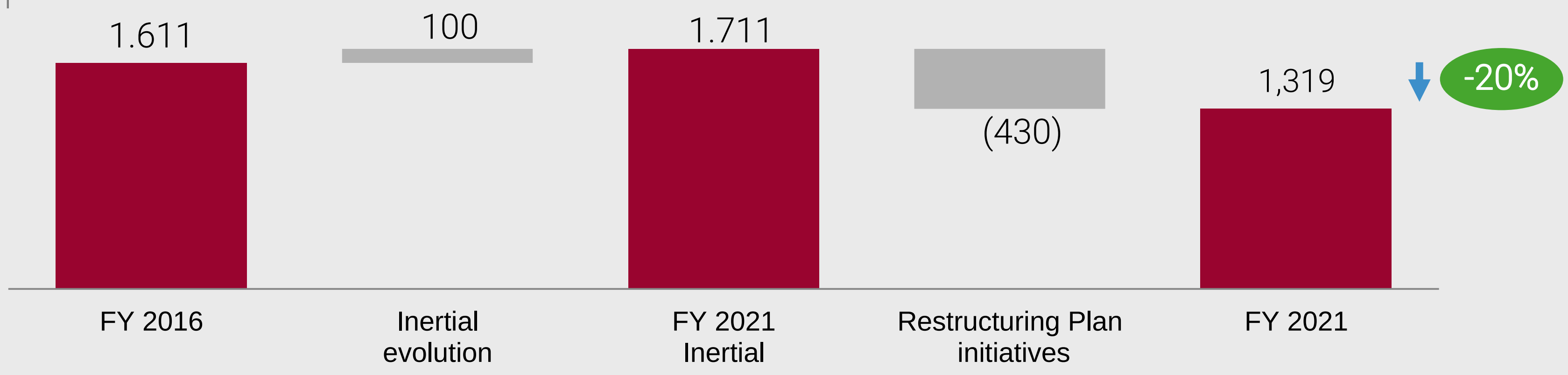
- **Activation of the "Fondo di solidarietà"**, with **~EUR 1,150m HR severance**
- Exit of **~750 employees** due to **natural turnover**
- Introduction of **~500 new resources** to facilitate the **generational shift**
- Further **~450** headcount reduction following **disposal of foreign banks**

Evolution of the Bank's headcount



Evolution of the bank's personnel expenses

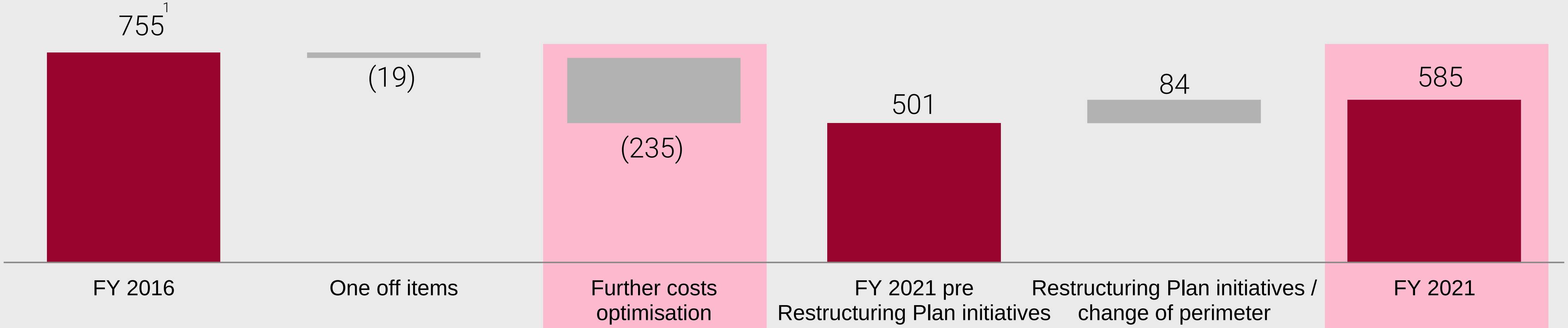
EUR m



2D Further optimization of other administrative expenses

EUR m

Other administrative expenses



Reduction following the revision of business and operating model

- Further network rationalization (e.g. branch closures)
- Decrease of bad loans recovery costs following securitization
- Disposal of Merchant Acquiring business
- Further costs actions on Logistics, Security, Energy management, IT, Real estate

