MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

FY2017 and 4Q17 GMPS Preliminary Results

9 February 2018

Agenda

- Executive Summary
- 4Q17 Results
- Annexes
  - Details on 4Q17 Results
  - Commercial Strategy
  - Details on NPE Stock

Highlights of 4Q17 Results

P&L

- **Net loss for the quarter at EUR 502mln**, which includes the recovery cost of EUR 170mln for the servicing agreement with Cerved/Quaestio, provisions for risks and charges for EUR 166mln and EUR 95mln provisions, related to events incurred in 2017, on tickets identified in the context of the ECB On-Site Inspection (OSI)*
- **Net interest income at EUR 415mln**, impacted by lower interests from the NPE portfolio (EUR -14mln QoQ); decreased interest rates in new lending offset ongoing cost of funding reduction
- **Commissions at EUR 363mln** (+2.1% QoQ), with main increase contributed by wealth management (EUR +8mln)
- **Costs at EUR 651mln** (+3.9% QoQ), up because of end-of-year seasonality (in other administrative expenses) and not yet fully benefiting from the 1,200 staff exits effected in November 2017 (benefit of EUR 15mln booked in the quarter out of quarterly savings for EUR 22mln)
- **Loan Loss Provisions at EUR 552mln**, which incorporate (i) the above-mentioned upfront EUR 170mln for recovery costs deriving from the agreement with Cerved/Quaestio, (ii) some provisions due to the reclassification to NPE of a few large tickets and the above-mentioned EUR 95mln provisions (iii) EUR 124mln write-back of previously booked provisions due to the EUR 1.3bn reduction of the portfolio to be securitised

Asset quality

*(Pro-forma for the c. EUR 24.2bn** portfolio to be disposed)*

- **Gross NPE ratio 21.4%**, **net NPE ratio 12.0%**
- **Gross bad loans at EUR 8.9bn** (EUR 6.3bn adjusted for the EUR 2.6bn to be sold in 2018), **net bad loans at EUR 3.1bn**
- **Gross UTPs at EUR 11.5bn** (EUR -0.8bn QoQ)**, net UTPs at EUR 6.9bn** (EUR -0.4bn QoQ)
- **EUR 1.7bn UTP reduction** completed in 2017, beyond the EUR 1bn Restructuring Plan 2017 target, with limited P&L costs (9.5% of total GBV, 1% of GBV net of tickets identified in the context of the ECB OSI)

Balance Sheet

- **Current accounts and time deposits** up by approx. EUR 11bn from 2016 year-end; almost stable QoQ, despite cost of funding reduction (12bps in 4Q17)
- **Unencumbered counterbalancing capacity at EUR 21.1bn**, practically stable vs. September 2017, 15.2% of total assets
- **Transitional CET1** ratio at **14.8%;** fully-loaded at **14.2%**

* These provisions almost entirely reflect the provisioning requested as a result of the ECB On-Site Inspection

** Updated amount (as at Dec-17) of the portfolio to be disposed. The original Dec-16 amount of approx. EUR 26bn was reduced as a result of additional exclusions (subsidised loans and third party funds, loans guaranteed by Confidi, foreign counterparties, loans securitised in previous operations or transferred to performing loans)

Overview of 4Q17 and FY17 Results

P&L (€ /mln)	3Q17	4Q17	Change (QoQ%)	FY16	FY17	Change (YoY%)
Net Interest Income	470	415	-11.9%	2,021	1,788	-11.5%
Fees and commissions	356	363	2.1%	1,839	1,577	-14.3%
Total revenues	1,370	802	-41.4%	4,282	4,026	-6.0%
Operating Costs	-626	-651	3.9%	-2,621	-2,543	-3.0%
Pre-provision profit	745	152	-79.6%	1,661	1,483	-10.7%
Loan loss provisions	-175	-552	n.m.	-4,467	-5,324	19.2%
Net income (loss)	242	-502	n.m.	-3,241	-3,502	8.1%

3Q17 revenues include the impacts of burden-sharing for EUR 554mln (in NII and other revenues)

Balance Sheet (€/bn)	3Q17	4Q17	Change (QoQ%)	FY16	FY17	Change (YoY%)
Loans to customers	91.0	86.5	-5.0%	106.7	86.5	-19.0%
Direct funding	103.0	97.8	-5.0%	104.6	97.8	-6.5%
Total assets	145.1	139.2	-4.1%	153.2	139.2	-9.2%

Loans to customers include the impacts of NPL securitisation: EUR -9.7bn in 2Q17, due to increased coverage and reclassification of loans to be disposed in «Assets held for sale»

Ratios (%)	3Q17	4Q17	Change (QoQ bps)	FY16	FY17	Change (YoY bps)
CET1 phased-in	15.2	14.8	-39	8.2	14.8	661
CET1 fully-loaded	14.5	14.2	-22	6.5	14.2	775

Restructuring Plan Update (1/3)

2017: Focus on Capital Strengthening and Recovery of Direct Funding

In line with Restructuring Plan

*Capital strengthening**

- Fully-loaded **CET1 14.2%** (14.5% in Sep-17)
- **TBV*** EUR 10.1bn (10.6bn in Sep-17)
- **EUR 750mln subordinated Tier 2 Bonds issued** in January 2018, with requests exceeding the offer by 3.6x

NPE disposals

- **c. EUR 24bn securitization of bad loans to be completed by 1H 18**
  - 95% of the Mezzanine notes sold to Atlante II, rating process in progress
  - Project proceeding according to timeline
- **c. EUR 2.6bn disposal of leasing and small ticket bad loans planned in 2018** (impact included in IFRS 9 FTA)
- **c. EUR 4.5bn UTP reduction, of which EUR 1.7bn already achieved in FY17** (well above 2017 target of EUR 1bn)
  - 2017 UTP reduction of EUR 1.7bn carried out with limited P&L costs (9.5% of total GBV, 1% of GBV net of tickets identified in the context of the ECB OSI)
  - Impact of remaining disposals already included in IFRS 9 FTA
- **2019E Gross NPEs ratio of c. 14% with favorable mix**
  - 57% bad loans** with low vintage and coverage of 67%. Further EUR 2bn bad loans disposal in 2020-21
  - 39% UTP with coverage of 41%
- **BMPS to consider management actions to accelerate UTP reduction following the completion of the securitization**

* Figures do not include IFRS 9 First Time Adoption; IFRS 9 accounting standard provisional impact of EUR 1.2bn will be fully included in net equity from 1 January 2018 as First Time Adoption. CET1 impact spread over 5 years, according to the phase-in mechanism (EU Regulation n. 2017/2395)

** Binding agreement for the sale of the platform and long-term exclusive servicing agreement for the management of BMPS new bad loan inflows entered into with Cerved/Quaestio

Restructuring Plan Update (2/3)
2017: Focus on Capital Strengthening and Recovery of Direct Funding

In line with Restructuring Plan

Recovery of direct funding

- **Current accounts and time deposits up by EUR 11bn since Dec-16:** 2019 target for direct funding increase already reached
- **Reimbursement of EUR 3bn GGBs in January 2018:** EUR 27mln annual commissions saved per annum (c. 1%) from the repayment of GGBs (EUR 7mln per quarter)
- **Ongoing reduction in the cost of funding: average commercial funding rate down by c. 20bps since Dec-16**, of which 12bps in 4Q17
- **+100bps in interest rates would increase interest margin by EUR 130-150mln (before taxes) per annum (2017-21 Restructuring Plan)**

✔

Cost savings

- **1,800 staff exits** (out of the 4,800 exits planned by 2021 through the Solidarity Fund)
  - **One-off costs** for c. EUR 399mln already booked (out of EUR 1,155mln planned by 2021)
  - **Annual cost savings for EUR 135mln. Cost savings booked in 2017 of EUR 45mln**
- **435 branches closed as at the end of January 2018** (c. 70% of the total target of 600 branches); the remaining 165 branches to be closed by 2H18
  - **368 out of the closed 435 branches** (ca. 85% of total) are located in rented premises
  - **Attrition rate for closed branches**: c. 8% of customers, c. 5% of total funding (for branches closed in March 2017) and c. 2% of total funding (for branches closed in November 2017)
  - **Annual cost savings for EUR 25mln,** estimated including rental and other costs related to the branches (c. EUR 4mln included in 2017 accounts)
- **Further cost savings and FTE optimisation** brought about by ongoing digitalisation projects (Paperless/Electronic Signature/Process Automation)*

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* Between 2013 and 2017 these projects led to cost savings for EUR 35mln and to the release of 110 FTEs from administrative duties, thus favouring salesforce strengthening actions

Restructuring Plan Update (3/3)

2018: Revamping Commercial Activity

	Planned initiatives	Strategic objectives
Retail	o Focus on retail mortgages through product simplification and attractive terms: BMPS has proved to have a low default rate in this market o Emphasis on advisory services for affluent customers, EUR 20mln overall investments in digital banking in 2017/18 o Migration of selected mass-market clients to Widiba – combining best-in-class IT platform with financial advisory (c. 600 advisors) – and further investments in BMPS digitalisation o Reinforcement of dedicated salesforce for small businesses through specific training and creation of an advisory platform	✓ New retail mortgages from c. EUR 2.1bn in 2017* to cumulated c. EUR 8bn in 2018-2019 ✓ Cumulative c. EUR 8bn short- and medium-term gross direct funding inflows planned in 2018/19
Corporate	o Increase in lending to selected corporate customers with whom the Bank has a long-term relationship (customer loans to grow from EUR 7bn in 2017 to EUR 9-10bn in 2019) o Encouraged saturation of short-term and sight credit facilities with lower than average drawdowns, use of facilitated finance	✓ New corporate lending from EUR 2.5bn in 2017 to cumulative c. EUR 8bn in 2018/2019, with positive NII impact in 2H18 ✓ Since Sep-17, cost of funding of new deposits in line with peers
Wealth Management	o Focus on comprehensive advisory approach for high net worth clients o Further development of commercial IT platform, enhancing consulting and content delivery. Full integration and extension of off-site offering capabilities	✓ AUM to grow from c. EUR 12bn in 2017 to c. EUR 15bn in 2019 ✓ Effective management of new regulations (i.e. MIFID II)

Total investments:	o 2017-2019: c. EUR 580mln of which >50% in ICT o 2020-2021: c. EUR 300mln of which c. 60% in ICT

* New retail mortgages for EUR 818mln in 1Q17, EUR 805mln in 2Q17, EUR 720mln in 3Q17 and EUR 942mln in 4Q17

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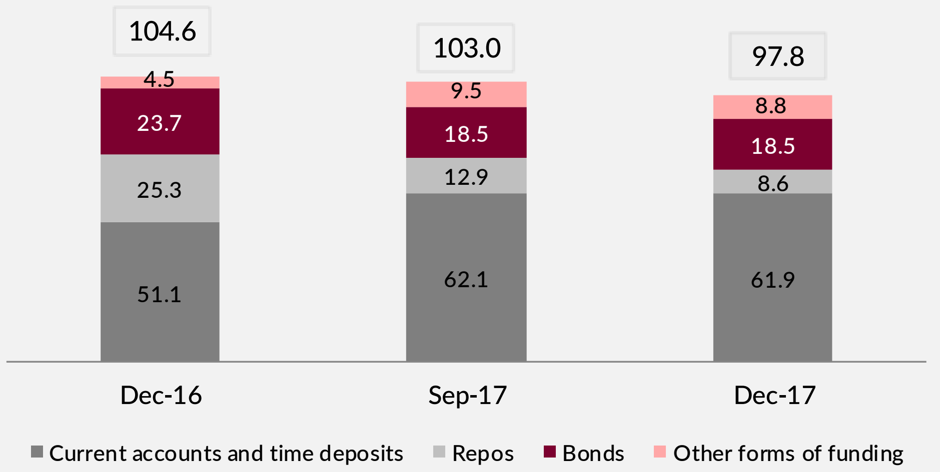
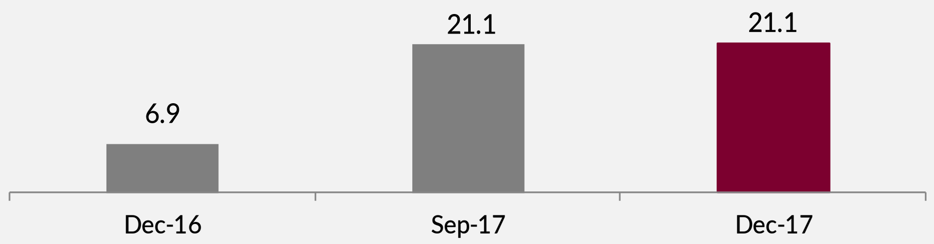
Direct Funding and Liquidity