Increase to support new business plan initiatives

- Outsourcing of credit recovery platform
- Process digitization and new credit decision engines
- CRM, big data & analytics
- New Internet Banking
- Enhanced security on payment systems
- Training & change management

1. Excluding ~EUR 37m extraordinary items

Key business drivers – Radically improve Credit Risk Management

1	Refocus on Retail Banking activities
2	Renew operating model with sustained focus on efficiency
3	**Radically improve Credit Risk Management**
4	Strengthen liquidity and capital position

A
- Complete re-organization of the CLO area, with internalization of decision mechanisms and direct reporting of territorial credit areas to enhance governance

B
- Strong push on automated underwriting processes for small tickets and strengthening of credit standards and modus operandi with business to enhance active risk management

C
- Enforcing of proactive management of the riskiest exposures with the creation of a central dedicated credit unit within the Credit Division
- Improvement of NPE unit performance and selective disposals

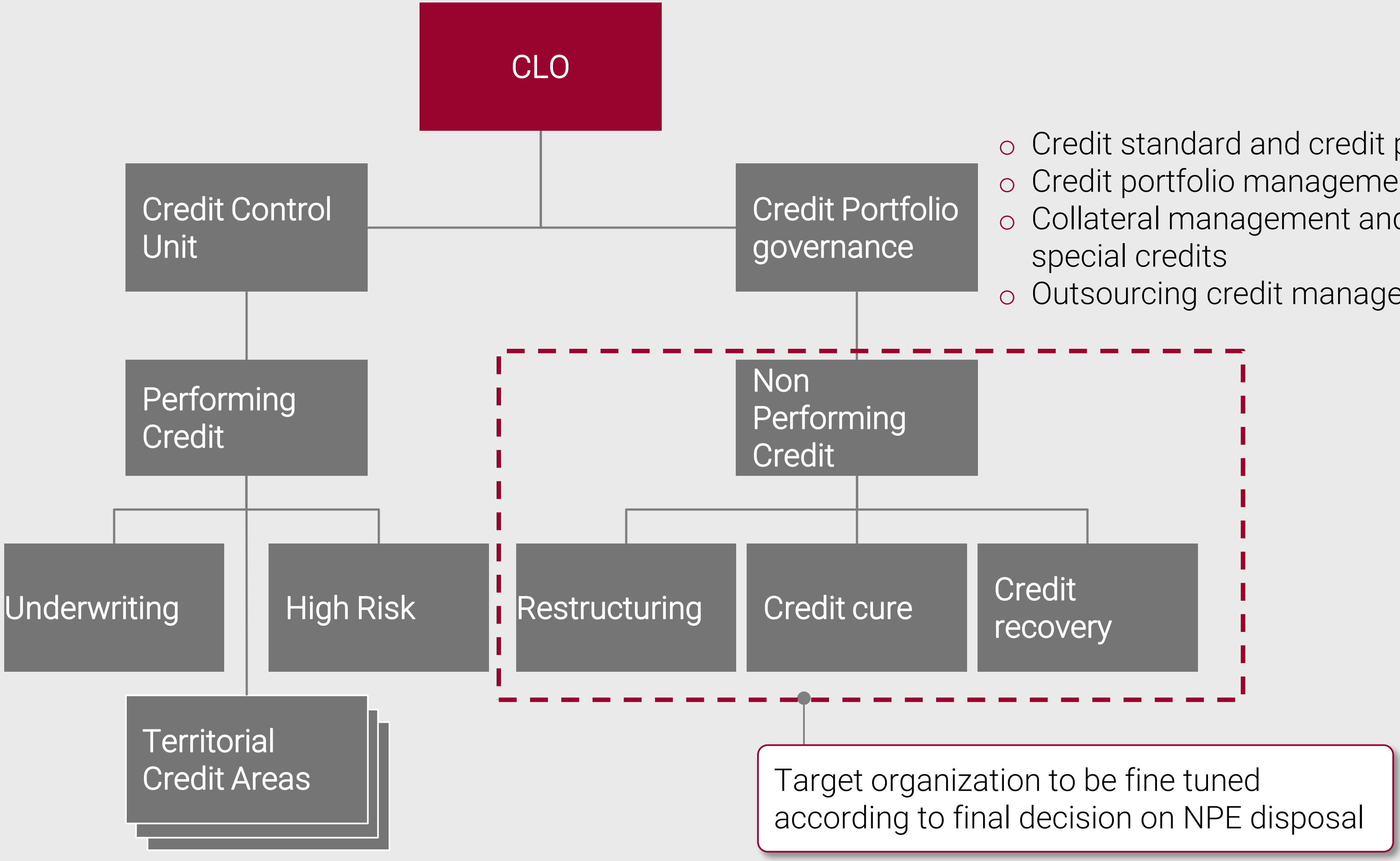
D
- Improvement in probability of defaults

3A Re-organization of the CLO area already up-and-running

Approach

- **Territorial Credit Areas** moved from Business to Credit
- **Strong governance** of the credit portfolio
- **2 dedicated Credit Business lines** to be dedicated to specific portfolios
- Strong focus on **proactive credit management**, with dedicated **High Risk area**

New CLO organizational structure

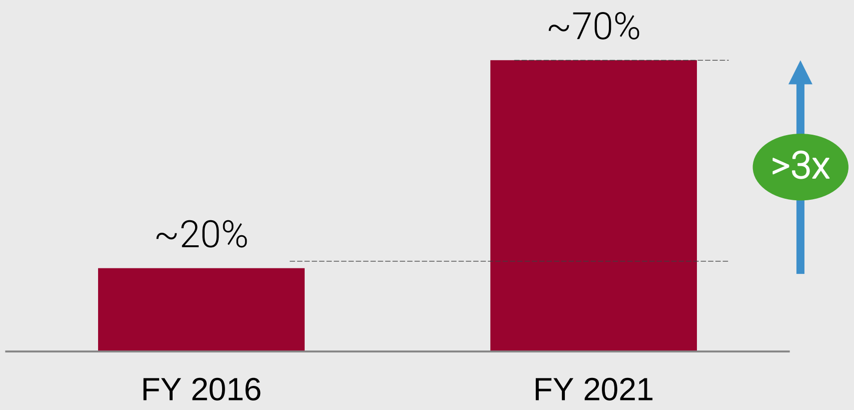


- Credit standard and credit policy
- Credit portfolio management
- Collateral management and special credits
- Outsourcing credit management

3B Strong push on automated underwriting processes for small tickets

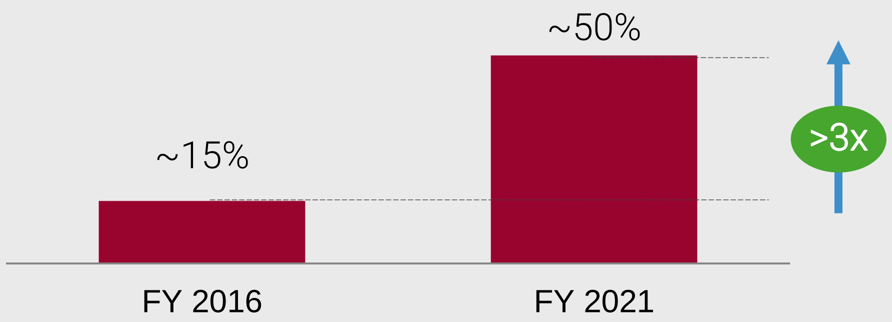
Percentage of automatic credit decisions on mortgages – Individuals