Direct Funding (€/bn)



Unencumbered Counterbalancing Capacity (€/bn)



% on Total Assets	4.5%	14.5%	15.2%

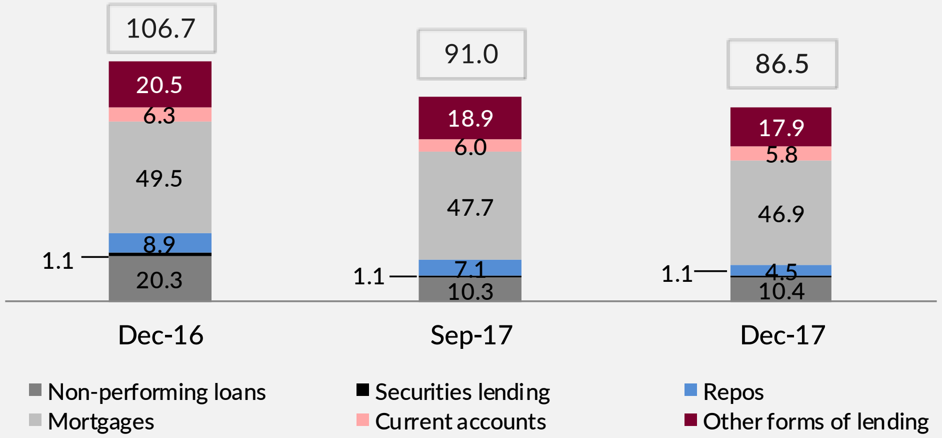
- **Current accounts and time deposits up by approx. EUR 11bn from 2016 year-end; almost stable QoQ,** despite cost of funding reduction
- **Direct funding QoQ evolution :**
  - EUR +0.9bn in current accounts and EUR -1.1bn in time deposits
  - Bonds almost stable QoQ, with maturities offset by the new senior debt securities issue related to the 2008-2018 UT2 bond retail settlement*
  - EUR -4.3bn in repos with institutional counterparts
  - EUR -0.7bn in other forms of funding
- **Group's customer deposits market share at 3.78%**** as at October 2017, up 23bps from 2016 year-end. Direct funding market share (including institutional bonds, CB and GGB) at 4.37% (+39bps vs Dec-16)
- **Counterbalancing capacity** equal to EUR 21.1bn, practically stable vs. September 2017
- **LCR:** c. 200% (c. 234% in Sep-17)
- **NSFR:** 110% (c. 107% in Sep-17)

* In accordance with Law Decree no. 237/16, in November 2017 the Italian Ministry of Economy and Finance (MEF) bought shares resulting from the conversion of the 2008-2018 UT2, in exchange for new BMPS senior debt securities, for a total amount of EUR 1,536mln

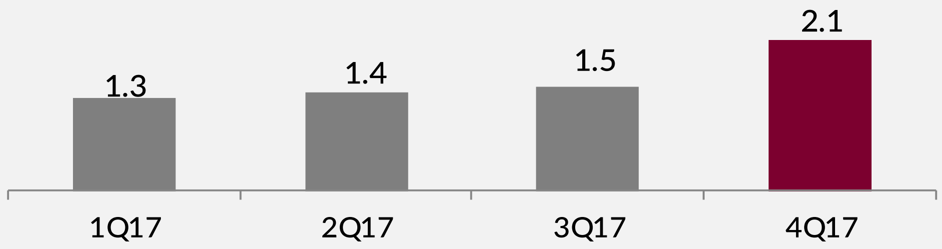
** Deposits and repurchase agreements (excluding repurchase agreements with central counterparties) from resident consumer clients and bonds net of repurchases placed with resident consumer clients as first-instance borrowers

Customer Loans

Loans to Customers (€/bn)

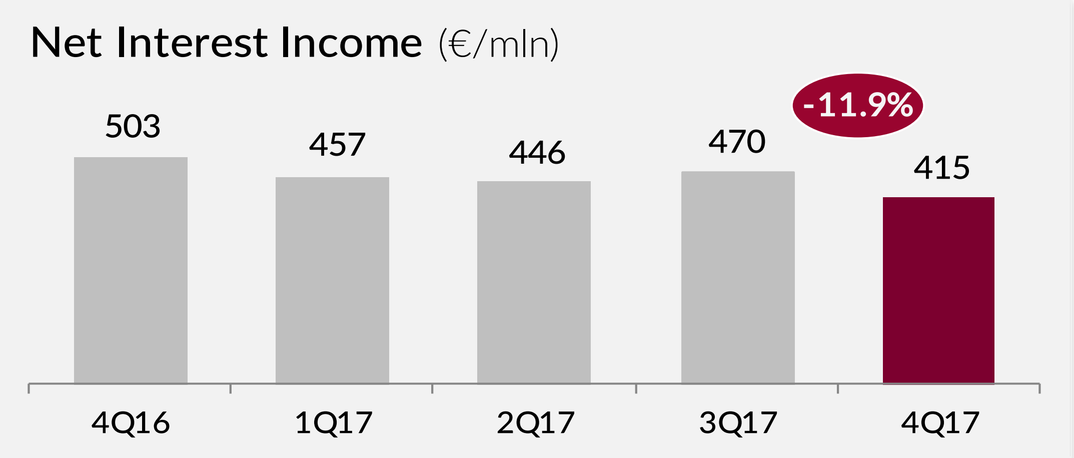


Medium & Long-Term Lending – New Loans (€/bn)



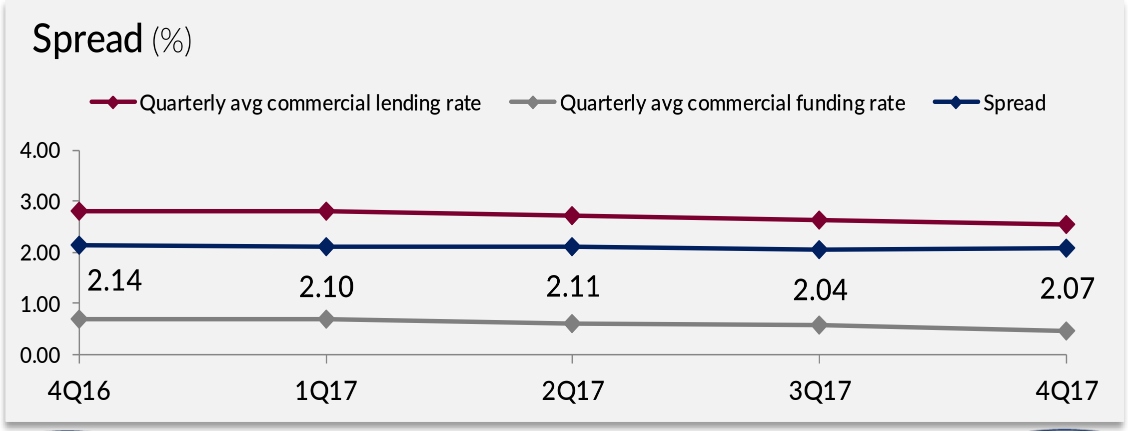
- **Evolution of customer loans (EUR -4.6bn QoQ):**
  - EUR -2.6bn QoQ in non-commercial components, mainly repos (compared to a EUR 4.3bn funding repos reduction)
  - EUR -2.1bn in current accounts, mortgages and other forms of lending, due to maturities that were not completely substituted by new loans
  - Net NPEs almost stable QoQ (EUR +0.1mln)
- **New medium-term lending flows** for c. EUR 2.1bn in 4Q17 (c. +46% QoQ), with an increase both in mortgages (at EUR 1.6bn, +33% QoQ) and in specialised M/L term corporate lending (at EUR 0.5bn, +111% QoQ)
- **Group's loan market share at 6.64%** as at October 2017, almost stable vs. 2016 year-end

Net Interest Income



Of which interests from NPEs (€/mln):

4Q16	1Q17	2Q17	3Q17	4Q17
133	127	125	105	91



2016 yearly avg spread: 2.21%

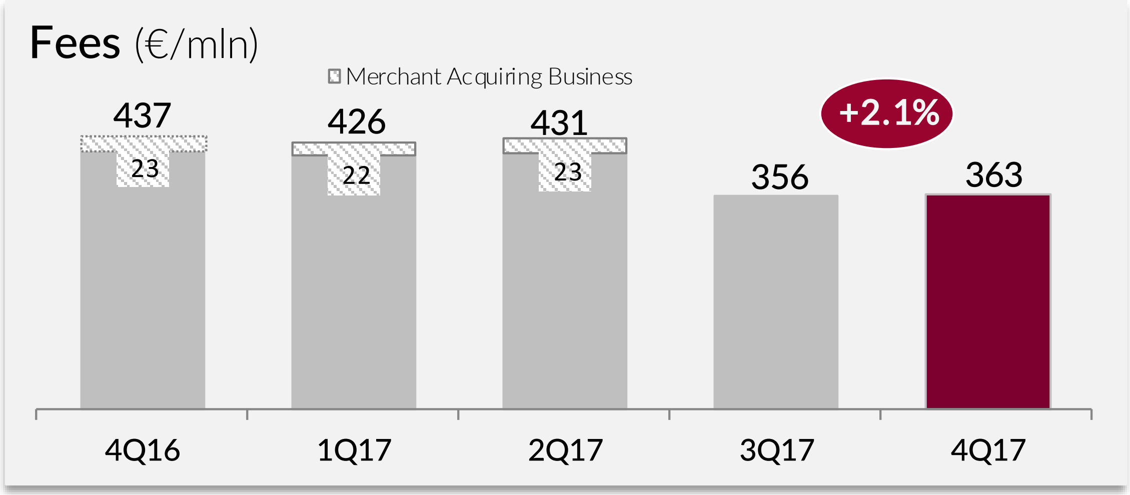
2017 yearly avg spread: 2.08%

Quarterly avg rates and spread evolution (QoQ)	Yearly avg rates and spread evolution (YoY)
-8bps	-32bps
+4bps	-13bps
-12bps	-19bps

- ❑ **Net interest income** almost flat vs. 3Q17, net of the one-off effects of the conversion of subordinated bonds, with cost of funding reduction offset by the decrease in lending volumes and rates
- ❑ **Interest from NPE portfolio** (mainly UTP loans) decreased by EUR 14mln QoQ

- ❑ **Average spread:**
  - Lending rate decreased QoQ and YoY, mainly due to the migration of UTPs into bad loans and to lower rates for new lending
  - Cost of funding decreased QoQ and YoY mainly thanks to actions aimed at reducing more expensive forms of funding
- ❑ **Cost of funding:** ongoing closure of the cost of deposits gap vs. the market (+25bps in December 17 against +37bps in August 17), with further potential benefits expected in coming quarters

Fees and Commissions Income



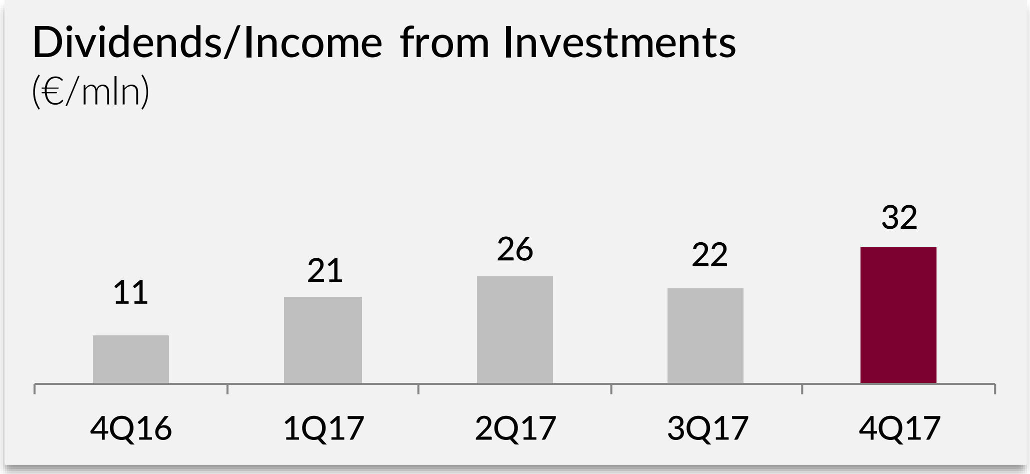
Of which: GGB commissions: -22 | -30 | -31 | -31

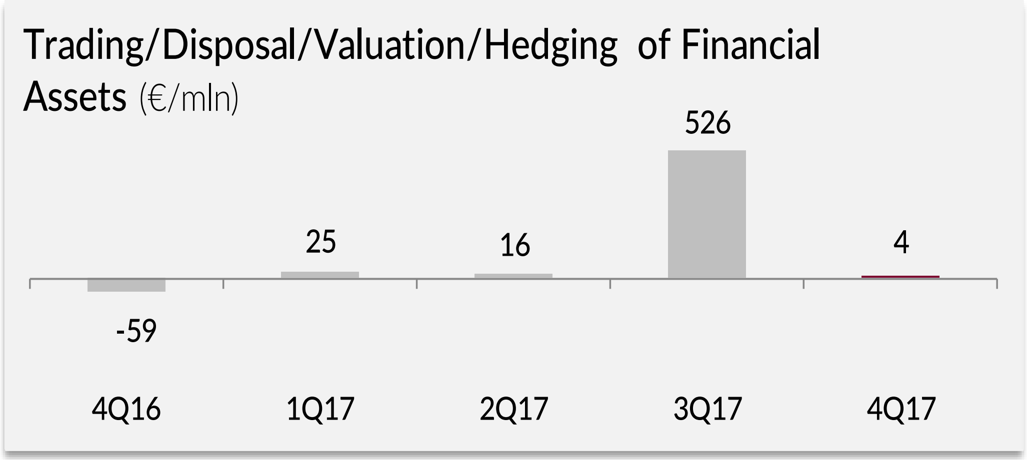
€/mln	4Q16	3Q17	4Q17	*4Q17 vs. 4Q16*	*4Q17 vs. 3Q17*
Wealth Management fees, o/w	164	169	177	7.6%	4.4%
WM Placement	63	70	72	14.4%	3.0%
Continuing	77	83	86	11.7%	3.8%
Bond Placement	14	8	12	-17.4%	40.7%
Protection	11	9	8	-29.2%	-12.1%
Traditional Banking fees, o/w	295	247	251	-14.9%	1.9%
Credit facilities	129	112	114	-11.0%	2.2%
Trade finance	14	14	13	-13.3%	-13.2%
Payment services and client expense recovery	152	120	124	-18.4%	3.5%
Other	-23	-60	-65	n.m.	-7.8%
Total Net Fees	437	356	363	-16.9%	2.1%

- **Net fees and commissions** increased by 2.1% QoQ, both from wealth management (+4.4% QoQ) and traditional banking (+1.9%); other fees include Government Guaranteed Bond (GGB) commissions and fees paid to Financial Advisors. The repayment of EUR 3bn of GGBs carried out in Jan-18 will lead to negative commissions being reduced by EUR 27mln per annum (EUR 7mln per quarter)
- **Stock of assets under management** at EUR 58.6bn (EUR +0.8bn QoQ), thanks to the growth of mutual funds/SICAV and Bancassurance, also due to the switch from AuC to AuM
- **Stock of assets under custody** at EUR 37.2bn (EUR -3.2bn QoQ), impacted by the effects of the retail settlement of 2008-2018 UT2 subordinated bonds subject to burden-sharing measures* and by outflows for c. EUR 2.3bn

* In accordance with Law Decree no. 237/16, in November 2017 the Italian Ministry of Economy and Finance (MEF) bought shares resulting from the conversion of the 2008-2018 UT2, in exchange for new BMPS senior debt securities

Dividends and Trading Income

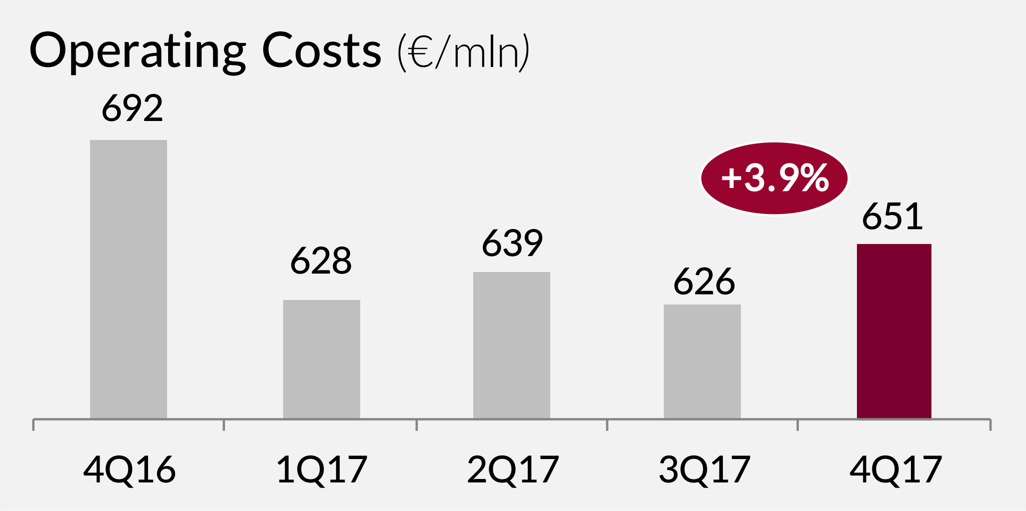




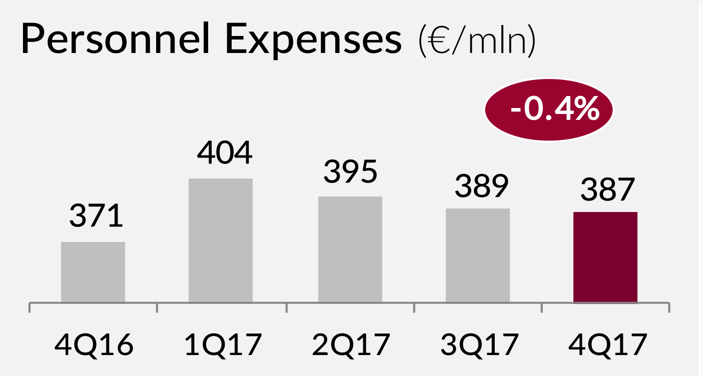
- **Dividends, similar income and gains (losses) on equity investments** equal c. EUR 32mln in 4Q17, up from 3Q17 due to the contribution by AXA, positively impacted by one-off items

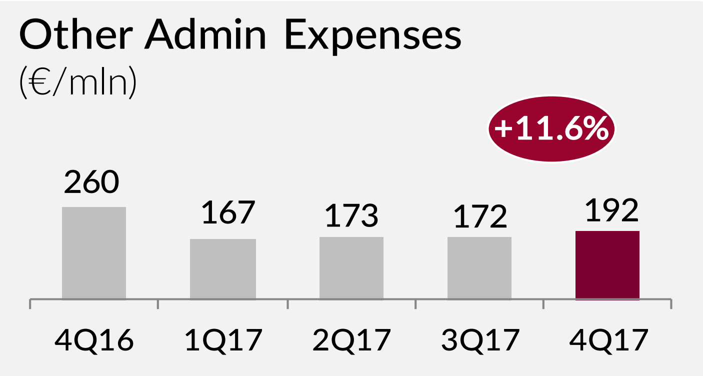
- **Trading/disposal/valuation/hedging of financial assets** in 4Q17 at EUR +4mln (EUR 526mln in 3Q17 positively impacted by the effects of burden-sharing measures). The main components:
  - c. EUR -20mln booked in trading activities but mainly due to hedging of risks performed by MPS Capital Services
  - c. EUR +26mln gains/losses from disposals/ repurchases, mainly related to the capital gain for the sale of Fondo Italiano Investimenti
  - c. EUR -2mln from financial assets and liabilities designated at fair value

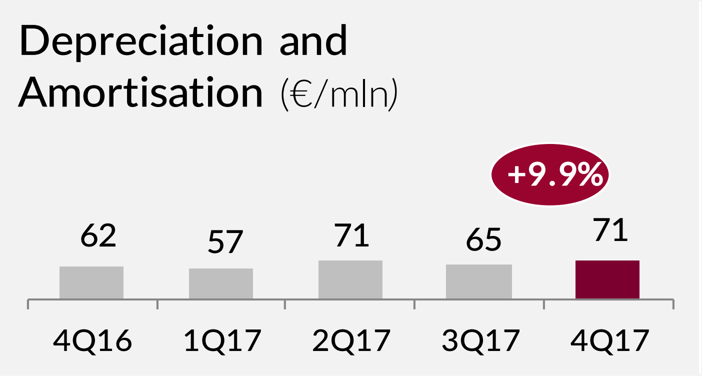
Operating Costs



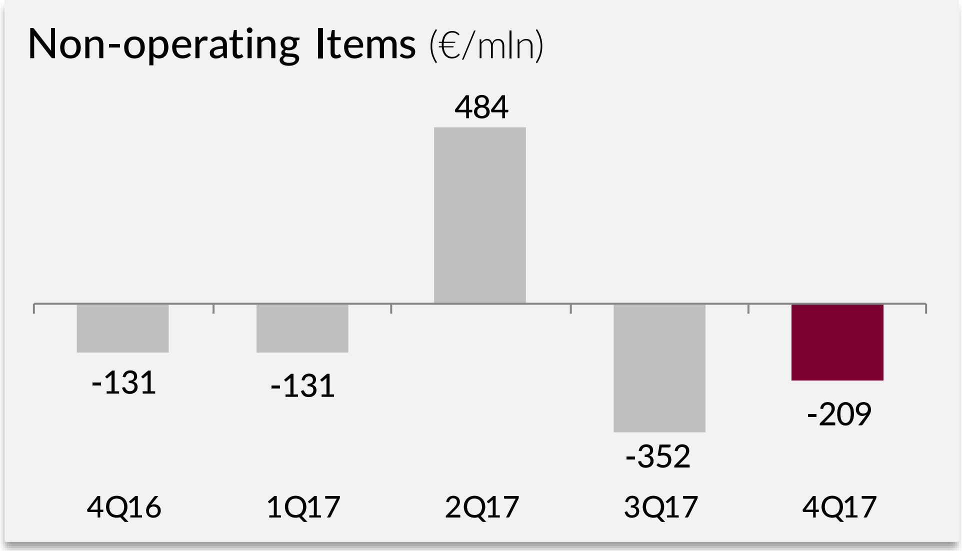
- **Total operating costs** up 3.9% QoQ, with:
  - **Personnel expenses** almost flat QoQ, with cost savings related to the 1,200 exits in November 2017 mainly offset by salary increases fixed by collective labour agreements. Further benefits from the 1,800 2017 exits: total annual cost savings of EUR 135mln (c. EUR 45mln included in 2017 accounts)
  - **Other admin expenses** up 11.6% QoQ due to seasonal effects; c. -14% vs. 4Q16, net of EUR 37mln extraordinary costs related to the capital strengthening transaction. Further benefits from the 435 branches closed in 2017: total annual cost savings of EUR 25mln (c. EUR 5mln included in 2017 accounts)
  - **Depreciation and amortisation** up by EUR 6mln QoQ (+9.9%), due to higher write-downs of tangible assets, following the renewal and expansion of the ATM fleet