%



Percentage of automatic credit decisions – Small Business

%



- 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
- 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
- Deployment of advanced analytics to support client targeting (e.g. development of risk-adjusted approach to identify best commercial lending offer)

3C Strengthening of early detection and proactive management

Strengthening of early detection and proactive management

- Enforcing of **proactive management of the riskiest exposures** with the creation of a **central dedicated credit unit within the Credit Division**
- Internalization of **early management of overdraft/arrears** for small-ticket exposures, with automated activation of the process
- Set up of a **dedicated monitoring system** for early identification and **prompt activation** for the riskiest exposures

Improvement of NPE unit performance and selective disposals

- Creation of a separated Business Unit for NPE management within CLO area, with dedicated reporting on NPE portfolio
- NPE structure endowed with specialized skills to manage:
  - Restructuring process
  - Workout process
  - Master servicing of outsourced portfolio
- Enhancement of Servicing activities for Bad Loans recovery (coherently with NPE platform sale) and UTP cure rate, also increasing thresholds for outsourcing portfolios
- Launch of a specific program for Bad Loans sale, also leveraging on income generation over the plan horizon, along with dedicated initiatives for full and final settlement of selected UTP exposures, to reach target NPE ratio

3D Details on loan portfolio evolution

EUR m, %

		2016A	2019E	2021E
New business[1]		6.291	11.575	10.383
	Average PD of new exposure	1.2%	1.3%	1.3%
Requalification[2]		759	266	153
	Average PD of requalification	8.4%	9.4%	9.1%
Maturities		9.986	8.710	9.474
	Average PD of maturing exposure	2.5%	2.3%	2.0%
Default flow[3]		2.560	1.816	1.435
	Average PD of exposures before defaulted	12.7%	8.5%	6.8%

1. New lending flows
2. Low quality performing portfolio deleveraging
3. From performing to NPEs

Key business drivers – Strengthen liquidity and capital position

1	Refocus on Retail Banking activities
2	Renew operating model with sustained focus on efficiency
3	Radically improve Credit Risk Management
4	**Strengthen liquidity and capital position**

A Strengthening of the liquidity position and closure of extraordinary liquidity over the Restructuring Plan horizon

B Capture of benefits on cost of funding from expected re-rating

C Divestment of non-strategic businesses, compatibly with market conditions and appetite

4B Significant upside from re-rating* and decreased cost of funding

Cost of funding** (%)

	2016A	2019E	2021E
Due to banks	0.65	0.4 - 0.6	1.1 - 1.3
Due to customers	0.36	0.2 - 0. 4	0.6 - 0.8
Securities issued	2.87	1.9 - 2.1	2.2 - 2.4
Total direct funding	0.96	0.5 - 0.7	0.9 - 1.1
Euribor 3M	-0.26	0	0.9

* Re-rating effect with decrease in spread
** Cost of funding increase due to Euribor 3M

Appendix

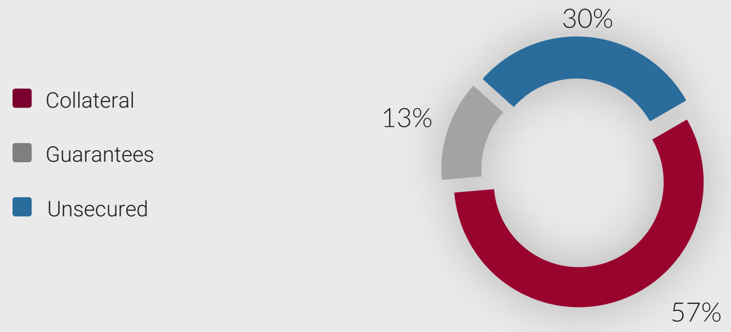
- Annex 1: Key business drivers
- Annex 2: Details on UTP portfolio
- Annex 3: DTAs