Non-Operating Items and Taxes



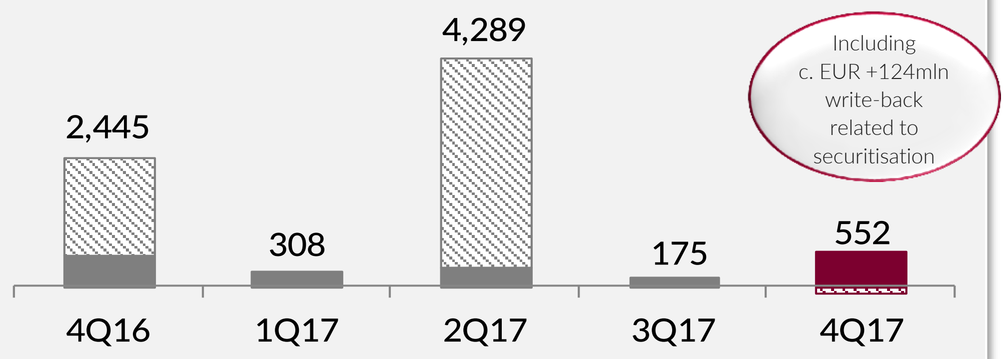
	4Q16	1Q17	2Q17	3Q17	4Q17
DGS & SRF	-139	-63	0	-31	2
DTA Fees	54	-18	-18	-18	-18
Other*	-46	-50	501	-303	-194

- **Non-operating items** (EUR -209mln) include:
  - **EUR -166mln** for provisions for risks and charges, mainly related to legal risks
  - **EUR -35mln** extraordinary costs mainly related to the bad loans platform disposal and the servicing agreement with JV Cerved/Quaestio
  - **EUR -18mln** for the quarterly contribution to DTA fees introduced by Law Decree 59/2016
  - **EUR +7mln** for capital gains on equity stakes sold in the quarter and stakes evaluation
  - **EUR +2mln** for the alignment to the effective annual contribution due to the DGS Fund
- **Taxes for the quarter +EUR 120mln,** which include DTA reassessment for c. EUR 21mln

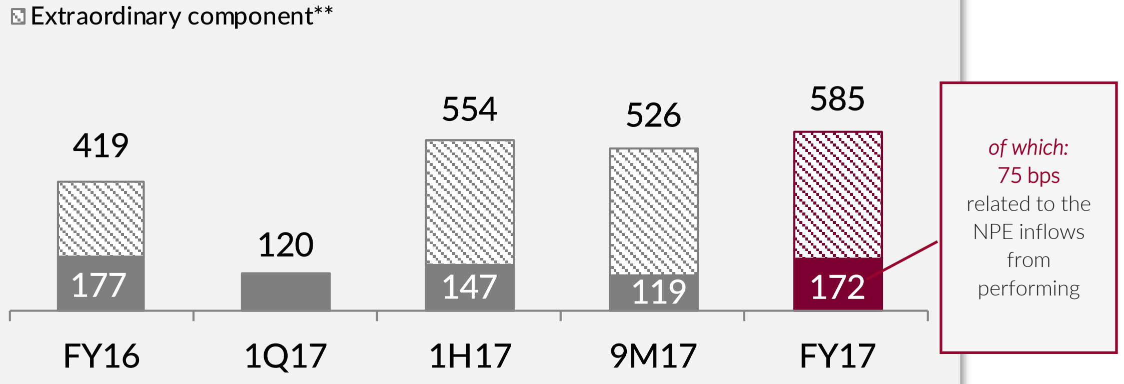
* Net provisions for risks and charges, gains (losses) on investments/disposals and restructuring costs/one-off costs

Focus on Asset Quality (1/3)

Net Loan Loss Provisions (€/mln)



Cost of Risk* (bps)



Non-performing Exposures Coverage (%)

Coverage post-EUR 24.2bn to be disposed:
Bad loans: 64.8%
Total NPE: 50.5%

	Dec-16	Sep-17	Dec-17	QoQ
Bad Loans *(sofferenze)*	64.8	77.2	77.2	*-2bps*
Unlikely to Pay	40.3	41.2	40.7	*-51bps*
Past Due	23.3	24.8	25.6	*+81bps*
Total NPE	**55.6**	**66.4**	**67.2**	*+81bps*

Net loan loss provisions at EUR 552mln, including:

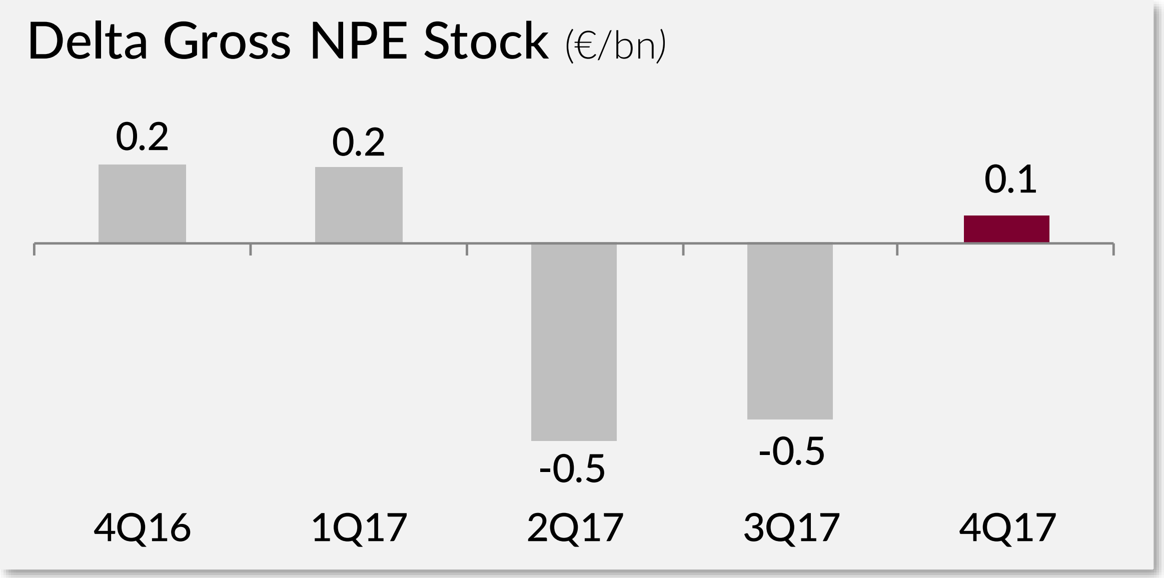
- Recovery costs related to the long-term servicing contract with JV Cerved/Quaestio for the management of part of the MPS bad loan portfolio (EUR -170mln)
- Provisioning related to the reclassification of a few large tickets
- EUR 95mln provisions, related to events incurred in 2017, on tickets identified in the context of the ECB On-Site Inspection***
- Release of previously booked provisions, due to the revision of the perimeter to be securitised (positive contribution for EUR 124mln)

* Net loan loss provisions since the beginning of the period (annualised)/end-of-period loans

** In 3Q16 and 4Q16: change in credit policy to reflect instructions contained in the "Draft guidance to banks on non-performing loans" published by the ECB in September 2016 and internal valuations. In 2Q17 and 3Q17 provisions related to the NPL portfolio to be securitised, in 4Q17 EUR 124mln of write-back related to securitisation

*** These provisions almost entirely reflect the provisioning requested as a result of the ECB On-Site Inspection

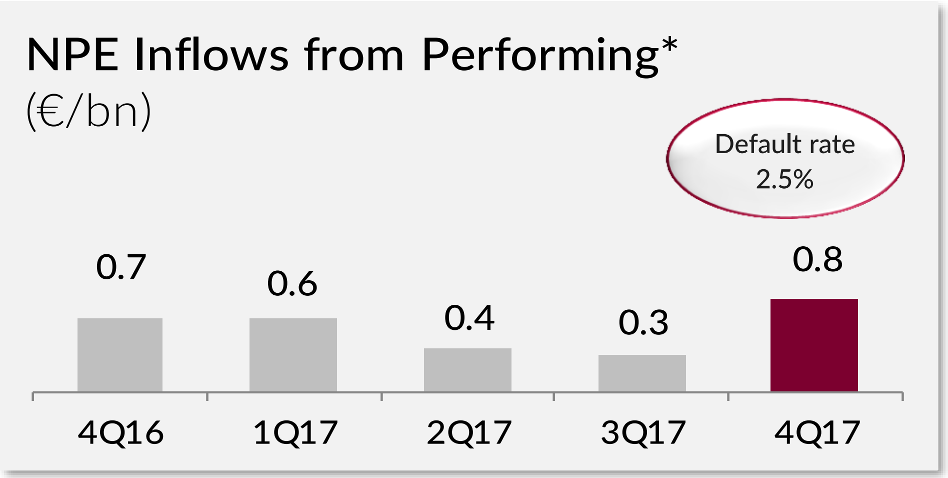
Focus on Asset Quality (2/3)

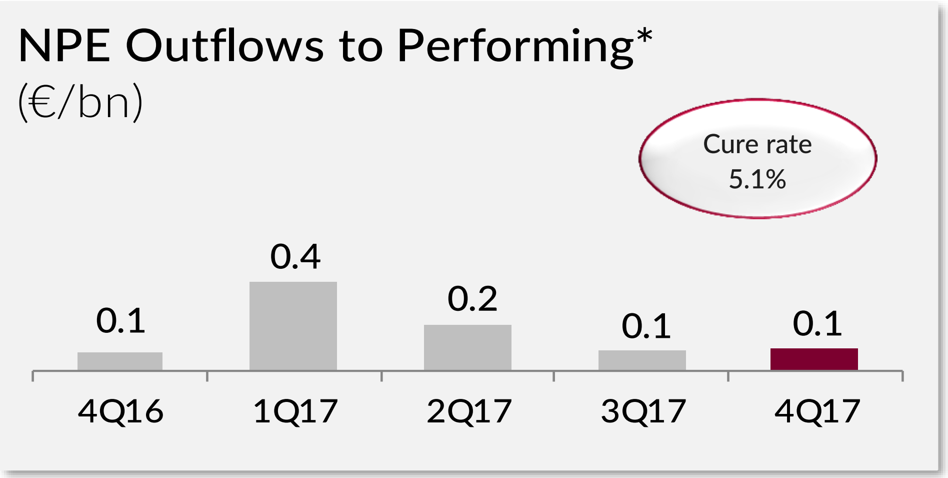


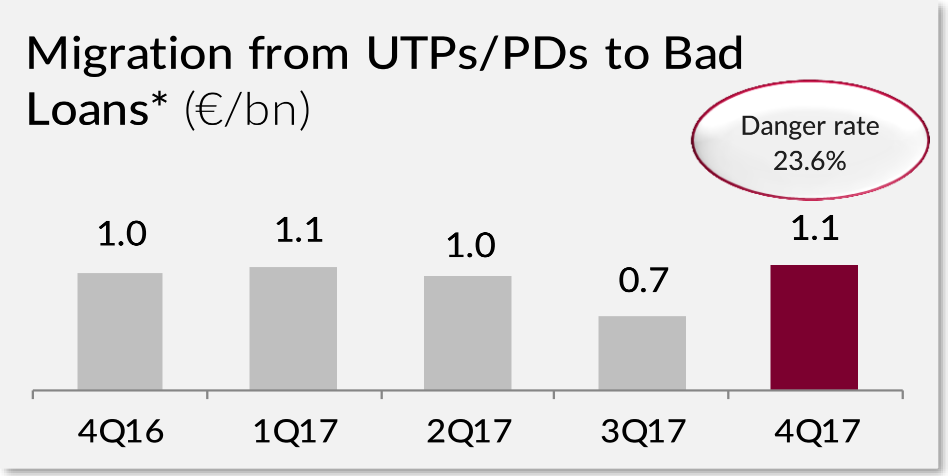
- **Gross NPE stock at EUR 45bn, almost stable QoQ**
  - Inflows* from performing loans at EUR 0.8bn
  - Outflows* to performing loans at EUR 0.1bn
  - Bad loans recovered for EUR 0.3bn* (EUR 0.9bn in 2017 vs. EUR 0.7bn in 2016)
  - UTP reduction/closed tickets and other for EUR 0.4bn
- **Adjusted for the c. EUR 24.2bn loans to be disposed, Gross NPEs amount to EUR 20.9bn**

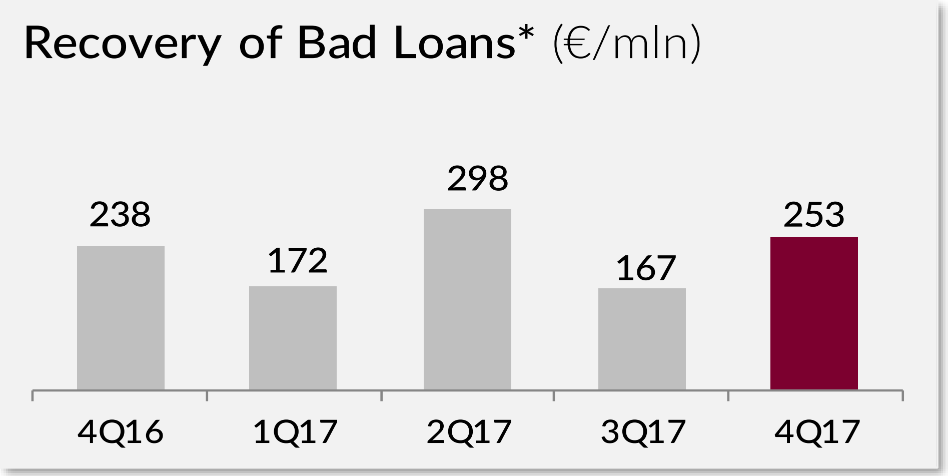
* Data from operational data management system. Figures include signature loans (these are excluded from accounting figures)

Focus on Asset Quality (3/3)





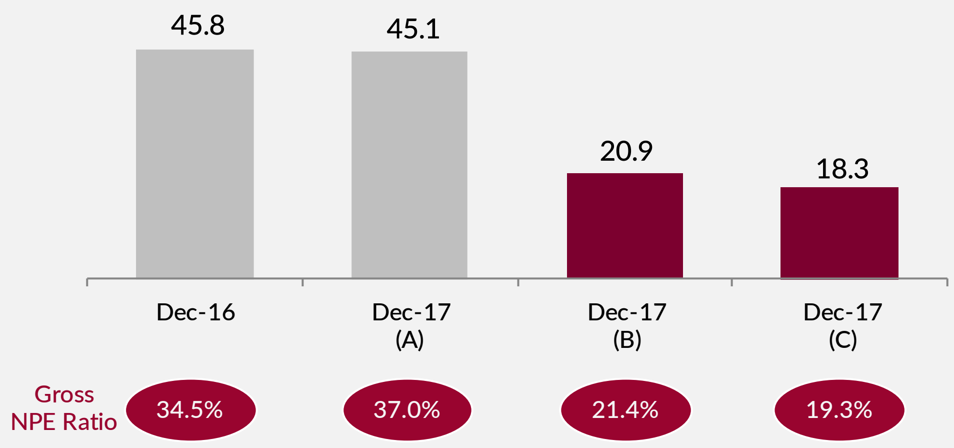




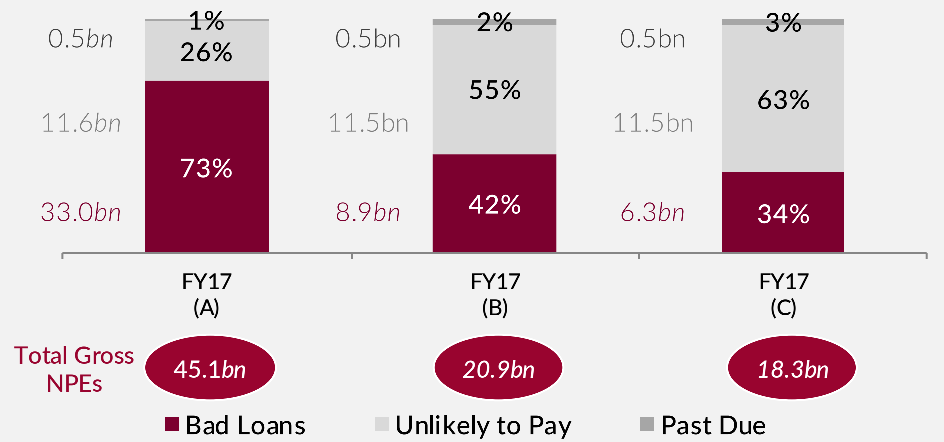
* Data from operational data management system. Figures include signature loans (these are excluded from accounting figures)

Pro-Forma Asset Quality Key Metrics

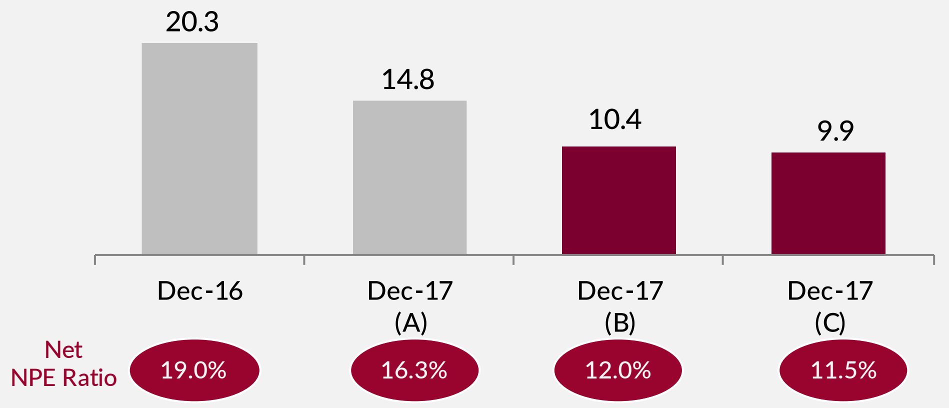
Gross NPEs (€/bn)



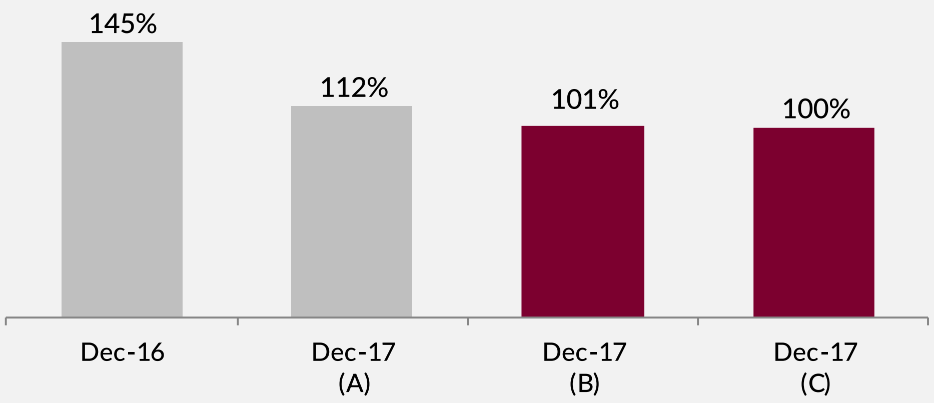
Gross NPE Mix (%)



Net NPEs (€/bn)



Texas Ratio* (%)



Legend for 2017 data:

(A) = stated

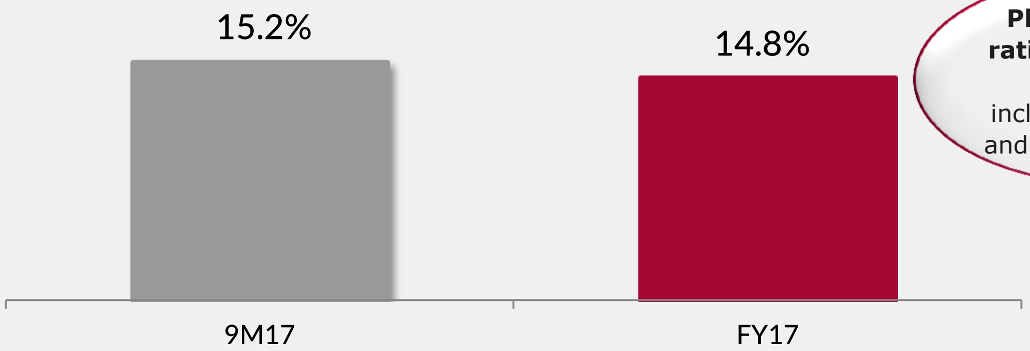
(B) = adjusted to include the c. EUR 24.2bn loans to be disposed

(C) = adjusted to include the c. EUR 24.2bn loans to be disposed+ the estimated impact of the c. EUR 2.6bn disposal of leasing and small ticket loans planned for 2018

* Gross NPEs / (tangible equity + provision funds for NPEs)

Capital Structure

Phased-in CET1 Ratio *(%)*



Phased-in CET1 ratio as at 1/1/18 at 14.2% including IFRS9 FTA and phase-in rules**

	9M17	FY17
TBV *(€/bn)*	10.6bn	10.1bn
Fully loaded CET1 *(%)*	14.5%	14.2%
Fully loaded CET1 *(€/bn)*	9.1bn	8.6bn
TC *(%)*	15.4%	15.0%
RWA *(€/bn)*	63.3bn	60.6bn
AFS Reserve *(€/bn)*	-0.1bn	-0.1bn
Credit Spread Sensitivity *(€/mln)*	-5.8mln	-5.6mln

16.2% Including EUR 750mln T2 issued in Jan-18

4Q17 results

- **CET1 QoQ reduction (-39bps)**, mainly due to the result of the period, partially offset by RWA decrease
- **RWAs decrease by EUR -2.7bn**, mainly due to credit/counterpart risks (EUR -2.2bn) and market risks (EUR -1.1), partially offset by an increase in operational risks (EUR +0.7bn)
- **AFS reserve** as at Sep-17: EUR -0.1bn. Credit spread sensitivity: EUR -5.6mln before tax for 1bp change

IFRS 9 and off-balance sheet DTAs

- **IFRS 9 accounting standard provisional impact of EUR 1.2bn***
  - Full impact in net equity at 1 January 2018 as First Time Adoption
  - CET1 impact spread over 5 years, according to the phase-in mechanism (EU Regulation 2017/2395)
- Significant **DTA potential upside: EUR 1.8bn off-balance sheet** as at December 2017

* Estimated on the basis of the project of the Bank for the implementation of the new accounting standard

** Figure includes increasing of phase-in according to regulatory framework and 5% phase-in on IFRS9 First Time Adoption provisional impact of EUE 1.2bn

Capital: expected impacts from regulatory headwinds (1/2)