Details on UTP portfolio (NBV) at 31.03.2017

Total UtP EUR 8.6bn NBV (EUR 14.5bn GBV)

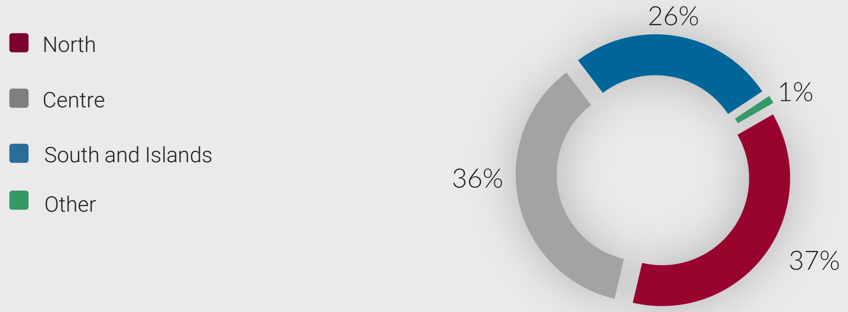
Breakdown by guarantees

70% of the UTP portfolio is covered by real estate collateral / personal guarantee



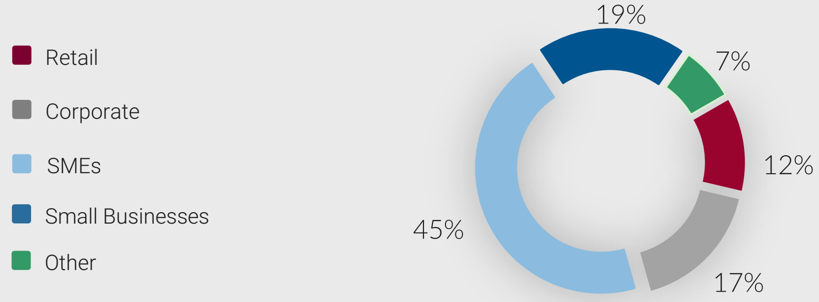
Breakdown by geography

UTP portfolio not concentrated in terms of geographical area



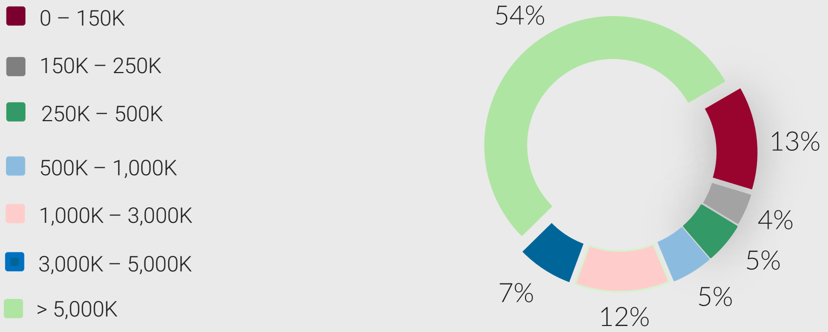
Breakdown by customer segment

BMPS implemented new underwriting policies for SMEs and small businesses which represented c. 64% of net UTP



Breakdown by ticket size

Concentration due to some large restructured positions shared with other banks



Figures from operational data management system

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"	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) • 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 • Several large group restructuring are performed together by several Italian banks and classified homogeneously
	Inflows from performing loans	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. 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.
	Outflows to performing loans	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"
	Provisioning	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
Bad loans	"Gone concern"	Positions where a borrower's inability to repay its debt is manifested and the borrower is in gone concern, with judicial activity in many cases already activated. The judicial activity timeframe is ca. 3 times European average
	Inflows into bad loans	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
	Provisioning and recovery	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