	Description of requirements	Estimated impacts
RWAs on defaulted assets *(from 2018)*	○ RWAs on defaulted assets (LGD on defaulted assets calculated on a downturn) ○ Add-on until models are validated	○ Max. EUR 6bn increase of RWAs on NPEs, assuming completion of securitisation by June 2018 and disposal of small-ticket and leasing bad loans by December 2018 (included in Restructuring Plan)
EBA/TRIM Guidelines *(from 2018[1])*	○ LGD based on discount rate on recoveries at risk-free rate + fixed spread of 5% ○ Treatment of Multiple and Technical Defaults, inclusion of MOC (margin of conservatism), Incomplete Work Out (inclusion of open tickets in LGD estimates) ○ Review on internal credit risk models (TRIM)	○ Impacts are still preliminary and based on current draft. The impact will depend on the final regulation to be approved by the European Parliament ○ Negative impact from LGD discount rate of around 30bps (not included in the Restructuring Plan) ○ Ongoing inspection on retail (non-SME) mortgage portfolio, impacts still to be defined
Calendar provisioning *(from 2018[2])*	○ Unsecured NPEs to be fully provisioned in 2 years; Secured NPEs to be fully provisioned in 7 years (preliminary indication, final regulation to be issued by ECB)	○ Limited impact if applied to new originated loans going to NPEs; greater impact if applied to new flows of NPEs generated by the existing stock of loans ○ Increasing negative impact for the first 2-3 years, then decreasing negative impact thanks to provisioning write-backs

1 – Entry into force 1.1.2021, but TRIM process can anticipate impacts

2 – Potential first year of enforcement to be confirmed

The final regulatory framework has not been delivered to us and, therefore, any data should be considered preliminary and a work in progress. The information is limited to the potential impact of a few of the many items included in the regulatory framework. Consequently the results stemming from the entire regulatory framework may differ significantly from our preliminary estimates. The information has not been discussed with any regulator, discussion which could bring significant change to any impact we may estimate

Capital: expected impacts from regulatory headwinds (2/2)

	Description of requirements	Estimated impacts
New default definition (from 2021)	o Streamline and define homogeneous criteria to identify default date, unlikeliness-to-pay category and return to performing	o Impacts to be defined depending on the definition of the thresholds by the supervisory authority
Basel IV (from 2022)	o Standardised approach for operational risks o Output floor on RWAs	o RWA increase of around EUR 2-4bn due to AMA model o No material impact from output floor due to high LGD/RWA density of AIRB models
FRTB (from 2022)	o Revised standardised approach for market risk	o RWA increase of around EUR 1bn compared to standard approach (already included in the Restructuring Plan)

The final regulatory framework has not been delivered to us and, therefore, any data should be considered preliminary and a work in progress. The information is limited to the potential impact of a few of the many items included in the regulatory framework. Consequently the results stemming from the entire regulatory framework may differ significantly from our preliminary estimates. The information has not been discussed with any regulator, discussion which could bring significant change to any impact we may estimate

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4Q17 and FY17 P&L: Highlights

€ mln	3Q17	4Q17	Change (QoQ%)	FY16	FY17	Change (YoY%)
Net Interest Income	470	415	-11.9%	2,021	1,788	-11.5%
Net Fees	356	363	2.1%	1,839	1,577	-14.3%
Other revenues	544	25	-95.5%	421	661	57.0%
Total revenues	**1,370**	**802**	**-41.4%**	**4,282**	**4,026**	**-6.0%**
Operating Costs	**-626**	**-651**	**3.9%**	**-2,621**	**-2,543**	**-3.0%**
of which Personnel costs	-389	-387	-0.4%	-1,611	-1,575	-2.2%
of which Other admin expenses	-172	-192	11.6%	-792	-704	-11.1%
Pre-provision profit	**745**	**152**	**-79.6%**	**1,661**	**1,483**	**-10.7%**
Total provisions	**-225**	**-558**	**n.m.**	**-4,501**	**-5,460**	**21.3%**
of which loan loss provisions	-175	-552	n.m.	-4,467	-5,324	19.2%
Non-operating items	-352	-209	-40.5%	-339	-209	-38.5%
Profit (Loss) before tax	**168**	**-615**	**n.m.**	**-3,179**	**-4,186**	**31.7%**
Taxes	80	120	49.8%	-21	710	n.m.
PPA & Other Items	-6	-6	1.7%	-41	-26	-37.5%
Net profit (loss)	**242**	**-502**	**n.m.**	**-3,241**	**-3,502**	**8.1%**

Balance Sheet

Total Assets (€/mln)

	Dec-16	Sep-17	Dec-17	QoQ%	YoY%
Customer loans	106,693	91,041	86,456	-5.0%	-19.0%
Loans to banks	8,936	12,897	9,966	-22.7%	11.5%
Financial assets	25,929	25,403	24,168	-4.9%	-6.8%
PPE and intangible assets	2,943	2,834	2,854	0.7%	-3.0%
Other assets*	8,677	12,924	15,709	21.5%	81.0%
Total Assets	**153,179**	**145,099**	**139,154**	**-4.1%**	**-9.2%**

Total Liabilities (€/mln)

	Dec-16	Sep-17	Dec-17	QoQ%	YoY%
Deposits from customers and securities issued	104,574	102,968	97,802	-5.0%	-6.5%
Deposits from banks	31,469	21,566	21,085	-2.2%	-33.0%
Other liabilities**	10,676	9,618	9,836	2.3%	-7.9%
Group equity	6,426	10,945	10,429	-4.7%	62.3%
Minority interests	35	2	2	4.5%	-93.4%
Total Liabilities	**153,179**	**145,099**	**139,154**	**-4.1%**	**-9.2%**

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

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

Lending & Direct Funding

Total Lending (€/mln)

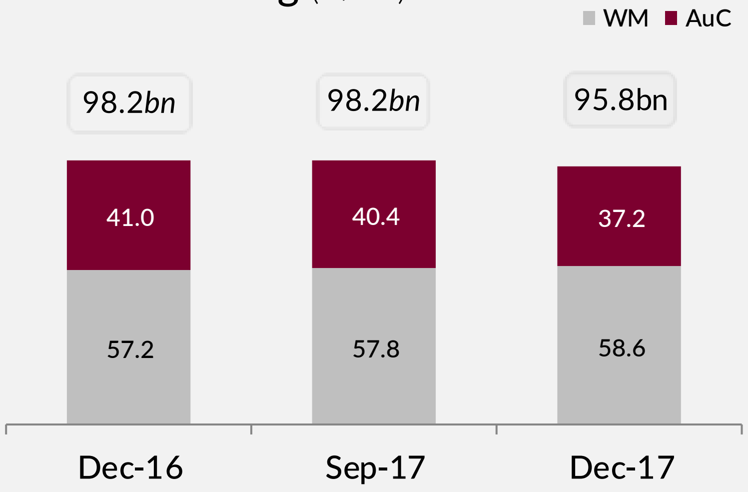
	Dec-16	Sep-17	Dec-17	QoQ%	YoY%
Current accounts	6,313	6,033	5,758	-4.6%	-8.8%
Mortgages	49,533	47,682	46,868	-1.7%	-5.4%
Other forms of lending	20,542	18,907	17,903	-5.3%	-12.8%
Reverse repurchase agreements	8,855	7,064	4,525	-35.9%	-48.9%
Loans represented by securities	1,130	1,072	1,050	-2.1%	-7.1%
Impaired loans	20,320	10,283	10,352	0.7%	-49.1%
Total	**106,693**	**91,041**	**86,456**	**-5.0%**	**-19.0%**

Direct Funding (€/mln)

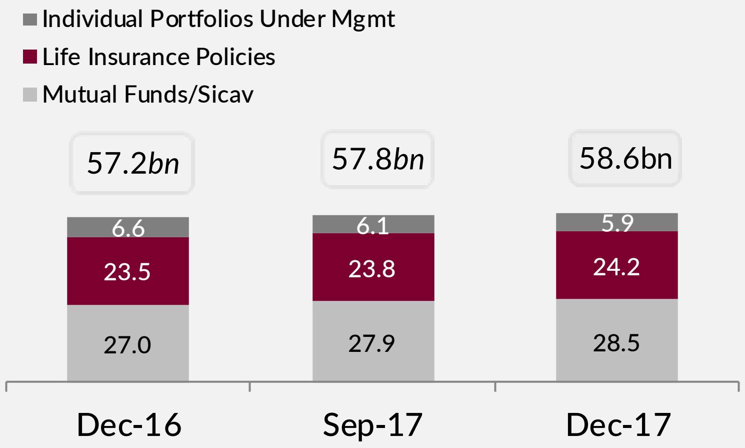
	Dec-16	Sep-17	Dec-17	QoQ%	YoY%
Current accounts	40,973	50,561	51,466	1.8%	25.6%
Time deposits	10,134	11,557	10,469	-9.4%	3.3%
Repos	25,296	12,875	8,572	-33.4%	-66.1%
Bonds	23,676	18,469	18,522	0.3%	-21.8%
Other types of direct funding	4,495	9,507	8,773	-7.7%	95.2%
Total	**104,574**	**102,968**	**97,802**	**-5.0%**	**-6.5%**

Wealth Management (WM) and Asset Under Custody (AuC)

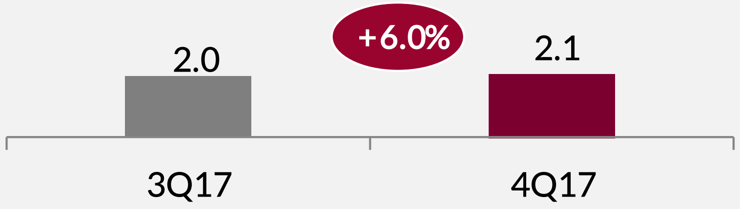
Indirect Funding (€/bn)



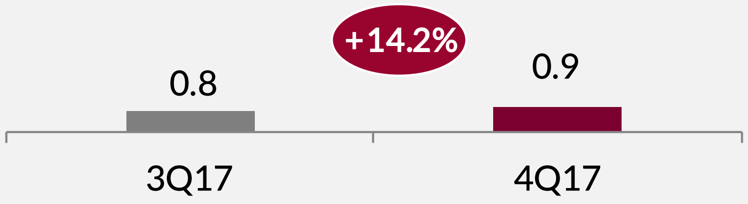
WM Mix (€/bn)



Mutual Funds/Sicav* (€/bn)



Bancassurance** (€/bn)



* Placement of gross Mutual Funds and Sicav products

** Placement of AXA-MPS Savings products (gross amount)

Financial Assets: Focus on Italian Govies Portfolio

Financial Assets (€/mln)

	Dec-17	QoQ%	YoY%
HFT	8,718	-13.7%	-5.9%
AFS	15,450	1.0%	-7.3%
Total	**24,168**	**-4.9%**	**-6.8%**

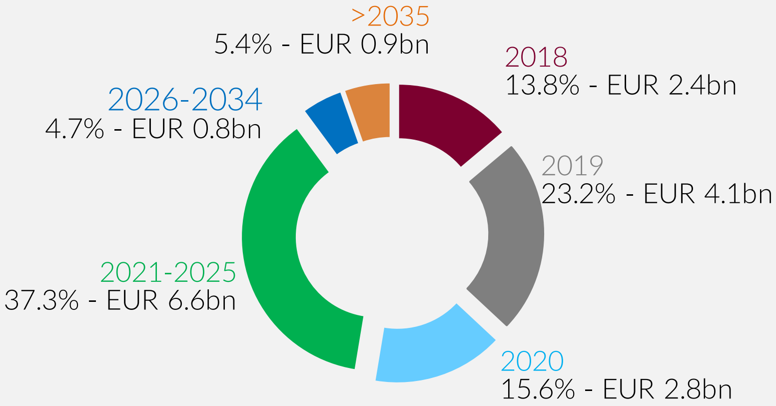
- Total Italian Government Bond portfolio duration 3.3 years vs. 3.2 years in September 2017
- Total AFS Italian Government Bond portfolio duration 3.6 years in December 2017 (3.7 years in September 2017)
- AFS reserve as at December 2017: EUR -0.1bn