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Focus on DTA

EUR bn	2016	2017	2019	2021
Convertible DTAs (L. 214/2011)	2.3	1.4	1.0	0.9
Convertible DTAs (L. 214/2011) - fiscal losses	0.1	0.0	0.0	0.0
Non-convertible losses	0.4	1.1	1.7	1.9
Other no- convertible DTAs	0.5	0.3	0.2	0.2
Total DTAs recognized in balance sheet	**3.2**	**2.9**	**2.9**	**3.1**
DTAs NOT recognized in balance sheet	**1.1**	**1.7**	**1.6**	**1.0**

- From an accounting point of view, DTAs related to fiscal losses (and, in general, to all temporarily non-deductible negative income components) matured at the balance sheet date may be recognized in the balance sheet only to the extent that it is deemed probable that future taxable profits will be available against which the DTAs can be utilized
- This evaluation (*probability test*), conducted by BMPS on the basis of the 2017-2021 Business Plan, lead to a partial reassessment of DTAs from fiscal losses and from ACE[1] (*Aiuto alla Crescita Economica*, or Economic Growth Aid); this is mainly attributable to the ACE tax benefit, which in view of the substantial capital increases carried out from 2011 onward, grants BMPS the right to a significant deduction from taxable income in each of the future years
- From a regulatory point of view, current Italian fiscal regulations do not set any time limit to the use of fiscal losses against taxable income of subsequent years. Therefore, DTAs that cannot be recognized at a certain date may be booked in the future if earning prospects improve, and thus represent an unexpressed potential benefit that is not subject to expiry
- The table highlights a progressive decline of expected unrecognized DTAs from 2019 onwards due to the decreasing uncertainty of achieving the Plan's expected results

[1] ACE benefit in 2021 estimated at € 46mln

Focus on DTA – definition and regulatory treatment

	Definition	Regulatory treatment based on crr/crd iv
1 Convertible DTAs	DTAs related to write-downs of loans, goodwill and other intangible assets are convertible into tax credits (under Law 214/2011)**	Transitional & Fully Loaded: are not deducted from shareholders' equity, but are included 100% in Risk-Weighted Assets, like any credit
2 Non-convertible losses	DTAs on non-convertible fiscal losses and DTAs on ACE (Allowance for Corporate Equity) deductions Can be recovered in subsequent years only if there is positive taxable income, but may both be carried forward indefinitely	Transitional: deducted from shareholders' equity (CET1) on the basis of the percentage of phasing-in (80% in 2017; 100% in 2018) Fully Loaded: 100% deducted from shareholders' equity (CET1)
3 Other non-convertible DTAs	DTAs generated as a result of negative valuation reserves on AFS securities and negative reserves on hedging instruments in cash flow, provisions for risks and charges, capital increase costs and temporary differences primarily relating to provisions for guarantees and commitments, provisions for doubtful debts vs. Banks, impairments on property, plant and equipment and personnel costs (pension funds and provisions for staff severance indemnities) May only be used in case of tax gains***, and therefore carry an average recoverability risk	Transitional: deducted from shareholders' equity (CET1) if they exceed 10% of adjusted CET1 and if, added to significant holdings, they exceed 15% of adjusted CET1. Amounts in excess of the two thresholds are deducted at phasing-in percentages (80% in 2017 for DTAs arisen after 1.1.2014 & 30% in 2017 for DTAs arisen before 1.1.2014) Fully Loaded: deducted from shareholders' equity (CET1) if they exceed 10% of adjusted CET1 and if, added to significant holdings, they exceed 17.65% of adjusted CET1. Amounts in excess of the two thresholds are deducted from shareholders' equity (CET1)
4 DTAs not recorded in balance sheet	DTA generated from income losses and not recorded in balance sheet due to the probability test	N.A.

* All the amounts are considered before compensation of DTL
** Their recovery is certain regardless of the presence of future taxable income
*** In case of DTAs IRES the part of them not absorbed by taxable profit before reversal of convertible DTAs Is transformed into non-convertible losses DTAs; in case of DTAs IRAP the part of them not absorbed by taxable profit before reversal of convertible DTAs is not recoverable

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