Italian Government Bonds: c. EUR 17.6bn* *(Market Value)*

Breakdown by IAS category

Credit spread sensitivity: (1bp change) c. EUR -5.6mln before tax

Breakdown by maturity



* Figures from operational data management system

Non-Performing Exposures

Non Performing Exposures - NPEs* (€/mln)

	Net Dec-17	QoQ (%)	YoY (%)	Net NPE Ratio** (%)	**Gross** Dec-17	QoQ (%)	YoY (%)	Coverage (%)	Gross NPE Ratio *** (%)
Bad loans *(sofferenze)*	7,532	3.6%	-27.3%	8.3%	32,967	3.5%	12.0%	77.2%	27.0%
Unlikely-to-Pay loans	6,880	-5.5%	-24.4%	7.6%	11,595	-6.3%	-23.9%	40.7%	9.5%
Past due / overdue exposures	387	-34.3%	-54.7%	0.4%	520	-33.6%	-53.3%	25.6%	0.4%
Total NPEs	**14,798**	**-2.3%**	**-27.2%**	**16.3%**	**45,082**	**0.2%**	**-1.5%**	**67.2%**	**37.0%**

* Data from operational data management system. Figures include signature loans (these are excluded from accounting figures)
** Net NPEs / Net customer loans
*** Gross NPEs / Gross customer loans

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Retail: Focus on Mortgages and Innovation

Managerial Actions

Retail offer

- Focus on retail mortgages with simplification of product catalogue and new attractive terms (reflecting BMPS' decreasing cost of funding). BMPS has proved to have a low default rate in this market
- Since 2017, average time to market reduced on average by c. 9 % (from 10.3 days to 9.4 days). Ongoing reduction of paper documentation through digitalisation. Investments in digital banking for EUR 20mln in 2017-18
- Proactively propose switching expensive direct funding to assets under management in the context of cost of funding reduction. Recovery of direct funding from customers of the Bank that withdrew funding in 2016

Affluent/ Premium

- Focus on advisory, training of salesforce in order to increase sales of loans and P&C products (health, LTC), off-site offering to compensate for the closure of branches
- Integration of product catalogue and development of IT advisory platforms to provide distinctive services

Mass market

- Migration of selected mass market clients to Widiba by the end of 2018 (first wave of 45,000 clients in 2017) combining best in class IT platform (investments in Widiba planned to double in 2017-21 vs 2014-16) with a network of c. 600 financial advisors at the end of 2017
- Investments in BMPS online banking (penetration rate of 49%**) and digitalisation

Small Business

- Focus on growth through increase of share of wallet on existing customers and through pre-selected new counterparts, leveraging on faster and standardised credit process. Net loan inflows of c. EUR 0.6bn planned between 2018 and 2019
- Reinforcement of dedicated salesforce for Small Business with creation of an advisory platform. Large-scope training program (1,713 SB co-ordinators involved in 2017) on credit, insurance, mitigants and advisory (training programs to increase by 20% in 2018)

Strategic objectives and preliminary results

✓ Customer loan growth
  - New retail mortgages from c. EUR 2.1bn in 2017 to a total of c. EUR 8bn in 2018/2019*
  - Streamlining underwriting process

✓ Recovery of funding and cost reduction
  - c. EUR 8bn short- and medium-term gross direct funding inflows planned over the next 2 years

✓ Customer retention following closure of branches
  - Lost c. 8% of customers, c. 5% of total funding (March 2017 closures) and c. 2% of total funding (November 2017 closures)
  - Branch digitalisation to focus FTEs on front office activities (c. 700 new cash-in/out machines)
  - Off-site salesforce will increase to 100 FTEs by 2018 year-end (project launched in December 2017)

✓ Actions to support commercial lines (2018 year-end target: 643 FTEs dedicated to commercial activities)
  - Automation: Self and Digital Banking
  - Centralisation of administrative activities

* New retail mortgages for EUR 485mln in 1Q17, EUR 526mln in 2Q17, EUR 492mln in 3Q17 and EUR 598mln in 4Q17

** No. of account holders who have activated the Digital Banking channel/Total no. of account holders

Corporate: Focus on Lending and Cost of Funding Reduction

Managerial Actions

Corporate

- Increased lending towards selected profitable, export-oriented and innovative corporates with whom the Bank has a long-term relationship (customer loans to grow from EUR 7bn in 2017 to EUR 9-10bn in 2019)
- Encouraged saturation of short-term and sight credit facilities with lower than average drawdowns, use of facilitated finance, timely management of lending to seize opportunities with "key clients"
- Increased cross-selling towards specific corporates, long-time clients of the Bank, leveraging also on MPS Capital Services (i.e. acquisition financing, leverage financing and structured financing)

Large corporate

- Return to the market as underwriter and lead arranger for club deals, sharing risk right from the origination/underwriting phase
- Repositioning on pool financing transactions
- Cross-origination with MPS Capital Services, focusing on products with growing market trends (green bonds, bridge to drawdown financing, etc.)
- Actions aimed at the saturation of granted credit lines, including re-pricing

Reducing cost of funding

- Significantly lower renewal rate, with possibility of losing volumes

Strategic objectives and preliminary results

✓ Customer loan growth

- New corporate lending from EUR 2.5bn in 2017 to cumulative c. EUR 8bn in 2018/2019, with positive NII impact in 2H18
- Streamlining of underwriting process to decrease time to market

✓ Cost of funding reduction

- Since Sept 2017, cost of funding of new deposits/current accounts has been in line with peers
- 11bps cost of funding reduction in 2017
- Further cost of funding reduction expected in 2018

✓ Time to market

- Time to market reduced by c. 32% in 2017 (feedback to clients in 16.1 days at the end of 2017 vs 23.8 days in 2016). Target is to further reduce by approximately 10% by 2018 year-end

Wealth Management: Focus on Advisory

Managerial Actions

Focus on advisory and private bankers

- Focus on advisory services: implementation of a comprehensive service approach for High Net Worth (HNW) customers, integrating evaluation and risk assessment of financial and non-financial assets
- Extensive training programs on regulatory issues/product innovation and salesforce qualification provided by in-house and external professionals
- Optimisation of clients' portfolios through the increase of the share of managed products and revamp/creation of wrappers enabling advisory (fee only) layers (e.g. GPA)
- New incentive and retention system extended to all private bankers based on AUM growth and profitability targets
- Enhancement of interaction between HNW and corporate networks in order to leverage on significant unexploited potential (on the private customer side) of SME clients

IT and support

- Development/evolution of a commercial platform aiming at enhancing content delivery and consulting ability; improvement of customer experience and optimisation of time effectiveness of sales. Full integration and extension of off-site offering capabilities (c. 200 Wealth Management co-ordinators at the beginning of 2018)
- Controlled and gradual introduction of high potential/differentiated products/services such as illiquid assets, portfolio-based leverage

Strategic objectives and preliminary results

✓ AUM Growth
- AUM to grow from EUR c. 12bn in 2017 to c. EUR 15bn in 2019

✓ Effectively address new regulations (i.e. MIFID II)
- Expected limited impact from MIFID II due to reduction in upfront carried out in 2016-17

✓ Continuing investments despite broad cost-cutting required by the Restructuring Plan

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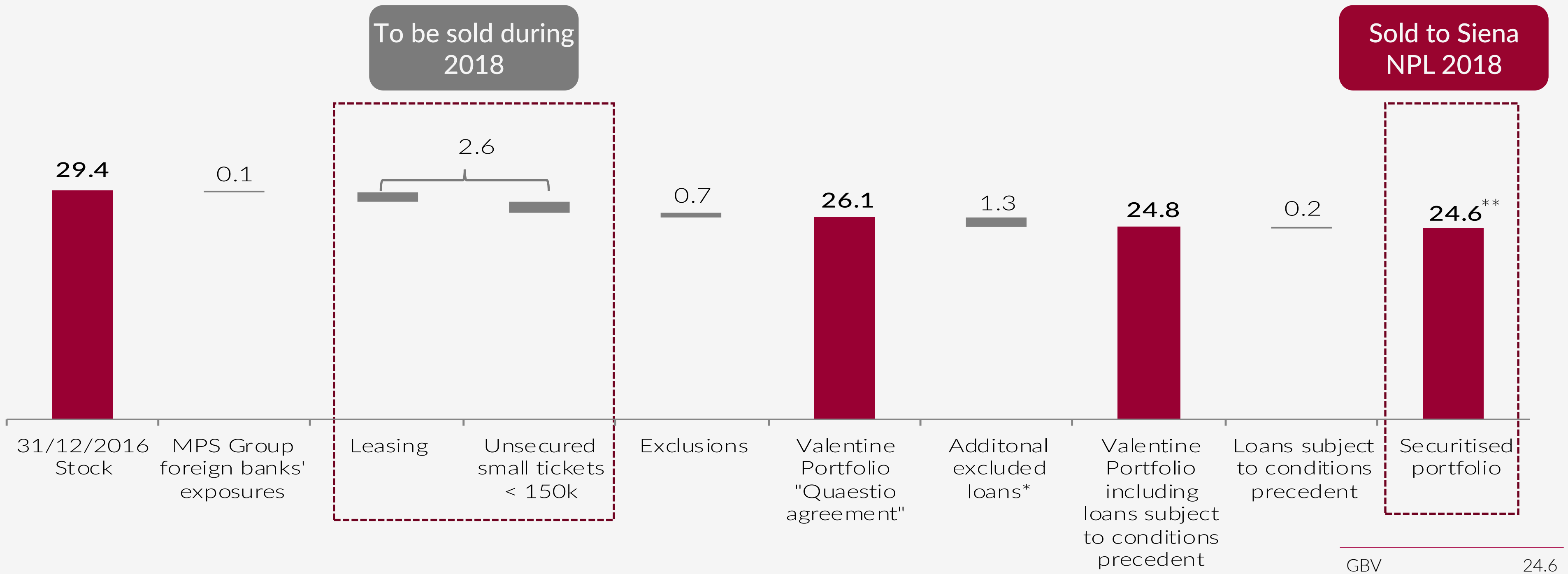
NPL Disposal plan – Bad loans portfolio at 31 December 2016

Overview of the overall Portfolio at 31 December 2016 (Gross Book Value, €/bn)

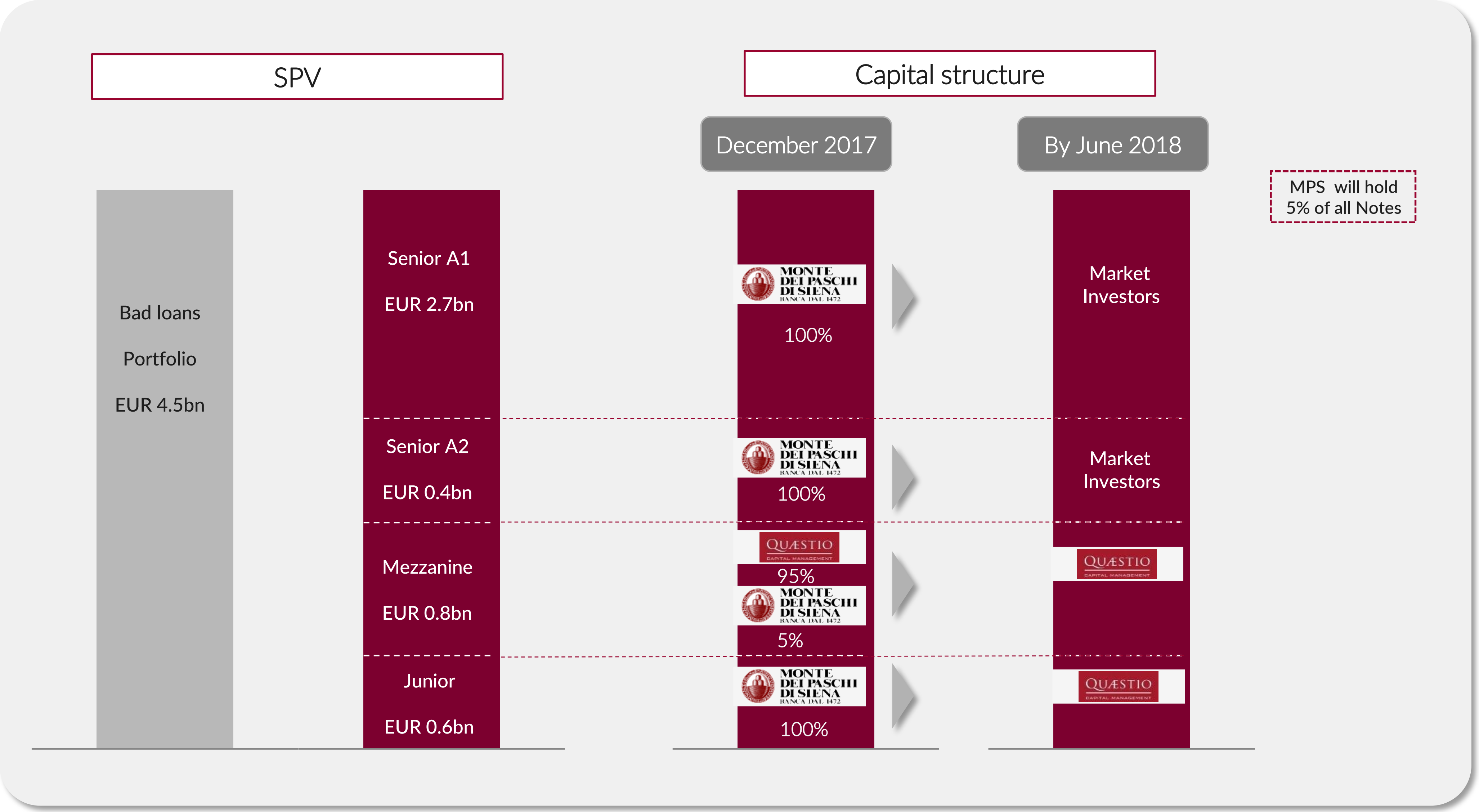


GBV	24.6
Price	5.1
Collections	0.5
Price to be Financed	4.5

* Additional exclusions for technical discrepancies highlighted during the analysis of the Portfolio's perimeter, subsidised loans and third party funds, loans guaranteed by Confidi, foreign counterparties, loans securitised in previous operations or transferred to performing loans

** About EUR 24.2bn at 31/12/2017

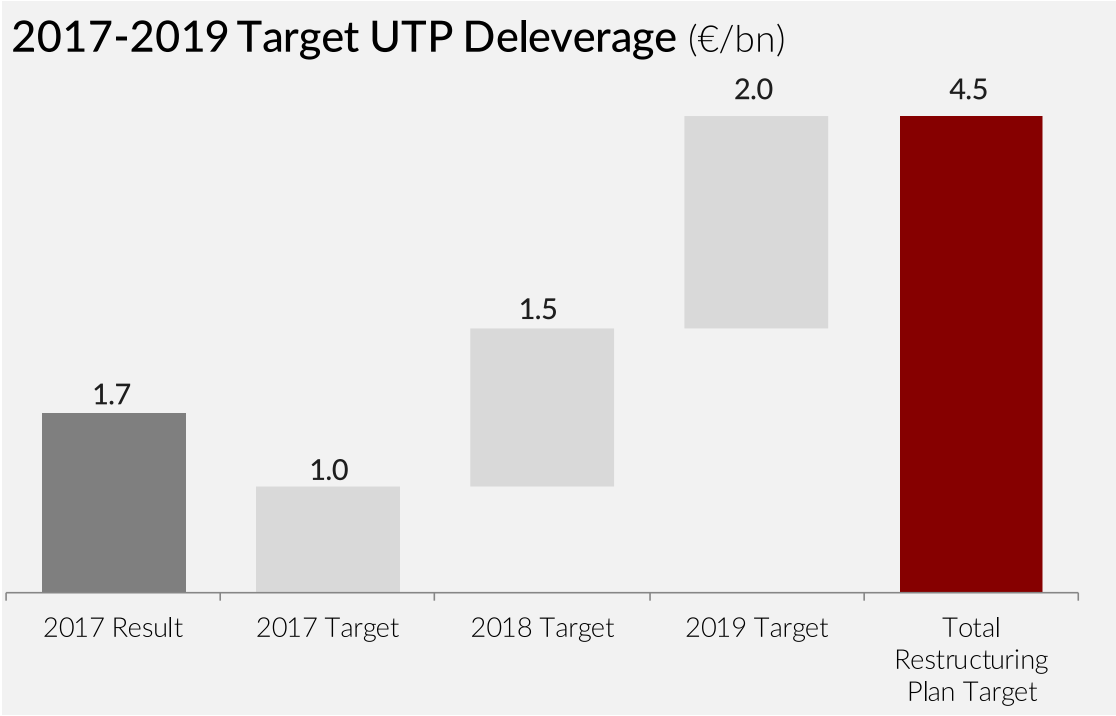
Securitisation structure



Securitisation – Progress

Securitisation - Activities progressing in line with the expected timeline	
Done	• Binding commitment from Atlante II to acquire Junior and Mezzanine Notes at a price of 21% of GBV • Appointment of Arrangers and Rating Agencies • Appointment of Master Servicer and Special Servicers • Transfer of portfolio to the ex-art. 130 vehicle and full underwriting by the vehicle of Notes issued by Originators • Disposal of 95% of Mezzanine Notes to Italian Recovery Fund (former Atlante II)
Next Steps	• Rating on Senior A1 Notes and A2 Notes • GACS scheme on Senior Notes with investment grade • SRT and LGD Waiver • Disposal of 95% of Junior Notes to the Italian Recovery Fund (former Atlante II) and full deconsolidation • Disposal of Senior A1 and Senior A2 Notes to institutional investors and full deconsolidation

Strategy on remaining NPEs - Target deleverage UTPs



EUR 1.7bn UTP reduction

- Reduction of EUR 1.7bn already completed in 2017, with limited P&L costs (9.5% of total GBV, 1% of GBV net of OSI CFR perimeter*):
  - EUR 0.3bn of UTP disposal
  - EUR 0.3bn of debt/equity swap (100% write-off of equity)
  - EUR 0.2bn of write-offs with recovery
  - EUR 0.9bn of repayment

* i.e. the perimeter of the Credit File Review (CFR) conducted by the ECB in the course of the 2015 On-Site Inspection (OSI) of the Bank's loan portfolio

Restructured Unlikely-to-Pay Loans

Breakdown by Guarantees (€/bn)

	Tickets* #	GBV	Coverage	NBV	% NBV
Secured	317	1.7	37.9%	1.1	36.5%
Personal guarantees	225	0.6	50.1%	0.3	9.9%
Unsecured	648	2.9	46.6%	1.6	53.6%
Total	**1,190**	**5.2**	**44.1%**	**2.9**	**100.0%**
of which Pool other banks		*4.2*		*2.4*	*83.7%*

Breakdown by Vintage (€/bn)

	GBV	< 3Y	> 3Y
Secured	1.7	77.9%	22.1%
Personal guarantees	0.6	96.0%	4.0%
Unsecured	2.9	72.9%	27.1%
Total	**5.2**	**77.1%**	**22.9%**

Breakdown by Industry (€/bn)

UTP Restructured	GBV	NBV	% on NBV
Construction	0.7	0.4	14.1%
Real estate	1.0	0.5	18.4%
Holding	0.2	0.1	3.2%
Transport and logistics	0.6	0.3	11.3%
Other industrial**	1.8	1.1	38.6%
Households	0.0	0.0	0.8%
Other	0.8	0.4	13.6%
Total	**5.2**	**2.9**	**100.0%**

- Average coverage of 44.1%, above Italian average. Net book value EUR 2.9bn (c. 37% secured)
- Corporate and SME sectors > 83% of total restructured UTPs
- Tickets with GBV > EUR 1mln represent >98% of total restructured high vintage UTPs due to restructuring plans
- No specific industry concentration. Construction and real estate sectors amount to c. 30% of total net UTPs

* The number of tickets in each category is equal to the number of customers with at least one loan in that particular category

** Other Manufacturing (excluding Construction, Real Estate and Transportation)

Figures from operational data management system

Other Unlikely-to-Pay Loans

Breakdown by Guarantees (€/bn)

	Tickets* #	GBV	Coverage	NBV	% NBV
Secured	11,241	3.0	27.3%	2.2	55.2%
Personal guarantees	10,978	1.0	46.5%	0.5	13.2%
Unsecured	88,153	2.4	47.7%	1.3	31.6%
Total	**110,372**	**6.4**	**37.9%**	**4.0**	**100.0%**
of which Pool other banks		*3.5*		*2.1*	*53.2%*

Breakdown by Vintage (€/bn)

	GBV	< 3Y	> 3Y
Secured	3.0	93.4%	6.6%
Personal guarantees	1.0	88.0%	12.0%
Unsecured	2.4	87.2%	12.8%
Total	**6.4**	**90.2%**	**9.8%**

Breakdown by Industry (€/bn)

Other UTP	GBV	NBV	% on NBV
Construction	1.1	0.6	16.0%
Real estate	0.8	0.5	13.5%
Holding	0.0	0.0	0.3%
Transport and logistics	0.1	0.0	1.2%
Other industrial**	1.7	0.9	23.8%
Households	1.1	0.8	21.0%
Other	1.6	1.0	24.3%
Total	**6.4**	**4.0**	**100.0%**

- Average coverage of 37.9%, above Italian average. Net book value EUR 4bn (c. 55% secured)
- SME and Small Business sectors represent over 71% of total UTPs
- Lower vintage compared to restructured UTPs
- Tickets with GBV > EUR 1mln represent less than 30% of total UTPs
- No specific industry concentration. Construction and real estate sectors amount to c. 30% of total net UTPs

* The number of tickets in each category is equal to the number of customers with at least one loan in that particular category

** Other Manufacturing (excluding Construction, Real Estate and Transportation

Figures from operational data management system

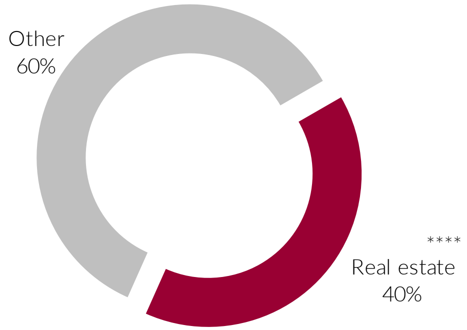
First 100 NPEs at 31.12.2017

78% of the first 100 NPEs are customers shared with other banks***

	#tickets	GBV (€/mln)	NBV (€/mln)	Coverage (%)	% GBV on Total NPEs***
Top 100	100	4,905	1,944	60.4%	11.0%
of which Bad Loans	41	2,038	421	79.3%	4.6%
of which Unlikely to Pay Loans	59	2,867	1,522	46.9%	6.4%

Customers shared with other banks**
(% on GBV)

Breakdown by activity
(% on GBV)



* Bad and Unlikely-to-Pay loans
** Latest available banking system data
*** Including portfolio to be disposed
**** Ateco 2007 (and NACE Rev. 2) codes included in sections «F – Construction» and «L - Real Estate Activities»
Figures from operational data management system

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